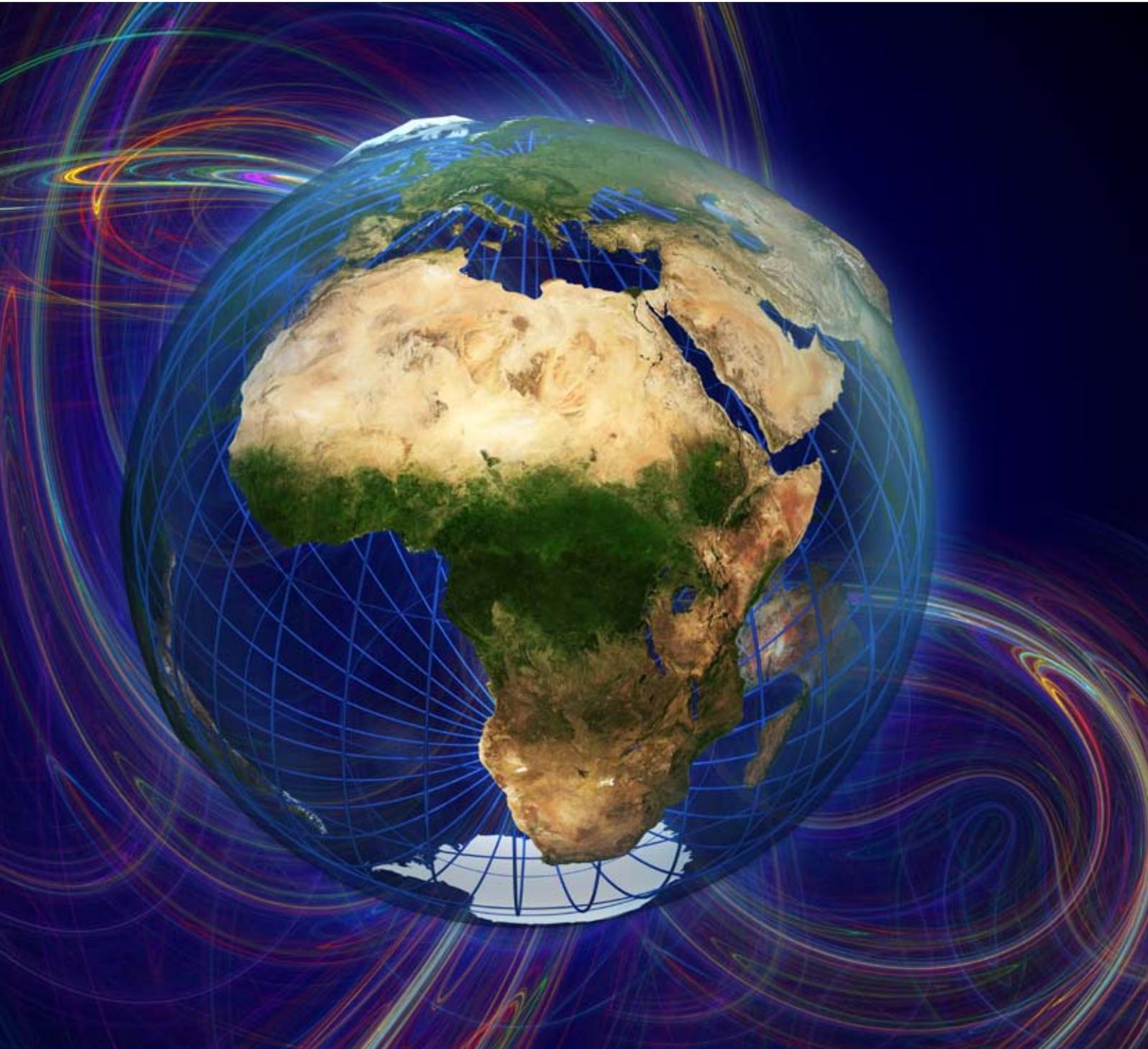


Banking in Sub-Saharan Africa to 2020

Promising frontiers

A report from the Economist Intelligence Unit





Executive summary

African countries south of the Sahara are poised to enjoy a surge in growth in their banking systems during this decade. The three main drivers of this development will be generally very high rates of economic growth, financial deepening to fulfil huge unmet needs for basic financial services and new technologies to provide them—particularly over mobile phones.

In this report we trace out two scenarios for the growth of the sector. In the conservative scenario, driven exclusively by economic expansion, we project that the industry in 16 key African economies will boost its financial assets by 178% to US\$980bn by 2020. In the more likely scenario, driven by both economic growth and financial deepening, we foresee assets expanding by 248% to US\$1.37trn at the end of the decade (see chart).

The boom will vary markedly across the continent, however. Banking is likely to enjoy its most rapid expansion in Angola, increasing assets at least fivefold by 2020, as that country experiences a surge in petroleum production and builds up an industry long hampered by civil war and economic malaise. Banks in a number of other economies—including Ghana, Tanzania and Uganda—will expand assets at least threefold over the same period.

Slower-growing markets will include South Africa, which is the financial powerhouse of the continent but will expand its own banking sector only modestly by 2020. Botswana and Namibia, two other economies with well-developed banking systems, are also slated to expand banking assets at rates below the regional average.

In most regards the region is trailing the rest of the world in developing the banking systems that are vital for stronger economic development and growth. However, in some key aspects Sub-Saharan Africa is leading other regions in ways that will allow it to rapidly catch up, or even leapfrog forward, in the next decade and beyond. The continent's industry is a leader in mobile banking and other innovative approaches to reaching new customers. Most of its markets are also unusually open among emerging markets to foreign banks and microfinance firms. More than anything else, it offers huge unmet financial needs in a world largely marked by excessive debt and leverage.



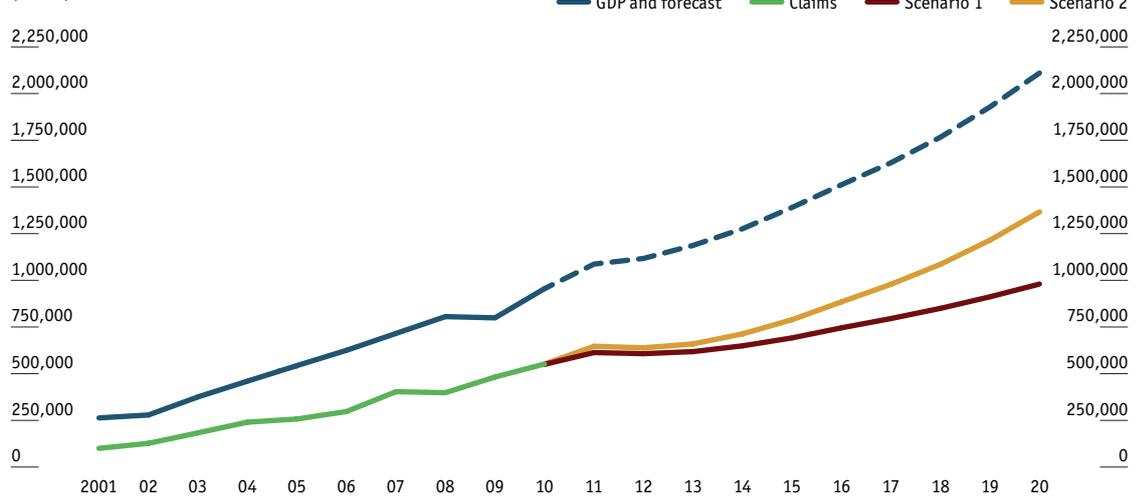
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Bank claims in Sub-Saharan Africa, 2001-20

(US\$ m)



Source: Economist Intelligence Unit.

Key findings

- **Sub-Saharan Africa is set to enjoy a banking boom in the decade to 2020.** Real GDP growth in the region averaged 6.8% a year in 2005-08, the best for a generation, and stayed positive in 2009, despite the global recession. The subsequent rebound has also been swift, and growth is forecast to average 5.5% in 2011-12, producing brisk real per capita growth of 3.4% a year. Overcoming a long legacy of underdevelopment, the conditions are in place for a doubling of banking assets and deposits, a proliferation of outlets and the extension of services to swathes of the continent's unbanked majority over the next decade.
- Based upon the Economist Intelligence Unit's economic forecasts, we foresee banking assets and deposits in 16 key African countries expanding rapidly between 2010 and 2020. Based on forecast economic growth in each of the countries, **our first scenario anticipates that total bank claims for the countries will expand by 178% to US\$980bn** at the end of the period (claims, as reported by the IMF, count banks' financial assets). Meanwhile, **deposits will grow by 188% to US\$766bn**.
- **Our more likely second scenario anticipates financial sector deepening** in addition to high levels of economic growth. The deepening will result from more households and businesses saving, borrowing and transferring money with banks, and using these services more intensely. To reflect this, we project bank deposits and asset expansion at 1.5 times the rate of GDP growth. Under this scenario, **assets will grow by 248% to US\$1.37trn, while deposits will expand by 270% to US\$1.1trn** by 2020.
- The expansion of the banking industry will not be uniform across the region, however. **Growth will be strongest in poorly-served countries that are enjoying new resource booms, including Angola, Uganda, Ghana and Tanzania.** In each of these high-growth countries, we foresee bank deposits and assets rising at least threefold over the forecast period, and they could grow much more quickly in a scenario that also features financial deepening.



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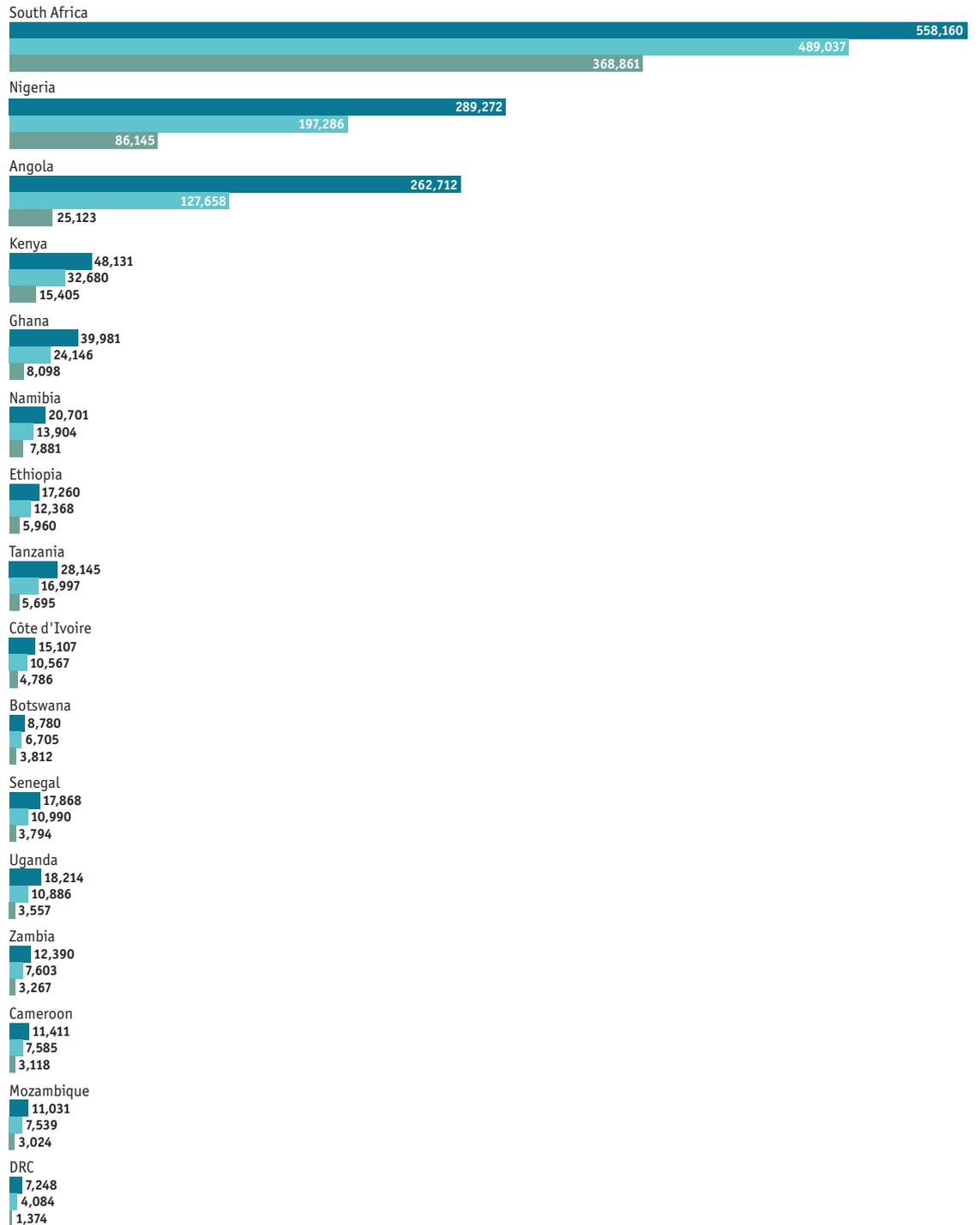
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Growth in bank claims, 2010-20

(US\$ m)

Scenario 2 Scenario 1 2010



Source: Economist Intelligence Unit.



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- By contrast, **growth will be slowest in South Africa, the well-developed financial powerhouse of the continent, as well as in the small but sophisticated financial systems of Botswana and Namibia.** In fact, the boom of the coming decade should significantly erode the dominance of South Africa, which currently accounts for about two-thirds of the continent's banking assets and three-fifths of its deposits. By 2020 South Africa will still have the largest banking sector by far, but it will account for less than one-half of the region's financial balance sheet.
- **Banking systems in other countries will also expand quickly.** Nigeria, with its massive population, oil riches and free market orientation (following a more transparent election than usual in 2011), has considerable promise, although weak infrastructure, inefficient administration and extensive corruption mean caution is warranted. In the east, where economic integration within the East African Community (EAC) is advancing briskly, Kenya will remain the regional financial hub. Ethiopia is one of the fastest growing economies, although it imposes many restrictions in its state-led development model. In southern Africa, Mozambique and Zambia offer good prospects.
- The coming boom is based first and foremost on **high expected economic growth** and the continuing **development and application of technology in communications and the financial sector** in much of Sub-Saharan Africa over the next ten years. The most dynamic economies will enjoy average real GDP expansion in the high single-digit percentages, driven in large part by recent resource discoveries and a global commodity supercycle that will sustain high prices for oil and gas, basic metals and a variety of agricultural products.
- **Positive policy decisions will bolster the trend.** Many countries in Sub-Saharan Africa have adopted pro-growth economic policies, including an openness to foreign lenders that is uncommon in most emerging markets. Officials have endeavoured in recent years to build the infrastructure that can deepen banking systems, such as issuing benchmark-setting sovereign bonds (see "A new wave of African Eurobonds") and constructing national and regional markets for stocks and bonds. The resolution of conflicts can lead to very rapid financial recovery, as the experiences of Angola and Mozambique show.
- **There is great scope for the expansion of banking in the region, given very low current levels of usage.** Even in South Africa, perhaps the continent's best banked economy, only about one-half of households use formal financial services, according to a standard dataset developed by Patrick Honohan, a former World Bank official. In many other African countries, fewer than 10% use such facilities. Mobile banking has spread around the globe in recent years, but has enjoyed its biggest success so far as the M-Pesa service in Kenya. The technology, now being introduced in other African countries, has the potential to reach millions of new customers (see "Mobile banking beyond M-Pesa").
- **However, many factors will continue to restrain the expansion of banking across Africa.** The individual country chapters in this study, all written by the EIU's Africa analysts, document many of the challenges. Perhaps most important is the absence or weakness of the institutions that support financial systems, such as credit bureaux, bankruptcy procedures and swift and efficient courts.



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Meanwhile, some economies remain relatively closed: Ethiopia, for example, has a restricted capital account and does not permit the operations of foreign banks.

- Although they are expected to drive much output growth in the coming years, **resource booms generally offer few linkages to other sectors of the economy**, often employ few workers and do not produce the rising middle class that is the most eager adopter of financial services.
- **Armed conflict can severely dent overall growth and the financial sector in particular**, as seen in the burst of post-electoral fighting in Côte d'Ivoire or in the drawn-out banditry of the Democratic Republic of Congo.
- **Financial firms have shown increased interest in Sub-Saharan Africa in recent years.** Ecobank Transnational, a Togo-based lender, has rapidly spread its reach across the continent from its base in West Africa (see "Spotlight on Ecobank"). South Africa's Standard Bank has been the most aggressive in the South, particularly following its landmark deal with the Industrial and Commercial Bank of China in 2008 (see "A landmark deal"). Portugal's banks have a long history in their home country's former colonies, which they have opened up to Brazilian partners more recently (see "African attraction for lusophone banks"). French and British banks also remain active in ex-colonies.

Acknowledgements

The analysts in the EIU's Africa team were the principal contributors to this report. They included the regional chief Pat Thaker and the staff analysts Roger Boulanger, Jonathan Hyman, Joseph Lake, Shefali Rai, Patrick Raleigh, Jonathan Stever and Philip Walker. Other contributors included Rodrigo Amaral, Jason Karaian, Louise Redvers and Dana Vorisek. Steven Leslie was the project manager.



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