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THIS ISSUE

Eastern Africa – the regional economic powerhouse of Sub-Saharan Africa

Eastern Africa has achieved robust economic growth rates during the past six years, and could well post a growth rate of 5.4% of GDP in 2017, making it the front-runner in this regard, distinguishing itself from the other three regions in Sub-Saharan Africa (SSA), as their economies are struggling, in effect pulling down SSA's average growth to 2.6% (see chart 1). Especially hard hit is Nigeria, reeling from a decline in oil production and a drop in crude oil prices. West Africa's largest economy shrank by 1.5% of GDP in 2016, the first full-year contraction since 1991. South Africa – the biggest, most advanced and diversified economy – is lagging way behind its potential, as frequent water and power shortages constrain business activity, a situation made worse by political unrest. **... page 2**

Country updates

Kenya

With a GDP of USD 1,434 per capita, Kenya ranks in the category of middle-income countries, the only one to achieve this status in the EAC (the East African Economic Community, which include Tanzania, Rwanda, Burundi, Uganda and South Sudan). The Kenyan economy is also the leading economy of this zone, with a GDP of USD 75.1 billion, or more of 45% of the region's GDP. **... page 5**

LATEST NEWS +++ LATEST NEWS +++ LATEST NEWS

+++ German insurer, Allianz Group says it plans to acquire a 98% stake in Nigerian insurer Ensure Insurance for $35 million. This is in line with plans to expand its footprint in Africa where many people are uninsured. According to the company, the stake would be acquired from UK-based, Greenoaks Global Holdings, a shareholder in Ensure. Subject to regulatory approvals, the transaction is expected to be finalised by the end of this year. It also intends to retain Ensure's management team. Allianz, which has operations in 16 African countries, sees the acquisition as an opportunity to tap into Nigeria's strong demographics and economy. "The transaction gives Allianz access to the fifth-largest insurance market in Africa and is in line with our strategy of securing long-term growth opportunities on the continent", said Bettina Sattler, Allianz Africa spokeswoman. (Source: Reuters)

+++ Bank of Mozambique to begin announcing sanctions against credit institutions: Banco de Moçambique will soon announce the definitive sanctions to be applied to credit institutions and financial companies that breach current rules applicable to their activity, according to a statement released on Monday in Maputo. The statement specified that this decision is one of several measures intended to strengthen discipline in the market while simultaneously implementing "more transparency and responsibility for the financial system and all its stakeholders", in addition to ensuring access to information for the general public. Mozambique's central bank acts as the state bank; counseling the government on finance matters, guiding and controlling monetary and foreign exchange policies, managing the country's foreign assets, mediating in international monetary relations and supervising financial institutions that operate in national territory. (Source: Macauhub)

Ethiopia

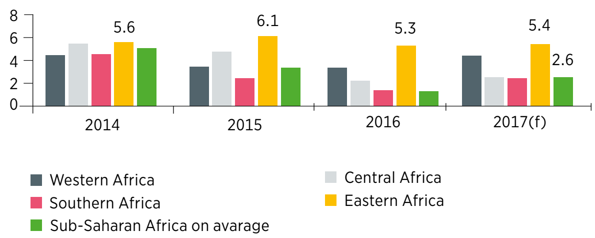
The Ethiopian economy is undergoing a profound transformation. With an economy that, until now, has been based almost exclusively on agriculture, the government has published ambitious five-year plans for growth and transformation, intended to develop the country's industrial base and make it a world-class exporter **... page 7**

Eastern Africa – the regional economic powerhouse of Sub-Saharan Africa

Eastern Africa has achieved robust economic growth rates during the past six years, and could well post a growth rate of 5.4% of GDP in 2017, making it the front-runner in this regard, distinguishing itself from the other three regions in Sub-Saharan Africa (SSA), as their economies are struggling, in effect pulling down SSA's average growth to 2.6% (see chart 1). Especially hard hit is **Nigeria,** reeling from a decline in oil production and a drop in crude oil prices. West Africa's largest economy shrank by 1.5% of GDP in 2016, the first full-year contraction since 1991. **South Africa** – the biggest, most advanced and diversified economy – is lagging way behind its potential, as frequent water and power shortages constrain business activity, a situation made worse by political unrest. Here the real GDP growth is flagging with a projected figure of 1% in 2017.

The so-called recipe behind Eastern Africa's success is the structure of its economies. Kenya, Ethiopia, Rwanda and Uganda in particular are strong soft commodity exporters, the world market prices of coffee, tea, vegetables and flowers, for example, has not experienced such a sharp price fall as crude oil. In addition, the current accounts of all Eastern African countries benefited to some extent from lower fuel prices. General developments with a better governance than in other Sub-Saharan African countries also helped the rise of the middle class in these countries.

Chart 1: **Sub-Saharan Africa and its regions: Real GDP growth in percent**



f = forecast
Sources: IMF, Commerzbank

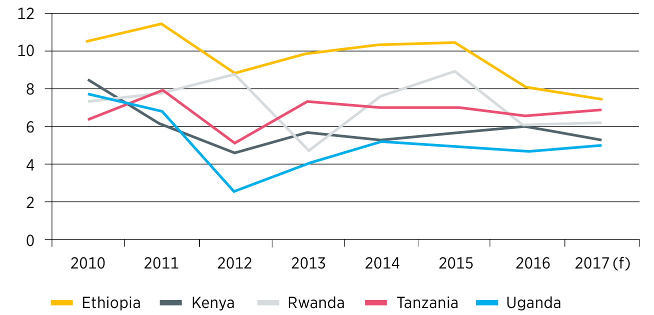
2016	Population (in millions)	GDP in USD bn	GDP per capita
Ethiopia	101.9	72.4	711
Kenya	47.3	70.5	1,491
Rwanda	11.9	8.4	707
Tanzania	55.2	47	851
Uganda	40.3	26.0	646
Sub-Saharan Africa	1,033.0	1,498.0	1,505

One of Africa's fastest growing economies is **Ethiopia**, averaging of real GDP growth rates of between 7.5 and 10.5% since 2005 propelled by Growth and Transformation Plans I and II (2010 - 2020). This massive public sector-led investment is expected to continue to drive medium-term growth. Total investment relative to GDP in 2016 is at a remarkable rate of 35% of GDP. The landlocked nation conducts more than 90% of its exports and imports by road with other parts of Africa, Asia and Europe through neighbouring Djibouti. Here, a major milestone for transport is a fast-track 752-km long railway line officially opened in January 2017, linking the capital Addis Ababa to the Red Sea container port of Djibouti. Africa's second-largest country in terms of population with 102 million people offers a large and expandable domestic market for consumer goods.

Despite some political unrest in two regions, the largely state-dominated enterprise sector enjoys a favourable business environment with investor-friendly policies and a comparable low wage level by international standards. This has helped to attract foreign investors; meanwhile Ethiopia has soared as East Africa's largest recipient of FDI.

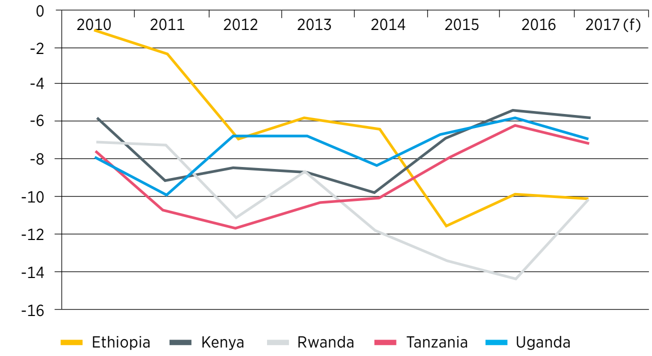
By comparison, however, **Kenya**, offers a more open economy for foreign investors, with the most established consumer-based middle class of the Eastern African countries and a relatively well developed financial sector. Real economic growth rates hovering around 5-6% look robust and are buoyed by big public infrastructure investment. Here the investment share is at 20% of GDP, significantly lower than in Ethiopia. With its access to the sea via its port of Mombasa and the planned port Lamu, Kenya is the regional transport and communications hub and therefore the most important member of the East African Community (EAC), acting as a gateway to the other members, Burundi, Rwanda, Tanzania and Uganda, and moreover to the eastern part of the Democratic Republic of Congo, the northern part of Ethiopia and South Sudan. **Tanzania** is in a race to become another strong performer in Eastern Africa, with growth rates averaging 7% annually over recent years and an investment rate of 27.8% of GDP in 2016. Given its strategic positioning with the ports of Dar es Salaam and Mwanza, Tanzania serves the landlocked countries in the same way that Kenya does. **Uganda's** higher-level infrastructure projects are predominantly in the power sector (eight generation projects, two largely Chinese-funded hydropower projects), in highways and a crude oil refinery. The country is expected to become a crude oil exporter in 2020. Furthermore, Uganda has signed an oil-export agreement with Tanzania that includes the construction of a 1,400-km oil export pipeline from its two oil fields on Lake Albert to the Tanzanian port of Tanga. **Rwanda** has also been pursuing an ambitious development program since 2000 – Vision 2020 – which is intended to raise the country to a middle-income status. Unfortunately, the economy of **Burundi**, Rwanda's neighbour, was plunged into a political crisis after the 2015 elections.

Chart 2: **Eastern Africa booming ... : Real GDP growth in percent, year-on-year**



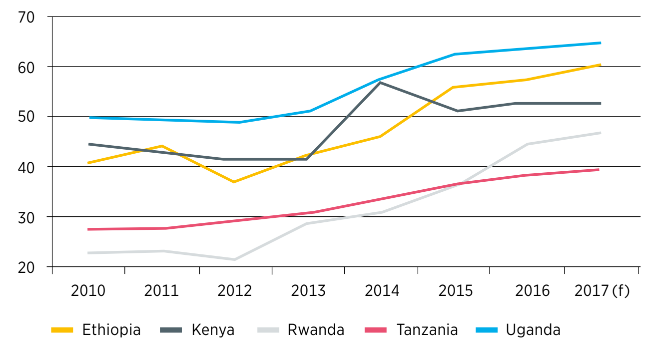
f = forecast
Sources: IMF, Commerzbank

Chart 3: **Eastern Africa: ... current accounts are deep in the red as a percentage of GDP**



f = forecast
Sources: IMF, Commerzbank

Chart 4: **Eastern Africa: ... and public debt levels are rising as a percentage of GDP**



f = forecast
Sources: IMF, Commerzbank

The downside of high spending economies

The flourishing Eastern African economies of Ethiopia, Kenya, Rwanda, Tanzania and Uganda, which have been riding on the wave of massive infrastructure investment programmes over the past years, cannot hide their weaknesses, which are a sizable current account (see chart 3) and budget deficits with rapidly growing public and external debt levels and rising debt service. Especially in Ethiopia and Kenya, the external debt ratio climbed to alarming levels of between 180 and 200% of exports (see chart 4). Once in a debt trap, other shocks such as declining foreign exchange reserves, weakening currencies, political instability and bad weather conditions in countries dominated by the agriculture could impair their future expansion considerably. It will be imperative that the countries rely as much as possible on concessional loans to finance their ambitious public infrastructure programmes.

The East African Community (EAC), an example of how to boost intra-African trade

Generally speaking, the fragmentation of Sub-Saharan Africa into many small countries, of which quite a few are landlocked and producers of natural resources with low diversification, allows only for low economies of scale owing to the absence of major economic hubs, high transportation costs over national borders and inefficient working cross-border trade agreements. Officially, there are eight regional economic communities, often with unnecessary overlapping memberships hampering intra-African trade. A highly significant free-trade agreement – the Tripartite Free Trade Area (TFTA) – was signed in June 2015 by 26 African countries, aimed at linking the three existing trade blocs, namely the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), into a new united single zone, but since then negotiations seem to have stalled.

The integration arrangements within the **East African Community (EAC)**, comprised of Burundi, Kenya, Rwanda, South Sudan (joined in 2016), Tanzania and Uganda, are in a much more advanced stage of implementation than for example those in Western and Central Africa. The EAC as an intergovernmental organisation covers a market of 178 million people. Founded in 2000, a customs union was established in 2005 and a common market in 2010. Since then, the intra-EAC trade volume has increased by 35% from USD 1.5bn to USD 2.0bn. The largest intra-EAC flow of cargo is between Kenya and Uganda. In 2016, Kenya exported goods to the value of USD 0.54bn to Uganda, while imports from Uganda were worth USD 0.29bn.

One reason why this relationship is thriving is that Uganda also acts as a transit country for trade with Rwanda, Burundi, the Democratic Republic of Congo, South Sudan and Ethiopia. Presently, more and more one-stop border posts (OSBPs) are being implemented within a Single Customs Territory (SCT), thereby considerably easing the formerly costly and time-consuming cross-border formalities. Now cross-border trade is cleared electronically with only one customs station, while a payment system manages the transfer of revenues between the two respective countries. Nevertheless, the degree of cooperation among the EAC member states regarding a removal of all remaining restrictions requires further effort. Mid and long-term goals are a multi-currency payment settlement system and a common convertible currency. These endeavors are being supported by the German Corporation for International Cooperation (GIZ) which has made substantial contributions to the integration progress of the EAC in accordance with the African strategy of the German government.

Another aspect of the EAC as one of Africa's most progressive trade blocks is that collaboration on specific infrastructure projects is improving the regionalisation process. Kenya as a transit country for goods with its landlocked neighbour countries pledged to complete 7,000 km of roads in its development plan – Vision 2030. In July 2017, a 472-km high-speed-railway was inaugurated connecting the sea port of Mombasa with the capital Nairobi. An extension is planned to the horticulture hub Naivasha (120 km), and in a later phase to the capitals of Uganda, Rwanda and Burundi. Another project is LAPPSSET, a corridor which has been envisaged, connecting the port of Lamu with South Sudan and Ethiopia. Tanzania is in competition with Kenya to become another regional transport and trade hub, and is in the process of upgrading its roads and railway network as well as its sea ports of Dar es Salaam, Tanga, Mtwara and Bagamoyo. Uganda's higher-level infrastructure projects are in the power generation sector and in roads. While Uganda's crude oil production at Lake Albert is delayed, the construction of a 1,400-km crude oil export pipeline is planned to Tanzania's sea port of Tanga on the Indian Ocean. As a result, these projects are contributing to greater product diversity in the EAC and are expected to boost FDI to turn this region into a new hub for trade and investment.

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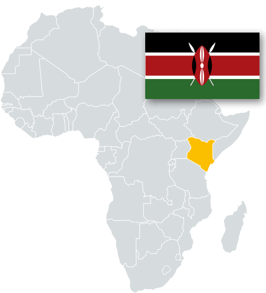
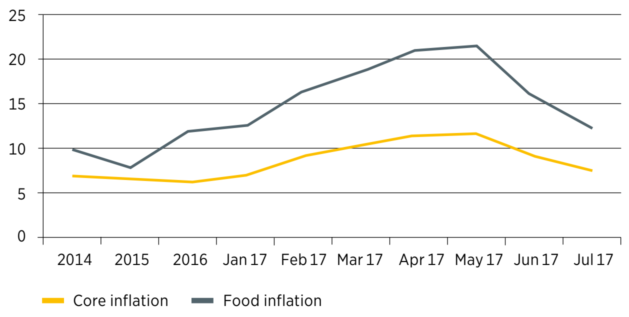


Kenya: Resilient growth in the election year

A strong domestic market and a fast-growing middle class continues to favour East Africa's biggest but most diversified economy. Real economic growth has been robust in the last five years, at just below 6% of GDP, fuelled by public investment spending and a strong service sector with transport, financial services, and tourism which contributes 53% to GDP. The forecast for 2017 is for resilience to slip to 5.3%, as growth has already slowed to 4.7% (year-on-year) in the first quarter due to a severe drought in parts of Kenya and a private sector credit slowdown caused by a government-imposed cap on lending rates combined with weaker consumer demand ahead of the national elections in August 2017. Growth is expected to rebound from next year onwards at annual average of 6%.

The **Kenyan shilling** has been depreciated by 15% against the USD since July 2014, which is modest in contrast to many other Sub-Sahara African currencies, although it has been stable so far since the beginning of this year. A severe drought in parts of Kenya's north-east and north-west hit agricultural production in the first quarter of 2017 and resulted in a sharp spike in food prices, which pushed **inflation** up to a peak of 11.5% in April 2017 (y-o-y), its highest level in 5 years. As the surging cost of living became an election issue, the government took counteraction in the form of subsidised corn prices and by waiving duties on milk and sugar. This has helped to reduce inflation to 7.5% in July 2017 (see chart 5).

Chart 5: **Kenya: spike in inflation rates in the election year (year-on-year)**



Source: Central Bank of Kenya

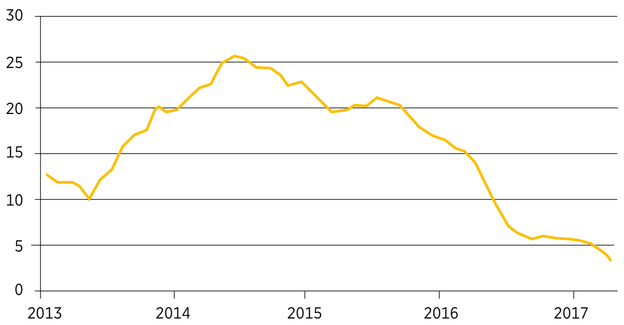
The **budget deficits** of more than 7% of GDP in the last three years remain a concern, fuelled by **fiscal overspend,** financial demands made by the **struggling parastatals, and huge shortfalls in revenue collection** combined with **massive expenditure for public infrastructure projects.** The largest and most prestigious project is the 472-km high-speed railway line connecting the capital Nairobi with the coastal city of Mombasa. Inaugurated in June 2017, it is the country's biggest public investment since independence and is financed by loans of around USD 4bn, mainly from China. A key promise of President Uhuru Kenyatta during his 2013 election campaign, the railway line is planned to be extended in the longer term to western Kenya with the purpose of connecting six landlocked countries (Burundi, Democratic Republic of Congo, Ethiopia, Rwanda, South Sudan, and Uganda). In order to fund the projected budget shortfall of 7% in the fiscal year 2016/2017, the government raised various loans in March 2017. The largest are USD 1.5bn syndicated loans from commercial banks, some with terms of two years and others with terms of three, USD 1.5bn from China, USD 0.25bn from the African Export- Import Bank (a pan-African multilateral financial institution) in Cairo and USD 0.25bn from the Trade Development Bank (ex-PTA Bank, a regional development financial institution) in Bujumbura. The government envisages launching a second Eurobond later this year after the issuance of a USD 2bn maiden bond in June 2014. Despite a strong increase over the last years, **total public debt** at 54.6% of GDP at the end of 2016 is still on a manageable level.

Kenya is the world's largest black tea exporter. Other main export products are cut flowers, fruits, vegetables and coffee. Imports will remain more than twice as high as exports because of extensive needs of capital goods for the huge infrastructure projects. In the service sector, receipts from **tourism** have recovered since January 2016 as a result of the improved security situation. Transfer payments include around 50% of **remittances** from the Kenyan diaspora. The **current account deficit** of 6.7% of GDP in 2015 declined to 5.5% in 2016, reflecting a lower fuel import bill. The projection for 2017 is a slight increase to 5.8%. Kenya attracts **FDI**, mainly from China, India and the European Union into heavy industry, textiles, agri business and tourism as well as vehicle assembly, covering (net) about 25% of the current account deficit.

The **external debt** during the financial year 2016/17, mainly on account of public-sector lending, was pushed to USD 23.3bn as per March 2017, equivalent to 181.6% of exports, which is a heavy debt burden. One small comfort is that 86% of the external debt is medium and long term with low interest rates provided by multilateral and bilateral lenders. The IMF has granted precautionary facilities since 2015 to cushion the economy against external shocks. **Foreign exchange reserves** dropped from USD 8.7bn in April 2017 to USD 7.8bn as per the end of July 2017 (import cover 4.9 months), as the central bank sold USD in the market to support the local currency against speculators in the run-up to national elections.

Kenya's **financing sector** is the oldest and largest in East Africa as well as the most advanced. Financial inclusion is high, as around 80% of Kenya's population has access to the use of innovative mobile and internet money transfers. Especially in rural areas clients can easily handle savings, pay loans, salaries, bills, school fees and may even receive fertiliser subsidies. In September 2016, the government imposed an interest **rate cap on lending rates** at 400 base points above the central bank benchmark rate (currently 10%). Commercial banks were obliged to cut lending rates from 18% to 14%. The obvious beneficiary here is the government with lower borrowing costs being convenient for the election campaign. Since then, banks have tightened their lending with the result that private credit growth decelerated sharply from an average of 15%-25% in the last 5 years to 3.5% in April 2017 (see chart 6). Kenya's large banks seem to be less vulnerable to the rate cap, while for smaller banks, profitability dropped and capital requirements were rising. As a consequence, the banking sector, comprising 42 commercial banks, may face some consolidation pressures. In 2015 and 2016 three small and mid-tier banks have already gone into receivership of the central bank due to weakness of governance. As a whole, the banking sector is still well capitalised, despite capital adequacy ratio decreasing to 18.9% (2015: 21.7%) as per December 2016. Asset quality has deteriorated in the same period, as NPLs rose to 11.7% (2015: 6%) and provisioning fell to 47.4% (2015: 57%).

Chart 6: **Kenya: Private sector credit growth in percent (year-on-year)**



Source: IMF

Largely peaceful general elections were held in Kenya on 8th August 2017 to choose the president, the national assembly and governors in the 47 counties. **Uhuru Kenyatta** (55, Kikuyu), president since 2013, with his party Jubilee Party (Alliance) won 54.27% of the vote, securing a second and final five-year term in office. However, his main challenger Raila Odinga (72, Luo) with his opposition coalition, the National Super Alliance (NASA), who also lost the elections in December 2007 and March 2013, challenged the election results. The Supreme Court ruled in favour of Odinga, annulled the result and ordered new elections in 60 days which could lead to protests and upheaval in the run-up.

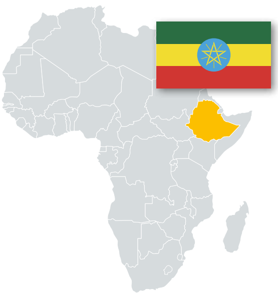
Investment & foreign trade opportunities:
The business environment is favourable. Kenya offers a free enterprise economy with the most diversified industry in Eastern African. As a member of the East Africa Community (EAC), Kenya is benefiting considerably from strong economic growth from the other members in its role as a transport and communications hub. Mombasa, the country's largest sea port, provides access to the Common Market for Eastern and Southern Africa (COMESA), the rest of Africa, Asia, the Middle East and Europe. Kenya is also competitive as a trading partner to the USA, Canada and Australia. Increased trade with the USA has been enhanced by the African Growth and Opportunity Act (AGOA). Priority sectors for exporters and foreign investors to Kenya are agriculture, health care, water supply and waste water.

Kenya Table 1: **Macroeconomic data**

	2015	2016(e)	2017(f)
Population (m)	46.1	47.3	48.6
Real GDP (% change)	5.6	6.0	5.3
Inflation (% year average)	6.6	6.3	8.8
Budget Balance (% GDP)	-7.9	-9.6	-9.0
Public Debt (% GDP)	45.8	54.6	57.0
Exchange Rate (per USD)	98.2	101.5	103.5
Current Account Balance (% GDP)	-6.7	-5.5	-5.8
Foreign Exchange Reserves (USD bn)	7.5	7.9	7.9*
Import Cover (in months)	4.8	5.2	4.0
External Debt (USD bn)	19.1	21.1	23.3
In % of exports	155.2	177.5	181.6

e = estimated, f = forecast *as per mid-July 2017; Source: IMF, Commerzbank

Mid-term outlook:
Kenya has a strong growth potential with its investment in infrastructure, especially with the development of a new transport corridor linking Port Lamu with Ethiopia and South Sudan. Once in a while, ethnic tensions might arise, given the variety of ethnic composition.



Ethiopia – high level of investment reaps results

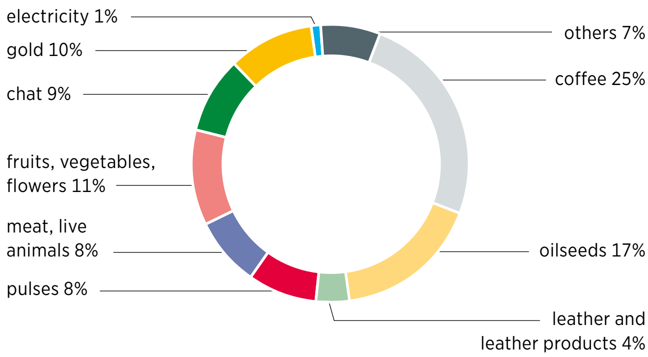
Ethiopia, with 102 million people, has the second-highest population in Africa after Nigeria. For more than ten years, the state-dominated economy has achieved average annual growth rates of around 10% of GDP, in particular driven by **agriculture** and since 2010 fuelled by the **Growth and Transformation Plan** (GTP). This massive public spending programme is focused on the promotion of agro-agriculture, mining, textiles, manufacturing and infrastructure. The construction of dams for hydro power generation is expected to increasingly earn the country foreign exchange proceeds from electricity exports. The impact of the drought since the end of last year in parts of the country dampened the growth rate to 8% of GDP in 2016; the projection is 7.5% for 2017.

Annual **inflation rates** are driven by expansionary fiscal spending and generous lending by the government linked to the GTP. Consumer prices therefore increased from 7.7% in December 2016 (y-o-y) to 8.8% in June 2017. The **exchange rate** is strongly managed by the central bank which is following a gradual currency devaluation policy and has imposed **strict currency controls.** The **foreign exchange reserves** are scarce and, at USD 3.2bn as per April 2017, represent an import cover of 1.8 months.

Despite high expenditure, **fiscal deficits** have been contained to between 2.5 to 3.9% of GDP during the last few years owing to improved tax collection and strong inflow of grants. The budgetary impact of the drought-related expenditures since last year is limited as the government tapped its windfalls in the Oil Stabilization Fund (accrued by keeping a margin above import prices of fuel). The funding of the ambitious second GTP (2015-2020) is a combination originating from domestic and external sources – domestically from bond issues and externally from loans made by multilateral and bilateral creditors, especially China upon which Ethiopia is highly dependent. In December 2014, Ethiopia issued a USD 1bn sovereign bond on the international capital market with a maturity of 10 years and an interest rate of 6.625%. The **rapidly growing public debt burden** including state-owned enterprises stood at around 60% of GDP as per the end of 2016.

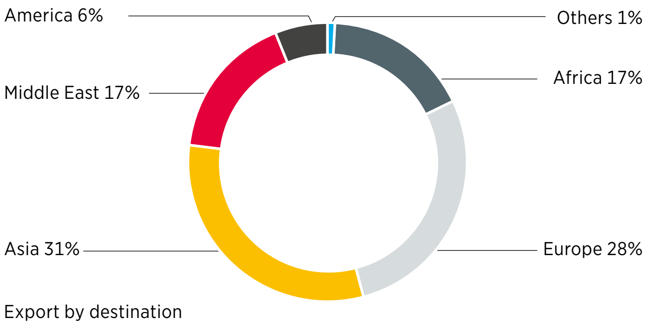
85% of Ethiopia's labour force works in the agricultural sector. Agricultural products (coffee, oil seeds, pulses, fruits, vegetables, chat and flowers) have an export share of 71%, followed by live animals (9.6%), gold (6%), leather products (5%) and energy (see chart 7 and 8). As Ethiopia has no coastal access, its international trade is mostly processed via Djibouti. The **current account deficit,** between 6% to 8% of GDP from 2012 to 2014, peaked at 13.5% in 2015, given the extremely high import dependency on capital goods for the large infrastructure projects. The effect of lower fuel prices for this oil-importing nation has been absorbed by higher food imports as a result of the drought. Significant remittances (see chart 9) from the Ethiopian diaspora cushion the shortfalls in the trade balance. The current account deficit in 2016 remained high at 9.3% of GDP, while the forecast for 2017 is a slight increase to 9.9.%. The funding is a combination of **FDI** (30%) as well as multilateral and bilateral loans. FDI, on a very low level in 2013, has soared in the following years as the government opened up sectors such as textiles, apparel, stitching, leather, pharmaceuticals, medical equipment to foreign investors, who are attracted by tax incentives in newly established special industrial parks and cheap motivated labour running more and more as a competitor to Asian countries (see chart 10).

Chart 7: **Ethiopia: Major export items as a percentage of total exports, with agricultural products clearly prevalent**



Source: National Bank of Ethiopia

Chart 8: **Ethiopia: Export by destination, with Asia as the frontrunner (share in percent)**

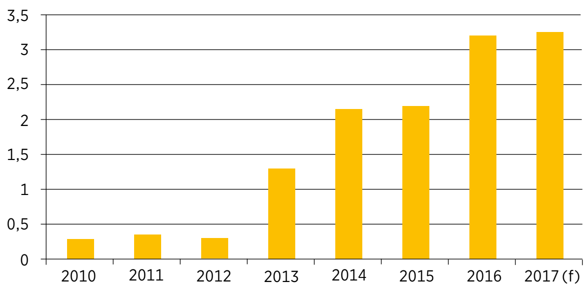


Source: National Bank of Ethiopia

Chart 9: **Ethiopia: Current account buffered by services and remittances in USD billions**

Source: National Bank of Ethiopia

Chart 10: **Ethiopia: Foreign direct investment (inflow) in millions of USD**



Source: UNCTAD, Commerzbank

Ethiopia benefitted from debt relief under the HIPC Initiative from 2004 to 2006. Since then **external debt** has risen rapidly to USD 21bn as per the end of 2016, surging to 197.7% of exports, an uncomfortably high level, especially due to the fact that the permanent high remittances from nationals working abroad are also ascribed to exports as a constant capital inflow. One small consolation is that 90% of the debt is public medium and long-term on concessional terms. So far, the country has not required IMF assistance.

There are 18 banks operating in Ethiopia, 16 of which are private and two public with 3,609 branches. In the **banking sector,** 67% of the deposits are held in the two public banks. The Commercial Bank of Ethiopia, the biggest state-owned bank, accounts for 33.6% of the total capital of the banking system. Lending is strongly exposed to the agricultural and manufacturing sectors.

In mid-2016, the **political situation** in the regions of Oromia and Amhara was upset by ethnic tensions, followed by a state of emergency in October last year, which was lifted in early August this year due to a political dialogue being initiated. The prime minister is Hailemariam Desalegn, a member of the ruling coalition EPRDF (Ethiopian People's Revolutionary Democratic Front). He was officially elected in May 2015 after he temporarily succeeded the late Meles Zenawi in 2012. Given the strategic position at the volatile Horn of Africa, Ethiopia plays an important role in foreign affairs as a peace keeper on behalf of its western partners and the African Union.

Investment & foreign trade opportunities:
Ethiopia has been attracting increased FDI over the past four years, expanding the country's manufacturing base and generating employment. The country is a member of the Common Market for Eastern and Southern Africa (COMESA). Priority sectors for exporters to and foreign investors in Ethiopia are machinery, engines, motor vehicles, chemicals and medicines. One challenge is that the tightly-controlled but well-regulated banking sector is currently showing limited foreign exchange availability. However, quite a lot of the country's investments have been attributed to finance export projects (especially hydropower generation for the export of energy) in the last years. These investments jointly with further strong FDI inflows should improve the current lack of foreign currency availability on a mid-term basis.

Mid-term outlook:
Economic growth dynamics are expected to remain high and could turn the country into the leading Eastern African powerhouse with agriculture, its main export revenue, on an impressive modernisation path. Other export products are also on a rise, as well as the variety of importers (see chart 7 and 8).

Ethiopia
Table 2: **Macroeconomic data**

	2015	2016(e)	2017(f)
Population (m)	99.4	101.9	104.4
Real GDP (% change)	10.4	8.0	7.5
Inflation (% year average)	10.1	7.3	6.3
Budget Balance (% GDP)	-3.2	-3.8	-3.9
Public Debt (% GDP)	55.3	60.3	64.0
Exchange Rate (per USD)	20.1	21.0	22.6
Current Account Balance (% GDP)	-13.5	-9.3	-9.9
Foreign Exchange Reserves (USD bn)	3.4	3.2	3.2*
Import Cover (in months)	2.0	1.9	1.8
External Debt (USD bn)	20.4	21.0	22.4
In % of exports	189.1	197.5	193.9

e = estimated, f = forecast * as per April 2017; Source: IMF, Commerzbank

Ethiopia Commodity Exchange (ECX)

The predominant sector of the country's economy – agriculture – has undergone an impressive modernisation with the foundation of the Ethiopia Commodity Exchange (ECX) in 2008, which has since become a multi-commodity e-exchange, offering all services in a value chain ranging from farmers to traders to buyers. It is the first of its kind in Africa and was set up as a private company, jointly owned by the government of Ethiopia and private market investors. The ECX is linking even remote rural areas, benefiting especially the more than 2 million smallholders, who produce 95% of Ethiopia's agricultural output. For these farmers, represented by cooperatives, the market risk has been dramatically reduced by the availability of electronically published real-time prices for mobile subscriber by instant messaging. Matching offers and bids for commodity transactions at warehouses in different regional locations, the ECX handles transport and logistics, banking and financial services. With a volume of around 70%, export coffee trade dominates, followed by sesame, oilseeds, beans, maize and wheat.

ECX is providing:

- reliability and market integrity by product grade and quantity certification with a daily clearing and selling system, as well as the integrity of the market players
- security by means of risk-free payments
- efficiency by operating a trading system in which buyers and sellers can coordinate their business in a seamless way on the basis of standardised contracts
- low costs
- market transparency by dissemination of market information in real time to all market players by clearly defined rules of trading

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