Standard Bank

AMR

AFRICAN MARKETS REVEALED

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ABOUT THE COVER IMAGE

An awesome dazzle of Burchell's zebra at Makgadikgadi Pan National Park in Botswana. Along the lively Boteti River, situated near the Okavango Delta, much energising activity takes place as the Okavango-Makgadikgadi zebra migration, triggered by rain, is underway.

This spectacular return journey of over 1,000km each year is one of two mass zebra migrations in southern Africa, the other being Botswana's Chobe-Nxai Pan zebra migration.

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Funding tailwinds, climate headwinds

We previously noted that, while many G10 central banks would begin to cut rates in Q2:24, the US Federal Reserve would likely delay doing so until Q3:24. This view still holds. In early 2024, the market was priced for the Fed to start reducing rates as early as Mar 24 and deliver up to six 25 bps cuts during 2024. However, we viewed this as too aggressive, but today, with the market now priced for barely one rate cut this year, in either Nov or Dec, the market may have adjusted too far. We believe that the Fed may start cutting rates in Sep and deliver up to three 25 bps cuts in 2024, provided, of course, that economic data shows price moderation and continued rebalancing in the US labour market.

However, the US elections in Nov 24 will likely spur global risk volatility. Former president Trump is seeking to make his temporary 2017 personal tax cuts permanent. Of course, any budgetary action will likely require a Republican majority in the Senate, and that’s not assured either. But even without fiscal action, there seem to be many avenues down the road, and a second term for Trump could lift inflationary pressure, such as an across-the-board 10% tariff, possibly rising to as high as 60% on Chinese imports. This, in turn, would restrict room for the Fed to ease or, worse still, provoke new rate hikes. It could also provoke a much stronger USD.

With La Niña hot on the heels of El Niño, and as explored in our last edition in January of the African Markets Revealed (AMR), we still view adverse weather conditions, geopolitical tensions and debt sustainability challenges as the main downside risks to economic growth in Africa over the coming year.

The El Niño weather, which brought about severe drought conditions in Zambia and Malawi, has inevitably resulted in revisions to our GDP growth forecasts for these markets. For Zambia, we have slashed our GDP growth forecast to 2.5% y/y for 2024, from 4.4% y/y. For Malawi we now forecast the economy to grow by 1.8% y/y in 2024, a downward revision from our Jan AMR forecast of 2.3% y/y. However, in Zambia, La Niña rainfall should promote a recovery in hydropower production and agricultural output as well as boost both private consumption and gross fixed capital formation. Thus, GDP growth there will likely recover to 6.0% y/y in 2025.

In the East Africa region, the El Niño rainfall negatively impacted Kenya and Tanzania. For Tanzania, we lower our 2024 GDP growth forecast from 5.7%-6.0% in the Jan AMR to 5.2%-5.5%. However, we retain our GDP growth forecast for Kenya at 5.1% y/y in 2024. While we acknowledge downside risks to our growth forecast for Kenya largely due to the floods in Q2:24, we had already priced in the impact from potential adverse weather conditions in our Jan AMR. At the time when we had forecast growth at 5.1% y/y, the government and a host of multilateral agencies had expected growth to reach 5.6%-5.8% y/y. The risk of a La Niña drought from Q4:24, combined with ongoing concerns such as higher and unpredictable taxation, elevated interested rates and the perennial issue around unpaid bills, will likely keep growth subdued in Kenya in 2025 too. We see only a marginal recovery in growth, to 5.3% y/y in 2025.

Debt sustainability remains the hot topic of Africa, though, promisingly, Zambia has broadly completed its external debt restructuring operation, and we remain optimistic that Ghana will follow suit over the coming months. However, two other markets in our coverage have recently come under the debt sustainability spotlight. Uganda for external debt, and Mozambique for domestic debt. In Uganda, despite a notable increase in external debt service costs over the next 5-y, oil sector revenue from FY2025/26 will likely help counterbalance this. As domestic debt pressures gather impetus in Mozambique over the next 2-y, the authorities will likely have to proactively conduct liability management, with switch auctions likely being considered.

We retain our recommendation from March 24 to be long carry via the EGP 364-d T-bill. Positively, net international reserves recovered to USD46.1bn in May 24, from USD40.3bn in March 24 and USD35.2bn in January 24, as the government’s funding sources improved. In comparison to the carry trade in Nigeria, Egypt appears to provide more comfort and conviction to investors given that there has been FX reserve accretion combined with USD/EGP stability. Whereas in Nigeria, while FX and monetary reforms since last year have been noteworthy, a notable section of the investment community remains uncomfortable about the recent USD/NGN volatility. Nonetheless, we expect USD/NGN volatility to subside in H2:24, as external funding sources from the World

Bank, Afreximbank, a USD diaspora bond and potentially a Eurobond, are likely to underpin FX reserve accretion over the coming year.

We still favour the Infrastructure Bond (KENIB) duration trade in Kenya. Abating concerns on the refinancing of the 2024 Eurobond maturity after a USD1.5bn issuance in Feb 24, and an increase in foreign portfolio investments into the fixed income market as well as continuing multilateral inflows have boosted the KES and revived FX liquidity. We expect the MPC to turn accommodative in H2:24, which should spur capital gains on our KENIB trade. Headline inflation will likely remain range-bound in H2:24 because the impact of the El Niño floods wasn't as detrimental for inflation as envisaged before.

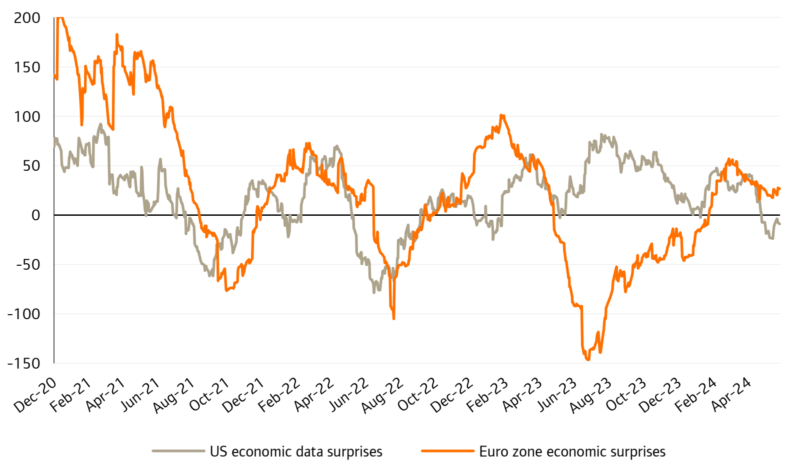
At the time of writing, the proposal to increase withholding tax to 15% for foreigners on the KENIB had been retained in the Finance Bill, prior to the pending third reading of this Bill on Jun 25. However, in the wake of the public uproar about the Finance Bill tax measures, which has resulted in notable changes on some proposed tax measures, additional revenue from the Bill will now likely subside to an expected KES200bn, from KES346n before the revisions. However, should expenditure not decline in tandem to counterbalance this, borrowing would inevitably have to increase in FY2024/25 to fund the shortfall.

Economic divergence moderating

If 2023 was marked by notable economic divergence, as the US powered ahead of other G10 countries, 2024 is likely to see the imbalance narrow as the US slows and other countries catch up. Figure 1 shows how US data releases through 2023 consistently outshone expectations, compared to the very underwhelming performance in the euro zone. But this year, the situation has flipped, with US data underperforming, while the data from the euro zone has often exceeded expectations. US outperformance has been related to many factors, including a slower pass-through from higher policy rates because US householders tend to fix their mortgage rates for longer periods than other G10 countries. A more lenient fiscal position in the US appears to have worked in that economy's favour as well.

But this year, fiscal policy has become more quiescent given the congressional paralysis induced by November's upcoming election. In addition, there are clearer signs that households are being worn down by the persistence of high policy rates. Of course, relatively high policy rates have been seen in other G10 countries as well – but the easing cycle is progressing at a faster pace than we see in the US, and this enhances the case for a modicum of economic convergence between the US and other G10 countries, not divergence. Still, the changes are likely to be modest. The US economy should still grow by around 2% this year; the fastest in the G10 and still a good percentage point or more above other developed nations.

Figure 1: US 'exceptionalism' is pared back



Source: Bloomberg

The robustness of US growth is stalling the disinflationary process although, in truth most G10 countries are experiencing some difficulty in achieving the last mile of inflation reduction. In the US, annual PCE price inflation has become stuck at just over 2.5% for the past six months, having fallen rapidly from a peak of 7.1% in the summer of 2022. If progress has been better in other G10 countries, it is largely because US price indices are dominated by components that reflect home rental costs and, while data shows that actual rents have been declining, the measures included in the inflation data have been more stubborn.

For instance, if we measure US inflation on the same basis as that calculated in other countries, particularly in Europe, we find that this 'harmonised' measure is lower than that of the euro zone because this troublesome owners equivalent rental component is not included in the harmonised calculation. Nonetheless, we see the stickiness in US rental inflation easing over time and, with US consumers seemingly becoming more resistant to higher prices, inflation seems likely to ease down in a similar way to that observed in most other G10 nations.

The easing cycle has begun

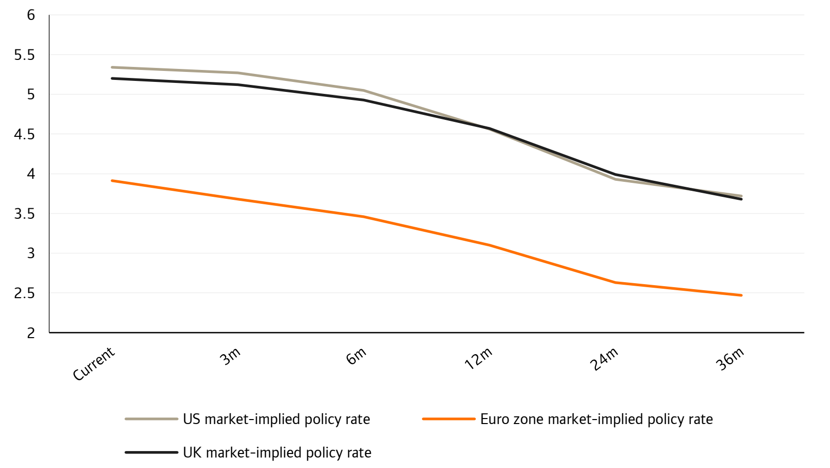
Falling inflation has given a small number of developed-country central banks licence to start easing monetary policy. But, while easing cycles have had to be quick and aggressive in recent decades, due to the pandemic and the global financial crisis, this one will be slow and sedate – unless, that is, a new calamity befalls the global economy.

The view we took at the start of this year, that many G10 central banks would begin to cut rates in Q2, with the Fed delayed until Q3, still holds. In early 2024, the market was priced for the Fed to start reducing rates as early as March and deliver up to six 25 bps cuts during 2024. We felt that this was too aggressive, but today, with the market priced for barely one rate cut this year, in either November or December, the market may have adjusted too far. We believe that the Fed may start rate cuts in September and deliver up to three 25 bps cuts in 2024, provided, of course, that economic data shows price moderation and continued rebalancing in the US labour market. Other G10 central banks, such as the Swiss National Bank, Riksbank and ECB, have had to decide to go ahead with rate cuts ahead of the Fed. Some have argued that this may expose their currencies and local bond markets to unwelcome pressure. But we do not see things this way. As long as the next move from the Fed is seen to be a cut, not a hike, we expect other central banks to have considerable leeway to lower policy rates.

As easing cycles develop, so the focus shifts to the extent that central banks may reduce rates. Quite clearly, nobody is assuming that policy rates will fall all the way back to levels seen before the tightening cycle began, which was around zero in most cases. For a start, inflation is still somewhat stubborn, and it looks as if the pre-Covid problem, of inflation customarily undershooting central bank targets, will be replaced by a situation in which inflation is more often just above the target. Another point is that several central banks are starting to argue that 'neutral' policy rates, which neither stimulate nor depress the economy, are likely to be higher now than in the past due to factors such as demographic change. The Fed is the only major developed central bank that asks its members to give their estimate of the long-run, or 'neutral', rate, and this has just started to edge up, from 2.5% before to 2.6% at the forecast back in March.

Nonetheless, many in the private sector, including us, believe that the neutral rate is somewhat higher than the FOMC median forecast. Market pricing appears similarly sceptical that the US neutral rate could be as low as the 2.5% region given that implied policy rates drop only to just above 3.5% over the next three years (Figure 2). But wherever policy rates eventually settle in the US and other G10 nations, there seems little doubt that central banks are likely to take things very cautiously in the early phases of the easing cycle as they want to be sure that they avoid repeating the mistakes of the 1970s when policy was eased too soon – and inflation came roaring back. Next year, easing cycles will likely step up a gear and we believe that the low for policy rates in the easing cycle will actually be a little lower than currently priced into the market, with a 3% rate seen likely in the US and 2% in the euro zone.

Figure 2: Policy easing priced in



Source: Bloomberg

Moderately lower bond yields

Government bond yields are projected to decline across advanced nations, particularly at the front end as yields follow the path of central bank easing. Further down the curve, the prospect of further modest declines in inflation should aid bond markets as well.

However, just as policy rates are unlikely to return to the lows we saw in the pre-pandemic era, so bond yields will likely be higher on average as well. For a start, inflation is more likely to be just above 2% targets than below. That is not necessarily a bad thing, as disinflationary, and even deflationary pressures, between the global financial crisis and the pandemic forced many central banks to undertake unconventional policy, such as quantitative easing. Getting stuck in a liquidity trap, where policy rates cannot be lowered sufficiently to stimulate demand, has tested the Bank of Japan for many decades, up until recently, and many other central banks have risked falling into the same trap. So, while the 2021/22 surge in global inflation was clearly unwelcome, we also sense that central banks do not want to create overkill now by punishing their economies just to see inflation back below 2% again. We therefore infer that 10-year treasury yields, for instance, will fall back into a 3-4% range but will not slide to the extremely low levels of the past unless, that is, we see another unanticipated shock, such as a financial crisis.

Politics plays a big role

The scope for government bond yields to fall is likely to be limited by more persistent inflation than the pre-pandemic period, while the fiscal costs of Covid are also set to continue challenging fiscal policy, along with other heightened fiscal requirements such as spending on climate change and defence. Some countries, particularly in Europe, have quite onerous self-imposed limits on their fiscal flexibility. But in the US, no such self-control exists, and that's creating concerns that excessive debt could lift treasury yields and arguably weigh on the dollar as well given foreign holdings of treasuries stand at just over USD8tn out of a total of just over USD26tn.

These concerns shine a light on the US presidential election in November as former president Trump is seeking to make his temporary 2017 personal tax cuts permanent. Of course, any budgetary action will likely require a Republican majority in the Senate, and that's not assured either. But even without fiscal action, there seem to be many avenues down which a second term for Trump could lift inflationary pressure, such as an across-the-board 10% tariff, possibly rising to as high as 60% on Chinese imports. This, in turn, could restrict room for the Fed to ease or, worse still provoke new rate hikes. It could also provoke a much stronger dollar, at least initially, although there is also talk from within the Trump camp that action could be taken to lower the 'overvalued' dollar, possibly through FX intervention, which is the preserve of the Treasury not the Fed. In short, a change of government in November could shatter the relative calm that we have seen in the dollar over the past 18 months or so when euro/dollar, for instance, has rarely moved outside a tiny 1.05-1.10 range. This range could still prove a magnet for euro/dollar under the assumption of a Biden victory in November's election, with a bias to modest dollar weakness towards 1.20 next year as the Fed eases. But a Trump win, if it brings with it more fiscal largesse, static Fed policy, new tariffs, increased geopolitical tension with China, and more, could create a far more volatile environment.

Euro/dollar could initially slide below parity as part of a sudden surge in the dollar, much as we saw when Trump won the election in November 2016. However, the longevity of any such rally could prove limited and the turnaround could be quite violent – again as we saw in the early years of Trump's presidency from 2017 – if there is intervention to actively seek a weaker dollar, or the market takes it upon itself to lower the dollar on account of the ballooning budget and current account deficits. In short, it is rare for an election to generate such a diverse range of views and, if the dollar becomes far more volatile, so will other local – and international – markets as well, such as treasuries. Right now, a Trump victory is not our base case and hence our forecasts show a modest and slow descent in the dollar over the next year or two – but we are attentive to the fact that these forecasts will have to change if Trump wins in November.

La Niña hot on the heels of El Niño

We still see adverse weather conditions, geopolitical tensions and debt sustainability challenges as the main downside risks to economic growth in Africa over the coming year.

Worsening geopolitical risks may still alter global risk conditions from Q4:24 and into 2025, with sticky global inflation and a stronger USD. This would bring about the risk of potentially reversing the recent recovery of capital flows towards Africa and the broader emerging market universe, which could thus flare up balance of payment funding and fiscal pressures.

The risk of unfavourable weather conditions has already weighed on GDP growth in some of the markets in our coverage, with the outlook over the next 6-m still looking somewhat concerning. As we had highlighted in our Jan 24 and even Jun 23 AMR editions, the concerning forecasts of El Niño weather conditions ought to be taken seriously given the influence of the agrarian sub-sectors in most markets across the African continent. But now, with some economies still scarred from the devastating El Niño weather impact, there are growing concerns and warnings that La Niña weather conditions will play out in a damaging way on the continent between Q4:24 and H1:25.

The El Niño weather, which brought about severe drought conditions in Zambia and Malawi, has inevitably resulted in revisions to our GDP growth forecasts for these markets. In Zambia, we have slashed our GDP growth forecast to 2.5% y/y for 2024, from 4.4% y/y previously.

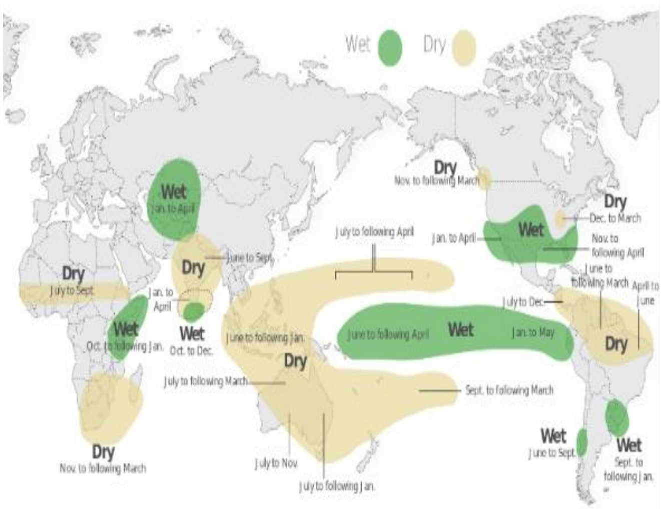
In our Jan 24 AMR report, we noted that while the agriculture sector's share as a function of GDP isn't as large in Zambia, compared to economies in the East Africa region, the drier weather conditions would likely weigh on the important mining sector due to the disruption in electricity generation. Hydropower electricity accounts for nearly 85% of electricity generation in Zambia. Hence, the drought-induced prolonged power blackouts, subduing growth in the mining and broader industrial sector.

Furthermore, agriculture output in Zambia has also declined by over 50% for key crops due to the drought, which may now impel balance of payment pressures due to higher food imports to plug in the deficit. The Ministry of Finance also noted that the government would need around USD900m to mitigate the impact for what they consider to be the worst drought on record. Positively, Zambia's current IMF programme was augmented by c.USD400m, to a cumulative USD1.7bn, primarily due to the negative impact of the drought on this economy.

In Malawi we now forecast the economy to grow by 1.8% y/y in 2024, a downward revision from our Jan AMR forecast of 2.3% y/y. El Niño weather conditions have caused severe drought in large parts of Malawi. In Mar 24, President Lazarus Chakwera declared a state of disaster in 23 of Malawi's 28 districts.

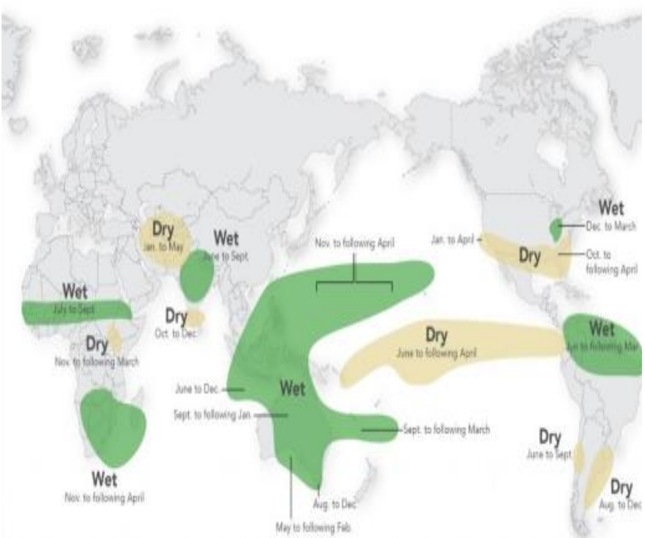
The government estimates that c.44% of Malawi's corn crop has been either damaged by the drought, or failed entirely, affecting an estimated 2m households. We expect private consumption expenditure to be constrained due to high inflation and food shortages resulting from the drought, which would also increase food import demand. Lower consumption and increased imports would have a net negative impact on GDP growth. However, the impact on economic activity would have been worse, were it not for the resilience of the tobacco sector, which was underpinned by both higher prices and a better harvest, despite the El Niño drought.

Figure 3: El Niño ENSO cycle



Source: NOAA, IRI

Figure 4: La Niña ENSO cycle



Source: NOAA, IRI

The potential shift to La Niña will most likely bring increased rainfall to Malawi, which should see food crop production, such as maize, return to normal in 2025, meaning that import demand for maize should go down significantly in 2025. Hence, GDP growth will likely recover to 2.2% y/y in 2025.

Even in Zambia, La Niña rainfall should promote a recovery in hydropower production, agricultural output and boost both private consumption and gross fixed capital formation. Thus, GDP growth will likely recover to 6.0% y/y in 2025. Of course, positive base effects will also be complementary for growth in Zambia and Malawi in 2025.

In the East Africa region, the El Niño rainfall negatively impacted Kenya and Tanzania, more than Uganda. Hence, our growth forecasts are broadly unchanged in Uganda. But the torrential rains in Kenya and Tanzania caused devastating floods, which led to the loss of lives and displacement of citizens.

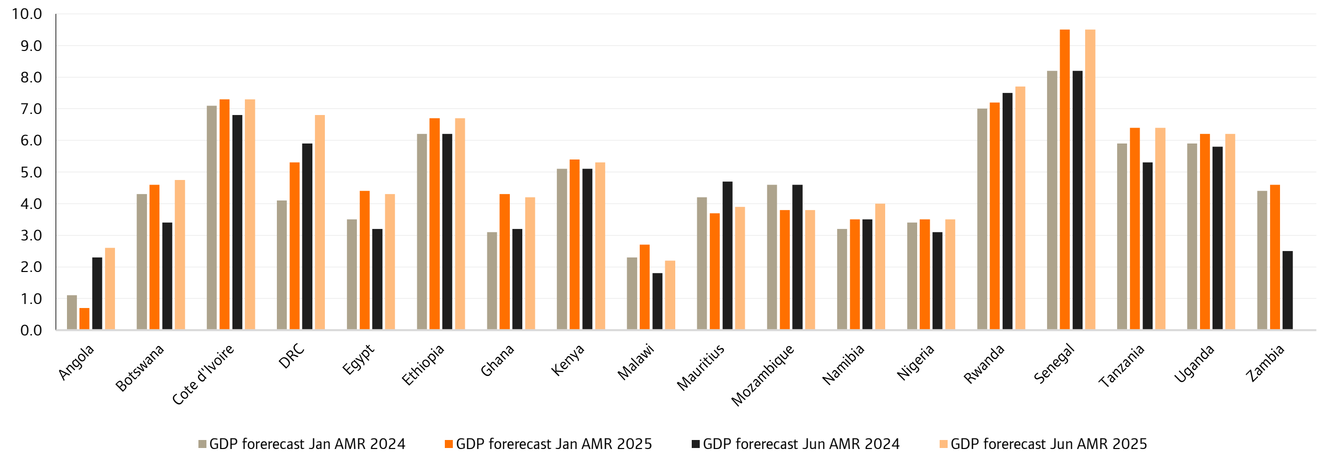
Despite this, we retain our GDP growth forecast for Kenya at 5.1% y/y in 2024. While we acknowledge downside risks to our forecast largely due to the floods in Q2:24, we had already priced in the impact from potential adverse weather conditions in our Jan AMR. At the time when we had forecast growth at 5.1% y/y, the government and a host of multilateral agencies had expected growth to reach 5.6%-5.8% y/y.

The risk of a La Niña drought from Q4:24, combined with ongoing concerns such as higher and unpredictable taxation, elevated interested rates and the perennial issue around unpaid bills, will likely keep growth subdued in Kenya in 2025 too. We only see a marginal recovery in growth to 5.3% y/y in 2025.

For Tanzania, we have lowered our GDP growth forecasts from 5.7- 6.0% in the Jan AMR to 5.2-5.5%. Growth for 2024 will likely be weighed down by the El Niño weather conditions and may further subside owing to the expected swing from El Niño to La Niña in Q4:24.

Growth in the agriculture sector in Tanzania has been tepid even prior to the recent El Niño. Agriculture, that contributes about 25.9% of GDP, only grew by 3.4% y/y in 2023, versus 3.3% y/y in 2022, well below the 4.8% y/y 10-y average, despite the improvement in weather conditions. Further, in addition to drier weather conditions from La Niña, persistent FX liquidity pressures in the market, and concerns surrounding the funding of infrastructure projects, may continue to constrain growth over the coming year. Further delays in the Host Government Agreement (HGA) for the LNG sector may also curb upside for growth in the energy sub-sector.

Figure 5: SBR GDP growth forecast

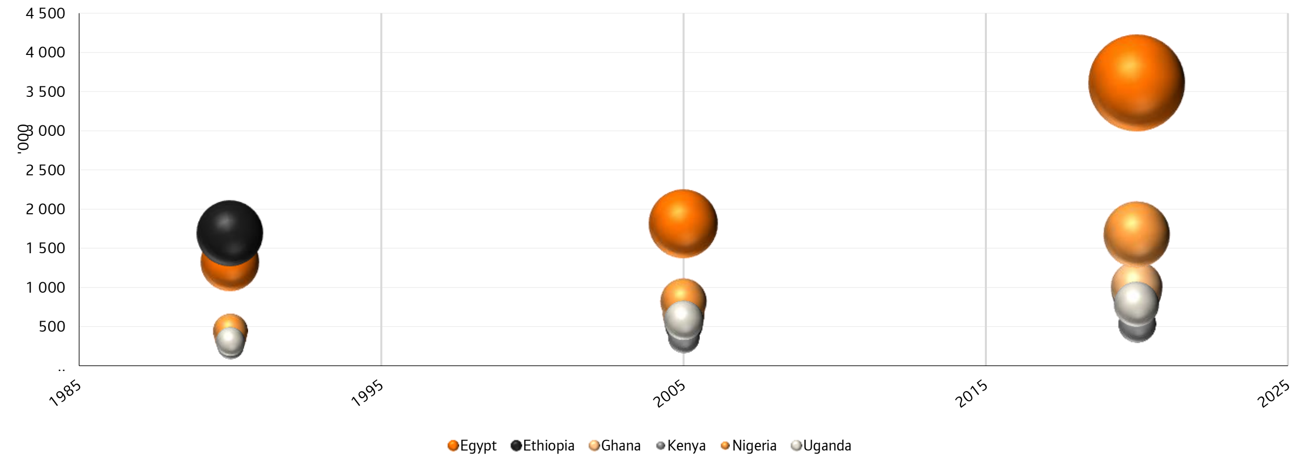


Source: Standard Bank Research

Diaspora remittances likely to pick up in Egypt and Nigeria

Diaspora remittances have been growing notably in some African economies over the past decade or so. However, the rise of these remittances from abroad still splits opinion – mostly around the reasons for the correlation when it rises or declines. Remittances, which form part of current transfers under the current account balance of payments (BOP), have in some cases become larger than traditional export-earners such as cash crops.

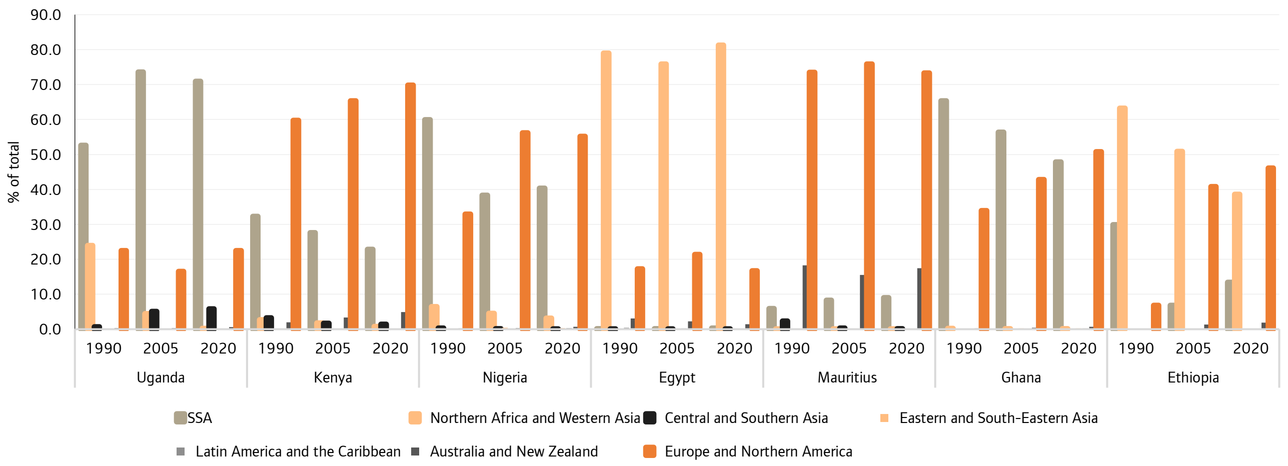
Figure 6: Migrants to the World (stock)



Source: United Nations Department of Economic and Social Affairs, Population Division (2020). International Migrant Stock 2020

While it may be tempting to presume that diaspora remittances are predominantly dependent on global growth conditions, our research indicates other factors as more crucial. Due to the well documented issues surrounding the 'brain drain', African economies have been exporting significant amounts of human capital to the rest of the world. This has arisen in large part due to growing literacy levels in African economies amid the sluggish progress in expediting industrialization and/or creating compelling job opportunities for citizens in sectors such as manufacturing or agriculture to absorb such labour. As a result, and unsurprisingly, migration broadly towards North America and Europe has grown over the last couple of decades.

Figure 7: Migration broadly towards North America and Europe has grown



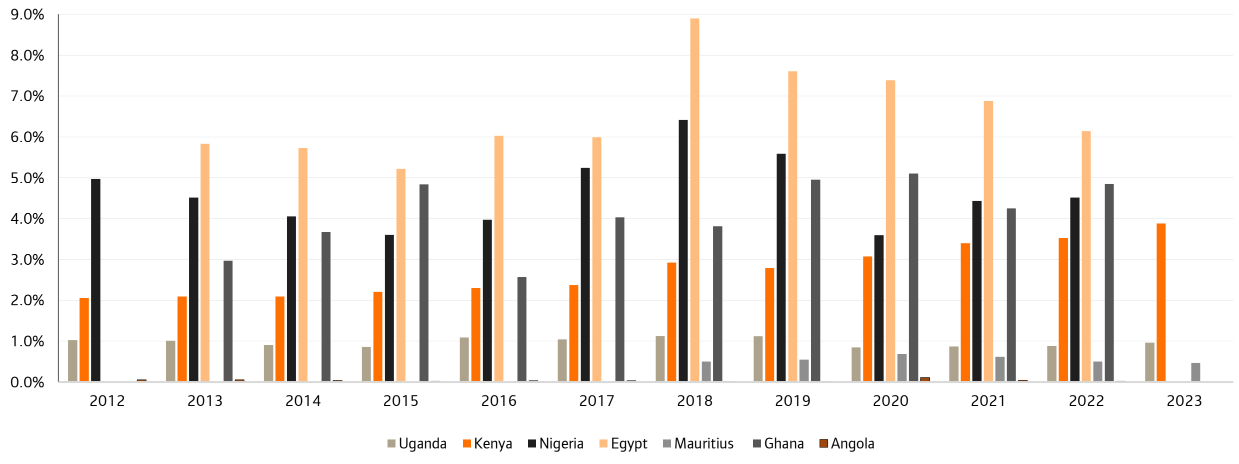
Source: United Nations Department of Economic and Social Affairs, Population Division (2020). International Migrant Stock 2020

Despite uneven global growth conditions over the past 15-y or so, remittance inflows tend to remain resilient if these are emanating from source markets that are in the advanced economy world. For instance, in Kenya, diaspora remittances rose by 10.6% y/y, to USD3.1bn in 2020, and 20.2% y/y, to USD3.7bn, in 2021, despite the global growth slowdown during this period associated largely with the scarring from the pandemic. Interestingly, since 2014, diaspora remittances have trumped traditional export earners such as tea, coffee and horticulture, becoming the single largest USD earning source for the government. In fact, as at 2023, remittances were larger than the combined USD earnings from these three sectors (USD4.2bn versus USD2.4bn).

However, as of 2023, North America as a source market accounted for 58.1% of diaspora remittances into Kenya, which was up from the average of 48.6% between 2010 and 2015. The looser fiscal policy stance in the US during the pandemic years strain, in addition to a notable number of Kenyans in the US working in the healthcare sector, can probably explain why remittances grew sharply despite the slowdown in global growth during this period. North America and Europe accounted for c.76% of remittances into Kenya in 2023. Recent mobile money synergies between international remittance firms and local telecommunications companies have also played a key role in cementing this solid remittance growth in Kenya.

In fact, another key observation around diaspora remittances that is noteworthy is that African economies who largely receive these inflows from advanced economies, compared to those that rely on regional or continental flows, tend to receive larger amounts of remittances as a share of GDP. But that said, even during periods of global economic strain, where one can presume that African economies with a reliance on regional or continental remittances may remain resilient, relative to economies that depend on remittances from outside the continent – but this hasn't been the case.

Figure 8: Remittances % of GDP



Source: Standard Bank Research; various Central Banks

In Uganda, migration to East Africa has been growing, compared to the Western Hemisphere. Between 2000 and 2020, migration to East Africa comprised 68%-75% of total relocation. Further in 2020, migration from Uganda into other parts of Sub-Saharan African was c.70%, with Europe and North America accounting for a cumulative 22.5%. However, diaspora remittances fell to an average of 0.8% of GDP in 2022, from 0.9% of GDP in 2015 and 1.0% of GDP in 2012. In comparison, in Kenya this has grown to 3.9% of GDP in 2023, from 2.2% in 2015 and 2.1% in 2012.

In Nigeria, diaspora remittances accounted for 4.5% of GDP in 2022, down from 6.4% of GDP 2018. Migration out of Nigeria has been growing exponentially since the early 1990s. In 1990, migration to Europe and North America accounted for 32.9% of overall migration. This then increased to a cumulative 56.2% in 2005, and 55.1% in 2020. During this same period, migration to West Africa comprised 26.9% in 1990, which then declined to 22.0% in 2005, before recovering to 25.0% in 2022. However, in Nigeria, despite remittances perhaps being robust courtesy of advanced economy source markets growing over the years, idiosyncratic factors, such as availability of USD liquidity, play a crucial part too.

During the 2014-15 oil price crash, FX liquidity pressures began to intensify in Nigeria. Hence, unsurprisingly, y/y diaspora remittances growth softened to an average of -2.0% between 2014 and 2016, from 1.3% y/y in 2013. However, as USD liquidity improved markedly thereafter, remittances then averaged 9.6% y/y between 2017 and 2019.

However, FX liquidity pressures resurfaced during the pandemic, with y/y growth contracting 27.9% y/y in 2020. But positively, given the recent raft of FX reforms in Nigeria, the parallel USD/NGN rate is now trading below the official USD/NGN rate. Upon closer assessment, over the past decade, as the premium between the official USD/NGN rate and parallel market widens, y/y remittance growth also softens. Presumably, this is predominantly due to remittance inflows being redirected away from the official banking system and towards informal channels that would likely be trading at the higher USD/NGN levels.

However, in Ethiopia, and despite the chronic FX liquidity challenges over the past decade or so, which reportedly propelled the USD/ETB parallel market higher, diaspora remittances defied the odds and rose to USD7.5bn in 2022, from USD6.4bn in 2021 and USD5.5bn in 2020. We think that this is largely a function of the recent conflict in Ethiopia, which perhaps accelerated migration towards the region and outside the continent and, by that token, also increased remittances for family members and dependents back in Ethiopia.

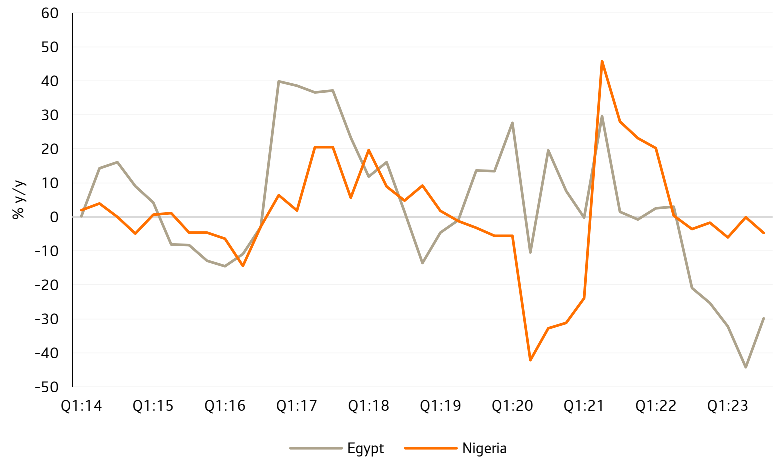
As at 2020, migration to the USA and Europe was c.42% of total migration for Ethiopia. However, in 1990, migration to Sudan and Somalia accounted for around 83%, which then declined to 9.7% in 2020.

Furthermore, the advent of mobile money, and the expected liberalization of the financial services sector in Ethiopia, will likely spur remittances further as they potentially get redirected towards the formal banking system. But then again, FX liquidity conditions would have to materially improve to sustain a further recovery in remittances over the medium term.

In Egypt too, sufficient FX liquidity is critical for diaspora remittances which accounted for around 5.0% of GDP in 2023. However, this was down from an average of 7.4% in 2020, 6.9% in 2021, and 6.1% in 2022. Indeed, FX liquidity conditions deteriorated between 2020 and 2023, with the premium between the USD/EGP and the parallel market also widening during this period. Even if you go back further, the FX liquidity pressures that broadly emanated from the Arab Spring pressures, reduced y/y diaspora remittance growth to an average -1.7% between 2015 and 2016. However, the EGP devaluation aligning it closer to the parallel market in 2016, which was further complemented by an IMF funded programme too, helped remittances recover to an average growth of 18.9% y/y between 2017 and 2018. Diaspora remittances in Egypt grew by around 56% between 2016 and 2020. Indeed, while Kenya also had challenges with FX liquidity between 2020 and 2023, there was never really an influential and large parallel market for USD/KES, outside the wide bid offer spreads in the formal spot market.

Therefore, even in Egypt, as in Nigeria, following the recent EGP devaluation in Q1:24 (which aided to clear the previous USD backlog), remittances will likely begin to recover, as more of these begin to pass through the formal banking system. However, we would expect bigger growth in remittances in Egypt compared to Nigeria over the next couple of years. Migration from Egypt is primarily towards the Gulf Cooperation Council (GCC), with Saudia Arabia and the United Arab Emirates (UAE) accounting for 63.2% of this in 2020. Migration into Europe and the US accounted for only around 14.8% during this period.

Figure 9: Nigeria and Egypt remittance y/y growth



Source: Standard Bank Research; Various central banks

In Mauritius, the trend of remittances is different to other economies on the continent. The outflow of remittances exceeds inflows. Interestingly, outflows to India and Bangladesh accounted for 76.8% of overall outward remittances as at Q4:23. Meanwhile, the UK, France and USA accounted for a combined 48.3% of inward remittances as at Q4:23. Indeed, this trend is perhaps a reflection of the economies growing appeal to expatriates in key sectors such as financial services and textiles, which is further complemented by notable tax and other fiscal incentives. Of course, the relatively small population of around 1.3 million people in Mauritius also perhaps could partly explain this trend of higher outward remittances.

Thus, while global growth conditions and domestic money market yields may have a limited influence on diaspora remittances in Africa, the source markets (advanced economies versus regional economies) tend to have a larger bearing. Additionally, idiosyncratic factors, such as the lack of USD liquidity, also appears to influence remittance inflows for the continent, while the nascency of a country's banking and payments system may also be a factor.

Uganda and Mozambique debt sustainability in focus

Our AMR report of January 24 noted the sluggish progress of the G20 common market framework. However, since then, Zambia has largely completed its external debt restructuring operation, following an agreement with creditors on the proposed Eurobond exchange. As a result, Moody's upgraded its long-term foreign currency issuer rating and long-term local currency issuer rating to Caa2 from Ca and Caa3 respectively.

We remain optimistic that Ghana will also follow suit, with a ratings upgrade also likely despite a recent setback where the deal that the government had agreed with bondholders failed due to not meeting muster according to the IMF's debt sustainability guidelines, the government is confident that their revised proposal to bondholders will be approved by the IMF. This revised proposal comes after the government signed a Memorandum of Understanding (MoU) with official creditors, which outlines the broad contours of the debt restructuring agreement.

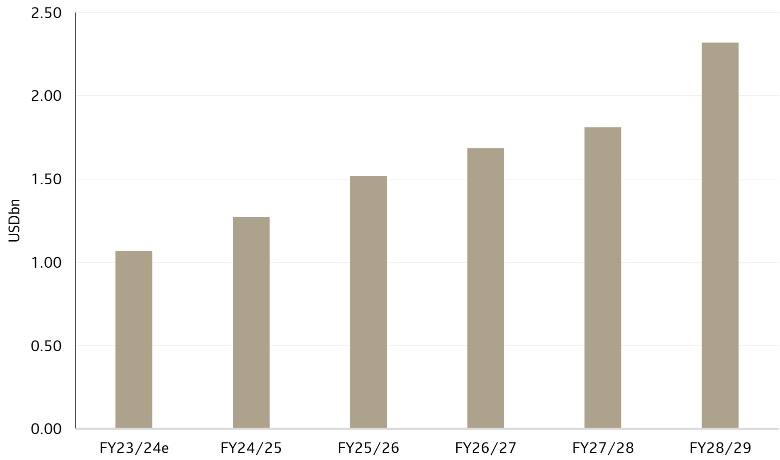
But two other markets in our coverage have recently come under the debt sustainability spotlight. Uganda for external debt, and Mozambique for domestic debt.

In May 24, Uganda's long-term foreign currency and local-currency issuer ratings was lowered to B3, from B2, by Moody's. However, the outlook was changed to stable from negative. The decision was largely premised on limited external funding options amid elevated domestic debt servicing costs and diminishing FX reserve buffers.

Higher external funding costs pushed the government to walk away from a commercial syndicated loan (c.USD440m) in FY2023/24. Meanwhile, in large part due to the government's overdraft at the BoU, the IMF programme's sixth and final review will likely be delayed towards the end of Q3:24. The authorities were expecting around USD130m from this review and were also hoping to extend this programme further. Of course, budget support from the World Bank too will likely be subdued over the medium term following the controversy surrounding the passing of the anti-LGBTQ law.

Uganda's FX reserves have declined by USD440m, to USD3.47bn in April 24, from October 23. But the authorities are confident that BOU's FX reserves will likely grow by around USD400m before the end FY2023/24, courtesy a commercial structured arrangement. But then again, per the FY2024/25 budget, external debt service costs (principal and interest) rise to c.USD1.3bn FY2024/25, from c.USD1.1bn in FY2023/24. Thereafter, external debt services costs rise further to c.USD1.7bn in FY2026/27 and USD2.3bn FY2028/29.

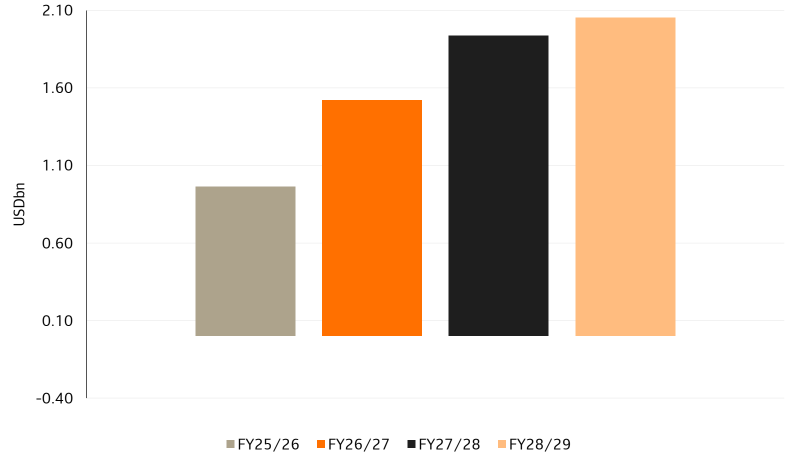
Figure 10: Uganda external debt repayments (interest and principal)



Source: Ministry of Finance, Planning and Economic Development

Arguably, given this notable increase in external debt repayments over the next 5-y, concerns may arise around external debt sustainability in Uganda. However, per the FY2024/25 budget statement, the government has penciled in oil export revenue to support the fiscal position from FY2025/26. The government expects oil revenue of c.USD957m and c.USD1.5bn in FY2025/26 and FY2026/27 respectively. Thereafter, they expect oil revenue to rise further to c.USD1.9bn in FY2027/28 and c.USD2.1bn in FY2028/29.

Figure 11: Uganda oil revenue



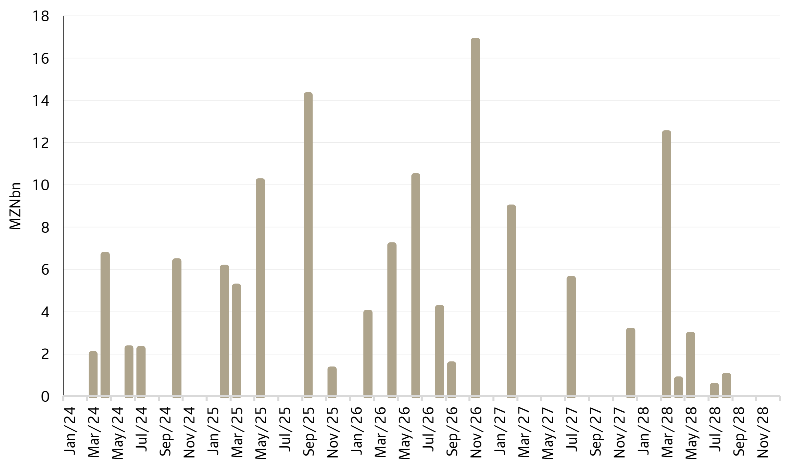
Source: Ministry of Finance, Planning and Economic Development

Indeed, as first oil commences and this revenue transpires, external debt sustainability concerns should abate meaningfully. However, should first oil be delayed, or oil production be significantly lower than the government currently estimates, the government may need to intensify their efforts to boost other sources of external funding, perhaps even look towards a Eurobond which they've had reservations about over the years.

Moreover, domestic debt pressures in Mozambique are expected to intensify over the next 2-y. This has largely emanated from the wage bill reform a few years back, which resulted in the government wage bill rising by 39.7% y/y in 2022, to MZN194.4bn or 16.1% of GDP. Unsurprisingly, government domestic debt accelerated by 23.7% y/y in 2022, to MZN285.1b,n or 23.3% of GDP.

Thus, there is a steep increase in local government bond repayments in 2025 and 2026 by 88.7% y/y and 19.7% y/y, to MZN37.0bn and MZN44.1bn respectively, with more than half of it, reflecting government bonds issued in 2022 (when the wage bill reform begun). Bond repayments in 2024 were MZN19.6bn.

Figure 12: Mozambique principal bond maturity



Source: Ministério da Economia e Finanças; Bolsa de Valores de Moçambique

Considering limited space to borrow externally, and underdeveloped domestic capital markets, the government will likely have to perform an active liability management exercise towards easing the burden of these repayments and therefore alleviate domestic debt pressures.

With local currency cash reserves ratio (CRR) currently at 39%, we would not be surprised if the Banco de Mozambique (BOM) provided some CRR relief towards supporting such a reprofiling exercise, which most likely could take the form of switch auctions.

Fixed income and currency strategy

Underpinned to some extent by market expectations in early 2024 that the US Federal Reserve would begin easing monetary policy conditions this year, we have seen a marked improvement in foreign portfolio investment into Egypt, Nigeria and Kenya since Q1:24. However, idiosyncratic factors likely in large part, drove this recovery in portfolio inflows.

For instance, in Egypt, in addition to the EGP devaluation by around 38% in March 24, the government's external funding sources increased materially too, relative to the past 2-y. This emanated from the USD35.0bn Ras-el Hekma deal with the Abu Dhabi Developmental Company (ADQ), of which USD24.0bn came via fresh financing. Additionally, the government received an augmentation of their IMF programme by USD5.0bn to USD8.0bn, while the World Bank is expected to extend support, worth around USD6.0bn, over the next 3-y. The confluence of these factors helped revive the EGP carry trade, with an estimated USD14.0-15.0bn of foreign inflows since March 24.

We retain our recommendation from March 24 to be long carry via the EGP 364-d T-bill. Positively, net international reserves recovered to USD46.1bn in May 24, from USD40.3bn in March 24 and USD35.2bn in January 24. We also think that the MPC may have room to ease the policy stance before December 24 because inflation will likely decline further. However, the partial withdrawal of bread and sugar subsidies may still disrupt the disinflationary trend that the broader market is anticipating in H2:24. Further, the planned withdrawal of fuel subsidies by the end of 2025 may also stall the expected disinflation.

In comparison to the carry trade in Nigeria, Egypt appears to provide more comfort and conviction to investors given that there has been FX reserve accretion combined with USD/EGP stability. Whereas in Nigeria, while FX and monetary reforms since last year have been noteworthy, a notable section of the investment community remains uncomfortable about the recent USD/NGN volatility. Furthermore, unlike Egypt, where the stability of the EGP has been complemented by a recovery in FX reserves, despite the decline in USD/NGN to 1080 in April 24 from 1625 in March 24, FX reserves declined to USD32.11bn in April, from USD33.83bn as at end March 24. Since then, as at mid-June 24, FX reserves had recovered to USD33.16bn. We estimate USD3.0-3.5bn of inflows into the NGN carry trade since earlier this year.

Crucially, while investors remain worried about the lack of FX reserve accretion, the CBN has been pushing for swap funding with tenors way above 12-m as the CBN presumably seeks to ensure that net FX reserves don't fall further. Thus, allowing some of these swaps to mature also likely contributed to the initial decline in FX reserves. In addition, the NDF forwards maturities that were quite large on 29 May 24 (c.USD1.3bn) probably also resulted in an increase USD demand as these forwards matured, which then likely induced USD/NGN volatility.

However, even as it remains unclear whether the government will tap the Eurobond market in H2:24, which would assist in bulking up FX reserves, the authorities have noted that they are considering a diaspora USD bond, and they may perhaps also be seeking to tap into locally held USD deposits too. This would be in addition to the expected USD funding from the World Bank and Afreximbank. The World Bank is expected to disburse USD750m in June 24 and a further similar amount is expected before year-end 2024, subject to reforms being met. The Afreximbank already disbursed USD925m in June. However, Nigeria's FX reserves are calculated on a 30-day moving average. Thus, these inflows from the World Bank and Afeximbank will only likely reflect in FX reserves over the coming month.

We recommended the NGN carry trade in April 24 and added this position to our shadow portfolio. Since then, due to USD/NGN volatility, the trade is down 13.3%.

However, as increased USD inflows may transpire from H2:24, USD/NGN stability will likely be restored. As a result, headline inflation will also likely continue to soften (our forecast is 27.5% y/y by Dec 24). However, the MPC will now likely remain neutral in H2:24, with an easing bias in H1:25.

Investors had been understandably concerned about the CBN selling USD to the market (BDC's and some banks) below the official NAFEM USD/NGN level. However, even though these USD sale amounts below NAFEM were quite small, the signalling of this move had been concerning to the investment community given the recent history of various exchange rate segments in Nigeria. But then again, USD sales below official spot may have been taking place to support the market ahead of the forwards maturity in May 24. Thus, our carry trade recommendation will still likely return a profit at maturity in April 25.

In Kenya, USD shortages over the last few years, and concerns on external debt default, hindered offshore appetite in the fixed income market. However, following the issuance of a Eurobond for liability management in February 24, and the concurrent large uptick in offshore appetite for Kenya's Infrastructure Bonds (KENIBs), revitalised the duration trade.

In Kenya, our long duration trade recommendation in February 24 via the Infrastructure Bond (KENIB) 2032 has returned an impressive 24.9% in USD terms. With the recent USD1.2bn budget support received from the World Bank under the Development Policy Operation (DPO) arrangement, FX reserves may be spurred. Also, in July 24, subject to board approval, the government expects IMF funding under their ECF/EFF/RSF arrangement for the seventh review.

While the total IMF programme amount was downsized by around USD300m to c.USD4.1bn, the IMF surprisingly didn't commit or confirm to a disbursement amount for this review. The government is pushing to receive around USD600m for this review. But then again, following the withdrawal of some of the notable tax measures in the Finance Bill 2024, it remains unclear how this may affect the expected disbursement for the seventh review of the IMF programme.

Also, as these tax measures have been shelved, it may imply higher government borrowing, both in the external and domestic markets. The government had expected the net domestic borrowing target to decline to KES263.2bn in FY2024/25, from KES589.5bn in FY2023/24. This expected reduction in domestic borrowing is premised on the implementation of the Treasury Single Account (TSA). Moreover, the government's fiscal deficit will inevitably be higher for FY2024/25 than the planned 3.3% of GDP, following the withdrawal of the tax measures proposed in the Finance Bill 2024. Prior to the revisions to the Finance Bill 2024, the National Treasury was expecting an additional KES346bn from the Bill. But according to the Treasury, only around KES200bn will now likely be generated from the Finance Bill, following the withdrawal of certain measures such as the motor vehicle circulation tax, VAT on bread, excise duty on edible oil and Eco levy on locally manufactured sanitary pads and diapers.

We expect the MPC to turn accommodative in H2:24, which should spur capital gains on our KENIB trade. Headline inflation will likely remain range-bound, as the impact of the El Niño floods wasn't as detrimental for inflation as earlier envisaged. However, the government is considering raising the fuel levy by KES7.0 to KES25.0 in FY2024/25. This would present upside risks to our inflation outlook.

At the time of writing, the proposal to increase withholding tax for foreigners on the KENIB had been retained in the Finance Bill. If the Bill passes in its current form, arguably this may prove to have an adverse impact on the cost of servicing debt for the government, considering that offshore investors would simply bid higher at new KENIB auctions to compensate for this additional tax. The clear risk here is that a tiering or segmentation of the secondary bond market could arise, with an obvious preference to hold the untaxable part of the KENIB curve (as the tax will only impact new primary issuances). Nonetheless, for now, we retain our long duration exposure in Kenya.

In Uganda, our call to go short duration in our Jan 24 AMR was prudent. The risk of the government either issuing a private placement or increasing their appetite from the standard government bond auctions, remains high, ahead of the end of FY2023/24. Furthermore, the rise in domestic borrowing refinancing for FY2024/25, which is mainly attributable to the government issuing bonds to the BoU to clear their overdraft, also present further upside risks to UGX bond yields. However, with inflation risks subsiding following the recent appreciation of the UGX, UGX bond yields at 17.2-17.5% may be tempting, and perhaps a good yield entry level.

We will also continue to retain our buy USD/TZS and USD/ETB NDF trades in our shadow portfolio. These trades have returned 8.5% and 18.2% respectively since inception in our shadow portfolio. At the time of writing, the USD/TZS had moved above 2600 levels on the screen price, from around 2470 when we had recommended the trade back in September 23.

Table 1: Open trades

Positions	Entry Date	Entry Yield, %	Entry FX	Latest yield, %	Latest FX/price	Total return, %	
						LCY	USD
Ethiopia buy USD/ETB 24-m NDF	21-Jan-23	19.92	53.73	35.16	65.65	-	18.16
Tanzania buy USD/TZS 12-m NDF	14-Sep-23	17.05	2473.22	9.5	2702	-	8.47
Buy Kenya IFB '32	14-Feb-24	18.46	145.25	17.01	128.6	10.5	24.9
Buy Egypt 364-d	28-Mar-24	25.9	47.40	26.06	47.71	4.9	4.2
Buy Nigeria 364-d	12-Apr-24	23.3	1202.5	25.44	1490	7.5	-13.3

Source: Bloomberg, Standard Bank Research

African Eurobonds: issuances in Q4:24 and H1:25 likely

Market pricing suggests one Fed rate cut in either Nov 24 or Dec 24. Our house view, based on continued favourable data, is that the Fed may start reducing rates as early as Sep 24, with three rate cuts of 25 bps each in Q4:24. Such a rate path would support the SBAFSO index, with only US election news flow likely causing uncertainty.

Positive beta returns led to the tightening of SBAFSO spreads between Oct 23, when they peaked at 889bps, and Feb 24. Markets were increasingly pricing in Fed rate cuts. Hence, the issuance environment improved with Benin, Côte d'Ivoire, Kenya, and Senegal all coming to market in H1:24.

However, between Feb 24 and Apr 24, when spreads reached a 5-y low of 453 bps, index returns were significantly influenced by large-weighted credits such as Egypt and Kenya. The former's UAE and IMF funding and the latter's successful handling of its 2024 Eurobond maturity began to be priced in after Feb 24 announcements.

Independent of this, in H1:24, Ghana and Zambia, both credits in default and both excluded from the index until they exit default, have both outperformed the index as their restructuring progressed.

Angola has budgeted for a USD300m Eurobond issuance in 2024. However, the treasury seems to prefer alternative commercial and bilateral funding sources amid supportive oil prices, potentially delaying issuance to H1:25, which may potentially be a more attractive pricing window if the Fed has already begun its easing cycle. With the reduced likelihood of a new issuance in H2:24, we believe that Angola's Eurobonds present an attractive overweight opportunity relative to the index and to our other oil credit, Nigeria. Angola has historically traded wide of Nigeria due to fundamentals. However, with Angola's increased USD150m to USD200m per month access to its USD2.8bn escrow account held in China, debt servicing is a remote risk and the 69bps-86bps spreads wide of Nigeria across the curve are likely unjustified, according to us.

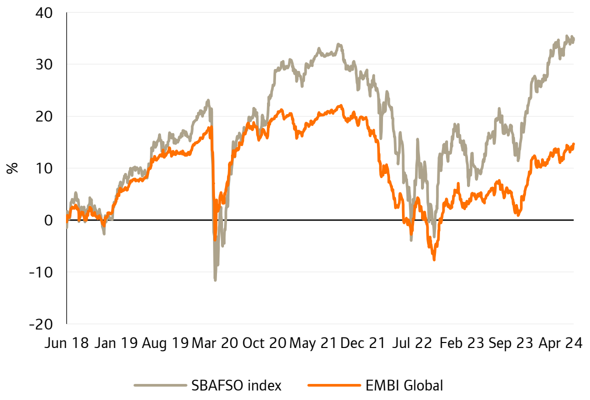
Nigeria faces significant external financing needs arising from the proposed NGN6.65tn supplementary budget outlined in the 6-m emergency economic intervention plan. While the government has a modest net external funding target of NGN1.77tn (USD1.18bn at current exchange rates) for 2024, this is expected to be revised upwards when the supplementary budget is presented for approval. The authorities have indicated their intension to come to market this year, but they have initially prioritized other sources like the World Bank's budget support facility and other commercial/bilateral support. Additionally, locally listed dollar bonds are also being considered by the authorities. Nevertheless, given the sheer size of the funding gap, market expectations remain for a Nigerian Eurobond deal in Q4:24. As per the IMF's recent Article IV, at current oil prices, Nigeria shows no signs of debt distress. Despite this, Nigeria is trading wide of other B- rated credits. We recommend an overweight positioning for H2:24.

Out of the still defaulted names, Ghana, and Ethiopia, we continue to see value in Ghana and recommend an overweight positioning as we forecast a successful conclusion to the external debt restructuring process. This is only partly priced in at the time of writing. Prices have rallied to around 52 cents on the dollar and are trading at a discount to our estimated recovery value of 55-57 with upside risk for an overshot ahead of recovery levels, as was seen with Zambia. A further catalyst is ratings and outlook upgrades as Ghana concludes its restructuring, again as we have seen with Zambia.

In Kenya, per the FY2024/25 budget statement, the government has pencilled in KES151bn (USD1.16bn) for commercial foreign currency debt in the 24/25 fiscal year. However, rather than a straightforward Eurobond issue, the authorities have signalled exploring alternative funding avenues such as sustainability-linked bonds, debt swaps, Sukuk, Samurai, or Panda bonds to diversify financing sources. We think the government could still come to market in H1:25.

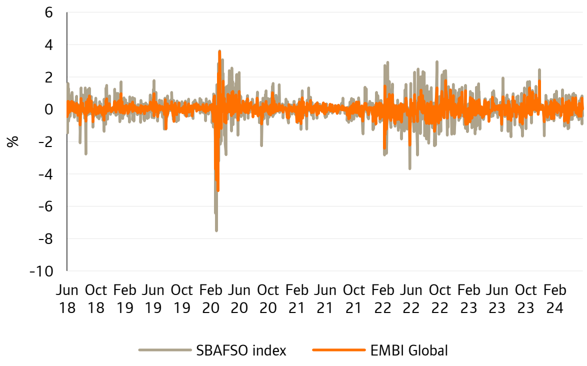
However, emerging uncertainties for Kenya include the IMF program expiring in Apr 25, with no clarity on a further extension given ambitious fiscal assumptions that Kenya has already struggled to meet, and the risk of potential slippage heading into the 2027 election year. With significant external debt maturities approaching and an unclear IMF programme outlook, Kenyan Eurobonds may not be attractively valued without lower pricing. Structural issues suggest a neutral to underweight positioning.

Figure 13: Cumulative returns -SBAFSO index vs EMBI



Source: Bloomberg

Figure 14: Weekly return of the EMBI vs SBAFSO index



Source: Bloomberg

Table 2: African Eurobonds

					Spread, bps		Spread change, bps			Total Return, %		
Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Over UST	Z-Spread	1 wk	YTD	12mths	1 wk	YTD	12mths
ANGOL 9.5% 12-NOV-2025	B3/B-	101.939	1.3	8.00	328	337	9.8	-247	10	0.0	3.1	2.3
ANGOL 8.25% 09-MAY-2028	B3/B-	94.000	3.2	10.16	591	622	9.9	-34	10	-4.3	1.4	3.9
ANGOL 8% 26-NOV-2029	B3/B-	90.276	4.2	10.38	613	665	5.6	-18	6	0.0	1.1	3.4
ANGOL 8.75% 14-APR-2032	B3/B-	89.197	5.3	10.83	660	720	3.3	-11	3	0.0	0.6	3.2
ANGOL 9.375% 08-MAY-2048	B3/B-	84.384	8.3	11.27	691	763	10.9	-13	11	-5.9	0.7	5.2
ANGOL 9.125% 26-NOV-2049	B3/B-	82.457	8.4	11.22	686	758	11.3	-8	11	-0.7	0.3	5.5
BENIN 7.96% 13-Feb-38	B1/-	94.089	7.5	8.71	448	492	-1.3	871	-1	0.3	0.0	0.0
REPCAM 9.5% 19-NOV-2025	-/B	99.051	0.8	10.22	550	581	0.6	-73	1	0.2	1.1	2.9
REPCON 3% 30-JUN-2029	-/CCC+	84.273	2.1	10.06	534	933	3.3	-34	3	0.1	6.2	-1.3
EGYPT 5.875% 11-JUN-2025	Caa1/B-	98.597	0.9	7.38	266	256	10.9	-347	11	0.0	5.1	18.4
EGYPT 5.25% 06-OCT-2025	-/B-	97.504	1.2	7.29	257	257	7.7	-369	8	0.0	6.7	22.5
EGYPT 3.875% 16-FEB-2026	Caa1/B-	93.667	1.5	8.02	330	359	22.6	-610	23	-0.2	14.1	25.9
EGYSK 10.875% 28-FEB-2026	Caa1/-	104.181	1.5	8.17	344.6	361.4	7.3			0.0		
EGYPT 7.5% 31-JAN-2027	Caa1/B-	98.065	2.3	8.33	389	413	12.9	-553	13	-0.1	15.1	28.6
EGYPT 5.8% 30-SEP-2027	Caa1/B-	92.148	2.9	8.59	415	455	11.8	-513	12	-0.2	18.4	31.4
EGYPT 6.588% 21-FEB-2028	Caa1u/B-	93.024	3.1	8.85	460	491	7.6	-527	8	-0.1	19.8	33.6
EGYPT 7.6003% 01-MAR-2029	Caa1u/B-	93.121	3.7	9.44	519	553	14.2	-472	14	-0.4	20.6	35.5
EGYPT 5.875% 16-FEB-2031	Caa1/B-	80.501	5.1	9.95	572	615	9.2	-356	9	-0.3	21.3	34.1
EGYPT 7.0529% 15-JAN-2032	Caa1u/B-	83.298	5.3	10.28	605	653	5.7	-325	6	-0.1	19.5	34.6
EGYPT 7.625% 29-MAY-2032	Caa1u/B-	85.402	5.6	10.36	614	672	0.7	-342	1	0.2	21.5	36.7
EGYPT 7.3% 30-SEP-2033	Caa1/B-	82.415	6.2	10.28	606	658	5.5	-334	6	-0.1	23.0	37.1
EGYPT 6.875% 30-APR-2040	Caa1/B-	72.568	8.2	10.45	598	675	7.1	-215	7	-0.4	18.6	25.3
EGYPT 8.5% 31-JAN-2047	Caa1/B-	78.128	8.1	11.17	670	750	2.9	-281	3	0.0	23.0	34.5
EGYPT 7.903% 21-FEB-2048	Caa1u/B-	74.570	8.5	10.92	656	727	6.4	-248	6	-0.3	21.1	32.3
EGYPT 8.7002% 01-MAR-2049	Caa1u/B-	79.328	8.3	11.18	682	751	6.1	-291	6	-0.3	24.2	35.4
EGYPT 8.875% 29-MAY-2050	Caa1u/B-	80.255	8.5	11.23	687	755	3.2	-285	3	-0.1	24.4	36.9
EGYPT 8.75% 30-SEP-2051	Caa1/B-	79.897	8.5	11.10	674	747	6.2	-287	6	-0.3	24.4	35.1
EGYPT 8.15% 20-NOV-2059	Caa1u/B-	75.404	9.0	10.89	653	730	5.8	-236	6	-0.3	20.9	34.5
EGYPT 7.5% 16-FEB-2061	Caa1/B-	70.534	8.9	10.73	637	716	3.0	-211	3	-0.1	18.5	29.5
ETHOPI 6.625% 11-DEC-2024	Caa3/D	71.430	0.3	83.23	7 813	8 833	-92.8	3291	-93	1.5	5.2	3.9
GABON 6.95% 16-JUN-2025	Caa2/B-	93.867	0.9	13.76	904	988	79.9	342	80	-4.0	-2.1	-1.1
GABON 6.625% 06-FEB-2031	Caa2/B-	78.105	4.2	11.42	717	855	29.5	155	30	-1.2	-6.8	-1.8
GABON 7% 24-NOV-2031	Caa2/B-	78.057	4.7	11.46	722	841	23.9	134	24	-1.1	-6.6	-2.2
GHANA 0% 07-APR-2025	Ca/WD	40.185	0.3	165.90	16 118	18 358	43.6	5254	44	1.2	11.3	16.2
GHANA 8.125% 18-JAN-2026	Ca/WD	52.827	1.2	56.35	5 163	5 802	49.0	139	49	0.4	14.4	23.9
GHANA 6.375% 11-FEB-2027	Ca/WD	51.878	2.1	35.29	3 085	3 374	2.2	-221	2	0.6	15.3	28.0
GHANA 7.875% 26-MAR-2027	Ca/WD	52.113	2.2	34.24	2 980	3 318	-14.8	-293	-15	0.9	16.4	24.3
GHANA 7.75% 07-APR-2029	Ca/WD	52.030	3.5	24.50	2 025	2 258	-7.5	-371	-8	0.7	18.8	28.1
GHANA 7.625% 16-MAY-2029	Ca/WD	51.892	3.6	23.72	1 947	2 156	-8.6	-360	-9	0.7	18.8	28.5
GHANA 10.75% 14-OCT-2030	Caa3/CC	69.098	3.4	19.43	1 518	1 662	-15.9	-180	-16	1.0	8.4	2.6
GHANA 8.125% 26-MAR-2032	Ca/WD	52.503	4.9	19.59	1 537	1 722	-12.7	-335	-13	1.0	19.6	30.8
GHANA 8.625% 07-APR-2034	Ca/WD	52.476	5.4	18.90	1 467	1 656	-13.0	-339	-13	1.1	20.2	30.5
GHANA 7.875% 11-FEB-2035	Ca/WD	52.302	5.7	17.77	1 355	1 522	-8.8	-302	-9	0.8	18.8	29.3
GHANA 8.875% 07-MAY-2042	Ca/WD	52.201	6.5	16.82	1 235	1 419	-14.1	-323	-14	1.2	21.0	35.8
GHANA 8.627% 16-JUN-2049	Ca/WD	51.535	6.9	15.84	1 147	1 322	-134.8	-283	-135	1.2	19.2	34.0
GHANA 8.95% 26-MAR-2051	Ca/WD	52.483	6.4	16.54	1 218	1 410	-13.9	-331	-14	1.2	20.6	37.6
GHANA 8.75% 11-MAR-2061	Ca/WD	52.532	6.4	16.12	1 176	1 367	-14.6	-347	-15	1.3	21.6	38.7
IVYCST 5.75% 31-DEC-2032	-/BB-	93.584	3.2	7.75	350	365	12.8	48	13	-0.3	1.7	0.3
IVYCST 6.125% 15-JUN-2033	Ba2/BB-	89.089	6.0	7.84	361	416	0.2	57	0	-3.2	-3.7	1.7
IVYCST 6.375% 03-MAR-2028	Ba2/BB-	97.452	2.4	7.17	272	321	1.6	23	2	0.1	-0.8	1.0
IVYCST 8.25% 30-Jan-37	Ba2/BB-	101.203	7.3	6.43	171	472	5.9	55	6	0.1	-1.5	-0.9
KENINT 7% 22-MAY-2027	B3u/B	96.563	1.7	8.34	362	456	25.7	-72	26	-0.5	2.3	8.5
KENINT 7.25% 28-FEB-2028	B3u/B	93.623	3.1	9.32	508	537	34.5	-40	35	-0.9	1.7	8.4
KENINT 9.75% 16-Feb-31	B3u/B	90.356	4.1	9.77	555	613	35.8	12	36	-1.8	-0.7	8.0
KENINT 8% 22-MAY-2032	B3u/B	90.356	5.0	9.77	555	628	35.8	12	36	-1.8	-0.7	8.0
KENINT 6.3% 23-JAN-2034	B3u/B	78.335	6.2	9.84	561	627	27.4	49	27	-1.6	-2.8	4.3
KENINT 8.25% 28-FEB-2048	B3u/B	81.385	8.7	10.37	601	670	31.3	23	31	-2.6	-2.3	5.7
MOROC 2.375% 15-DEC-2027	Ba1u/BB+	89.243	3.3	5.82	138	164	-4.4	51	-4	-1.1	-0.6	1.9
MOROC 5.95% 08-MAR-2028	Ba1u/-	100.824	3.2	5.70	159	158	-158.8			0.6		
MOROC 3% 15-DEC-2032	Ba1u/BB+	81.065	7.2	5.86	164	200	-10.2	36	-10	-1.0	-1.9	2.3
MOROC 5.5% 11-DEC-2042	-/BB+	88.812	11.0	6.55	208	273	-10.5	23	-10	1.3	-2.7	3.6
MOROC 5.5% 11-DEC-2042	-/BB+	88.812	11.0	6.55	208	273	-10.5	23	-10	1.3	-2.7	3.6
MOROC 4% 15-DEC-2050	Ba1u/BB+	69.520	14.0	6.41	204	270	-12.5	28	-13	-1.0	-3.9	4.1
MOZAM 5% 15-SEP-2031	Caa2u/-	82.502	3.9	12.77	852	964	-9.1	78	-9	0.7	-3.6	14.1
REPNAM 5.25% 29-OCT-2025	B1/BB-	98.718	1.3	6.24	152	153	2.9	42		0.1	-0.5	3.6
NGERIA 7.625% 21-NOV-2025	Caa1/B-	100.650	1.3	7.13	241	234	-5.2	-106	-5	0.2	1.3	4.9
NGERIA 6.5% 28-NOV-2027	Caa1/B-	93.181	3.0	8.84	440	488	12.2	-32	12	-0.2	1.6	8.9
NGERIA 8.375% 24-MAR-2029	Caa1/B-	95.255	3.7	9.63	539	597	9.1	30	9	-0.2	-1.2	8.3
NGERIA 6.125% 28-SEP-2028	Caa1/B-	88.722	3.6	9.38	513	558	11.0	30	11	-0.2	-0.4	8.5
NGERIA 7.143% 23-FEB-2030	Caa1/B-	88.293	4.3	9.88	563	634	4.1	63	4	0.0	-2.5	8.2
NGERIA 8.747% 21-JAN-2031	Caa1/B-	94.078	4.6	9.99	577	642	10.9	36	11	-0.3	-1.9	8.3
NGERIA 7.875% 16-FEB-2032	Caa1/B-	88.190	5.3	10.12	590	657	7.8	46	8	-0.2	-2.4	8.7
NGERIA 7.375% 28-SEP-2033	Caa1/B-	83.202	6.1	10.22	599	664	9.9	51	10	-0.4	-3.0	8.7
NGERIA 7.696% 23-FEB-2038	Caa1/B-	78.684	7.3	10.69	647	708	15.0	61	15	-0.9	-4.5	7.7
NGERIA 7.625% 28-NOV-2047	Caa1/B-	74.323	8.8	10.61	614	711	14.3	73	14	-1.1	-6.8	7.7
NGERIA 9.248% 21-JAN-2049	Caa1/B-	89.722	8.4	10.41	605	689	9.1	7	9	-0.6	-1.0	11.4
NGERIA 8.25% 28-SEP-2051	Caa1/B-	78.248	8.7	10.72	636	719	13.7	54	14	-1.0	-5.1	8.0

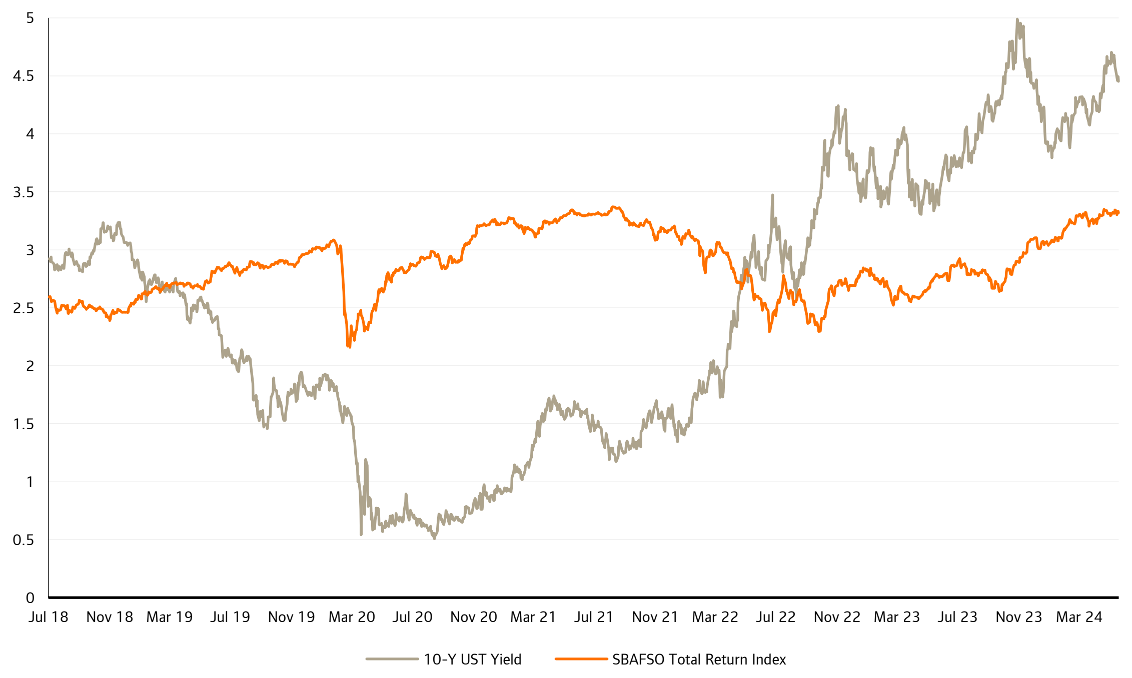
Continue on the next page

Table 2: African Eurobonds (continued)

Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Spread, bps Over UST	Spread, bps Z-Spread	Spread change, bps 1 wk	Spread change, bps YTD	Spread change, bps 12mths	Total Return, % 1 wk	Total Return, % YTD	Total Return, % 12mths
RWANDA 5.5% 09-AUG-2031	B2u/B+	80.691	5.4	9.25	503	539	11.9	11	12	-0.5	0.1	8.4
SENEGL 6.25% 23-MAY-2033	Ba3/-	84.934	5.9	8.71	449	517	3.5	89	4	-0.1	-5.6	3.8
SENEGL 6.75% 13-MAR-2048	Ba3/-	72.896	9.4	9.68	521	597	6.2	78	6	-0.4	-7.6	5.2
SOAF 5.875% 16-SEP-2025	Ba2/BB-	99.723	1.2	6.10	138	103	-24.2	88	-24	0.4	-1.5	0.5
SOAF 4.875% 14-APR-2026	Ba2/BB-	97.620	1.7	6.27	155	156	-23.7	89	-24	0.5	-1.5	1.3
SOAF 4.85% 27-SEP-2027	Ba2/BB-	96.127	2.9	6.17	173	179	-23.6	81	-24	0.8	-2.4	1.9
SOAF 4.3% 12-OCT-2028	Ba2/BB-	91.938	3.8	6.47	222	221	-35.0	65	-35	1.5	-2.1	3.1
SOAF 4.85% 30-SEP-2029	Ba2/BB-	92.038	4.5	6.66	241	250	-34.0	53	-34	1.7	-2.2	3.5
SOAF 5.875% 22-JUN-2030	Ba2/BB-	95.513	4.8	6.80	255	267	-35.7	40	-36	1.9	0.9	3.2
SOAF 5.875% 20-APR-2032	Ba2/BB-	92.685	6.1	7.11	288	300	-28.7	43	-29	1.9	-2.7	3.6
SOAF 6.25% 08-MAR-2041	Ba2/BB-	85.123	9.6	7.86	339	382	-26.2	52	-26	2.7	-5.0	2.1
SOAF 5.375% 24-JUL-2044	Ba2/BB-	75.209	10.7	7.85	338	385	-24.5	58	-25	2.8	-6.1	2.9
SOAF 6.3% 22-JUN-2048	Ba2/BB-	81.363	10.8	8.07	371	413	-24.1	49	-24	2.7	-1.9	3.0
SOAF 5.65% 27-SEP-2047	Ba2/BB-	75.282	11.2	8.01	354	404	-27.0	57	-27	3.2	-6.4	2.9
SOAF 5% 12-OCT-2046	Ba2/BB-	69.979	11.4	7.88	341	390	-23.1	52	-23	2.8	-5.8	2.5
SOAF 5.75% 30-SEP-2049	Ba2/BB-	75.384	11.4	8.04	368	410	-26.8	54	-27	3.2	-6.2	3.4
SOAF 7.3% 20-APR-2052	Ba2/BB-	89.943	11.1	8.22	386	429	-28.2	49	-28	3.3	-5.7	4.4
BTUN 8.25% 19-SEP-2027	Caa2/WD	88.651	2.7	12.59	815	806	-69.8	-528	-70	2.1	17.7	44.7
ZAMBIN 5.75% 30-Jun-33	-/CCC+	88.333	2.9	7.87	343	566	786.8	787	787			
ZAMBIN 0.5% 31-Dec-53	-/CCC+	53.476	25.3	2.84	-152	-50	283.7	284	284			
SB Africa Eurobond (incl. SA)	B+									-0.74	6.9	19.2
SB Africa Eurobond (excl. SA)	B+									-1.39	7.9	20.0

Source: Bloomberg; Standard Bank Research

Figure 15: SBAFSO total return index vs 10-Y UST yield



Source: Bloomberg

Recommended trades: performance

Table 2: Open trades

Positions	Entry Date	Entry Yield, %	Entry FX	Latest yield, %	Latest FX/price	Total return, %	
						LCY	USD
Ethiopia buy USD/ETB 24-m NDF	21-Jan-23	19.92	53.73	35.16	65.65	-	18.16
Tanzania buy USD/TZS 12-m NDF	14-Sep-23	17.05	2473.22	9.5	2702	-	8.47
Buy Kenya IFB '32	14-Feb-24	18.46	145.25	17.01	128.6	10.5	24.9
Buy Egypt 364-d	28-Mar-24	25.9	47.40	26.06	47.71	4.9	4.2
Buy Nigeria 364-d	12-Apr-24	23.3	1202.5	25.44	1490	7.5	-13.3

Source: Bloomberg, Standard Bank Research

Table 3: Closed trades

Positions	Entry Date	Exit date	Entry Yield	Entry FX	Latest yield, %	FX	Total return, %	
Uganda: buy UGANGB '24	11-Apr-19	30-Apr-19	15.00	3760.000	14.70	3735.000	2.40	57.65
Egypt: buy 12-m T-bill	01-May-18	30-Apr-19	16.92	17.704	17.52	17.183	18.42	18.48
Zambia: sell USD/ZMW 6-m NDF	30-Oct-18	25-Apr-19	34.27	11.570	5.00	12.350	9.62	20.85
Malawi: buy 12-m T-bill	02-May-18	02-May-19	15.00	725.500	9.35	736.740	11.25	11.25
Ghana: sell USD/GHS 12-m NDF	07-Jun-18	03-Jun-19	19.40	4.740	5.00	5.350	5.73	5.79
Kenya: buy INF 14	18-Feb-19	28-Jun-19	11.80	100.200	10.95	102.200	6.33	18.82
Angola: sell USD/AOA 12-m NDF	09-Jan-19	27-Sep-19	18.77	311.620	17.97	375.120	-6.14	-8.48
Angola: sell USD/AOA 12-m NDF	09-Jan-19	10-Oct-19	18.77	311.620	28.25	390.760	-11.52	-15.04
Egypt: buy 12-m T-bill	06-Nov-18	29-Oct-19	19.78	17.920	5.00	16.134	30.60	31.39
Nigeria: buy 12-m T-bill	01-Nov-18	31-Oct-19	16.82	363.000	5.00	363.000	14.78	14.82
BEAC: sell USD/XAF 2-y NDF	24-Nov-17	21-Nov-19	4.25	550.620	5.00	592.342	0.82	0.41
Kenya: buy INF 2035	28-Oct-19	31-Jan-20	12.40	103.600	11.35	100.560	13.20	61.02
Nigeria: buy NIGB '27	27-Feb-18	17-Mar-20	13.70	361.000	13.38	368.170	25.44	11.68
Zambia: sell USD/ZMW 6-m NDF	10-Dec-19	20-Mar-20	25.02	15.250	38.34	17.150	-8.27	-26.81
Nigeria: buy NIGB '27	27-Feb-18	17-Mar-20	13.70	361.000	13.38	368.170	25.44	11.68
Zambia: buy ZAMGB '26	18-Nov-16	14-Apr-20	24.50	9.810	33.81	18.403	-6.15	-1.85
Zambia: sell USD/ZMW 6-m NDF	10-Dec-19	14-Apr-20	25.02	15.250	32.63	18.400	-11.74	-30.36
Uganda: buy Uganda '29	14-Oct-19	15-Jun-20	14.90	3700.000	14.80	3720.000	8.75	13.31
Ghana: buy GHGB '20	31-Oct-16	23-Jun-20	20.00	3.985	15.60	5.791	24.87	6.28
Kenya: KenGB '29	08-Apr-20	20-Aug-20	12.10	106.000	10.60	108.000	10.41	30.96
Nigeria: sell USD/NGN 12-m NDF	22-Jun-20	13-Jan-21	18.06	387.800	20.96	393.180	6.37	11.61
Angola: buy USD/AOA 12-m NDF	09-Sep-20	13-Jan-21	26.15	620.750	17.57	652.500	-7.46	-20.11
Kenya: buy KenGB '31	24-Aug-20	17-Jan-21	11.24	108.000	11.00	110.080	3.93	10.12
Zambia: buy ZAMGB '24	22-Feb-21	07-Dec-21	34.50	21.675	19.00	17.525	43.97	58.70
Ghana: buy Ghana '29	03-Dec-20	04-Jan-22	21.00	5.940	21.95	6.420	11.30	10.35
Ethiopia: buy USD/ETB 24-m NDF	06-Aug-20	06-Aug-22	12.10	35.420	15.05	52.480	17.17	8.25
Nigeria: sell USD/NGN 12-m NDF	25-May-22	18-Aug-22	18.56	416.750	23.71	428.880	-2.41	-2.41
Uganda Buy Uganda 15-y	27-Jun-23	10-Jan-24	15.6	3675	15.6	3800.88	15.10	11.29
Egypt buy Egypt '27	23-Nov-17	10-Jan-24	15.88	17.69	17.92	30.85	130.22	32.03
Egypt Buy Egypt 364-d	24-Jan-23	24-Jan-24	21.95	29.8325	21.95	30.89	19.97	15.87
Zambia Buy Zambia 10-y	11-Aug-23	22-Dec-23	26.75	19.075	25.21	26.51	21.44	-12.60

Source: Bloomberg, Standard Bank Research

Angola: GDP growth to undershoot population growth

Medium-term outlook: high debt service and subdued investment limit GDP growth

As we foresee oil sector investment supporting some growth in oil production, we now lift our GDP growth forecasts for 2024 and 2025 to respectively 2.3% y/y and 2.6% y/y, from respectively 1.1% y/y and 0.7% y/y in the Jan AMR.

We now forecast oil output to grow 1.1% y/y, to 1.110m bpd in 2024, and 1.2% y/y in 2025, to 1.123m bpd, after contracting by -3.4% y/y in 2023, to 1.098m bpd, due to a Q1:23 maintenance production pause at one of the oil streams.

We also factor that the relief on the escrow account with China, announced in Apr, releasing on average USD200m per month to the government, should support the fiscus and the economy, with oil prices assumed at current levels.

Oil prices averaging USD84/bbl ytd are well above the USD65/bbl assumed in the government budget. However, recent comments by OPEC+, that an increase in production from Oct 24 may be in the pipeline, imply downside risks for oil prices and Angola's oil exports. After all, the oil sector accounts for 95% of Angola´s exports and for over 50% of fiscal revenues.

The oil sector supporting growth in exports, alongside limited upside for imports should see net exports contribution to GDP growth turning positive in 2024 and 2025.

Despite some growth in exports, we foresee this economy still experiencing FX supply shortages, as government debt service (interest plus principal amortization) consumes a large chunk of revenue (97% this year and remaining high until 2028).

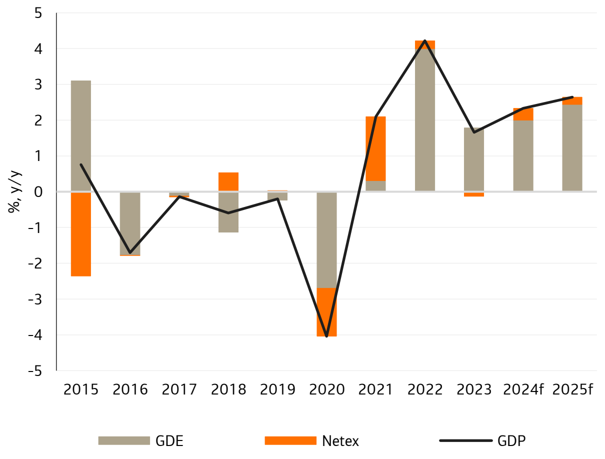
High debt service limits FX supply to the market from the Treasury. High, and still rising, inflation, last reported at 30.2% y/y in May also constraints this economy, limiting the upside for general domestic expenditure (GDE), a metric that captures personal and government expenditure, and investment.

This informs our medium-term forecasts of GDP growth undershooting Angola's 3% y/y population growth, with the economy constrained by high government debt service and subdued investment.

We now estimate the economy to have grown 1.7% y/y in 2023, from an initial estimate of 0.9% y/y. This implies that non-oil GDP grew 2% y/y in 2023, just half of 4% y/y in 2022, mainly due to FX supply shortages.

The National Statistics Institute (INE) has migrated the Angolan national accounts to the UN 2008 system, from 1993, and updated the base year to 2015, from 2002. This has lifted 2022 GDP growth to 4.2% y/y, from 3% y/y, with 2022 nominal GDP now at USD142.7bn, from USD115.9bn.

GDP by demand



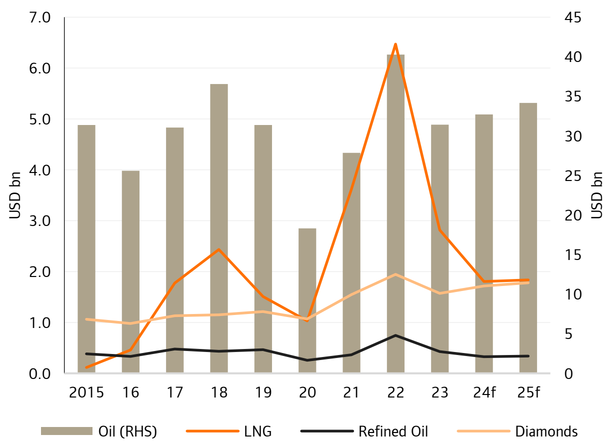
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution of GDP by sector (% of total)

	2015	2020	2021	2022
Agriculture and forestry	4.3	5.5	5.8	5.8
Fishing	2.5	2.3	3.3	3.3
Oil	38.1	30.8	27.0	26.3
Other extractive	1.8	1.8	2.0	1.9
Manuf. (incl. oil refin.)	3.4	4.2	4.2	4.2
Electricity and water	0.7	0.9	0.9	0.9
Construction	9.8	8.9	8.2	8.4
Trade	13.1	14.7	16.5	16.2
Transport and storage	2.3	1.7	2.2	2.9
Courier and comm.	1.8	1.7	1.7	1.6
Financial and insurance	1.5	1.6	1.3	1.2
Real estate	4.7	5.4	5.5	5.5
Public administration	8.7	8.1	8.2	8.6
Other services	5.6	6.8	6.5	6.5
Taxation minus subsid.	0.2	-0.9	-5.8	-0.7
Statistical discrepancies	1.5	6.5	12.5	7.4
GDP	100.0	100.0	100.0	100.0

Source: Instituto Nacional de Estatística; Standard Bank Research

Main exports



Source: Banco Nacional de Angola; Standard Bank Research

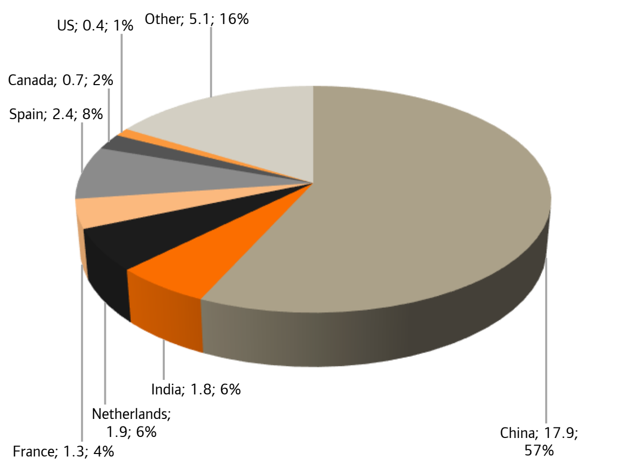
Medium-term economic growth forecasts

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	3.3	1.9	1.8	2.3	2.5	2.9	2.5	2.6	1.3	1.8	1.9	1.7	1.8	2.3	1.9	2.1
CPI (% y/y) pe	26.1	31.0	32.3	32.2	30.5	29.1	28.2	27.3	24.3	21.8	19.9	18.2	17.5	17.1	16.6	16.8
Policy rate (%) pe	19.00	19.50	20.00	20.00	20.00	20.00	20.00	20.00	20.00	19.50	18.50	18.50	18.00	17.00	17.00	17.00
3-m rate (%) pe	17.5	11.2	11.5	11.5	11.5	11.5	11.4	11.4	11.3	11.0	10.4	10.3	10.0	9.5	9.5	9.5
6-m rate (%) pe	17.3	11.4	11.7	11.7	11.6	11.6	11.5	11.5	11.4	11.0	10.4	10.4	10.1	9.5	9.5	9.5
USD/AOA pe	841.0	878.0	885.9	893.9	916.0	938.2	960.9	984.1	1004.9	1026.2	1047.9	1070.1	1089.4	1109.2	1129.2	1149.7

Source: Banco Nacional de Angola; Bloomberg; Instituto Nacional de Estatística; Ministério das Finanças; Standard Bank Research

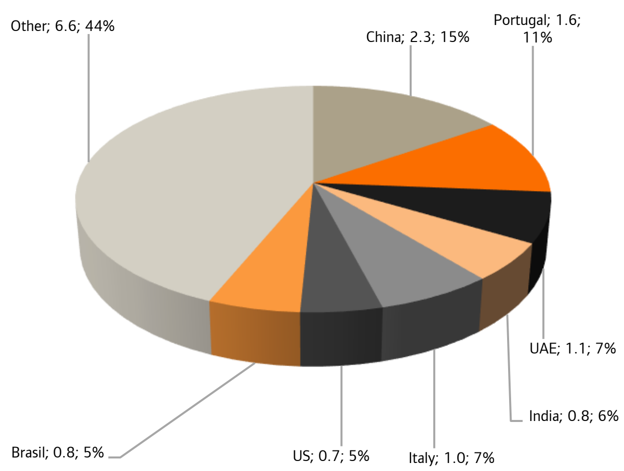
Notes: pa - period average; pe - period end

Exports destinations (USD bn)



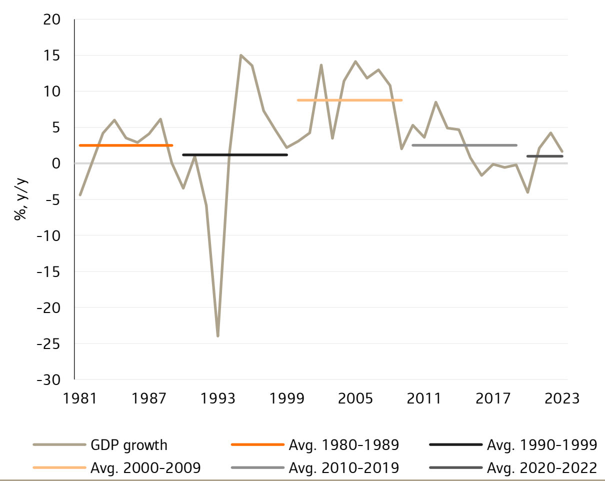
Source: Banco Nacional de Angola

Imports destinations (USD bn)



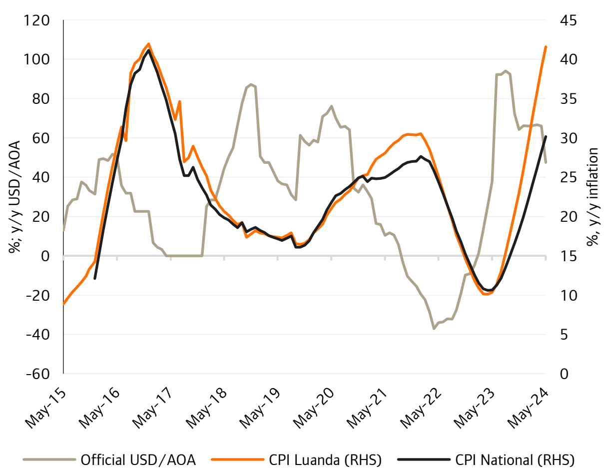
Source: Banco Nacional de Angola; Standard Bank Research

Table 1: Long-term GDP performance



Source: Instituto Nacional de Estatística; Standard Bank Research

Annualised FX rate change versus inflation



Source: Banco Nacional de Angola; Standard Bank Research

Balance of payments: keeping the C/A in surplus

We forecast the current account (C/A) remaining in surplus in 2024 and 2025, at respectively 5.1% of GDP and 5.0% of GDP, supported by growth in exports and some containment in imports. Stronger exports reflect prospects of oil output stabilizing at above 1m bpd and oil prices remaining supportive.

The Angolan National Oil & Gas and Biofuels Agency (ANPG) has indicated that Angola has 767 inactive oil wells, due to mechanical and other challenges, representing 45% of the total number of wells in the country and distributed over 1,634 oil fields. These wells will now be re-evaluated to attract FDI.

For concessions that are already producing, the ANPG is targeting an increase in investment by offering more favourable production-sharing agreements that would support a faster payback period for investors. New oil concessions will also be awarded.

Further, there are plans to grow natural gas production to 1.21m cubic feet by 2027, from 664k cubic feet in 2023.

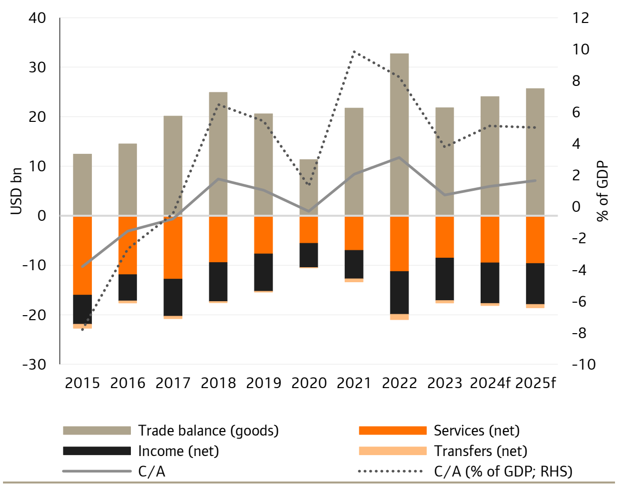
Last year, Angola kept the current account in surplus, at USD4.2bn, or 3.8% of GDP, supported by a -17% y/y contraction in goods and services imports, to USD23.7bn. The 40% slide in the kwanza, as well persistent FX supply shortages and administrative trade barriers, constrained imports.

Despite a relatively stable kwanza since H2:23, we see government debt service pressure limiting FX supply and preventing any growth in imports in 2024 and 2025, supporting the C/A.

In 2023, Angola faced a -3.4% y/y contraction in oil output, with oil prices falling to USD81.3/bbl, from USD101.8/bbl in 2022 when Russia invaded Ukraine. This caused a 26.3% y/y slump in exports, to USD37bn.

Still, the BNA managed to stabilize FX reserves at USD14.7bn in 2023, or 7.5-m of imports, by limiting FX sales. We see FX reserves closing 2024 around current levels of USD14.4bn.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves

Source: Banco Nacional de Angola; Standard Bank Research

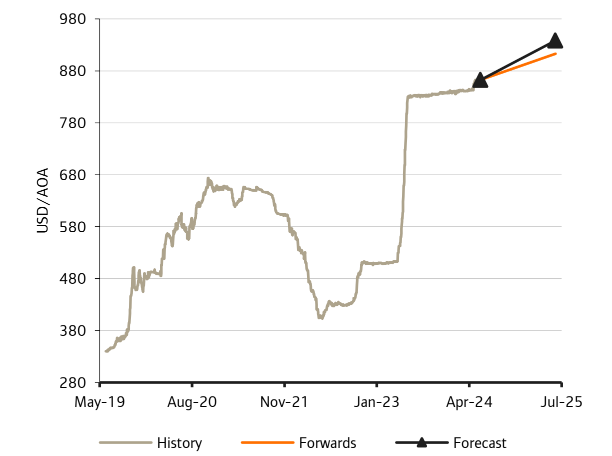
FX outlook: still a depreciating kwanza bias

We still see the kwanza depreciating at a much softer pace this year than the 40% y/y in 2023. Nevertheless, we now lift our year-end forecasts for the kwanza to the USD to 893.9, from 864.5. This implies the kwanza depreciating 6.4% y/y this year; our forecast was 3.2% y/y in the Jan AMR.

The kwanza, trading at an official mid-rate of 861 to the USD (the BNA displays a bid rate on their website of 852.5) at the time of writing had depreciated by 15.5% y/y but only 2.8% ytd. Most of the ytd depreciation has occurred since mid-May, with the kwanza losing 2.2% m/m.

This slide in the kwanza implies an administrative move, with commercial banks adjusting their screen prices to what they recorded at the Bloomberg electronic trading platform, FXGO, because there was a misalignment previously.

USD/AOA: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: turning tighter

Inflation continues to edge up, having accelerated to 30.2% y/y in May, from 28.2% y/y in Apr, at national level, and to 41.6% y/y in Luanda, from 38.9% y/y. This largely reflects the lagged effect of 2023 kwanza depreciation, progress on fuel subsidy reform, and in our view insufficiently tight monetary policy.

Positively, m/m inflation in May slowed to 2.5% m/m, from 2.6% m/m at national level, and in Luanda, to 3% m/m from 3.3% m/m in Apr. This reflects food inflation starting to ease. However, transport category inflation spiked due to the 48.1% rise in the price of diesel in Apr to AOA200 per litre (c.24 dollar cents).

The government is implementing an auction system for basic food imports, which may help further ease food inflation, especially with the kwanza likely remaining relatively stable this year. Nevertheless, we retain our year-end inflation forecast at 32.2% y/y.

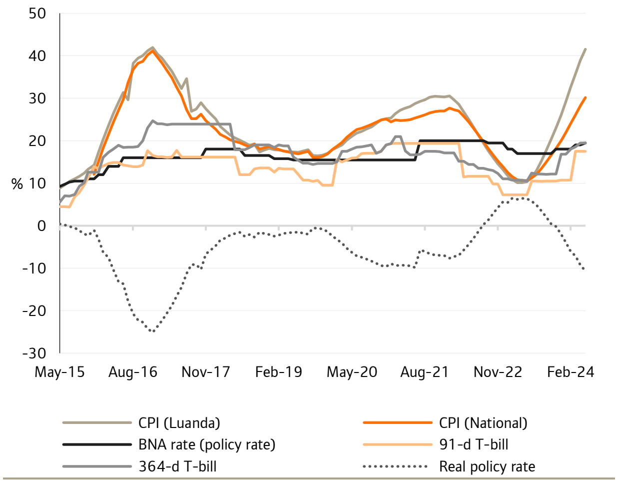
We see monetary policy as insufficiently tight and therefore forecast the BNA rate hiked by a further 50 bps in Jul, to 20%, then kept unchanged during 2025 because inflation will likely remain high. Clearly, real interest rates will be kept negative.

The BNA's MPC shifted monetary policy to a tightening bias in Nov 23. Since then, the BNA rate was hiked by a cumulative 250 bps, to 19.5%, with local currency (LCY) cash reserves ratio (CRR) lifted by 4 percentage points, to 21%, but with the foreign currency (FCY) CRR kept unchanged, at 22%.

The current monetary policy calibration seems incapable of dealing with fiscal fall-out, including fuel subsidy reform, as inflation is still rising. Further, economy diversification efforts imply the government willing to lend some support for credit growth.

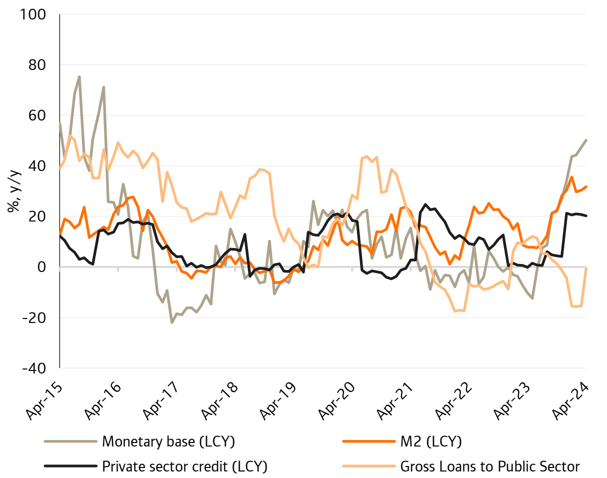
The BNA seems to expect that a relatively stable kwanza should soften inflation and therefore seems willing to allow for LCY money supply (M2) growth, last reported at 31.8% y/y in Apr, to keep growing fast.

Inflation and interest rates



Source: Banco Nacional de Angola; Instituto Nacional de Estatística; Standard Bank Research

Monetary statistics



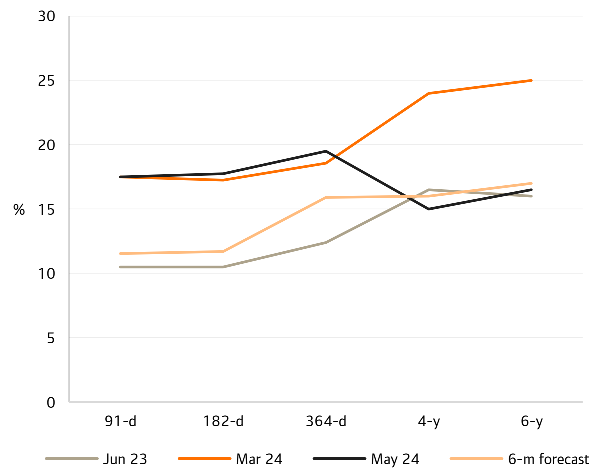
Source: Banco Nacional de Angola; Standard Bank Research

Yield curve outlook: downward shift

Escrow account relief with China is reducing the government's reliance on the domestic market to fund the budget. To help generate some savings and create fiscal space, the Ministry of Finance is targeting lower yields for both T-bills and government bonds by reducing the amount of T-bill issuances and pushing the market to invest in longer-dated instruments (bonds), but accepting only bids that would imply lower yields. Cut-off yields for the 4-y and 6-y local currency bonds dropped materially recently, to 15% and 16.5%, from respectively 24% and 25%. This implies a downward shift in the yield curve.

Prospects of Angola generating twin surpluses this year, on both the current account and the fiscal balance, may imply access to the Eurobond market, with the debt plan targeting a USD300m Eurobond. However, for now, the Treasury seems to be preferring other commercial and bilateral loans. Therefore, we would not be surprised if tapping Eurobonds is delayed to H1:25.

Yield curve changes



Source: Banco Nacional de Angola; Standard Bank Research

Fiscal policy: another surplus in view

This year's oil sector performance (exports and taxation) should assist an ongoing fiscal surplus, especially considering the prudent USD65/bbl oil price assumed in the FY2024 budget (12-m ending Dec 24), which is well below current oil price levels.

This implies higher government revenue than the budget AOA14.71tn (c.USD17.9bn at the debt plan implicit FX rate of 822.7 kwanza per dollar). In addition, the recent upgrade in Angola's nominal GDP INE implies a material change in fiscal ratios. Revenue to GDP is now recalculated at 14.6% of GDP, down from 20.1% of GDP in the FY2024 budget.

We see Angola generating a higher surplus than the AOA17.4bn, or 0.02% of GDP, targeted in the budget.

Angola can ill afford any material increase in government debt, as debt service to revenue ratio already high, at 97% for 2024, and which is likely to remain high until 2028. At the 2024 debt plan implied FX rate, external debt service is set at USD10bn, with domestic debt service at USD7bn for 2024.

Angola's sovereign debt, last reported at USD48.3bn in Q1:24, has declined by 2.7% ytd and by 5.9% y/y, reflecting efforts to ease debt service pressures. Out of this debt, USD9.2bn is owed to multilateral creditors (of which USD4.2bn is with the IMF), USD9.1bn to Eurobond holders, and USD16.2bn to China, with the balance of USD13.2bn representing various bilateral and commercial creditors.

Escrow account relief with China is helping the Ministry of Finance to ease domestic borrowing growth, with the combined T-bill and bond exposure contracting by -10.1% ytd, to a balance of AOA12.7tn in May (c.USD14.7bn), implying growth in this debt down to 23.5% y/y in May 24, from 45.1% y/y in Dec 23.

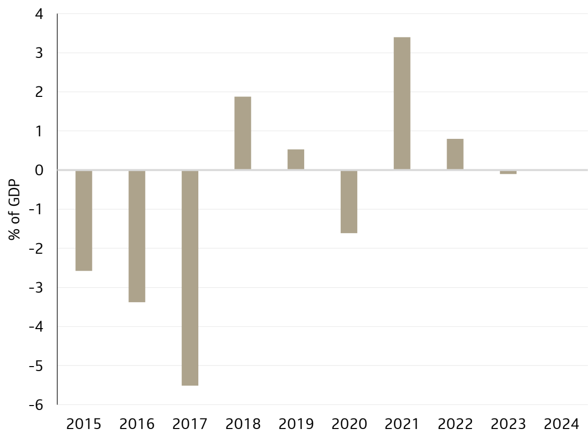
At current debt levels, overall public debt is seen at near 55% of GDP, well below the 72.9% of GDP projected in the debt plan for 2024. This mostly reflects the impact of the GDP update by INE.

Central government finances

% of GDP	2021	2022	2023	2024
Total revenue	20.6	20.3	16.7	14.6
- Oil	12.4	11.7	10.0	7.8
Total expenditure	17.3	19.5	16.8	14.6
- Recurrent	12.6	14.2	13.5	12.0
- Interest	4.6	3.5	4.3	4.5
- Of which domestic	2.3	1.8	1.8	1.7
- Of which external	2.3	1.7	2.5	2.8
- Wages	3.9	3.6	3.6	3.0
- Development	4.7	5.3	3.2	2.6
Overall balance (commitment)	3.4	0.8	-0.1	0.0
Net domestic borrowing (-saving)	-0.8	3.5	1.6	-0.7
Net external borrowing (-saving)	1.0	-0.2	-1.5	0.6
Statistical discrepancy	-3.5	-4.1	0.0	0.0

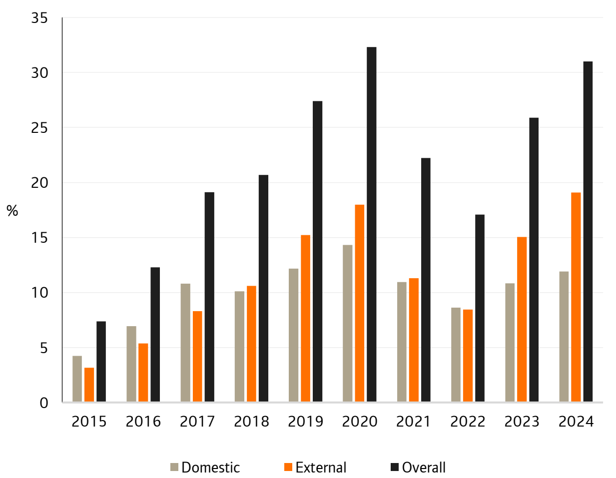
Source: Ministério das Finanças; Standard Bank Research

Fiscal deficits



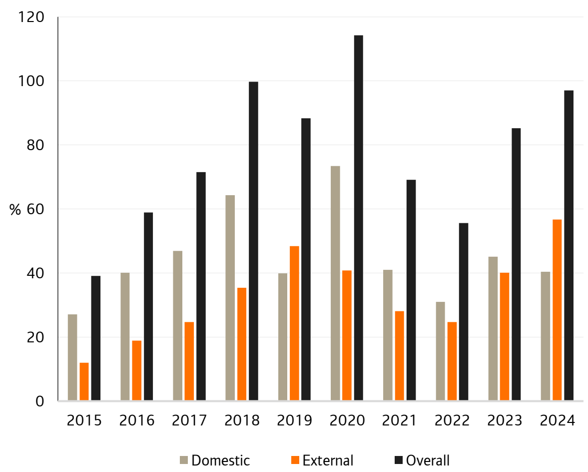
Source: Ministério das Finanças; Standard Bank Research

Interest to revenue



Source: Ministério das Finanças; Standard Bank Research

Debt service to revenue



Source: Ministério das Finanças; Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	30.2	31.4	32.1	33.1	34.1	35.2	36.3
Nominal GDP (AOA bn)	34 538.5	38 466.1	53 278.0	65 604.3	75 753.0	100 547.6	133 160.6
Nominal GDP (USD bn)	94.7	66.5	85.4	142.7	110.3	115.8	141.3
GDP / capita (USD)	3 139.2	2 115.1	2 659.4	4 312.7	3 234.4	3 292.7	3 897.5
Real GDP growth (%)	-0.2	-4.0	2.1	4.2	1.7	2.3	2.6
Oil output ('000 bpd)	1,383	1,271	1,124	1,137	1,098	1,110	1,123
LNG output ('000 BOE/d)	141	146	121	84	94	107	108
Central Government Operations							
Budget balance / GDP (%)	0.5	-1.6	3.4	0.8	-0.1	0.0	0.7
Domestic debt / GDP (%)	32.0	31.4	20.7	15.2	19.5	14.3	15.7
External debt / GDP (%)	52.2	75.4	60.1	36.5	45.0	40.9	35.2
Balance of Payments							
Goods and services exports (USD bn)	35.2	21.0	33.7	50.1	37.0	37.3	38.8
Goods and services imports (USD bn)	-22.3	-15.1	-18.8	-28.6	-23.7	-22.7	-22.7
Trade balance (USD bn)	12.9	5.9	14.8	21.6	13.3	14.6	16.1
Current account (USD bn)	5.1	0.9	8.4	11.8	4.2	5.9	7.1
- % of GDP	5.4	1.3	9.8	8.2	3.8	5.1	5.0
Capital and financial account (USD bn)	-3.5	-2.9	-6.2	-7.8	-4.6	-4.7	-1.6
- FDI (USD bn)	-1.7	-2.0	-3.3	-6.6	-2.2	-1.2	-1.8
Basic balance / GDP (%)	1.7	-3.1	2.6	2.7	-0.4	1.0	3.9
FX reserves (USD bn) pe	17.2	14.9	15.5	14.6	14.7	14.4	14.7
- Import cover (months) pe	9.3	11.8	9.9	6.1	7.5	7.6	7.8
Sovereign Credit Rating							
S&P	B-	CCC+	CCC+	B-	B-	B-	B-
Moody's	B3	Caa1	B3	B3	B3	B3	B3
Fitch	B	CCC	CCC	B-	B-	B-	B-
Monetary & Financial Indicators							
Headline inflation (%) pa	17.1	22.3	25.8	21.4	13.6	29.7	29.0
Headline inflation (%) pe	16.9	25.1	27.0	13.9	20.0	32.2	27.3
M2 LCY money supply (% y/y) pa	2.7	11.9	13.4	17.5	15.6	30.9	27.8
M2 LCY money supply (% y/y) pe	14.1	20.7	1.0	18.6	30.4	30.2	26.5
Policy interest rate (%) pa	15.58	15.50	17.75	19.83	17.33	19.42	20.00
Policy interest rate (%) pe	15.50	15.50	20.00	19.50	18.00	20.00	20.00
3-m rate (%) pe	9.5	19.0	19.4	7.3	10.7	11.5	11.4
1-y rate (%) pe	14.7	20.8	17.1	11.0	16.8	15.9	15.7
USD/AOA pa	364.6	578.4	624.1	459.8	686.6	868.3	942.2
USD/AOA pe	482.2	656.2	555.0	503.7	837.1	893.9	984.1

Source: Banco Nacional de Angola; Bloomberg; Instituto Nacional de Estatística; Ministério das Finanças; Standard Bank Research

Notes: pa - period average; pe - period end; na - not available; nr – not rated

Botswana: building new buffers in a changing diamond market

Medium-term outlook: government and household spending in a battle to counter diamond mining decline

2023 was a year of two halves. Real GDP grew 4.3% y/y in H1:23 but only 1.2% y/y in H2:23. H2:23's mining sector decline of -9.0% h/h was offset by 14.23% h/h increase in government spending. Overall, 2023 real GDP grew by 2.7% y/y; we had forecast 4.3% y/y, the wide discrepancy due to weaker-than-expected growth in the diamond industry.

We now downgrade our 2024 GDP forecast to 3.4% y/y, though we expect government and household spending to offset continued diamond export weakness, at least partially.

Debswana diamond company revised its 2024 production target down to 20.7 million carats, from 23.7 million carats in 2023. Q1:24 sales were down 48.3% y/y as the global diamond sector grapples with inventories rising due to the increasing popularity of cheaper, lab-grown diamonds.

Household consumption spending should accelerate to 2.9% y/y in 2024 (2023: 2.3% y/y), driven by credit and real earnings growth. Average monthly earnings for all employees rose in 2023 by 13.1% y/y, to BWP 7,692, and average inflation is forecast to decline to 3.41% y/y in 2024 from 5.26% y/y in 2023. Household credit growth, particularly property-related credit, grew by 12% y/y in 2023, compared to a 10-y average of 8% pa.

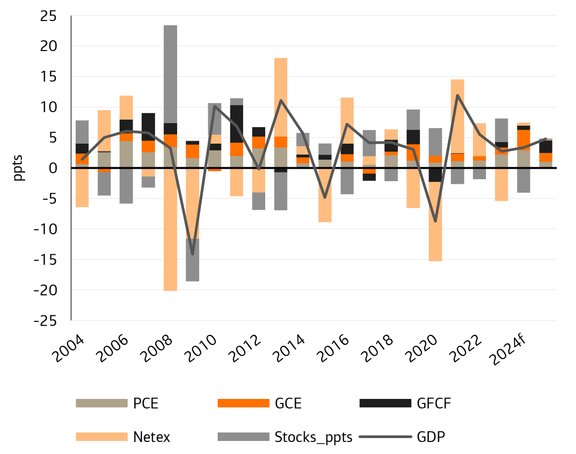
In Q1:24, Botswana's surveyed business expectations were less optimistic than in Q4:23. Firms expect moderate output growth and business conditions improvement in Q2:24 and into 2025, supported by government interventions to boost economic activity.

We forecast government spending growth increasing to 3.35% y/y, compared to 1.1% y/y in 2023. This may be driven by the expansionary budget which we believe is influenced by election spending and the need for counter-cyclical stimulus to offset a troubled diamond mining sector. The FY24/25 budget, announced in Feb 24, projected a significantly higher deficit of BWP8.7bn for FY24/25, exceeding the Sep 23 forecast by BWP3.6bn, or 1.3% of GDP.

As Botswana's 2024 elections approach, the political landscape continues to evolve. The ruling Botswana Democratic Party (BDP) is poised for a likely victory in the October elections, bolstered by the opposition's struggles to maintain unity. The Umbrella for Democratic Change (UDC) has faced significant setbacks, including the withdrawal of the Botswana Patriotic Front (BPF) and the Botswana Congress Party (BCP) from the coalition, weakening the main opposition's position.

The fragmentation of the opposition bodes well for incumbent President Mokgweetsi Masisi who is expected to secure the BDP's fourteenth consecutive win. The first-past-the-post voting system further benefits the BDP by amplifying its parliamentary representation when opposition votes are divided.

Composition of GDP growth by demand



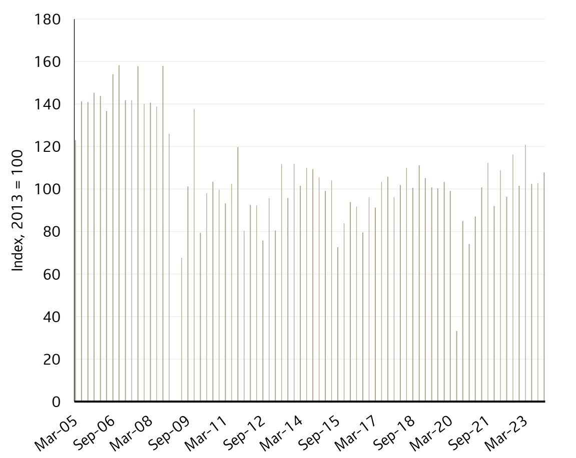
Source: Statistics Botswana; Standard Bank Research

Contribution to GDP by sector

%of GDP	2013	2018	2023
Agric, Forestry & Fishing:	1.9	1.8	1.6
Mining & Quarrying:	27.4	24.3	21.7
Manufacturing:	7.3	5.8	5.4
Water and Electricity:	1.0	1.2	1.1
Construction:	8.8	9.8	8.9
Wholesale & Retail:	7.5	8.7	10.4
Diamond Traders:	1.5	2.4	2.1
Transport & Storage:	1.8	1.8	1.7
Accommodation & Food Services:	2.4	2.6	1.8
Information & Comm Technology:	2.2	2.3	2.5
Fin, Insur & Pension Funding:	3.6	4.7	4.7
Real Estate Activities:	4.0	4.4	4.7
Prof, Sci & Tech Activities:	1.6	1.6	1.6
Admin & Support Activities:	1.6	1.6	1.6
Public Administration & Defense:	14.7	14.4	17.2
Education:	4.8	4.3	4.6

Source: Statistics Botswana; Standard Bank Research

Diamond production



Source: Statistics Botswana; Standard Bank Research

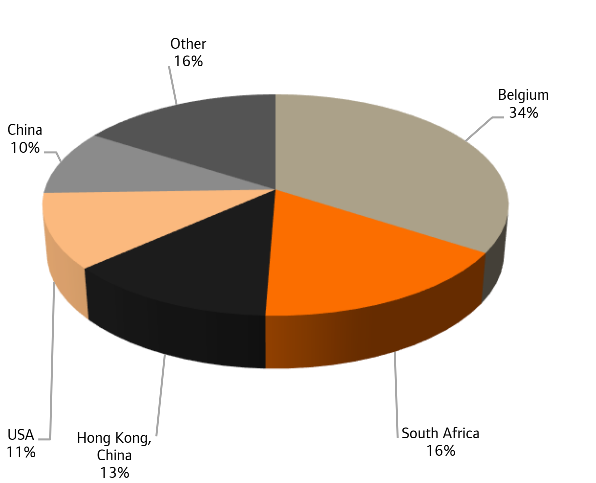
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	1.4	2.3	5.0	5.0	4.7	4.7	4.7	4.7	4.1	4.1	4.1	4.1	4.2	4.2	4.2	4.2
CPI (% y/y) pe	3.0	3.6	4.0	4.1	3.7	4.0	4.3	4.6	4.6	4.5	4.5	4.4	4.4	4.3	4.3	4.3
MoPR (%) pe	2.40	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
6-m rate (%) pe	2.8	2.6	3.0	3.3	3.2	3.5	3.8	4.1	4.1	4.0	4.0	3.9	3.9	3.8	3.8	3.8
USD/BWP pe	13.71	13.56	13.50	13.44	13.44	13.43	13.43	13.43	13.45	13.47	13.49	13.51	13.52	13.55	13.58	13.61

Source: Bank of Botswana; Statistics Botswana; Ministry of Finance; Standard Bank Research; Bloomberg

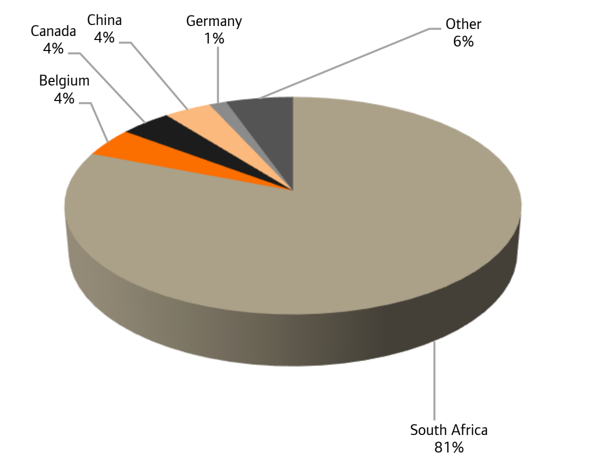
Notes: pa - period average; pe - period end

Share in Botswana's exports (%)



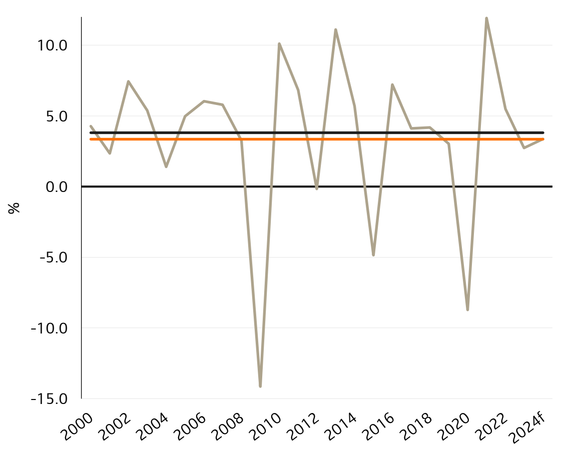
Source: ITC

Share in Botswana's imports (%)



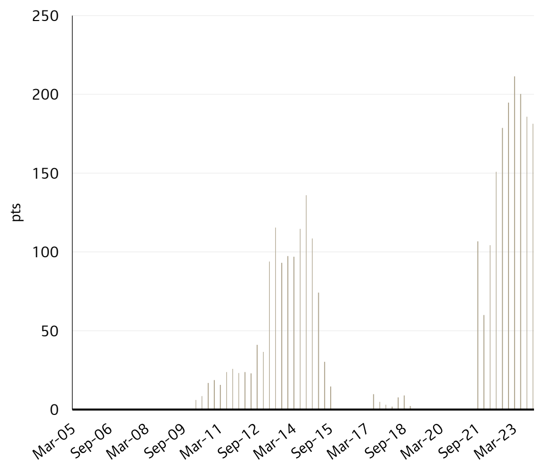
Source: ITC

Long-term GDP performance



Source: Statistics Botswana; Standard Bank Research

Copper production



Source: Statistics Botswana; Standard Bank Research

Balance of payments: SACU revenue, Jwaneng expansion and repatriated retirement fund capital will likely offset the negative trade balance in 2024

In 2023, Botswana's external sector demonstrated resilience despite significant challenges in the global diamond market. The current account deficit narrowed to BWP1.7bn, 0.61% of GDP, in 2023, from a revised BWP3bn, 1.19% of GDP, in 2022, largely due to higher Southern African Customs Union (SACU) receipts and reduced investment income outflows. This improvement came despite a notable decline in diamond exports, which plummeted by 43.8%y/y in Q4:23 alone.

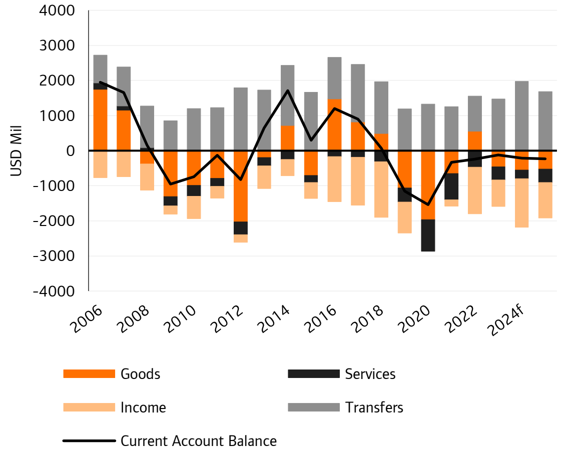
We forecast a current account deficit expanding to 1.00% of GDP in 2024. As in 2023, we expect SACU earnings, accounted for as secondary income in the balance of payments, to compensate much of the deterioration of export earnings from the diamond trade.

In Q4:23, diamond exports, which accounted for 62.4% of total goods exports (down from 82.1% in Q4:22), plummeted from BWP17.1bn, to BWP7.3bn. This decline was driven by weaker global demand for rough diamonds, exacerbated by large inventories and falling prices of polished diamonds in H2:23. The trend has continued into 2024, with Debswana revising its production target down to 20.7m carats, from 23.7m in 2023, and Q1:24 sales dropping 48.3% y/y.

Despite these challenges, Botswana's overall balance of payments (BoP) recorded a surplus, albeit decreasing to BWP1.7bn in 2023, from BWP4.5bn in 2022. The financial account recorded a net inflow of BWP4.1bn in 2023, a significant improvement from the net outflow of BWP2.5bn in Q4:22. Consequently, foreign exchange reserves increased by 7% y/y in 2023.

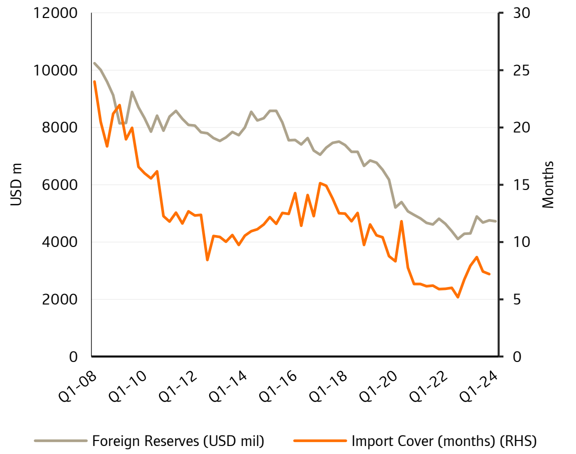
The financial account in 2024 will likely be driven by foreign direct investment inflows, should the USD6bn multi-year Jwaneng mine expansion project proceed retirement fund assets held offshore be repatriated. We forecast reserves of USD4.8bn in 2024 with import cover increasing to 8.3-m due in part to fewer diamond import volumes for processing and re-exporting.

Current account developments



Source: Statistics Botswana; Bank of Botswana; Standard Bank Research

FX reserves



Source: Bank of Botswana; Statistics Botswana; Standard Bank Research

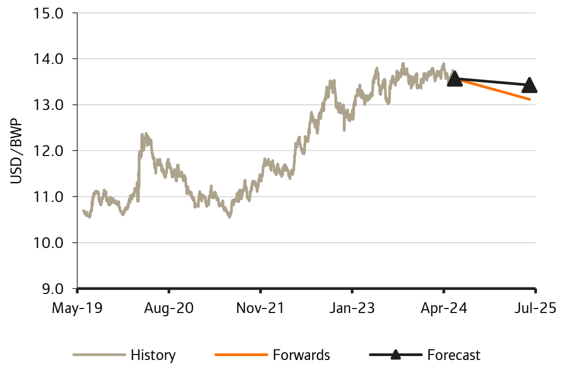
FX outlook: stability on the horizon

The exchange rate outlook for 2024 remains stable. Despite the Bank of Botswana forecasting a moderately favourable 2024 inflation differential with South Africa (Botswana's 2024 inflation forecast, at 4.7% y/y, versus South Africa's 5.1% y/y), the Bank of Botswana has maintained a downward crawl of 1.51% y/y for 2024.

This, combined with the potential for a softer USD due to expected US Federal Reserve policy adjustments, implies the pula as unlikely to depreciate as significantly this year as in 2023.

Key risks to this scenario include a worse-than-expected performance of mining exports, which would negatively impact the trade account, delays in the Jwaneng project, which would deprive the economy of FDI inflows, and a significantly rising oil price, which too would negatively affect the trade account.

USD/BWP forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation likely to bottom in 2024, with a small chance of a rate cut in Q4:24

We forecast headline inflation averaging 3.79% y/y in 2024, compared to 5.26% y/y in 2023. The Bank of Botswana (BOB) cut the policy rate in Jun 24 by 25bps to 2.15%, a signal aligned to the disinflationary trend and sub-potential growth of the economy.

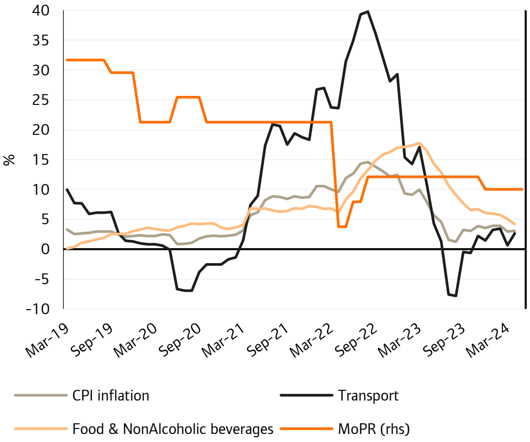
Headline inflation has seen a substantial decrease, averaging 3.6% y/y in Q1:24, down from 9.4% y/y in Q1:23. The decline is primarily attributed to the dissipating impact of the increase in domestic fuel prices from the previous year, along with the reduction in domestic fuel prices on Dec 23. Further, slower growth in the prices of food and non-alcoholic beverages too has contributed to this downward trend.

A notable reduction in inflation for both domestic and imported tradables has been observed. Domestic tradables inflation decreased from an average of 13.2% y/y/ in Q1:23, to 4.5% y/y Q1:24. Imported tradables inflation dropped from 11.4% y/y in Q1:23, to 4% y/y in Q2:24, driven by reduced domestic fuel prices, dealership discounts on vehicles, and a general decrease in prices of imported goods.

Core inflation measures similarly decreased in Q1:24. The trimmed mean inflation (CPITM) fell to 3.3%, from 8.6% in Q1:23. Inflation, excluding administered prices (CPIXA), averaged 4%, down from 8.9%, due to the decline in prices of food and non-alcoholic beverages, vehicles, cement, and other building materials, as well as consultation fees for health specialists. Inflation excluding food and fuel (CPIXFF) averaged 3.8%, lower than 6.4% in Q1:23.

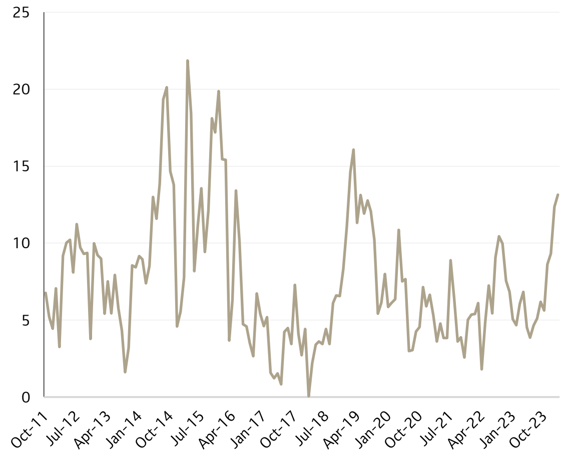
Inflation is likely to remain within the central bank target range of 3%-6% in 2024 and the economy is likely to remain below its productive potential until late 2025, according to central bank forecasts. The policy rate is currently negative in real terms suggesting a loose monetary stance.

Inflation and interest rates



Source: Bank of Botswana; Standard Bank Research

Money supply



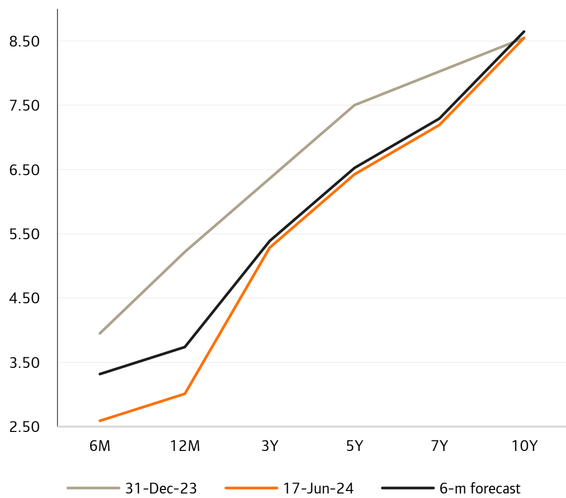
Source: Bank of Botswana

Yield curve outlook: stable to slightly higher in H2:24

In our January 2024 AMR, we anticipated a bull-flattening of the yield curve, driven by increased demand in the middle- to long end. The market saw some steepening instead as demand was predominantly concentrated at the short end of the curve, driven by a build-up of liquidity from retirement funds and declining inflation. Looking ahead to H2:24, we expect interest rates to stabilize at or near their current levels, with a mild flattening bias.

This is influenced by the compliance of retirement funds with the Pension Funds Act (PF2) and signs of a bottoming of inflation. The Act stipulates an allocation of 41% of around BWP140bn of retirement funds into domestic assets, likely already achieved as of writing, and increasing to at least 50% by 2027. The 2025 target is 44%, translating to around BWP4bn in additional onshore allocation. Most of these flows are expected to affect local market liquidity, primarily in the 2025.

Changes in the yield curve



Source: Bloomberg; Standard Bank Research

Fiscal policy: expansionary election FY24/25 budget, with SACU revenue compensating for lower mineral revenue

FY2023/24 concluded in Mar 24, with estimates of a 2.55% deficit to GDP, exceeding the Sep 23 budget strategy paper's projection of 2.01%. This increase is mainly due to higher recurrent expenditure, including personnel salaries and grants.

Looking ahead to FY2024/25, the budget is markedly expansionary, projecting a deficit of BWP8.7bn, which is BWP3.6bn higher than the Sep 23 budget strategy forecast. The financing requirements of the budget led to the legislature increasing the debt ceiling from BWP30bn, to BWP55bn in Q1:24.

Revenue projections for FY2024/25 are revised upwards by BWP10bn despite an expected BWP3.2bn decrease in mineral revenue due to the competition from lab-grown diamonds.

This shortfall is offset by higher customs and excise revenue, non-mineral income taxes, and VAT, driven by tax reforms and improved administrative efficiency. The increase in customs and excise revenue is particularly notable, attributed to Botswana's larger share of Southern African Customs Union (SACU) revenue.

Expenditure for FY2024/25 is projected to be BWP13.5bn higher than previously forecast, with BWP4.4bn allocated to "other" recurrent expenditure, likely including election-related spending.

Development spending, increased by BWP8.4bn, reflects substantial public investment under the Transitional Development Plan, emphasizing infrastructure projects involving private sector participation.

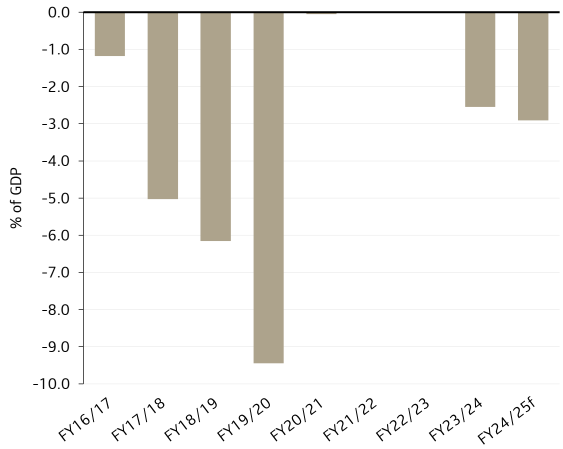
Botswana's debt management strategy for FY24/25 has a planned issuance of BWP11.25bn in bonds and BWP4bn in treasury bills, alongside a small amount of external borrowing from multilateral development agencies. This strategy aims to leverage the strong demand from domestic pension funds, which are required to increase their local asset allocations under the Pension Funds Act.

Central government budget

% of GDP	FY22/23	FY23/24	FY24/25
Total revenue	28.6	29.2	31.3
Total expenditure	28.6	31.8	34.2
Recurrent	23.1	24.3	24.3
- wages	12.3	12.6	11.9
-interest	0.6	0.8	0.9
Development	5.5	7.5	10.0
Overall balance (+ grants)	0.0	-2.55	-2.9
Overall balance (- grants)	-0.9	-3.5	-4.1
Net external borrowing	-0.4	2.0	-0.6
Net domestic borrowing	0.4	0.6	3.5

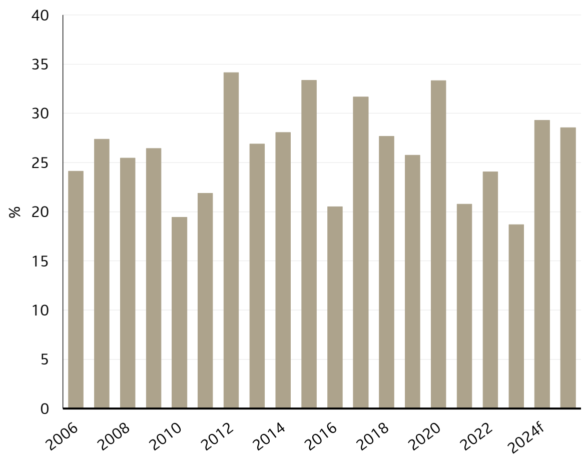
Source: Ministry of Finance; Statistics Botswana; Bank of Botswana; Standard Bank Research

Fiscal deficit



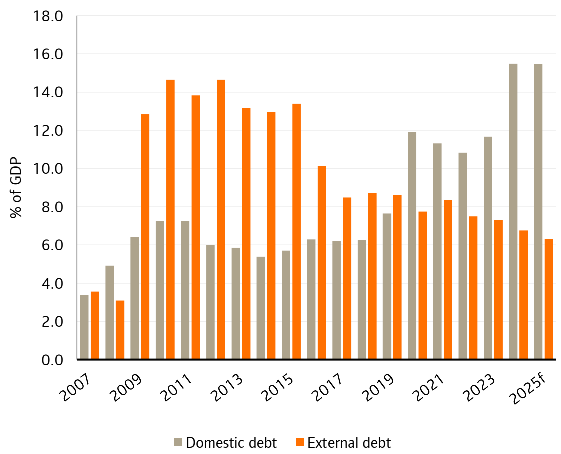
Source: Ministry of Finance; Standard Bank Research

SACU revenue as share of total revenue



Source: Ministry of Finance; Standard Bank Research

Domestic and external debt



Source: Ministry of Finance

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Nominal GDP (BWP bn)	179.9	171.4	207.7	251.8	271.9	291.4	317.3
Nominal GDP (USD bn)	16.7	15.0	18.7	20.32	20.37	21.50	23.62
GDP / capita (USD)	6 969	6 233	7 807	8 662	8 856	9 349	10 271
Real GDP growth (%)	3.00	-8.70	11.90	5.80	2.73	3.40	4.75
Diamond ('000 carats)	23 687	16 868	22 696	24 479	25 095	20 076	20 076
Coal (thousand tons)	n.a	n.a	11 742	34 201	54 808	68 510	85 638
Central Government Operations							
Budget balance / GDP (%)	-6.16	-9.45	-0.05	0.78	-2.55	-2.91	-1.42
Domestic debt / GDP (%)	7.64	11.92	11.32	10.81	11.67	15.49	15.47
External / GDP (%)	8.60	7.75	8.36	7.49	7.29	6.75	6.31
Balance of Payments							
Exports of goods and services (USD bn)	6.23	4.66	7.87	8.91	6.47	6.10	6.94
Imports of goods and services (USD bn)	-7.70	-7.53	-9.27	-8.83	-7.32	-6.90	-7.84
Trade balance (USD bn)	-1.47	-2.87	-1.40	0.08	-0.85	-0.80	-0.91
Current account (USD bn)	-1.16	-1.54	-0.33	-0.24	-0.12	-0.22	-0.24
- % of GDP	-6.91	-10.29	-1.75	-1.19	-0.61	-1.00	-1.00
Capital & Financial account (USD bn)	-0.44	-0.67	-0.46	0.63	0.31	0.22	0.35
- FDI (USD bn)	0.11	0.10	-0.29	0.70	0.67	0.60	0.60
Basic balance / GDP (%)	-6.23	-9.62	-3.28	2.25	2.67	1.79	1.54
FX reserves (USD bn) pe	6.17	4.94	4.81	4.28	4.76	4.76	4.76
- Import cover (months) pe	8.77	6.32	5.87	6.73	7.18	8.28	7.28
Sovereign Credit Rating							
S&P	A-	BBB+	BBB+	BBB+/A-2	BBB+/A-2	BBB+/A-2	BBB+/A-2
Moody's	A2	A2	A3	A3	A3	A3	A3
Fitch	NR	NR	NR	NR	NR	NR	NR
Monetary & Financial Indicators							
Consumer inflation (%) pa	2.79	1.89	6.68	12.17	5.26	3.79	4.14
Consumer inflation (%) pe	2.20	2.20	8.70	12.40	3.79	4.10	4.59
M3 money supply (% y/y) pa	7.99	5.89	5.02	6.79	5.88	9.66	9.25
M3 money supply (% y/y) pe	7.99	5.89	5.02	6.79	9.31	10.00	8.50
BOB policy rate (%) pa	4.92	3.92	3.75	2.68	2.40	2.25	2.15
BOB policy rate (%) pe	4.75	3.75	3.75	2.65	2.40	2.15	2.15
6-mnth rate (%) pe	1.80	1.30	1.50	5.50	6.50	3.32	4.12
5-yr rate (%) pe	4.20	5.10	6.64	7.01	7.45	6.53	6.60
USD/BWP pa	10.75	11.44	11.07	12.33	13.35	13.55	13.43
USD/BWP pe	10.63	10.79	11.74	12.77	13.50	13.44	13.43

Source: Bank of Botswana; Statistics Botswana; Ministry of Finance; Standard Bank Research; Bloomberg

Notes: pa – period average; pe – period end

Côte d'Ivoire: pro-growth NDP reforms led by private sector

Medium-term outlook: weather shocks affecting mainstay crops

We revise our 2024 GDP growth forecast down to 6.8% y/y, from 7.1% y/y. However, in 2025 growth should rebound to 7.3% y/y off the lower base of 2024, complemented by higher private consumption due to a looser monetary policy as well as ongoing pro-growth NDP (2021-2025) reforms.

Amid weather shocks affecting coffee and cocoa crops, the Ivorian economy grew by only 6.6% y/y in 2023, below the 7.4% y/y we had expected. However, this economy has proved resilient, growing by 6.3% y/y in Q1:24, exceeding 5.4% y/y in Q4:23 but undershooting 6.8% y/y growth in Q1:23. Activity in the agricultural sector is likely to perform poorly again this year, particularly as 2023/24 coffee and cocoa output face erratic weather conditions, accentuated by crop diseases. However, production for cashew nuts, natural rubber, dessert banana, and sugar should still hold up. From 2025, there should be a steady increase in cocoa output off a lower base as weather conditions should improve.

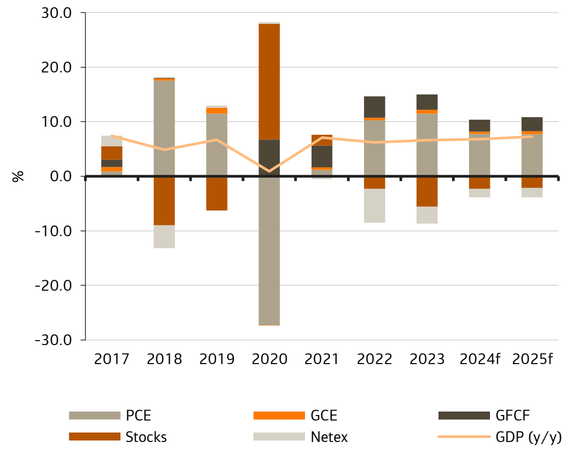
The industrial sector, as tracked by the increases in the index industrial production (IPI), should remain supported. Particularly the extractive industries continue to benefit from offshore oil and gas production at the Baleine oilfields which commenced in Aug 23 as well as the continued exploration of the whale ("Baleine") field. This is also complemented by higher mining output with the entry of the new gold mines (Gregbeu and Dabakala) as well as increased electricity production capacity (Atinkou thermal power station and the Boundiali 37.5MW solar plant). Production should continue to increase in 2024 with the expected entry into of two hydropower plants.

However, government spending may moderate as the authorities pursue fiscal consolidation under the 3-y IMF deal, approved in May 2023. Construction sector activity may therefore decrease and thereby drag down the performance of the industrial sector. Indeed, the construction leading indicator has been declining, contracting by 9.4% y/y in Mar 24.

Positively, the recently signed USD1.0bn loan agreement with South Korea should allow Côte d'Ivoire to implement several development projects over 2024 to 2028. Further, the ongoing investment in the hydrocarbons sector should see investment flows remaining elevated. Government continues to implement key reforms under the NDP, aimed at improving the business environment for inclusive and private-sector-led growth. This may see other sectors benefiting from the investment inflows impelled by NDP reforms.

The recently approved USD1.3bn Resilience and Sustainability Facility (RSF) arrangement, to run concurrently with the USD3.5bn ECF/EFF IMF program, too should assist in restoring macroeconomic stability, also complemented by pro-growth reforms under the 2021-2025 National Development Plan.

Composition of GDP by demand



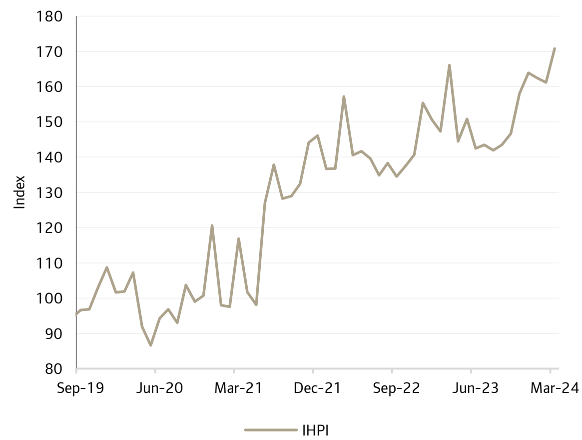
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; International Monetary Fund; Standard Bank Research

Composition of GDP by sector

% of GDP	2018	2020	2022
Food crops	8.8	4.3	8.8
Export crops	9.2	10.0	10.0
Extractive industries	2.8	2.1	2.6
Agroprocessing	4.3	5.4	4.4
Water and Electricity	2.6	1.7	2.1
Construction	3.7	5.0	3.8
Transport and Storage	5.9	8.3	7.8
Information and Communication	3.9	1.9	4.3
Trade and Repair	17.3	14.8	18.0
Financial and Insurance Activities	1.3	1.8	1.4

Source: Institut National de la Statistique

Harmonised index of industrial production



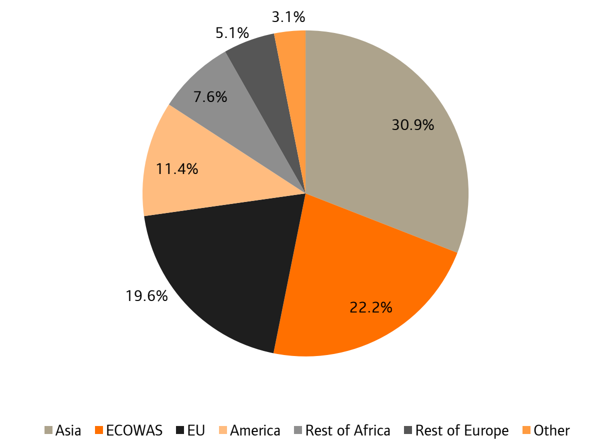
Source: Institut National de la Statistique

Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	6.3	7.5	5.9	7.6	7.1	7.9	6.5	7.6	7.8	7.4	7.8	7.5	7.7	6.4	7.9	7.8
CPI (% y/y) pe	3.8	3.8	3.2	2.8	2.6	2.5	2.1	2.4	2.2	2.0	2.0	1.7	1.3	1.4	1.4	1.4
Policy interest rate (%) pe	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25
3-m rate (%) pe	6.5	6.6	6.3	6.1	6.1	5.8	5.6	5.6	5.6	5.3	5.3	5.3	5.3	5.3	5.3	5.3
6-m rate (%) pe	6.8	6.9	6.6	6.4	6.4	6.1	5.9	5.9	5.9	5.6	5.6	5.6	5.6	5.6	5.6	5.6
USD/XOF pe	607.9	596.3	613.0	601.8	580.5	570.4	537.7	542.1	546.6	546.6	508.5	500.7	500.7	500.7	500.7	500.7

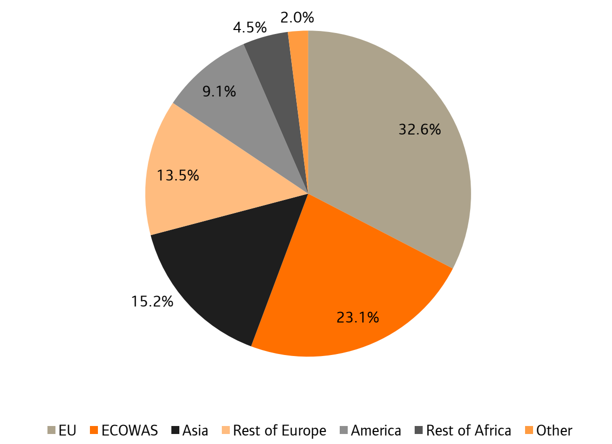
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; Bloomberg; Standard Bank Research

Imports origin (% of total)



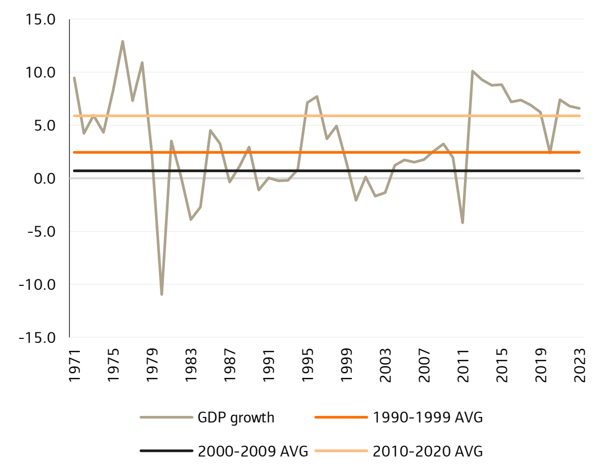
Source: Ministère de l'Economie et des Finances

Exports destination (% of total)



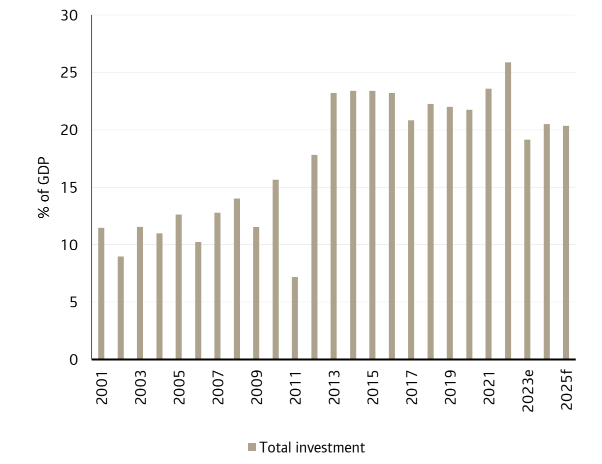
Source: Ministère de l'Economie et des Finances

Long-term growth performance



Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique

Investment spending



Source: International Monetary Fund

Balance of payments: C/A deficit to narrow

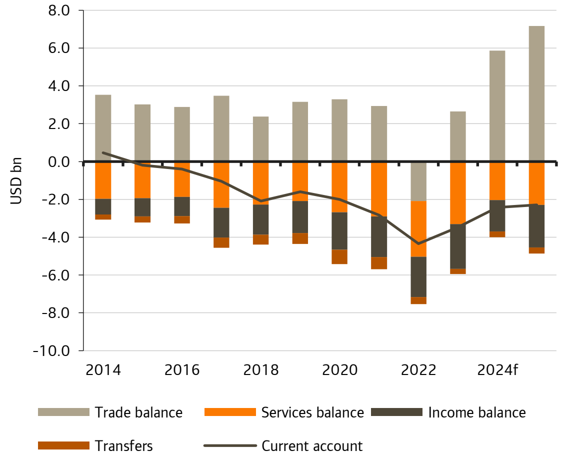
We now expect the C/A deficit to narrow to 3.4% of GDP (previously 3.7% of GDP) in 2024 because higher goods exports growth this year should support the trade surplus of 2023, further assisted by the service receipts. For 2025, we therefore forecast a further narrowing, to 3.1% of GDP.

International cocoa prices have been rising since H2:23 amid constrained global cocoa bean supply due to adverse weather and the cocoa swollen shoot virus disease affecting production in top cocoa-producing countries such as Côte d'Ivoire and Ghana. Notwithstanding weak production and volumes, higher global cocoa bean prices (184.1% y/y in May 24 and 122.9% YTD) should support the C/A balance. In April, authorities increased the official cocoa farmgate price by 50%, to XOF1,500 per kg (c.USD2.46), to help mitigate the impact of lower production of cocoa producers. The Conseil du Café-Cacao expects a 33% y/y reduction in the size of the mid-crop; therefore, prices are expected to remain high throughout the 2023/24 mid-crop (May-Aug). Initial estimates for 2024/25 is expected between end-Aug and mid-Sep. As at Q1:24, cocoa products exports amounted to XOF1,610.6bn, up 28.1% y/y and 34.3% q/q, only just half of the total XOF3,424.8bn exported in 2023. Still, the terms of trade should also benefit from increased oil exports, with the first oil produced at Eni's Baleine oilfields since Aug 23, and its Phase 2 expected by end 2024. Oil exports increased 23% q/q in Q4:23.

The expansion of the hydrocarbon sector may see increased demand for capital goods. Anticipated policy rate cuts too may see consumer demand for imports pick up, but the rate of import growth may be offset by a much higher exports growth.

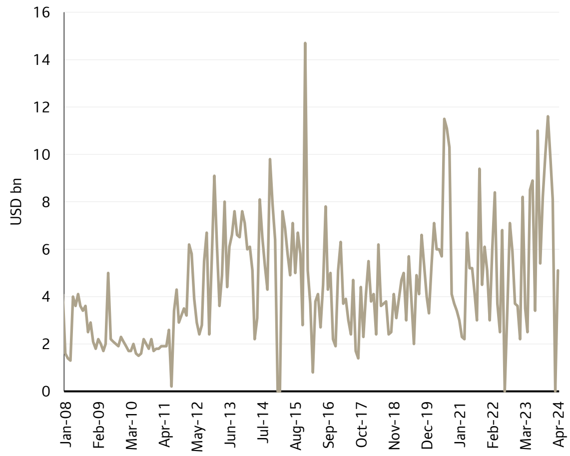
To fund the C/A deficit, the government tapped international capital markets in Jan 24, after a two-year hiatus, raising USD2.6bn. Further, the IMF board approved a 30-m USD1.3bn RSF in Apr to run concurrently with USD3.5bn ECF/EFF IMF program. Subject to successful reviews and board approval, in 2024 Côte d'Ivoire will now receive a cumulative c.USD1.3bn (with the added RSF funding), from c.USD990.4m previously expected.

Current account developments



Source: Banque Centrale des Etats de l'Afrique de l'Ouest; International Monetary Fund; Standard Bank Research

FX reserves



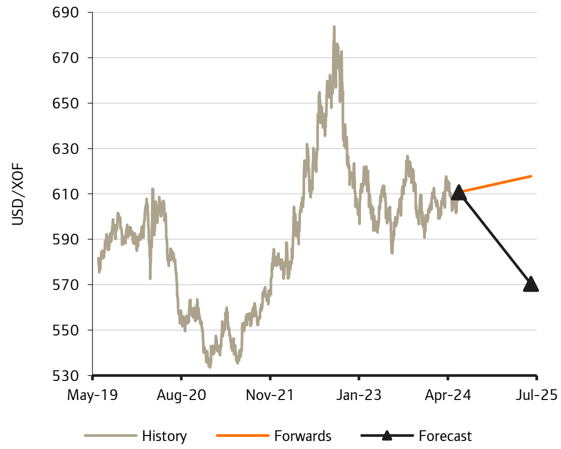
Source: Bloomberg, International Monetary Fund

FX outlook: XOF to remain linked to EUR/USD movements over the forecast period

The implementation of the proposed common currency of the Economic Community of West African States (ECOWAS), the "eco", which was postponed to 2027, still faces challenges, and is likely to be delayed further due to the divergence, by most of the member states, from the required criteria. Per the latest West African Monetary Agency (WAMA) report, none of the 15 member states had met all four primary convergence criteria (budget deficit, gross FX reserves, average inflation, and central bank financing of fiscal deficit) by 2022, and it seems unlikely that most regional economies would have converged by the 2027.

Therefore, EUR/USD movements will still determine the direction of the XOF given the CFA franc's peg to the euro at 655.957. We foresee the EUR/USD ranging between 1.07 -1.09 during H2:24, then likely reaching 1.21 by end 2025. Thus, we forecast USD/XOF at 601.8 Dec 24 and 542.1 by end 2025.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative bias from Q3:24

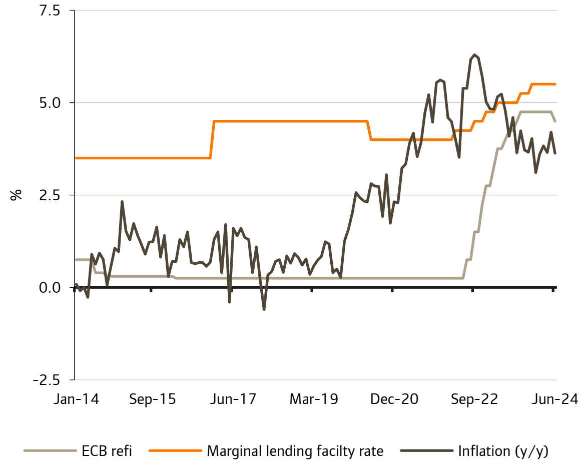
The BCEAO left key policy rates steady in H1:24, as we had expected, with the liquidity calls and marginal lending window respectively at 3.50% and 5.50%. We still believe that the MPC should have room to cut rates by a cumulative 50 bps in H2:24 and a further 50 bps, at the very least, in 2025.

Inflation on the WAEMU bloc inched up to 3.7% y/y in Apr 24, from 2.8% y/y in Q1:24, mainly due to higher food prices (4.9% y/y, from 3.3% y/y in Mar). Core inflation however eased in Apr, albeit marginally, to 2.4% y/y, from 2.5% y/y in Mar, but lower than an average of 3.1% y/y in 2023. The BCEAO foresees overall inflation hovering around 3.7% y/y in May and Jun 24, attributable to higher prices for cereal products as persistent tensions are keeping 2023/24 cereal production lower, particularly in the Sahelian ("shore") countries. Notwithstanding, the BCEAO forecasts local food supply improving in H2:24 and expects inflation to average 2.8% y/y in 2024, from an average of 3.7% y/y in 2023, then declining further, to 2.5% y/y in 2025. This would be within the 1%-3% y/y targeted inflation range and may compel an accommodative bias from Q3:24. However, upside risks to the inflation outlook include the persistence of security crisis in some countries in the region as well as any worsening of geopolitical tensions exacerbating high global energy and food prices.

For Côte d'Ivoire, however, headline inflation softened to 3.6% y/y in Apr 24, from 3.8% y/y in Mar. We forecast higher base effects to drive inflation lower in coming months, ending 2024 at 2.8% y/y (average of 3.3%), then averaging 2.7% in 2025.

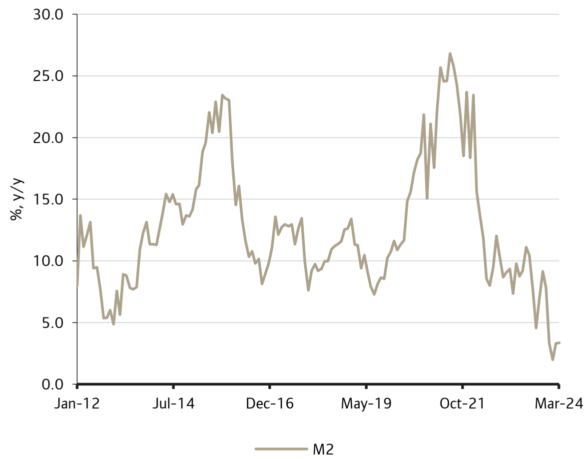
The BCEAO also factors in policy rate decisions by the European Central Bank (ECB) to maintain the CFA franc's peg to the euro. The ECB cut its benchmark rate by 25 bps, to 3.75%, at its Jun meeting, marking the first interest rate cut by the ECB in 5-y. The ECB however cautioned against assuming that the central bank is on a "linear declining path", stressing that the next interest rate move would still be data-dependent.

Inflation and interest rates



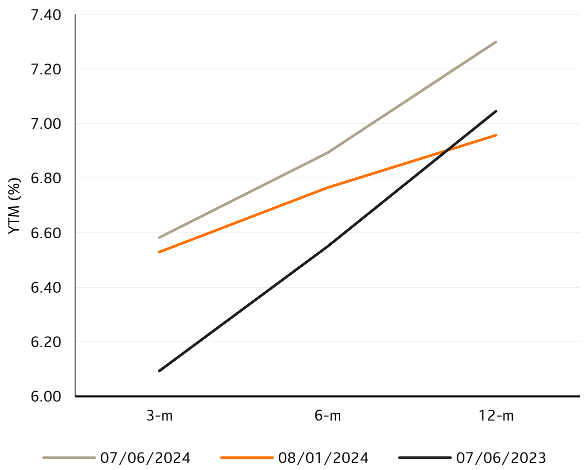
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; European Central Bank

Money supply



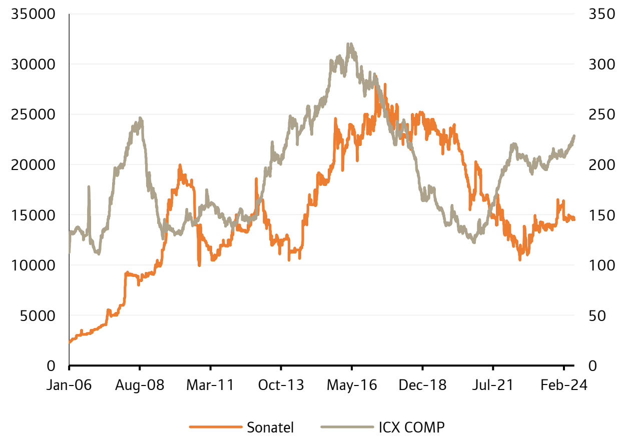
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Yield curve changes



Source: Bloomberg

Capital market overview



Source: BRVM; Bloomberg

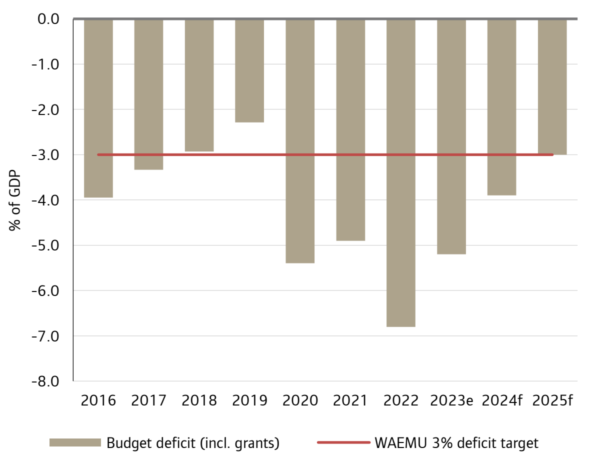
Fiscal policy: revenue-based fiscal consolidation under the IMF deal

The government remains committed to its fiscal consolidation path, foreseeing slashing the fiscal deficit (incl. grants) to an ambitious 3.9% of GDP in 2024, thereafter converging with the WAEMU deficit target of 3% of GDP in 2025, from an estimated 5.2% of GDP in 2023.

Revenue-based fiscal consolidation has set optimistic targets, forecasting tax revenue rising 13.5% y/y in 2024, to XOF7.5tn (14.5% of GDP), from XOF6.6tn in 2023 (13.9% of GDP), then increasing to an average of XOF10.1tn during 2025-2028 (15.8% of GDP) – courtesy of the comprehensive medium-term revenue strategy (MTRS), to be designed through IMF assistance and adopted by H2:24 – aimed at converging tax revenue with the WAEMU floor level of 20% of GDP. As at Q1:24, tax authorities had collected XOF1,481.7bn, a 9.7% y/y increase from tax collections in Q1:23. For Q2:24, tax revenue is budgeted at XOF1,314.7bn. Tax policy and tax administration reforms, such as fuel pricing mechanism reforms, increased registration rates for cacao, elimination of tax exemptions, particularly the VAT on non-staple foods, property tax reforms, improved tax collection, are amongst planned revenue measures for 2024 and beyond. Improved spending efficiency should also complement consolidation efforts by phasing out the 2020 to 2022 crisis-era blanket food and fuel subsidies.

As the fiscal deficit should decrease, public debt accumulation should decline over the near to medium-term. Public debt stock was XOF27.8tn in 2023 (58.1% of GDP), from XOF24.8tn in 2022 (56.6% of GDP). To fund the 2024 deficit, the government raised USD2.6bn in Jan in oversubscribed Eurobonds issuance. Further, in Apr 24 the IMF board approved a 30-m USD1.3bn RSF (Resilience and Sustainability Facility) to run concurrently with USD3.5bn 40-m ECF/EFF IMF program, which was approved in May 2023. Subject to successful reviews and board approval, Côte d'Ivoire will now receive a cumulative c.USD1.3bn in 2024 (with the added RSF funding), in comparison to the c.USD990.4m it would have otherwise received. Authorities have also signed a USD1.0bn loan agreement with South Korea.

Budget deficit (incl. grants)



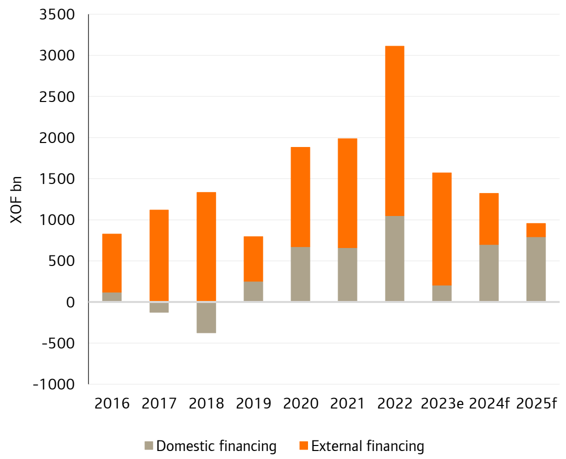
Source: Ministère de l'Economie et des Finances

Central government budget

(%of GDP)	2022	2023e	2024f
Tax revenue	12.9	13.9	14.5
Non-tax revenue	1.9	1.9	1.8
Grants	0.5	0.7	0.5
Total expenditure	22.1	21.7	20.7
Recurrent expenditure	14.9	14.4	13.0
- Of which: interest due	2.2	2.4	2.3
- Of which: wages	4.6	4.7	4.5
Capital expenditure	7.2	7.3	7.7
Budget deficit (incl. grants)	-6.8	-5.2	-3.9
Budget deficit (excl. grants)	-7.3	-5.9	-4.4
Domestic financing	2.6	0.4	1.3
External financing	4.7	2.9	1.2
Expected financing (excl.IMF)	-	0.8	0.4
IMF funding	-	1.3	1.1

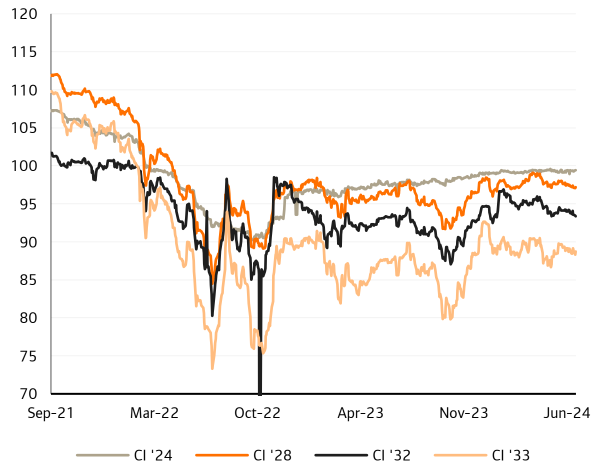
Source: Ministère de l'Economie et des Finances

Financing the fiscal deficit



Source: International Monetary Fund, Ministère de l'Economie et des Finances

Capital market overview



Source: BRVM; Bloomberg

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	26.0	26.2	26.4	26.8	26.9	27.0	27.0
Nominal GDP (XOF bn)	34298.9	35439.7	39418.1	43917.7	48751.9	53702.7	59055.5
Nominal GDP (USD bn)	69.2	62.2	69.9	70.3	80.4	88.8	105.9
GDP / capita (USD)	2660.2	2375.1	2648.0	2621.5	2991.0	3293.8	3916.6
Real GDP growth (%)	6.7	0.9	7.1	6.2	6.6	6.8	7.3
Oil production (m bbl)	13.0	15.0	15.5	15.7	16.2	16.5	16.7
Cocoa production (m tonnes)	2.2	2.1	2.2	2.3	2.0	1.7	2.4
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-3.1	-6.0	-5.4	-7.3	-5.9	-4.4	-3.4
Budget balance (incl. grants) / GDP (%)	-2.3	-5.4	-4.9	-6.8	-5.2	-3.9	-3.0
Domestic debt / GDP (%)	12.3	13.6	13.7	22.2	22.2	22.7	23.4
External debt / GDP (%)	26.7	29.7	30.9	34.5	35.9	34.7	35.7
Balance of Payments							
Exports of goods (USD bn)	14.9	12.6	15.1	16.3	18.5	19.7	20.8
Imports of goods (USD bn)	-11.2	-9.5	-12.1	-15.3	-15.9	-13.8	-11.9
Trade balance	3.7	3.1	3.0	-1.0	2.6	5.9	9.0
Current account (USD bn)	-1.6	-2.0	-2.8	-4.3	-3.5	-2.4	-2.3
- % of GDP	-2.3	-3.2	-4.0	-6.2	-4.4	-3.4	-3.1
Capital & Financial account (USD bn)	2.6	3.1	4.7	3.8	4.4	6.5	6.5
- FDI (USD bn)	0.9	0.7	1.1	1.1	1.4	1.5	2.0
Basic balance / GDP (%)	-1.0	-2.1	-2.5	-4.5	-2.5	-1.0	-0.3
FX reserves (USD bn) pe	4.0	3.4	5.3	4.8	5.7	6.3	6.9
- Import cover (months) pe	4.3	4.3	5.3	3.7	4.3	5.4	7.0
Sovereign Credit Rating							
S&P	nr	nr	BB-	BB-	BB-	BB-	BB-
Moody’s	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	B+	B+	BB-	BB-	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.8	2.4	4.2	5.2	4.4	3.3	2.7
Consumer inflation (%) pe	1.6	2.3	5.6	5.0	4.0	2.8	2.4
M2 money supply (% y/y) pa	9.4	15.7	22.8	11.7	8.0	5.5	13.6
M2 money supply (% y/y) pe	10.8	21.1	18.3	9.4	3.3	11.9	13.8
Marginal lending facility (%) pe	4.50	4.00	4.00	4.75	5.50	5.00	4.50
USD/XOF pa	495.9	569.5	563.9	625.1	606.4	604.8	557.7
USD/XOF pe	468.5	537.6	576.8	612.8	601.0	601.8	542.1

Source: Banque Centrale des Etats de l’Afrique de l’Ouest; Institut National de la Statistique; Ministère de l'Economie et des Finances; International Monetary Fund; Bloomberg; Standard Bank Research

DRC: mining supports growth

Medium-term outlook: extractive sector still supportive of growth – but security risks high

We adjust higher our GDP growth forecast for 2024 to 5.9% y/y, from 4.1% y/y in the Jan AMR edition, as we lift our mining sector growth forecast to 10.3% y/y, from 5.1% y/y. Mining, accounting for 38% of GDP, has been supported by foreign direct investment (FDI), especially into copper mines.

GDP grew 8.6% y/y in 2023, aided by mining output which expanded 18.1% y/y. This translates into copper production rising 18.7% y/y, to 2.8m tonnes, accounting for 75% of DRC's mining output. Cobalt output rose 21.2% y/y to 140k tonnes, a 15% share in mining output. However, non-extractive GDP is forecast to grow 3.3% y/y in 2024, slower than 3.5% y/y in 2023, as still high inflation implies monetary policy as remaining tight.

There will likely be a supplementary budget this year, targeting some containment in government expenditure (GE), likely softening aggregate demand. Softer GE may help contain growth in imports and see net exports' contribution to GDP turning positive in 2024.

Last year, high government spending ahead of the Dec 23 general elections, and to support a military campaign against rebels in the eastern part of DRC, caused FX liquidity pressures, a weaker Congolese franc, and rising inflation.

Indeed, inflation, last reported at 22% y/y in May 24, remains high; this saw the monetary policy rate being hiked by 1,675 bps in 2023, to the current 25%.

The policy rate being kept positive, in real terms since Aug 23, should temporarily subdue gross fixed capital formation (GFCF) in 2024, with a recovery expected next year.

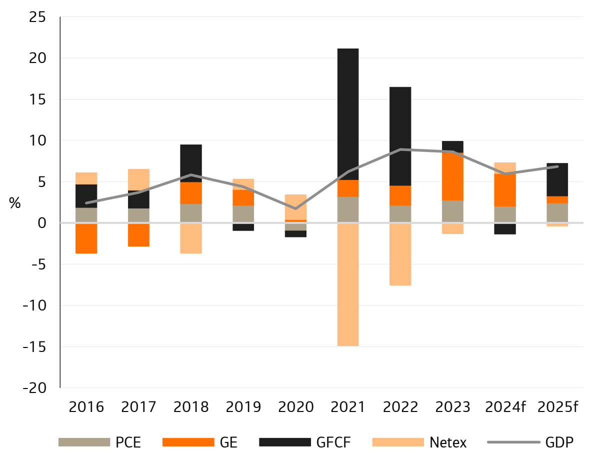
For 2025, we see GDP growth rising to 6.8% y/y as both the extractive and non-extractive economies grow faster, forecast at 10.6% y/y and 4.4% y/y, respectively.

FDI has been helping to keep mining output growth in double digits since 2018. As we expect inflation to ease, this should allow for an easing of monetary policy cycle from Jan 25, which in turn should help to lift personal consumer expenditure (PCE) and GFCF.

However, the growth outlook is subject to downside risks emanating from insecurity, public health vulnerabilities, commodity price volatility, and exposure to climate change events. The recent coup attempt, which failed, demonstrates security risks as remaining high in DRC. Despite regional peace talks, M23 violence in the eastern part of DRC remains high.

Progress on structural reforms and on the fight against corruption remains critical in turning growth more inclusive.

GDP by demand



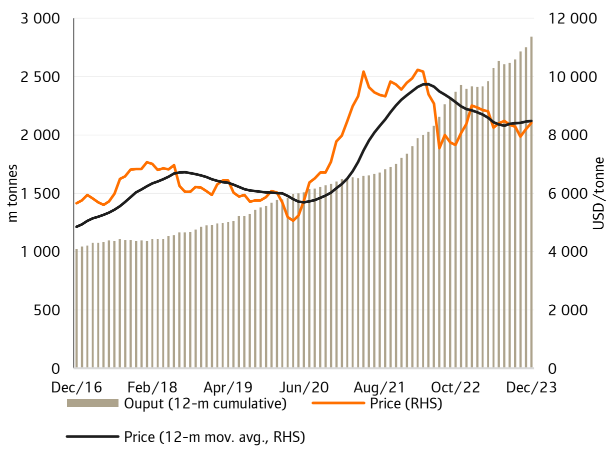
Source: Banque Centrale du Congo; Institut National de la Statistique; Standard Bank Research

Contribution of GDP by sector (% of total)

	2016	2021	2022	2023
Agriculture, forestry, fishing & hunting	16.6	15.0	14.1	13.4
Mining and quarrying	25.0	31.1	34.8	37.9
Manufacturing	12.2	10.2	9.6	9.1
Electricity, gas and water	0.6	0.6	0.6	0.6
Construction	2.7	4.3	4.1	4.3
Wholesale and retail trade, hotels and restaurants	15.1	13.6	12.8	12.1
Transport, storage and communication	12.5	13.0	12.4	12.4
Finance, real estate and business services	9.3	8.6	8.1	7.1
General government services	3.7	3.1	2.9	2.8
Other	2.1	0.4	0.5	0.5
GDP	100.0	100.0	100.0	100.0

Source: Banque Centrale du Congo; Institut National de la Statistique; Standard Bank Research

Copper production and prices



Source: Banque Centrale du Congo; Bloomberg; Standard Bank Research

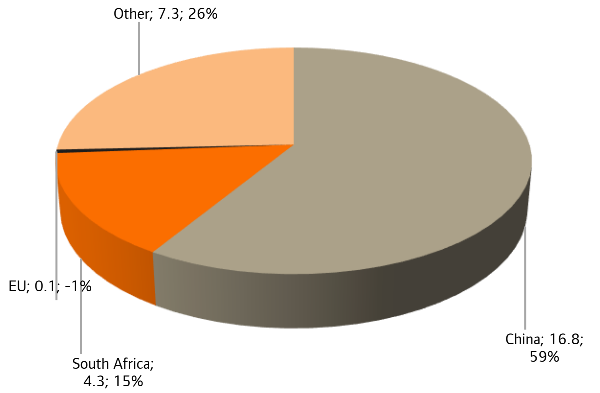
Medium-term economic growth forecasts

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	5.9	5.9	5.9	5.9	6.8	6.8	6.8	6.8	5.6	5.6	5.6	5.6	5.9	5.9	5.9	5.9
CPI (% y/y) pe	21.5	20.9	17.5	16.9	16.0	15.4	14.0	12.7	11.3	10.0	8.7	7.4	7.1	6.8	6.5	6.2
Policy rate (%) pe	25.00	25.00	25.00	25.00	17.50	17.50	15.00	15.00	15.00	10.25	10.25	9.50	9.50	9.50	9.50	9.50
USD/CDF pe	2784.1	2832.7	2918.6	3019.7	3065.2	3111.4	3158.3	3205.9	3234.9	3264.1	3293.6	3323.3	3343.3	3363.4	3383.6	3403.9

Source: Banque Centrale du Congo; Institut National de la Statistique; Standard Bank Research

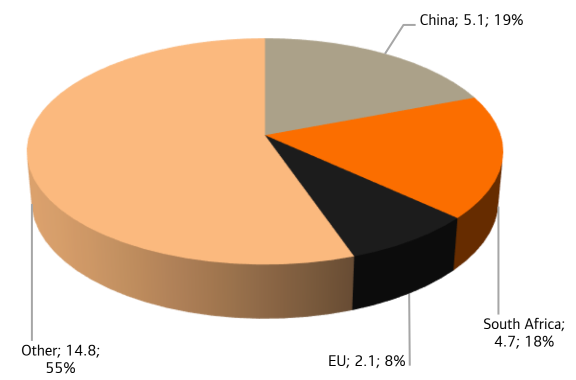
Notes: pa - period average; pe - period end

Exports destinations (USD bn)



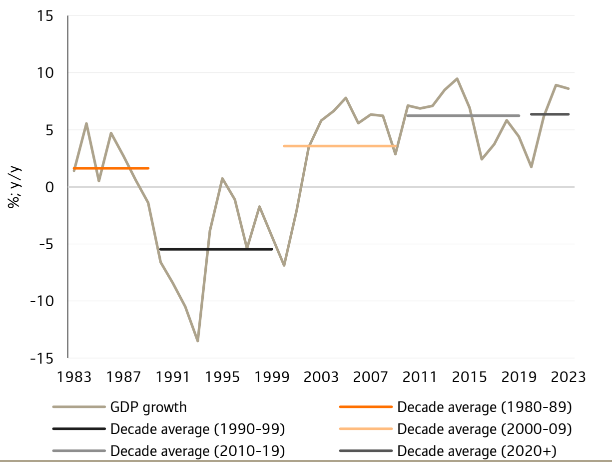
Source: Banque Centrale du Congo; Standard Bank Research

Imports origins (USD bn)



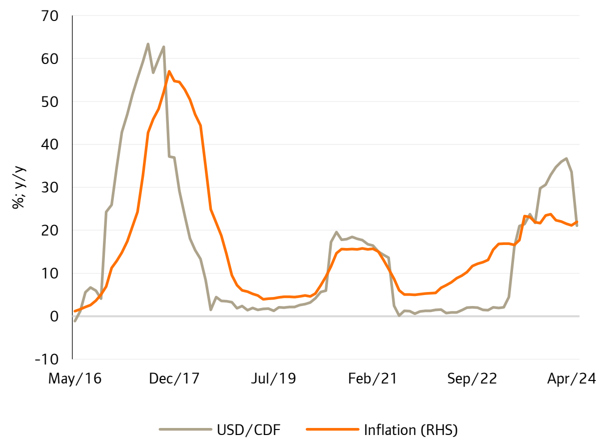
Source: Banque Centrale du Congo; Standard Bank Research

Long-term GDP performance



Source: Banque Centrale du Congo; Standard Bank Research

Annualised FX rate change versus inflation



Source: Banque Centrale du Congo; Institut National de la Statistique; Standard Bank Research

Balance of payments: exports growth continues

We forecast the current account (C/A) deficit easing to USD2bn in 2024, or 2.9% of GDP, and to USD1.1bn in 2025, or 1.5% of GDP, from an estimated USD3.4bn in 2023, or 4.8% of GDP. This would reflect mainly copper production continuing to grow at double digits as well as DRC's export commodities prices remaining supportive.

Accounting for over 70% of DRC's export revenue, copper production has been growing at double digits since 2018, reflecting output growth at various mines, including a production ramp-up at the Kamoa-Kakula mining complex. After growing 18.7% y/y in 2023, to 2.8m tonnes, copper production is seen at above 3m tonnes this year and beyond.

This, alongside prospects of positive performance for other DRC export minerals, including cobalt and gold, should see goods and services exports growing by 6.1% y/y in 2024 and 8.9% y/y in 2025, exceeding goods and services imports growth of 1.2% y/y and 5.8% y/y.

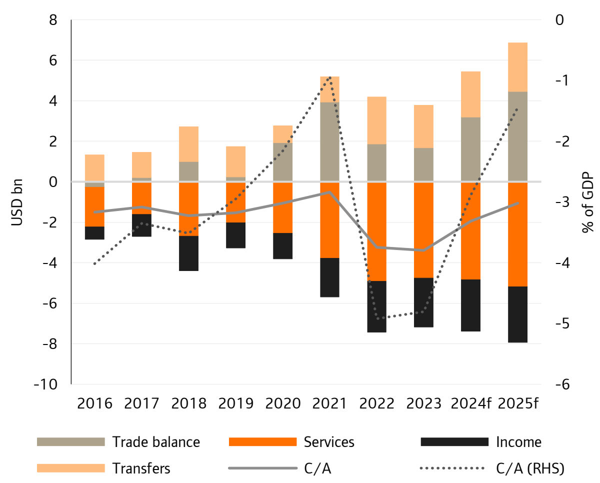
Softer growth in imports in 2024 reflect the impact of a weaker CDF on import demand as well as monetary policy remaining tight. Some containment in government spending too should help to ease imports growth.

FDI is seen at near USD2bn this year and next, mostly targeting the resources sector, which should support this economy.

FX reserves, last reported at USD5.6bn in Apr 24, or 2-m of import cover, rose by 39.9% y/y, supported by disbursements under the IMF program. We see FX reserves closing at around USD5.2bn by Dec 2024, with import cover of 1.9-m.

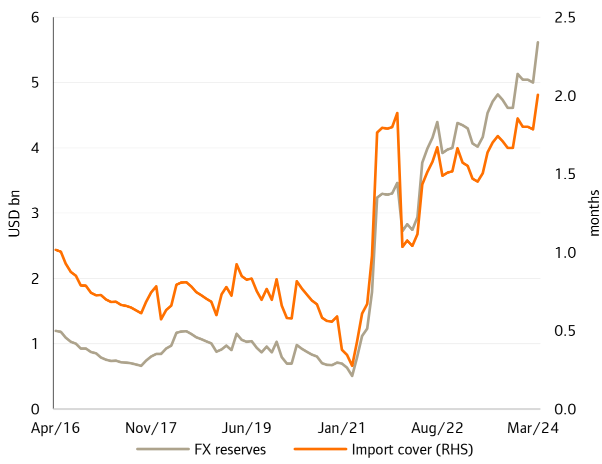
Satisfactory performance under the IMF's USD1.5bn 3-y ECF since Jul 21, now coming to an end, has impelled total disbursements of USD1.3bn, supporting FX reserves. A final disbursement of USD200m is expected following the Jul 24 IMF board meeting.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves



Source: Banque Centrale du Congo; Standard Bank Research

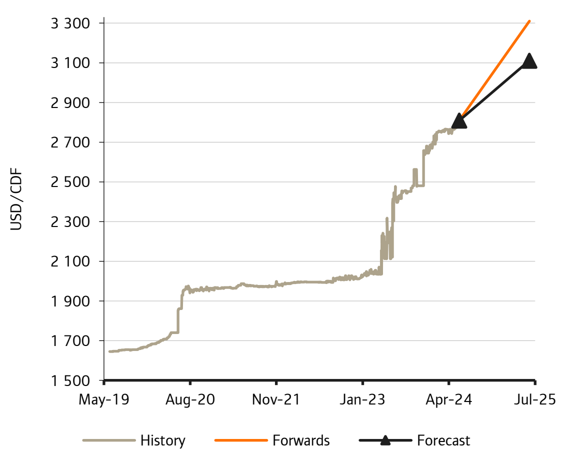
FX outlook: depreciating bias for CDF

The Congolese franc has remained flexible, helping to act as an important shock absorber, which ultimately helped to protect FX reserves. We retain our forecast for the USD/CDF pair at 3,019.4 by end 2024, per the AMR Jan edition. This would represent a CDF depreciation of 11.3% y/y.

Continued positive export performance, alongside imports growing at a softer pace, may see the pace of the Congolese franc depreciation easing to 5.8% y/y in 2025, which supports our view of inflation softening.

Government expenditure overruns caused excess local currency liquidity as well as FX rate pressures. Higher security spending as well as elections-related import demand since end 2022 caused intermittently poor FX liquidity, which saw the CDF depreciating by 24.8% y/y in 2023, closing at 2,679.6 to the USD.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: policy rate cuts in 2025

BCC is seen keeping the policy rate on hold at its current 25% for the remainder of 2024 to help subdue inflation.

Inflation, last reported at 22% y/y in May, peaked at 23.8% y/y in Dec 23 and is seen easing to 16.9% y/y by this Dec. Nevertheless, the risks to the outlook remain elevated due to fuel subsidy reform as well as climate events inflating food prices.

Should inflation decline in line with our forecasts, to 16.9% y/y by Dec, we'd foresee an easing cycle of monetary policy starting early next year, with cumulative policy rate cuts of 1000 bps in 2025.

Inflation rising in 2023 reflected mainly the impact of the Congolese franc depreciation on imported inflation, progress on fuel subsidy reform, and a spike in demand fuelled by higher government expenditure, lifting credit growth and money supply.

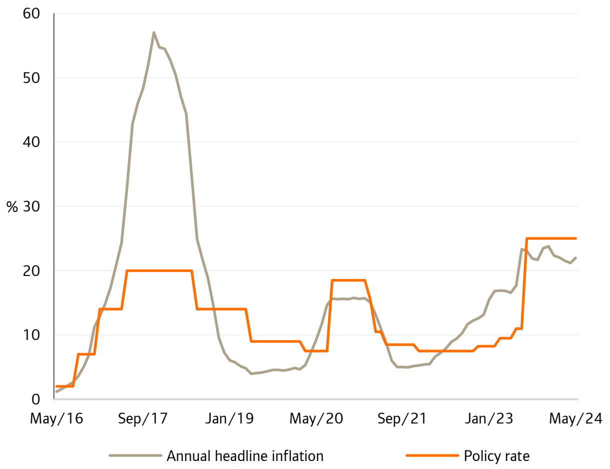
Between Mar 23 and Aug 23, the BCC MPC had hiked the policy rate by 1,675 bps, to 25%, to help fight inflation and support the CDF. This has seen real policy rate kept positive since Aug 23.

However, high level of dollarization (over 90% of deposits are held in foreign currency, with over 96% of loans granted in foreign currency), and lack of financial and capital markets development, conspires to make the interest rate transmission mechanism weak.

Monetary policy tightening in 2023 saw cash reserves ratio (CRR) for local currency deposits (LCY) set at 10% at the Jun 23 MPC, from 0%, with foreign currency (FCY) CRR kept unchanged, at 13% for current deposits and at 12% for term deposits.

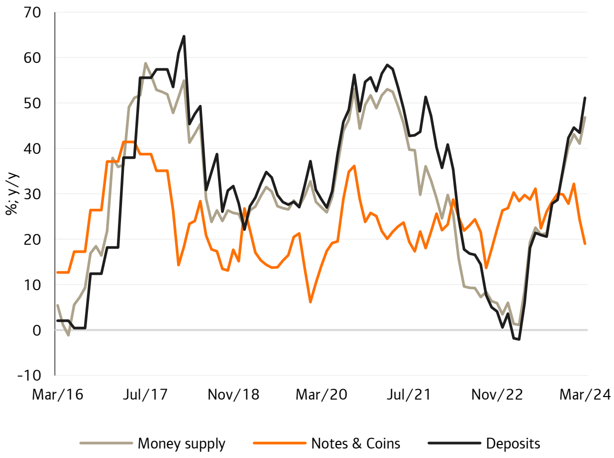
Despite monetary policy tightening, money supply is still growing fast, at 46.8% y/y in Mar, reflecting strong growth in FCY deposits. Growth in currency in circulation eased to 19% y/y in Mar, from a peak of 32.2% y/y in Jan. LCY deposits contracted by -20.6% y/y in Mar, from a peak growth of 84.9% y/y in May 23. FCY deposits still grew fast in Mar, at 21.7% y/y, on strong private sector FCY credit growth, at 42.7% y/y to USD6.9bn.

Inflation and interest rates



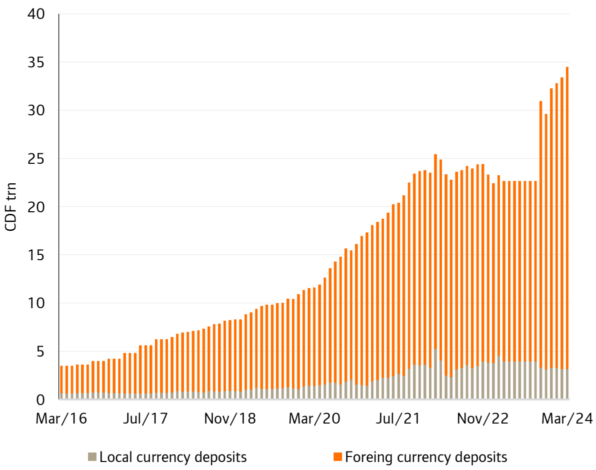
Source: Banque Central du Congo; Institut National de la Statistique; Standard Bank Research

Money supply growth



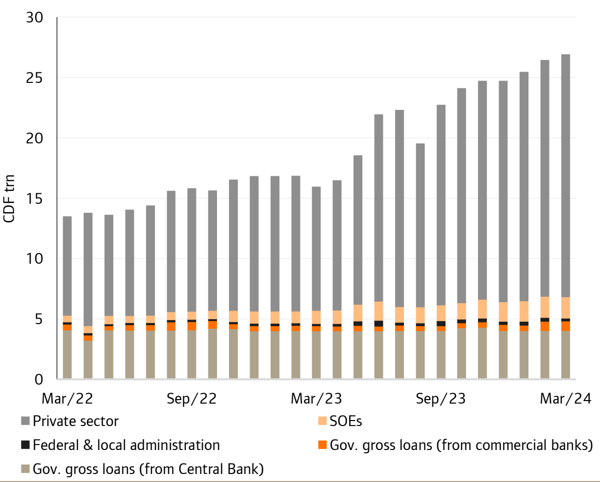
Source: Banque Centrale du Congo; Standard Bank Research

Deposits



Source: Banque Centrale du Congo; Standard Bank Research

Domestic borrowing



Source: Banque Centrale du Congo; Standard Bank Research

Fiscal policy: expenditure containment required

Per the 8 May staff level agreement (SLA) with the IMF under the 3-y ECF, which is coming to an end after the Jul board meeting, DRC will be targeting some expenditure containment measures and set a medium-term fiscal path consistent with the macroeconomic stability goals of currency stability and a return to a single-digit inflation.

We anticipate DRC to seek another program with the IMF, and to access further funding under the Resilience and Sustainability Trust (RST) window.

Performance under the IMF programme has remained broadly satisfactory, with most of ECF quantitative targets met, but with the fiscal deficit target missed mainly due to higher-than-expected exceptional security expenditure.

Most likely, this implies that a supplementary budget for 2024 (12-m ending Dec 24) will be proposed by the government to be tabled for parliament approval.

The FY2024 original budget foresees the central government deficit (including grants) easing by 23.4% y/y, to CDF3.629tn, or 1.9% of GDP, after a planned increase of 104.7% y/y, to CDF4.735tn, or 2.9% of GDP in 2023, a general elections year.

The recent SLA with the IMF states that structural reforms have been progressing at a slower pace than anticipated.

Clearly, faster reform progress is required to help strengthen fiscal management, improve revenue collection, fight corruption, and support compliance measures regarding anti-money laundering initiatives and the fight against terrorism financing – critical in seeing DRC exiting the Financial Action Task Force grey list.

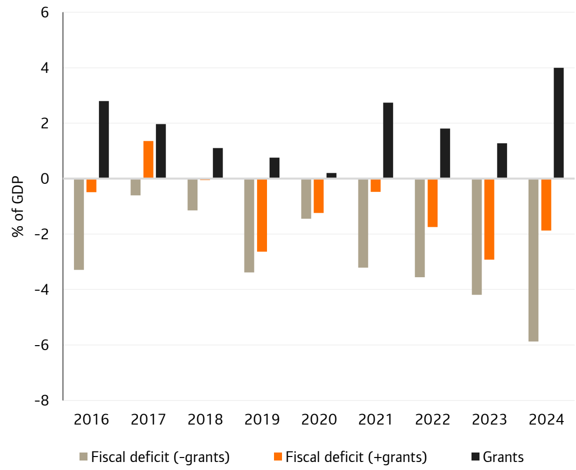
The 2024 budget flags no material changes in overall government debt (which should remain below 25% of GDP). Clearing domestic arrears, estimated at 7.7% of GDP in 2023, is being targeted.

Central government finances

% of GDP	2021	2022	2023	2024
Total central govt. revenue	9.5	12.6	15.2	14.3
Total central govt. expenditure	12.7	16.1	19.4	20.2
- Recurrent	8.2	9.5	11.2	9.2
- Interest	0.2	0.2	0.4	0.1
- Wages	4.8	4.8	4.7	4.4
- Development	3.9	5.5	7.2	9.3
Overall balance (ex. grants)	-3.2	-3.6	-4.2	-5.9
Overall balance (incl. grants)	-0.5	-1.8	-2.9	-1.9
Net domestic borrowing (saving)	0.0	-0.2	0.0	-0.1
Net external borrowing (saving)	0.5	2.0	2.9	1.9
Grants	2.7	1.8	1.3	4.0
Balancing figures	0.0	0.0	0.0	0.0

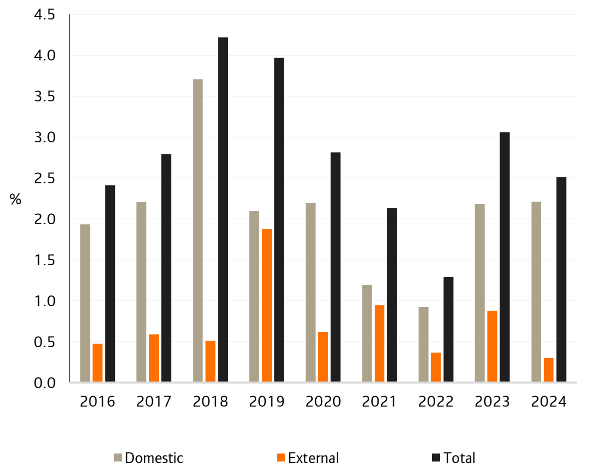
Source: Ministère du budget; Standard Bank Research

Fiscal deficits



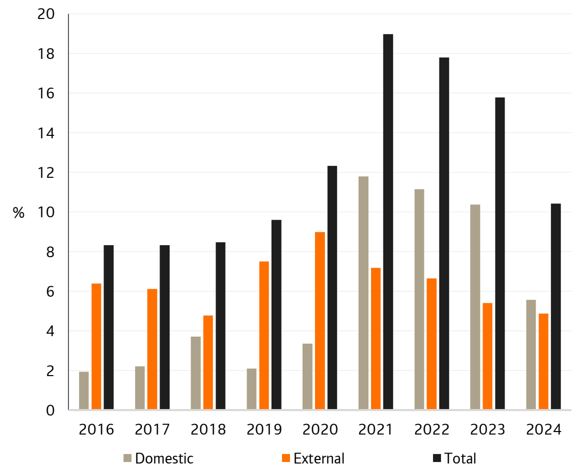
Source: Ministére du Budget; Standard Bank Research

Interest-to-revenue



Source: Ministére du Budget; Standard Bank Research

Debt service-to-revenue



Source: Ministére du Budget; Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	89.9	92.9	95.9	99.0	102.3	105.6	109.1
Nominal GDP (CDF bn)	85,314.2	90,181.1	110,122.6	132,063.7	162,254.0	193,473.1	229,120.5
Nominal GDP (USD bn)	51.8	48.7	55.4	65.8	70.5	67.6	73.4
GDP / capita (USD)	576.2	524.5	577.7	664.6	689.4	640.4	673.3
Real GDP growth (%)	4.4	1.7	6.2	8.9	8.6	5.9	6.8
Crude oil ('000 barrels)	8,161.7	8,736.5	8,577.7	8,316.9	8,430.4	7,521.4	7,856.0
Copper ('000 tonnes)	1,420.4	1,601.2	1,802.9	2,394.6	2,842.0	3,130.4	3,464.4
Cobalt ('000 tonnes)	78.0	86.6	93.1	115.4	139.8	262.5	281.4
Gold (Kg)	31,586.0	31,501.0	31,663.0	28,308.0	34,526.0	34,024.5	35,114.6
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.4	-1.4	-3.2	-3.6	-4.2	-5.9	-3.2
Budget balance (incl. Grants) / GDP (%)	-2.6	-1.2	-0.5	-1.8	-2.9	-1.9	-2.4
Domestic debt / GDP (%)	6.3	7.9	9.4	6.1	6.8	6.7	6.5
External debt / GDP (%)	14.1	15.2	15.9	15.0	15.9	18.3	17.8
Balance of Payments							
Exports (USD bn)	13.2	13.8	22.2	28.6	30.1	32.0	34.8
Imports (USD bn)	-15.0	-14.4	-22.0	-31.6	-33.2	-33.6	-35.6
Trade balance (USD bn)	-1.8	-0.6	0.2	-3.0	-3.1	-1.6	-0.7
Current account (USD bn)	-1.5	-1.1	-0.5	-3.2	-3.4	-2.0	-1.1
- % of GDP	-3.0	-2.2	-0.9	-4.9	-4.8	-2.9	-1.5
Financial account (USD bn)	-1.1	0.4	-0.5	-2.0	-2.3	-0.8	0.1
- FDI (USD bn)	-1.4	-1.5	-1.7	-1.4	-1.5	-1.9	-2.1
Basic balance / GDP (%)	-5.1	-1.4	-1.8	-7.9	-8.1	-4.1	-1.3
FX reserves (USD bn) pe	1.0	0.7	3.5	4.4	5.1	5.2	5.3
- Import cover (months) pe	0.8	0.6	1.9	1.7	1.9	1.9	1.8
Sovereign Credit Rating							
S&P	B-	CCC+	CCC+	CCC+	B-	B-	B-
Moody's	B3	Caa1	Caa1	B3	B3	B3	B3
Fitch	CCC	CCC	CCC	CCC+	CCC+	CCC+	CCC+
Monetary & Financial Indicators							
Headline inflation (%) pa	4.3	11.4	9.0	9.3	19.9	19.2	14.9
Headline inflation (%) pe	3.9	15.8	5.3	13.1	23.8	16.9	12.7
Money supply (% y/y) pa	27.8	39.1	42.3	12.9	19.4	31.6	22.7
Money supply (% y/y) pe	29.5	51.7	29.0	3.5	40.4	26.3	22.7
Policy bank rate (%) pa	10.67	12.33	11.00	7.63	16.00	25.00	17.08
Policy bank rate (%) pe	9.00	18.50	7.50	8.25	25.00	25.00	15.00
USD/CDF pa	1,647.0	1,851.8	1,987.8	2,007.0	2,301.5	2,860.2	3,119.7
USD/CDF pe	1,667.6	1,963.0	1,987.8	2,016.0	2,679.6	3,019.7	3,205.9

Source: Banque Centrale du Congo; Bloomberg; International Monetary Fund; Institut National de la Statistique; Ministère du Budget; Ministère des Finances; Standard Bank Research

Notes: pa - period average; pe - period end; na - not available; nr – not rated

Egypt: turning a corner but regional conflict risks persist

Medium-term outlook: improving

We lower our GDP growth outlook for FY2023/24 to 3.2% y/y, from 3.5% y/y, and for FY2024/25 to 4.3% y/y, from 4.4% y/y.

The ongoing regional conflict poses notable downside risks to our growth forecasts. The attacks on merchant vessels in the Red Sea have continued to disrupt commercial cargoes headed towards the Suez Canal. Were this to continue, it would further diminish output in Egypt's transport sub-sector over the coming year.

Growth in the industrial sector will also likely remain subdued owing to reduced imports of gas from Israel because of the ongoing conflict. Therefore, Egypt's power outages may persist. Natural gas accounts for around 60% of Egypt's electricity mix.

However, this may be somewhat counterbalanced by the significant improvement in USD liquidity following the latest EGP devaluation in March 24. Further, the improvement in foreign exchange availability should bode well for Egypt's manufacturing and agro-processing sectors.

Indeed, the improvement in USD liquidity has reduced the goods backlog at the port. This should spur activity in the wholesale and retail trade sub-sector over the coming year.

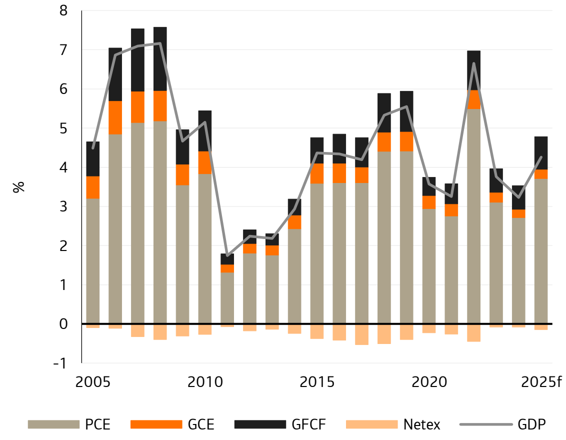
The notable increase in external funding from the IMF, World Bank and the Gulf Cooperation Council (GCC) in H1:24 should boost public investment in a broad range of sectors – such as infrastructure, tourism, healthcare, and education.

However, following the recent augmentation of the IMF programme in H1:24, the government is expected to scale back on infrastructure spending to preserve debt sustainability, particularly for projects that fall outside the domain of general budget support.

Pertinently, the improvement in USD liquidity, assisted by the devaluation of the EGP, which emboldened a restoration of foreign portfolio investment, should see inflation softening further over the coming year. Thus, private consumption may also pick up. However, the partial removal of fuel and bread subsidies may restrain domestic demand.

The increase in GCC funding, towards projects such as the USD35.0bn Ras el-Hekma deal, will inevitably spur FDI and economic growth over the medium term. Furthermore, the Egyptian government is looking for new investment from GCC partners in the Ras al-Ghamila area.

GDP by expenditure



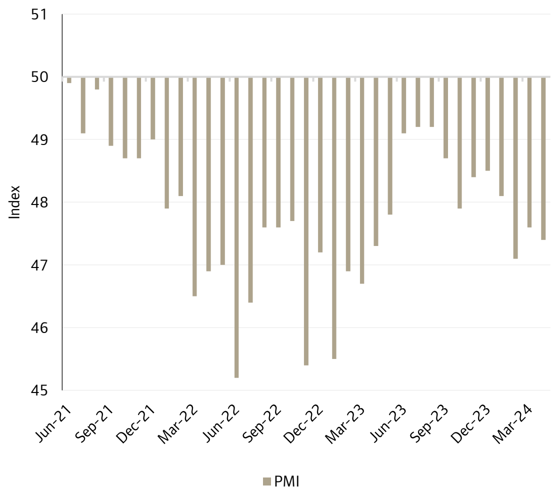
Source: Ministry of Planning; Standard Bank Research

Contribution to GDP by sector

% of GDP	FY2008/09	FY2010/11	FY2021/22	FY2022/23
Agriculture	13.6	14.5	11.5	13.0
Petroleum	6.2	6.2	3.4	3.8
Natural gas	8.3	8.3	2.8	2.4
Manufacturing	16.6	16.5	16.8	14.7
- Petroleum refinement	1	1.1	3.5	3.0
Construction	4.4	4.6	7.6	9.3
Transport	4.1	4.1	5.2	4.8
Wholesale and retail trade	11.4	11.5	14	14.5
Financial intermediation	3.6	3.4	3.4	3.4
Real estate	2.7	2.6	10.9	9.4
General government	9.9	10.2	6.6	5.4

Source: Ministry of Planning

Egypt PMI



Source: Bloomberg

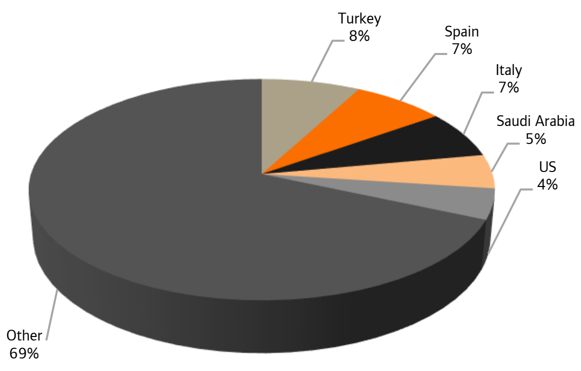
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	3.3	4.7	4.4	4.8	4.2	3.6	3.8	3.7	3.8	3.7	3.6	3.6	3.8	4.0	4.0	4.0
CPI (% y/y) pe	33.37	26.79	23.24	21.58	10.49	10.89	11.66	13.03	10.78	10.46	8.94	6.76	6.59	6.45	6.28	6.13
CBE prime lending rate (%) pe	28.25	28.25	28.25	27.25	22.75	20.00	18.25	18.25	17.25	17.25	16.50	16.50	14.00	14.00	14.00	14.00
3-m rate (%) pe	25.75	25.80	23.40	23.50	21.39	21.30	19.92	19.02	17.15	16.40	15.23	14.48	13.18	13.59	12.71	12.14
6-m rate (%) pe	26.00	25.70	23.30	24.50	24.09	22.70	20.84	19.82	18.10	17.06	16.34	15.47	15.21	14.42	13.86	13.19
USD/EGP pe	47.21	47.50	46.50	47.12	47.85	48.71	49.45	50.63	52.46	53.30	54.15	54.76	56.10	57.20	58.31	59.41

Source: Central Bank of Egypt; Central Agency for Public Mobilisation and Statistics; Bloomberg; Ministry of Finance; Standard Bank Research

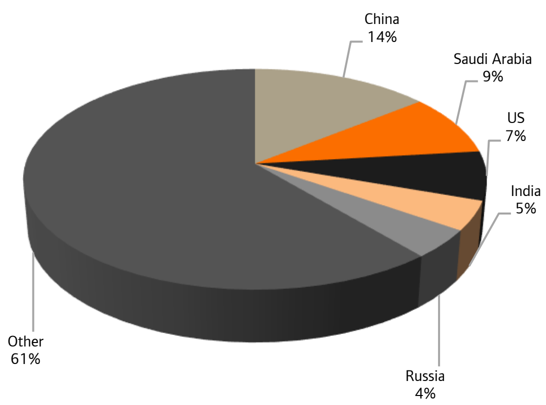
Notes: pa - period average; pe - period end

Share in Egypt's exports (%)



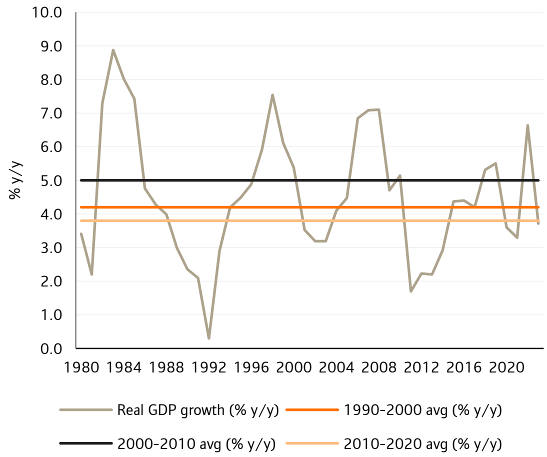
Source: ITC

Share in Egypt's imports (%)



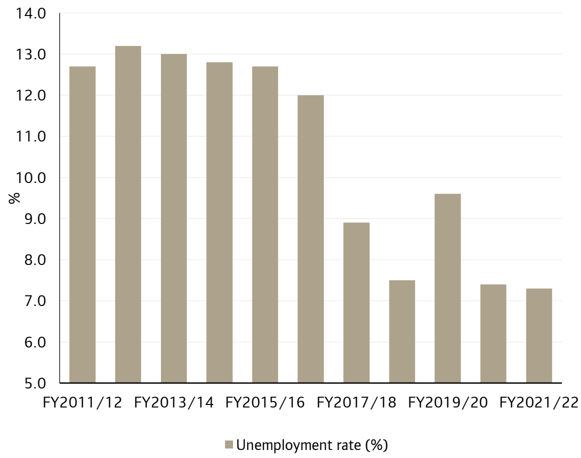
Source: ITC

Long-term GDP performance



Source: World Bank

Unemployment rate (%)



Source: Ministry of Finance

Balance of payments: sufficient funding for wider deficit

We now increase our C/A deficit forecast for 2024 to 3.3% of GDP, from 1.0% of GDP previously. The C/A deficit will likely widen further, to 4.9% of GDP in 2025. However, adequate funding sources via the capital and financial account should underpin the funding of such expected wider deficits.

Net international reserves recovered to USD46.1bn in May 24, from USD40.3bn in March 24 and USD35.2bn in January 24. This has largely been due to an increase in foreign portfolio investment into EGP T-bills as well as augmented funding under the current IMF programme. The IMF programme was augmented by USD5.0bn, raising the total size of the programme to USD8.0bn. Further, the World Bank is expected to extend USD6.0bn to Egypt over the next 3-y.

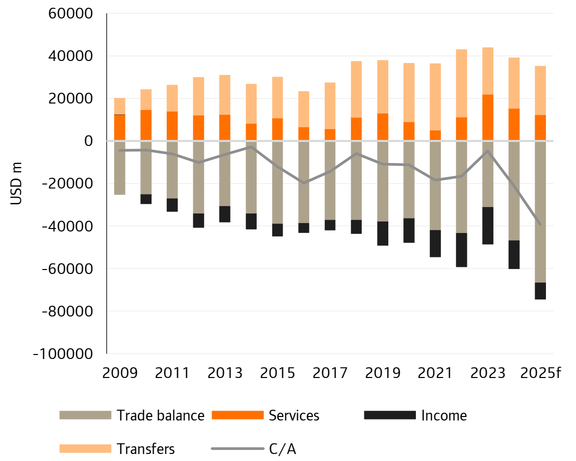
Following the improvement in USD liquidity and with real EGP yields likely to improve further, foreign portfolio inflows may remain robust over the coming year.

Further, the USD35.0bn Ras El Hekma deal with the Abu Dhabi Developments Holding Company (ADQ) has supported FX reserve accretion, with USD24.0bn of these funds comprising new money.

Ample USD liquidity should further underpin net current transfers via increased diaspora remittances, which had been declining over the last few years because of limited FX liquidity.

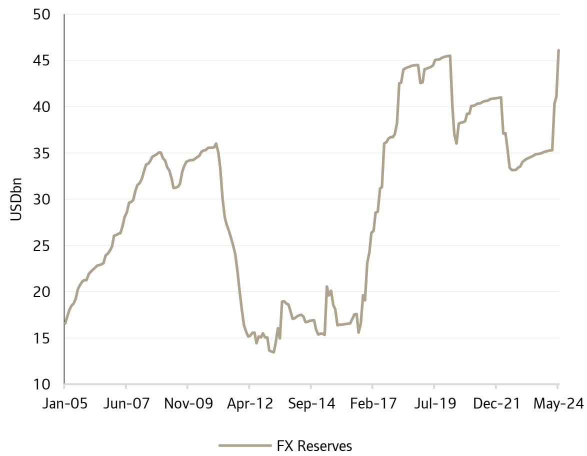
Import demand may also recover due to improving access to FX liquidity, while goods exports may decline due to reduced gas re-exports. The services balance too may decline meaningfully in 2024 primarily due to the ongoing Red Sea shipping challenges, which has dented USD revenue via the Suez Canal. That said, despite the factors likely to widen the C/A, there should be ample funding for this.

Current account developments



Source: Central Bank of Egypt; Standard Bank Research

Net FX reserves (USD bn)



Source: Central Bank of Egypt

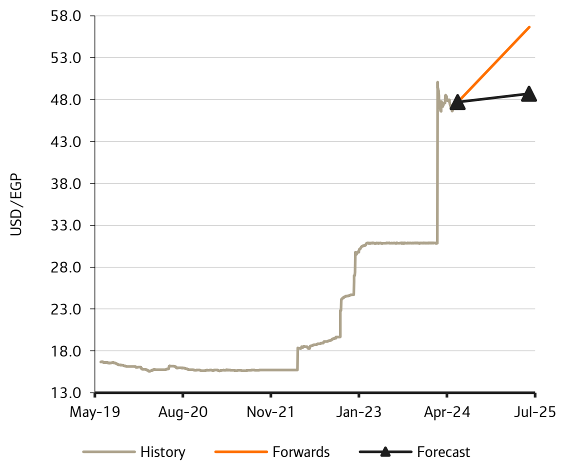
FX outlook: range-bound

We expect USD/EGP to trade within a 46.5-48.7 range for the remainder of 2024 and H1:25. Inflows into the EGP carry trade will probably continue to provide the CBE with the opportunity to build FX reserves further.

However, upside risks to the pair will persist mainly due to the ongoing regional conflict dampening sentiment towards the EGP. Of course, given the material pick-up in offshore investment into EGP T-bills, the EGP will likely also remain susceptible to uncertainties in the global risk environment.

Nevertheless, the massive increase in external support from both multilaterals and bilateral partners may continue underpinning investor confidence in the EGP despite the precarious global risk environment and ongoing regional conflict.

USD/EGP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing likely in Q4:24 or Q1:25

Following the aggressive monetary policy tightening in H1:24 when the key policy rate was raised by a cumulative 800 bps, the MPC now may have room to ease in Q4:24 by 100 bps. However, tightening may then intensify in Q1:25.

Indeed, the aggressive tightening of H1:24 was probably warranted because the premium between the official USD/EGP rate and the parallel market was increasing notably.

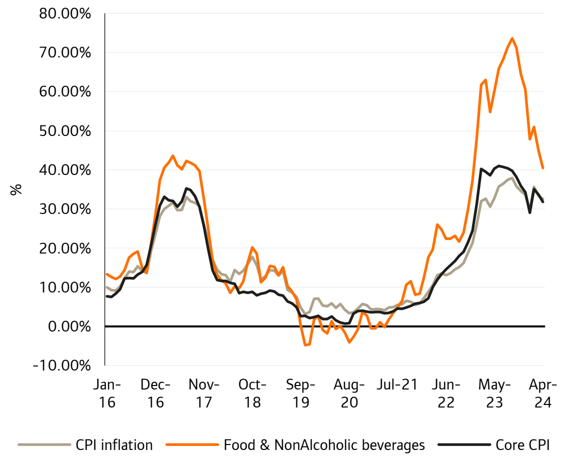
Unsurprisingly, since the EGP devaluation in March 24, which was followed by the 600 -bps increase in the overnight lending rate in that month, the government not only made progress in the current IMF programme but also saw a large uptick in foreign portfolio investment inflows.

Despite the risk of second-round effects resulting in a broad increase in prices from the devaluation of the EGP in March 24, headline inflation declined to 28.2% y/y in May 24, from 33.3% y/y in March 24 and 35.7% y/y in February 24.

However, since most trade transactions were already taking place at the higher USD/EGP parallel market rate prior to the devaluation, the move higher in USD/EGP, closer to the parallel rate, probably had a muted incremental impact on prices. Further, the government has been raising its support under its social protection programme following the EGP devaluation, which may curb upside pressure on headline inflation.

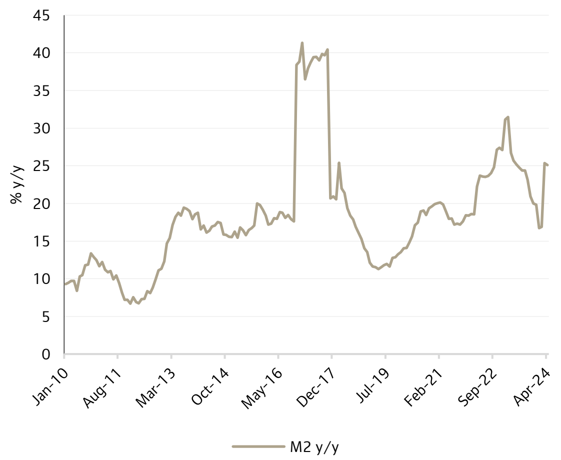
We see headline inflation easing to 23.2% y/y in September 24 and 21.6% y/y December 24 as strong base effects will likely counterbalance the impact of bread subsidies being removed. However, due to fuel subsidies likely being withdrawn by end 2025, a disinflationary trend in 2025 may prove more gradual. We now see headline inflation at 13.0% y/y in December 25, from our previous forecast of 10.5% y/y.

Inflation and interest rates



Source: Central Bank of Egypt

M2 money supply growth



Source: Central Bank of Egypt

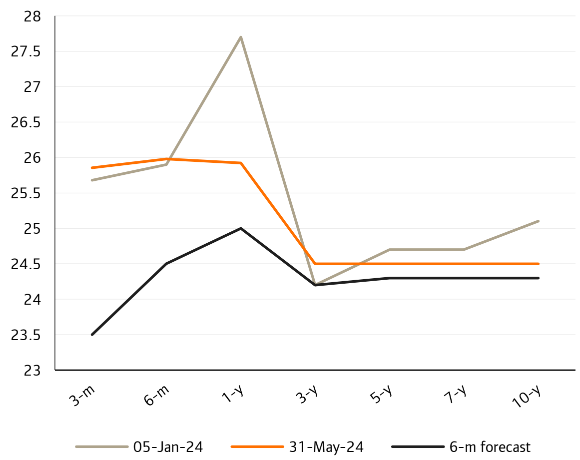
Yield curve outlook: T-bill yields could edge lower over the coming year

Yields at the short end of the curve will likely move lower as the MPC tilts towards an accommodative policy stance in either Q4:24 or Q1:25.

However, even as inflation may soften into December 24, the MPC will probably be cautious about cutting rates if global risk aversion persists amidst concerns about rates remaining higher for longer in advanced economies.

Still, should inflation subside over the next 6-m, investors may begin undercutting each other at T-bill auctions as they pre-empt a looser monetary policy stance. This may then impel a bull-steepening in the yield curve, with T-bill yields falling faster than government bond yields (which remain relatively illiquid in the secondary market).

Changes in the yield curve



Source: Standard Bank Research; Bloomberg

Fiscal policy: improved funding options

Since our Jan AMR edition, Egypt's fiscal funding and external debt repayment concerns have eased significantly.

In addition to an increase in domestic borrowing funding due to higher foreign portfolio investment into EGP T-bills, the large USD35.0bn Ras el Hekma deal has boosted revenue sources for the government.

Furthermore, the government signed a USD8.0bn loan with the European Union (EU) to stem migration flows to Europe – and agreed to a deal with the World Bank for USD6.0bn in funding spread over the next 3-y. This funding from the World Bank will comprise USD3.0bn in direct financial support for the government, with the remainder accounting for private sector programmes.

Further, the government agreed an augmented programme with the IMF, which was increased to a total size of USD8.0bn, from USD3.0bn previously. The government is also pushing ahead with privatisation programmes, with the aim of securing USD1.0bn before end 2024, and a further USD1.5bn in 2025.

The government expects the fiscal deficit to widen to 7.3% of GDP in FY2024/25, from an expected outturn of 4.0% of GDP in FY2023/24. This would be despite the government having scaled back notably on bread subsidy expenditure.

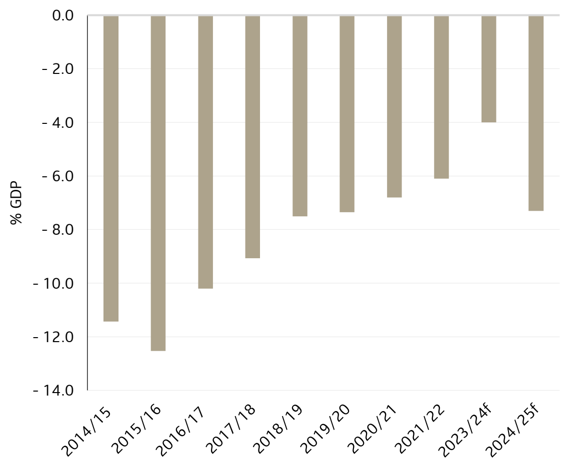
However, since the government received around USD12.0bn as revenue from the Ras el Hekma deal with the ADQ, they don't expect revenue to grow as sharply again in FY2024/25.

Central government budget

% of GDP	FY2022/23	FY2023/24	FY2024/25
Total Revenue	15.4	18.1	15.3
Total Expenditure	21.6	22.1	22.6
Wages and salaries	4.1	4.0	3.4
Interest payments	7.7	9.5	10.8
Subsidies	4.4	4.5	3.7
Cash deficit	-6.2	-4.0	-7.3

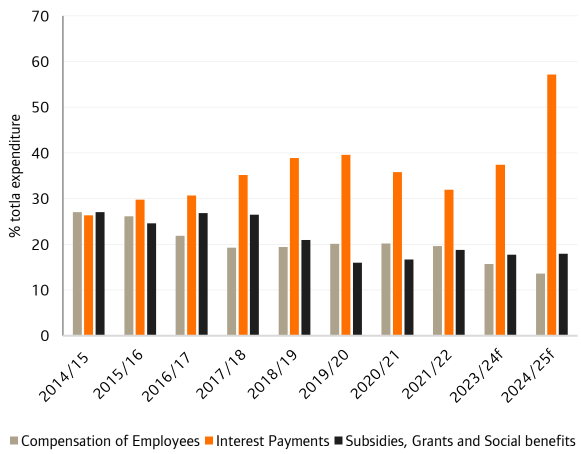
Source: Ministry of Finance

Fiscal deficit including grants (% of GDP)



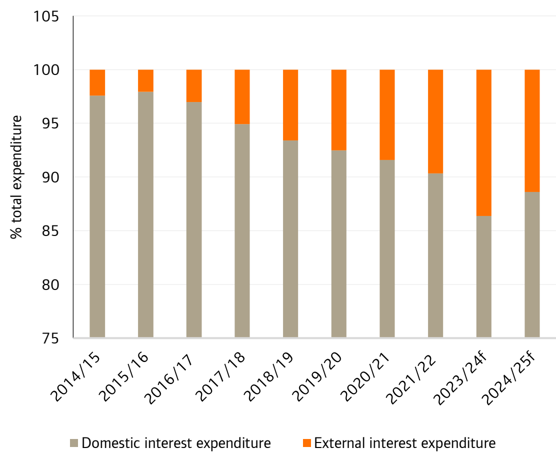
Source: Ministry of Finance

Components of expenditure



Source: Ministry of Finance; IMF

Composition of interest expenditure



Source: Ministry of Finance; IMF

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	98.9	100.6	102.1	103.6	105.7	107.8	109.9
Nominal GDP (EGP bn)	5931.7	6347.8	7226.5	8788.3	11991.1	15650.3	18238.0
Nominal GDP (USD bn)	353.7	402.8	461.9	458.7	391.5	644.0	799.9
GDP / capita (USD)	3576.3	4004.0	4524.2	4427.3	3704.1	5974.5	7278.5
Real GDP growth (%)	5.5	3.6	3.3	6.7	3.8	3.2	4.3
Oil Production ('000 b/d)	622.8	586.9	560.5	567.5	564.25	577.38	601.82
Central Government Operations							
Budget balance (incl. grants) / GDP (%)	-9.5	-7.9	-7.7	-6.1	-6.20	-4.00	-7.30
Budget balance (excl. grants) / GDP (%)	-9.6	-7.9	-7.7	-6.1	-6.20	-4.00	-7.30
Domestic debt / GDP (%)	85.7	83.9	79.6	80.5	83.2	85.6	89.0
External debt / GDP (%)	18.9	18.9	19.6	24.3	25.8	31.5	32.9
Balance Of Payments							
Exports of goods and services (USD bn)	52.9	47.7	44.7	70.8	74.2	68.8	75.9
Imports of goods and services (USD bn)	-77.9	-75.2	-81.6	-103.1	-83.4	-90.5	-94.3
Trade balance (USD bn)	-25.0	-27.5	-36.9	-32.2	-9.23	-21.73	-18.43
Current account (USD bn)	-10.89	-11.17	-18.44	-16.55	-4.71	-21.1	-39.3
- % of GDP	-3.08	-2.77	-3.99	-3.61	-1.20	-3.3	-4.9
Capital & Financial account (USD bn)	10.9	5.4	23.4	11.8	8.9	24.5	22.1
- FDI (USD bn)	8.236	7.453	5.214	8.937	10.04	13.4	11.3
Basic balance / GDP (%)	0.0	-1.4	1.1	-1.0	1.1	0.5	-2.1
FX reserves (USD bn) pe	45	40	41	34	35.2	50.2	55.6
- Import cover (months) pe	7.0	6.4	6.0	4.0	5.1	6.7	7.1
Sovereign Credit Rating							
S&P	B	B+	B+	B	B-	B-	B
Moody's	B2	B2	B2	B2	Caa1	Caa1	B3
Fitch	B+	B+	B+	B+	B-	B-	B
Monetary & Financial Indicators							
Consumer inflation (%, y/y) pa	9.2	5.1	5.2	13.9	33.8	27.3	12.3
Consumer inflation (%, y/y) pe	2.2	2.2	8.7	12.4	33.6	21.6	13.0
M2 money supply (%, y/y) pa	12.2	17.4	17.1	23.7	24.8	24.7	19.5
M2 money supply (%, y/y) pe	13.3	19.7	18.3	27.1	19.9	26.9	18.9
CBE overnight lending rate (%) pa	15.63	10.00	9.25	12.75	19.25	28.0	19.80
CBE overnight lending rate (%) pe	13.25	9.25	9.25	16.25	20.25	27.25	18.25
3-m rate (%) pe	16.2	12.6	11.6	18.0	25.70	23.50	19.02
1-y rate (%) pe	16.3	12.7	13.2	18.8	27.60	25.00	20.20
5-y rate (%) pe	14.7	14.1	14.3	18.2	23.50	24.30	22.80
USD/EGP pa	16.7	15.8	15.7	19.7	30.78	44.47	48.46
USD/EGP pe	16.1	15.7	15.7	24.7	30.89	47.12	50.63

Source: Central Bank of Egypt; Central Agency for Public Mobilisation and Statistics; Bloomberg; Ministry of Finance; Standard Bank Research

Notes: pa - period average; pe - period end

Ethiopia: outlook hinges on attaining an IMF programme

Medium-term outlook: ongoing reforms

We maintain our GDP growth forecasts at 6.2% y/y and 6.7% y/y for FY2024 and FY2025 respectively. The Council of Ministers is proposing a budget of around ETB971.2bn for FY2024/25, an increase of about 21% over the FY2023/24 budget. Such an expansionary budget might encourage growth, though it might do so at the medium-term expense of macroeconomic stability. Recall that over the past 10 or so years, significant macroeconomic imbalances in Ethiopia have been brought about by large-scale public investment. These imbalances include high inflation, persistent foreign exchange shortages, and debt vulnerability.

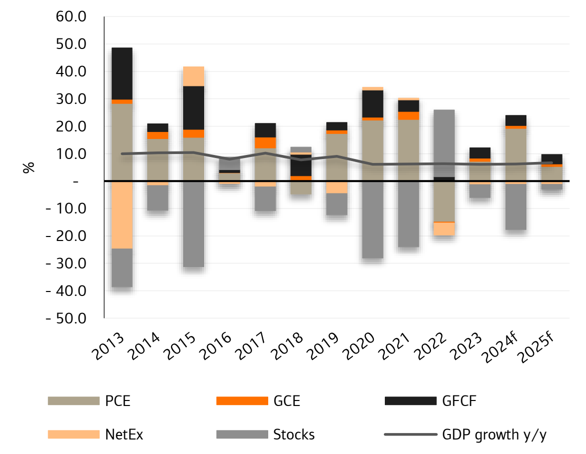
However, should the authorities and the IMF come to an agreement, the conditions of an IMF programme may impose fiscal austerity, along with a cap on fiscal deficit monetisation, which should then reduce government resources. As a result, private consumption is expected to remain the main driver of economic activity. But then, due to projected tighter monetary policy, even while relatively low inflation would assist disposable income, the pace at which private demand would support GDP in FY2024–2025 may be constrained.

Ongoing reforms may contribute to GDP growth in the medium term. The government's drive for privatization and liberalisation is still ongoing. Although there are still certain limitations, a new directive has been enacted that permits foreign investors to engage in the, previously restricted, wholesale, retail, import and export trade sectors. This directive is expected to facilitate exports and enhance competitiveness and economies of scale by providing foreign investors with access to markets for coffee, oilseeds, qat, pulses, forestry products, hides and skins, poultry, and livestock.

All imports, bar that for petroleum and strategic fertiliser sectors, are open to foreign participation. We anticipate that the government will continue pushing ahead with reforms aimed at privatisation and economic liberalisation, which should result in an increase in foreign direct investment inflows. In fact, in the first 10-m of FY2023/24, Ethiopia attracted USD3.0bn in foreign direct investment, according to the Ethiopian Investment Commission.

Monetary policy, in contrast to fiscal policy, is likely to remain constrained to the expansion of the private sector. Given limited domestic savings and stringent government rules, some sectors would therefore have to rely heavily on foreign investment. To keep inflation under control, the government has capped commercial bank lending growth at 14% y/y, compared to average growth of 24-29% in the previous 5-y. According to the most recently available data, the investment-to-GDP ratio stood at 25.3%, while the domestic-savings-to-GDP ratio was approximately 15.3% of GDP.

Composition of GDP by demand



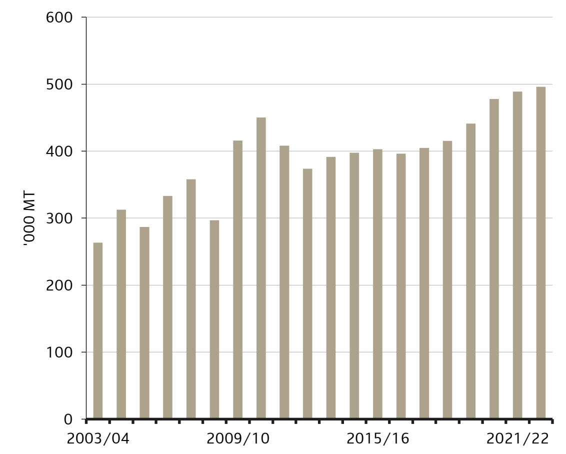
Source: National Bank of Ethiopia; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010/11	2016/17	2020/21	2021/22
Agriculture, hunting, fishing, and forestry	44.60	36.30	32.50	31.98
Mining and quarrying	1.40	0.20	0.50	0.51
Manufacturing	4.00	6.40	6.80	6.67
Electricity and Water	1.00	0.70	0.80	0.77
Construction	4.00	16.40	20.90	20.58
Wholesale and retail trade	14.50	13.80	14.30	14.38
Hotels and restaurants	3.60	2.70	2.40	2.41
Transport and communication	4.20	5.20	5.30	5.45
Real Estate, Renting and Business activities	9.30	4.50	4.50	4.54
Public admin and defence	5.40	4.50	4.20	4.11

Source: National Bank of Ethiopia

Coffee production



Source: National Bank of Ethiopia

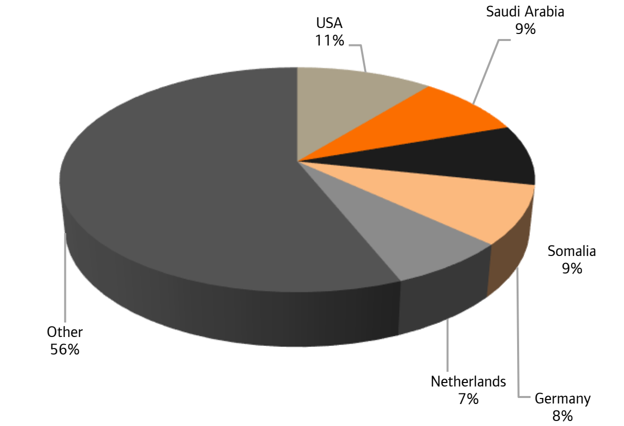
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	6.20	6.20	6.70	6.70	6.70	6.70	7.70	7.70	7.70	7.70	7.90	7.90	7.90	7.90	8.20	8.20
CPI (% y/y) pe	26.20	23.09	20.76	18.23	16.76	20.20	20.16	19.33	19.52	19.75	20.01	20.30	20.77	21.04	21.40	21.73
Policy rate (%) pe	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
3-m rate (%) pe	11.24	11.44	11.64	11.84	12.04	12.24	12.44	12.64	12.84	13.04	13.24	13.44	13.64	13.84	14.04	14.24
6-m rate (%) pe	10.58	11.90	10.98	12.30	11.38	12.70	11.78	13.10	12.18	13.50	12.58	13.90	12.98	14.30	13.38	14.70
USD/ETB pe	56.9	57.7	59.2	73.1	75.1	77.4	79.6	85.8	87.94	90.29	92.62	99.14	101.9	104.9	107.9	116.4

Source: National Bank of Ethiopia; Central Statistics Agency; Standard Bank Research; Bloomberg

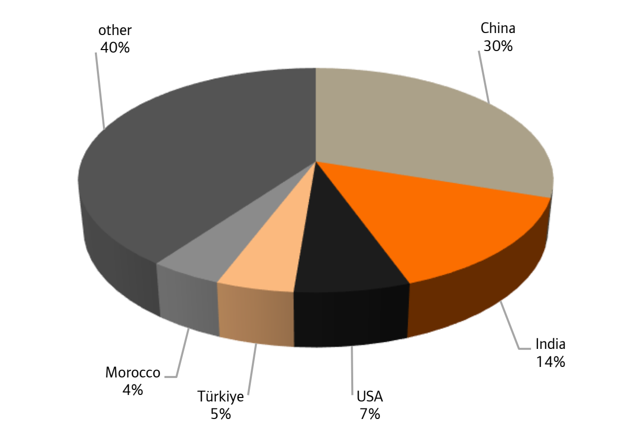
Notes: pa - period average; pe - period end

Share in Ethiopia's exports (%)



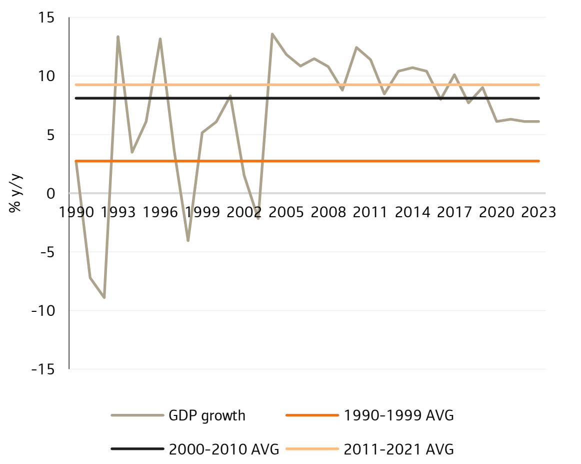
Source: ITC

Share in Ethiopia's imports (%)



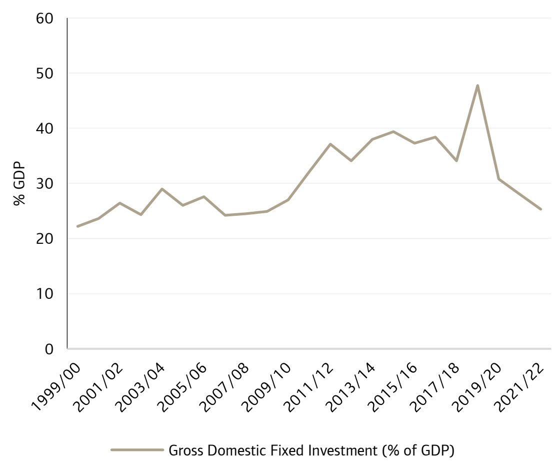
Source: ITC

Long-term GDP performance



Source: National Bank of Ethiopia

Domestic fixed investment



Source: National Bank of Ethiopia

Balance of payments: risks emanating from potentially large fiscal budget

We still foresee the C/A deficit narrowing to 2.2% and 1.3% of GDP in FY2024 and FY2025 respectively. Yet, there is some chance of import demand staying high due to the intention to raise the budget to ETB971.2bn with around ETB283.2bn, or 29% of the total budget, set aside for capital expenditure.

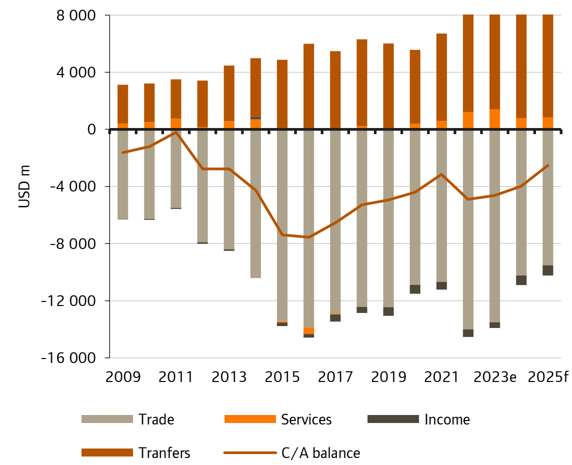
Besides the expected narrowing of the C/A, external and the C/A deficit gaps will likely remain substantial (imports remain twice as much as exports). Admittedly, while we do not mean to imply that the large C/A deficit will remain unsustainable and have negative effects, should it fuel consumption, rather than productive investment, it would coincide with excessive growth in domestic credit and/or be associated with unrestrained fiscal deficits, followed by increased overvaluation of the exchange rate.

As usual, FDI is expected to fund the substantial C/A, but it probably won't be sufficient. Therefore, the BOP problem would worsen, were an IMF programme and debt restructuring not be secured. Reportedly, the government is still trying to borrow USD3.5bn from the World Bank and USD3.5bn from the IMF.

Nevertheless, in the medium term, the C/A deficit might still narrow. Remittances would, in fact, also flow through official channels because of currency devaluation, if executed. Remittances are undoubtedly currently moving away from official channels, towards parallel markets, due to the persistent and growing divergence of the exchange rate differential between the official and the parallel markets.

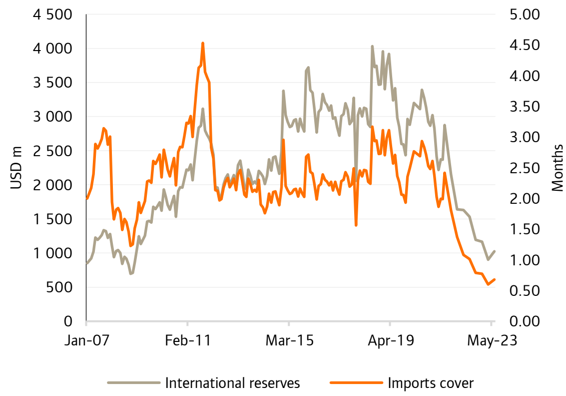
With stronger prospects for agriculture and electricity, we anticipate an improvement in export performance over the medium term. Ethiopia's export potential would also be greatly increased by improving its export infrastructure, especially if shipping across the leased coastline were made possible.

Current account developments



Source: National Bank of Ethiopia; Standard Bank Research

FX reserves



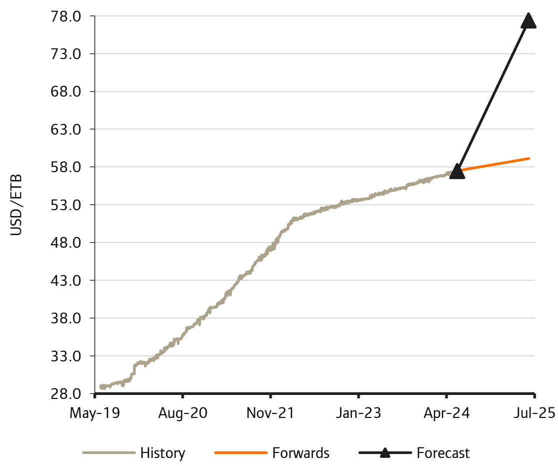
Source: Bloomberg; National Bank of Ethiopia; Standard Bank Research

FX outlook: IMF-sponsored devaluation still likely

The IMF and the Ethiopian government have reportedly already agreed that a devaluation of the birr, on a scale that would close the difference between the official and parallel market exchange rates, is plausible. The execution of this, however, is allegedly being delayed because of concerns about the negative effects that such a devaluation would have, especially as pertaining to the obligations of the Commercial Bank of Ethiopia (CBE).

However, reforms and exchange rate adjustments were always expected to be done carefully when the NBE decided on the roadmap for moving to a market clearing exchange rate regime in 2019–20. This was because rapid depreciation, without improving FX availability, would likely worsen USD shortages and increase inflation. But it is increasingly becoming likely that the upcoming programme, backed by the IMF, may force a larger devaluation than we currently foresee, given that the USD/ETB parallel market rate is reportedly trading above 100.

USD/ETB: forwards versus forecast



Source: Bloomberg; Standard Bank Research

Monetary policy: tightening bias

Declining money supply implies slower inflation as more likely, expected around 18.2% y/y by Dec 24, even though the government is still monetizing the fiscal deficit.

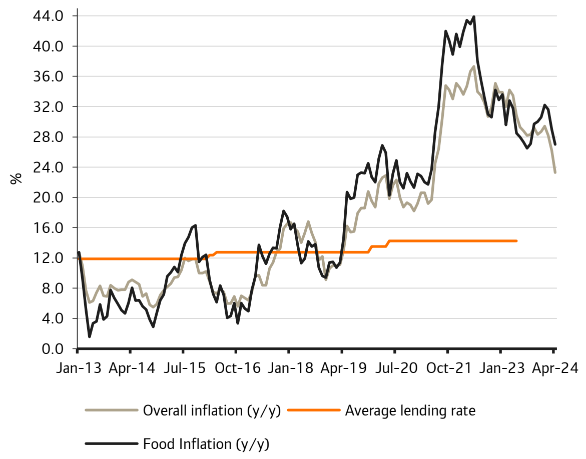
Apart from restricting direct advances to the government, the NBE also established a 14% credit growth restriction. All commercial banks were directed to curtail loan book growth to match this total credit ceiling for the fiscal year that concludes on Jun 24. Direct advances to the government, however, remain the main concern.

The NBE forecasts that inflation will continue to decline, from 23.3% y/y in Apr, to 20% y/y by Jun 24. Although base effects may lead to inflation coming down, there is still a chance that higher inflation may be brought on by monetary growth.

Furthermore, for components that haven't yet adjusted to the parallel market rate, import inflation may occur, as long as there is a significant devaluation of the ETB, as per the conditions of the IMF programme. This may include goods such as pharmaceuticals, liquefied petroleum gas, and inputs for the manufacturing of edible oil—commodities that, in accordance with the NBE regulation, are allocated foreign exchange allocation priorities. A devaluation of the ETB more severe than anticipated, which is possible, poses risks to our inflation forecast.

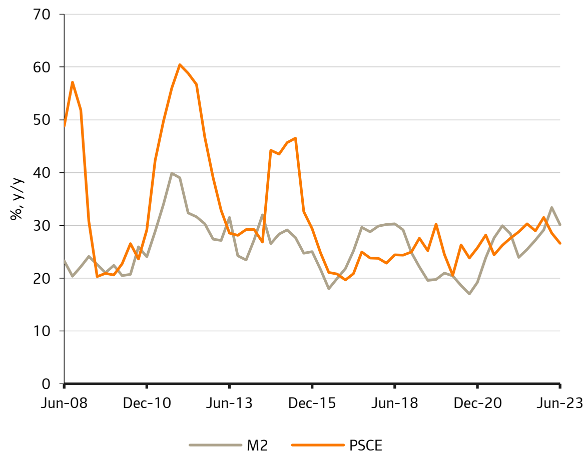
Inflation faces further upside risks, from structural factors, such as cereal output gaps and imported inflation. The drought caused by El Niño is expected to keep food inflation sticky. El Niño has brought widespread drought to Ethiopia's eastern, southern and central regions.

Inflation and interest rates



Source: National Bank of Ethiopia; Central Statistics Agency

Money supply



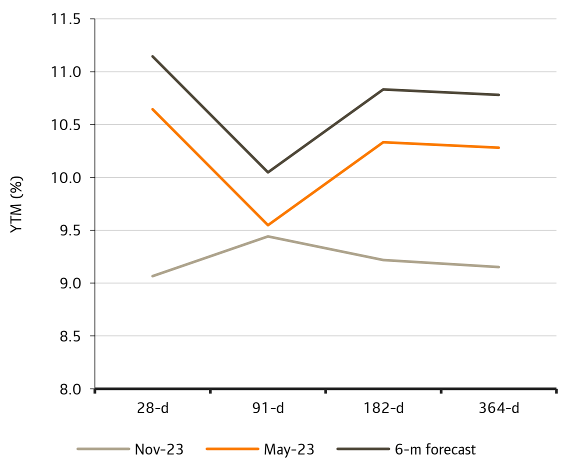
Source: National Bank of Ethiopia

Yield curve outlook: IMF-sponsored increase still likely

ETB yields have been little changed over the past year despite elevated inflation, with real rates still highly negative. Given that the government will need to rely on the domestic market, an upside bias for ETB yields will persist. Indeed, considering that Ethiopia is currently restructuring its external debt, borrowing from external sources is rarely an option—especially if not on concessional terms.

Should an IMF programme not be secured, real rates may remain relatively low. However, should an IMF programme proceed, the IMF may well encourage the government to allow rates to reflect the underlying macroeconomic fundamentals. If so, yields may climb because of tight monetary policy and hefty maturities, with total outstanding T-bills reaching ETB338.5bn. The government foresees a big budget of approximately ETB971.2bn for FY2024/2025.

Change in the yield curve



Source: National Bank of Ethiopia; Standard Bank Research

Fiscal policy: expansionary budget

The government has approved a record national budget for the fiscal year beginning in Jul. However, with Ethiopia suffering high inflation and chronic budgetary constraints, the government may be promising more than it can deliver.

The ETB971.2bn budget represents a 21% increase from the previous one. The issue is sourcing funding for the significant budget deficit. According to reports, regional states, especially newer ones, and some government agencies have expressed concern about executing the FY2023/24 budget, stating that they are unable to carry out some activities because of a lack of funds (fund allotted but not disbursed), with projects, including those awarded to foreign contractors, coming to a halt due to inadequate funds.

Perhaps the government is counting on a portion of the USD3.5bn IMF disbursement to ease the pressure on the budget and foreign exchange reserves, in addition to committing to several tax reforms and measures, including the property tax proclamation and plans to prepare the VAT proclamation.

If implemented, the ETB971.2bn budget would be inconsistent with the plan to reel back inflation. Furthermore, a significant fiscal deficit would put additional strain on foreign exchange reserves, which Ethiopia cannot afford given the sharp drops in reserves over the last 3-y. The decline in FX reserves has stalled inputs for imports.

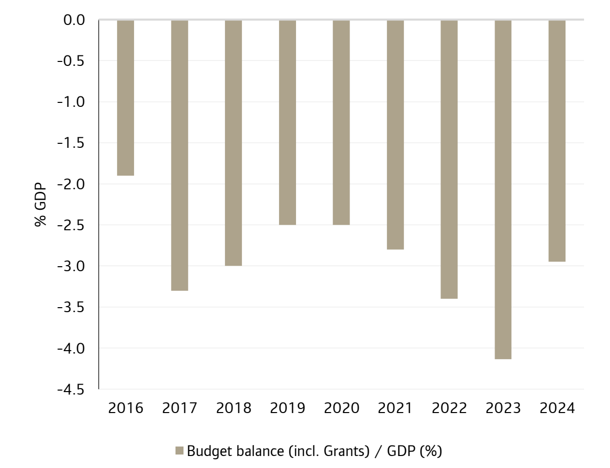
It appears likely that the government will look to the NBE and banking sector to make up for the deficit. However, sustaining this course of action would only further fuel inflation and ETB overvaluation.

Central government budget

% of GDP	FY2020/21	FY2021/22	FY2022/23	FY2023/24
total revenue	11.03	9.20	5.22	4.39
tax revenue	10.20	8.80	4.76	4.04
current expenditure	8.38	8.40	4.10	3.39
capital expenditure	5.42	4.26	2.59	1.86
total expenditure	13.80	12.65	9.36	7.34
Deficit incl. grants	-2.77	-3.45	-3.99	-2.95

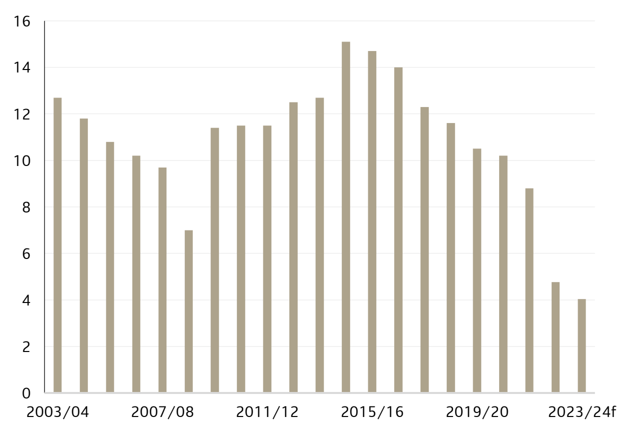
Source: Ministry of Finance

Fiscal deficit (incl. grants/GDP %)



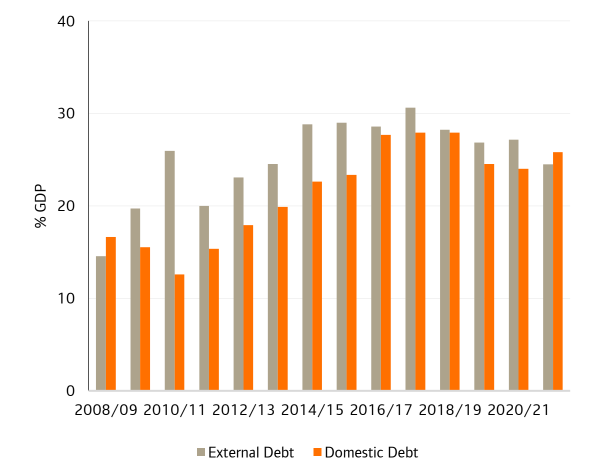
Source: Ministry of Finance

Tax revenue



Source: Ministry of Finance

Domestic and external debt



Source: Ministry of Finance

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	97.6	99.8	101.9	104.1	106.5	108.9	111.4
Nominal GDP (ETB bn)	2696.2	3374.7	4341.4	6157.5	8722.3	11261.4	14185.8
Nominal GDP (USD bn)	96.0	107.7	111.3	126.8	158.9	178.0	199.4
GDP / capita (USD)	983.1	1080.0	1091.8	1218.0	1492.5	1634.0	1788.9
Real GDP growth (%)	9.0	6.1	6.3	6.1	6.1	6.2	6.7
Coffee production ('000 MT)	415.5	441.0	457.3	474.2	491.8	510.0	528.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.80	-3.70	-3.60	-3.90	-3.99	-2.9	n/a
Budget balance (incl. Grants) / GDP (%)	-2.50	-2.50	-2.77	-3.45	-3.99	-2.9	n/a
Domestic debt / GDP (%)	27.93	24.52	24.00	22.00	20.00	16.4	n/a
External debt / GDP (%)	28.23	26.84	27.16	22.00	17.90	14.80	n/a
Balance of payments							
Exports (USD bn)	7.6	7.7	8.5	10.4	10.8	11.5	12.1
Imports (USD bn)	-20.0	-18.2	-18.6	-23.2	-22.9	-21.0	-20.8
Trade balance (USD bn)	-12.4	-10.5	-10.1	-12.8	-12.1	-9.5	-8.7
Current account (USD bn)	-4.95	-4.40	-3.15	-4.89	-4.63	-3.99	-2.52
- % of GDP	-5.2	-4.1	-2.8	-3.9	-2.9	-2.2	-1.3
Financial and Capital account (USD bn)	4.8	4.3	3.8	2.8	3.5	4.4	4.1
- FDI (USD bn)	3.0	2.4	4.0	3.3	3.4	4.0	4.1
Basic balance / GDP (%)	-2.0	-1.8	0.7	-1.2	-0.8	0.0	0.8
FX reserves (USD bn) pe	3.0	3.0	1.6	1.5	1.0	1.4	2.9
- Import cover (months) pe	1.8	2.0	1.0	0.6	0.5	0.8	1.7
Sovereign Credit Rating							
S&P	B	B	CCC	CCC	SD	SD	CCC
Moody's	B1	B2	Caa2	Caa2	Caa3	Caa3	Caa2
Fitch	B	B	CCC	CCC	RD	RD	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	15.7	20.4	26.5	34.0	30.4	22.9	19.3
Consumer inflation (%) pe	19.5	18.2	35.1	33.9	28.7	18.2	19.3
M2 money supply (% y/y) pa	20.2	25.1	27.1	26.3	29.8	31.8	32.8
M2 money supply (% y/y) pe	20.5	17.0	29.9	27.2	26.6	31.0	33.7
Policy rate (%) pa	16.0	16.0	16.0	16.0	17.0	18.0	18.0
Policy rate (%) pe	16.0	16.0	16.0	16.0	18.0	18.0	18.0
USD/ETB pa	29.4	35.3	44.3	52.1	54.9	61.2	78.5
USD/ETB pe	32.0	38.7	49.4	53.6	56.3	73.1	85.8

Source: National Bank of Ethiopia; Central Statistics Agency; Standard Bank Research; Bloomberg; Reuters

Notes: pe – period end; pa –a period average

Ghana: external debt restructuring talks advancing

Medium-term outlook: still hinges on external debt restructuring

We now expect GDP growth of 3.8% y/y in 2024, from our previous forecast of 3.1% y/y. However, growth in 2025 will likely be slightly lower, at 4.2% y/y, from our previous forecast of 4.3% y/y. GDP growth eased to 2.9% y/y in 2023 (our forecast was 2.4% y/y), from 3.8% y/y in 2022.

In addition to favourable base effects likely spurring GDP growth in 2024, higher gold production too may boost economic activity. Gold production has been recovering over the past year and may rise further over the coming year. Relatively elevated international gold prices will perhaps also serve as catalyst to embolden both higher gold production and investment in this sector over the coming year.

However, net exports (netex) will likely be reduced by lower cocoa and oil exports. Despite higher prices on average compared to H1:23, cocoa production has been subdued in H1:24, which has curtailed export volumes. We don't expect this to improve over the coming year. Similarly, amidst weak investment in the oil sector, oil production is unlikely to improve materially over the coming year.

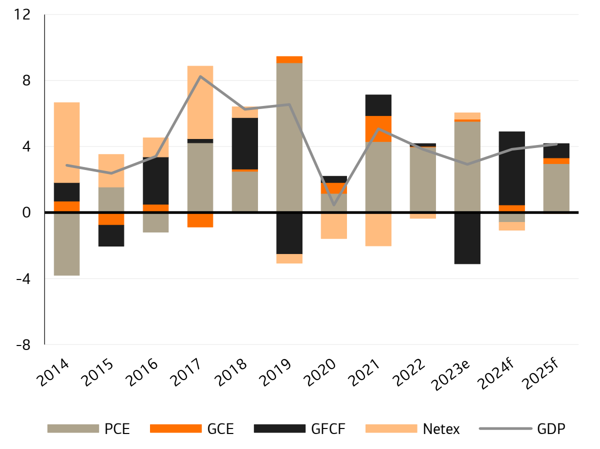
However, the government is optimistic that increased investment over the medium term in the first phase of the Pecan Conventional oil field should boost oil production. The first phase is a USD1.5bn investment, with production of around 82.5k bpd expected from 2025. The Jubilee South East oil field, which commenced first oil in late 2023, has added a further 37k bpd to oil production.

We reiterate that a timely external debt restructuring should prove pivotal in restoring macroeconomic stability, thereby underpinning economic activity. The government was confident of completing its external debt restructuring operation in H1:24. However, despite a deal being agreed with bondholders during this period, which followed the deal in principle with official creditors in January 24, the IMF rejected the deal with bondholders due to the proposal not aligning with IMF debt sustainability criteria.

Still, at the time of writing, the government had reached a deal to sign a memorandum of understanding (MoU) with official creditors. We remain optimistic that the government can reach a deal with bondholders over the coming months too. This should help lower inflation expectations and spur domestic demand.

Furthermore, following the MoU with official creditors, funding from multilateral partners will likely be unlocked, such as the IMF, which should support investment in infrastructure.

Composition of GDP growth by demand



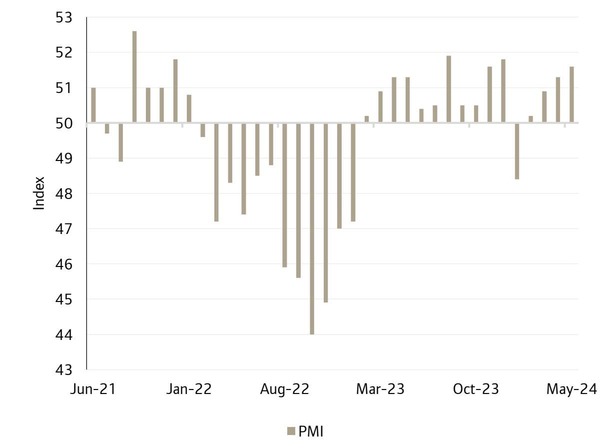
Source: Ghana Statistical Service; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2018	2023
Crops	15.7	15.3	19.4
- Cocoa	2.2	2.0	1.9
Livestock	2.6	1.8	1.3
Mining and Quarrying	13.1	13.7	12.9
- Oil and gas	8.8	6.7	5.3
Manufacturing	12.2	10.9	12.1
Construction	8.8	6.7	5.3
Trade	11.7	15.6	18.3
Hotels and Restaurants	4.0	3.8	2.1
Transport and Storage	6.0	7.3	6.0
Financial services	5.0	4.0	3.2
Public administration	3.9	3.5	3.7
Education	4.5	3.5	2.1

Source: Ghana Statistical Service

Ghana PMI



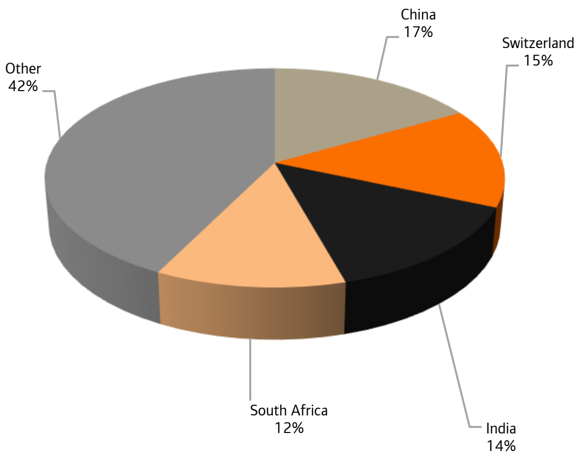
Source: Bloomberg

Medium-term economic scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pe	4.69	3.87	3.94	2.85	3.16	3.87	4.07	5.48	3.80	4.83	5.05	4.31	4.41	4.61	4.74	4.63
CPI (% y/y) pe	25.77	22.28	21.81	21.97	21.96	18.52	14.44	13.15	11.26	10.60	10.42	10.09	9.82	9.43	9.33	9.13
BOG prime rate (%) pe	29.00	29.00	29.00	29.00	27.00	26.00	23.00	20.00	18.00	16.00	16.00	14.00	14.00	14.00	14.00	14.00
3-m rate (%) pe	25.75	25.49	25.10	23.00	21.61	19.22	16.20	16.18	14.29	12.90	13.18	13.53	15.64	14.22	14.51	14.86
6-m rate (%) pe	28.50	26.35	27.90	24.30	22.41	20.02	17.00	16.88	15.09	13.70	13.98	14.33	16.44	15.02	15.31	15.66
USD/GHS pe	13.24	15.25	14.65	15.44	15.78	15.33	15.68	15.97	16.21	16.45	16.69	16.93	17.18	17.44	17.69	17.94

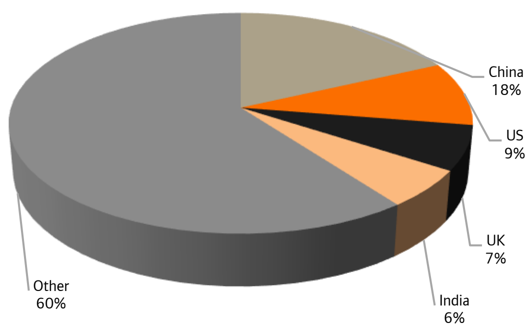
Source: Bank of Ghana; Ghana Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

Ghana's top 5 exports destinations (% of total)



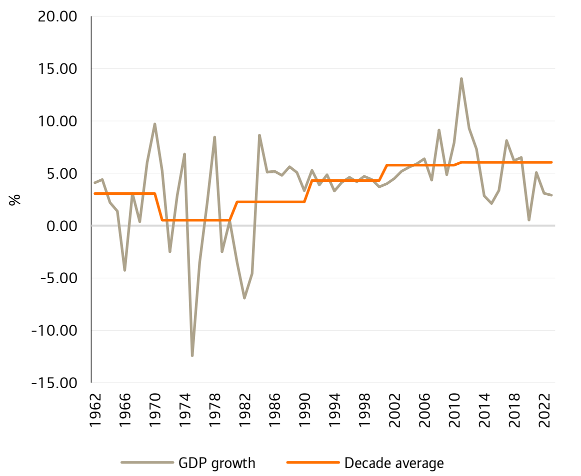
Source: International Trade Centre

Ghana's top 5 imports origins (% of total)



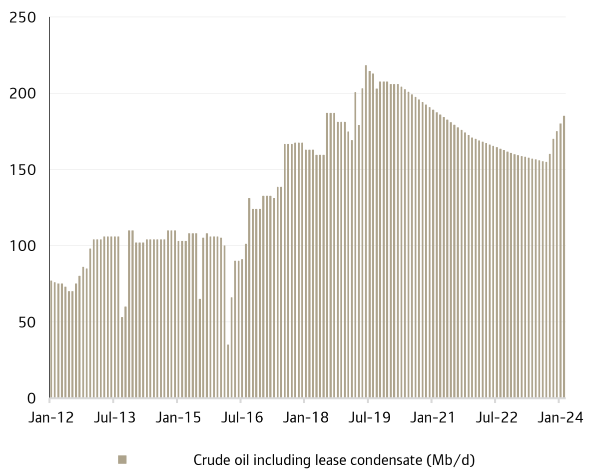
Source: International Trade Centre

Long-term GDP performance



Source: World Bank

Oil production



Source: U.S. Energy Information Administration

Balance of payments: narrower C/A surplus

The C/A surplus will now likely be lower, at 0.9% of GDP in 2024. However, we still see the C/A returning to a deficit of 2.3% of GDP in 2025.

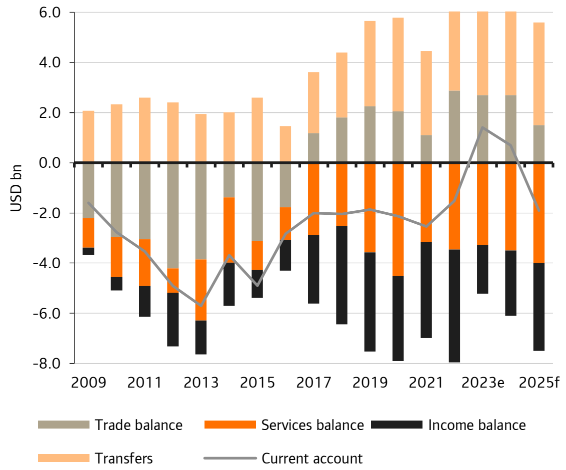
We had expected the sharp rise in both gold and cocoa prices to generate a larger C/A surplus in 2024 than in 2023. However, despite the boost to cocoa prices, cocoa production has been lacklustre, mostly due unfavourable weather in H2:24. Further, the cocoa swollen shoot virus has damaged cocoa bean trees in the west African region. Despite the recent drop in international cocoa prices from April to May 24, prices are down by c.210% y/y. However, this failed to offset the decline in supply. Cumulative cocoa exports diminished to USD599.2m in April 24, from USD1,174.5m in April 23. As we don't expect production to improve over the coming year, cocoa exports may stay subdued.

However, gold exports may remain robust over the coming year or so due to elevated prices and a further recovery in domestic production. Gold exports rose to a cumulative USD2,972.3m in April 24, from USD2,169.7m in April 23.

Gross FX reserves recovered to USD6.59bn (3.0-m of import cover) in April 24, from USD6.19bn (2.8-m) in February 24. Reserves will likely recover further, courtesy of USD360m under the IMF programme second review and USD250m from the World Bank for the Financial Sector Stability Fund. Further, FX reserves may also be underpinned by the BoG's ongoing gold-for-oil programme.

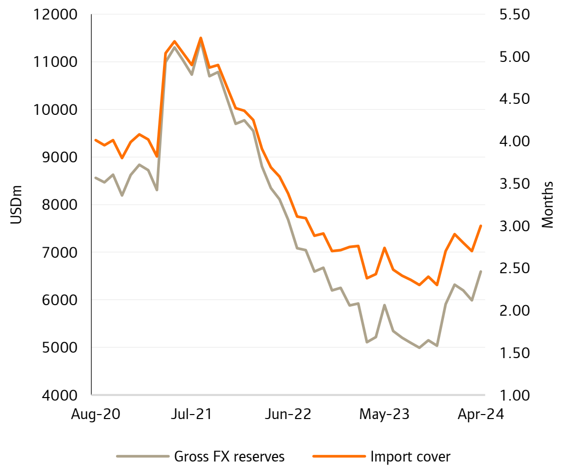
However, as external funding sources grow, public investment in infrastructure may rise ahead of the December 24 elections. This could increase imports. The government has also signed a USD2.0bn arrangement with South Korea's Economic Development Corporation Fund (EDCF). This arrangement should assist with public investment in key infrastructure projects over the next 5-y.

Current account developments



Source: Bank of Ghana; Standard Bank Research

FX reserves



Source: Bank of Ghana

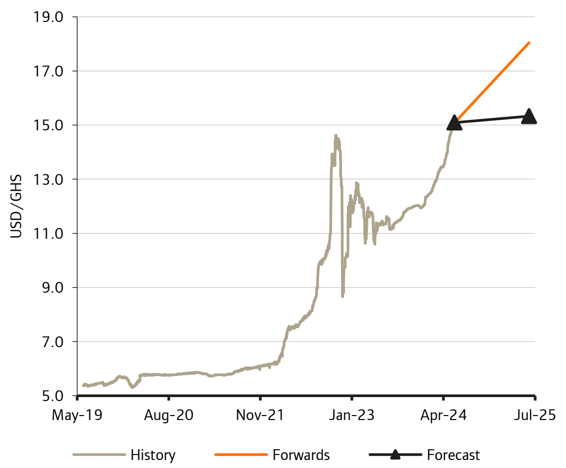
FX outlook: near-term appreciation bias

We see an appreciation bias for the GHS in the near term. The GHS may benefit from positive sentiment once the government finalizes an external debt restructuring deal with bondholders in H2:24.

The GHS came under notable pressure in H1:24 largely due rising import demand amidst subdued FX sales by the BoG. The BoG has perhaps been cognisant of the 3.0-m import cover requirement under the current IMF programme. However, as FX reserves grow further courtesy of IMF and World Bank funding, BoG sell-side FX intervention may pick up.

That said, should a looser fiscal policy stance persist into the Dec 24 elections, FX reserves may be drained. Further, foreign portfolio investment into government bonds may only recover in H1:25, after the Dec elections.

USD/GHS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: premised on GHS path

The MPC may be tempted to cut the key policy rate again before December 24, contingent on the performance of the GHS. However, we foresee easing again from Q1:25. As we had anticipated, the MPC cut the monetary policy rate (MPR) by 100 bps, to 29%, at the January 24 meeting.

However, since then, due to upside pressure on USD/GHS, the MPC has increased the cash reserve ratio (CRR) for banks in March 24 based on banks' loan-to-deposit ratios.

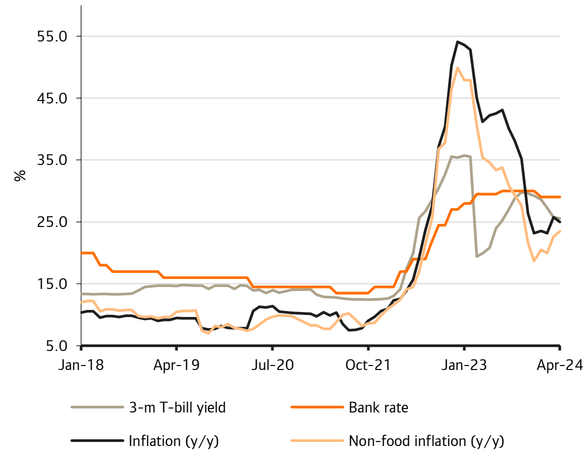
Headline inflation declined to 25.0% y/y in April 24, from 25.8% y/y in March. We see headline inflation easing further, to 21.8% y/y in September 24, before edging up again to 22.2% y/y in December 24. Favourable base effects may underpin such disinflation.

However, the most notable upside risk to our inflation outlook is still the trajectory of the GHS. Should an external debt restructuring deal fail to boost the GHS, inflationary pressures will likely resurge ahead of the December 24 elections due to a likely looser fiscal policy stance and less foreign portfolio investment.

However, should GHS appreciation transpire following a successful completion of the ongoing external debt restructuring operation, disinflation may accelerate.

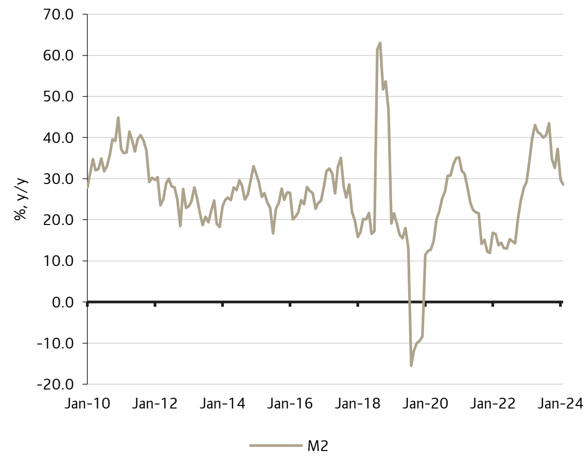
We see headline inflation softening further, to 18.5% y/y in Q2:25. Thus, even if the MPC remained cautious on easing ahead of the December 24 elections, they may still turn accommodative in 2025. However, if the GHS continues to weaken, the MPC may even have to turn hawkish again before December 24.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

M2 money supply growth



Source: Bank of Ghana

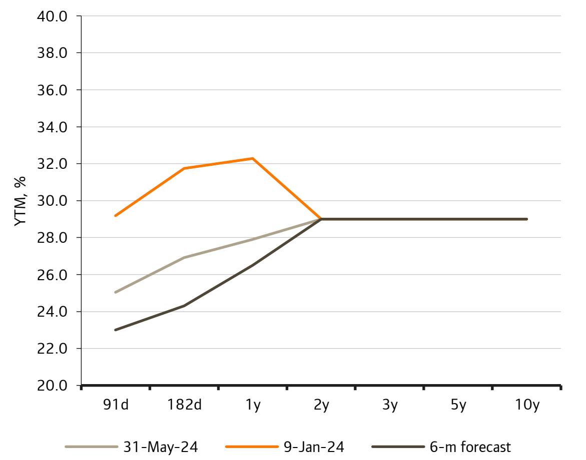
Yield curve outlook: monetary policy to prove key

The yield curve bull-steepened in H1:24, per our forecast in the Jan 24 AMR. We still expect the curve to bull-steepen further over the next 6-m, although the pace of decline of T-bill yields may be more moderate than in H1:24.

Arguably, the direction of the MPR and inflation will be a key factor in the ultimate trend for T-bill yields over the coming year. If inflation continues to ease, per our base case, T-bill yields may edge further down. However, should the GHS come under further pressure were external debt restructuring be delayed, monetary policy tightening may be considered, which could then push T-bill yields higher.

That said, given the illiquid secondary market for bonds since the domestic debt restructuring, most excess liquidity will still likely be channelled towards T-bills, which may curb upside pressure.

Changes in the yield curve



Source: Bank of Ghana; Standard Bank Research

Fiscal policy: spending pressures could rise ahead of Dec 24

Despite the government planning for fiscal consolidation in FY2024, higher pre-election expenditure remains a key risk here.

More so, as external funding sources from the likes of the World Bank, IMF and AfDB have increased this year. This may then embolden the government to raise expenditure, which wasn't plausible in 2023 (due to notable external funding constraints). The USD2.0bn agreement signed with the South Korean Development Fund too should boost capital expenditure over the medium term.

However, lower external debt service costs owing to the ongoing external debt restructuring and recent domestic debt restructuring have reduced recurrent spending.

Revenue estimates, which appeared ambitious for FY2024, may also be negatively impacted following the abandonment of the initially proposed 15% VAT on electricity. Instead, the authorities are planning to introduce a tax on foreign incomes for Ghanaian residents. The VAT on electricity was suspended following objections by labour unions.

Indeed, amidst higher inflation in FY2023, revenue collection arguably received a boost too. However, given that inflationary pressures have receded relative to last year, and could moderate further in FY2025, the government may face an uphill task in growing revenue collections at the same pace of FY2023.

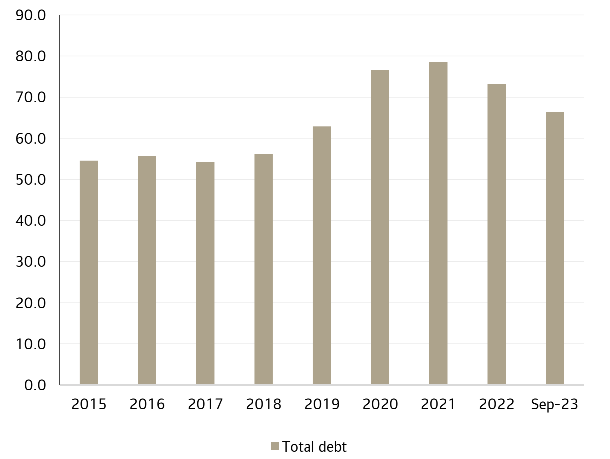
Still, if the external debt restructuring operation is finalised in H2:24, foreign portfolio investment into GHS bonds may recover in FY2025. This should assist the government in funding their budget deficit and perhaps also somewhat reduce their reliance on external funding receipts.

Central government budget % GDP

	FY2022	FY2023	FY2024
Total revenue and grants	15.8%	15.8%	16.8%
Total expenditure	27.7%	21.5%	21.6%
Wages	6.3%	5.3%	5.4%
Interest payments	7.2%	5.2%	5.3%
Development expenditure	2.6%	2.4%	2.7%
Overall Balance (Commitment)	-11.8%	-5.7%	-4.8%

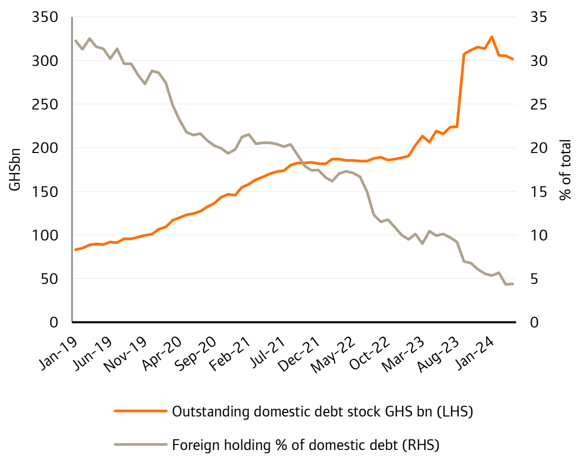
Source: Ministry of Finance

Total debt (% of GDP)



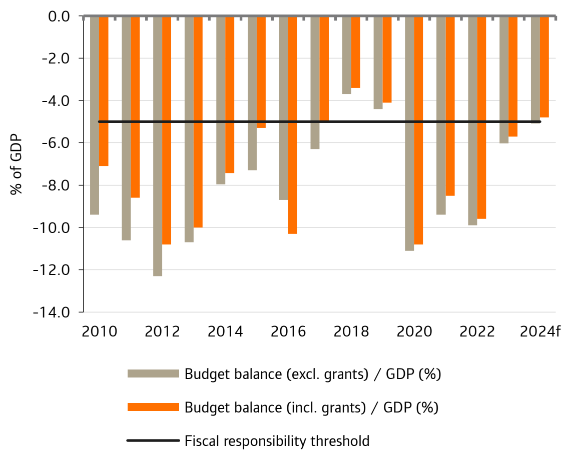
Source: Ministry of Finance

Foreign holdings of domestic debt



Source: Central Securities Depository

Fiscal balance



Source: Ministry of Finance

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	30.1	30.7	31.3	32.1	32.9	33.7	34.5
Nominal GDP (GHC bn)	356	392	462	614	842	1048	1265
Nominal GDP (USD bn)	66	68	78	66	72	73	81
GDP / capita (USD)	2 204	2 228	2 491	2 071	2 179	2 175	2 344
Real GDP growth (%)	6.6	0.5	5.1	3.8	2.9	3.8	4.2
Cocoa bean production ('000 MT)	812	771	1 047	822	1050	1 076	1 137
Oil production (k bpd)	199.0	200.0	179.0	182.0	178.0	169.0	162.7
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-4.4	-11.1	-9.4	-11.8	-5.7	-4.8	-3.9
Budget balance (incl. grants) / GDP (%)	-4.1	-10.8	-8.5	-9.6	-5.4	-4.2	-3.4
Domestic debt / GDP (%)	31.3	40.5	41.8	33.7	28.2	34.2	41.0
External debt / GDP (%)	31.6	36.2	36.8	39.5	38.2	38.2	36.4
Balance Of Payments		76.7					
Exports (USD bn)	15.7	14.5	14.7	17.5	16.7	16.9	16.1
Imports (USD bn)	-13.4	-12.4	-13.6	-14.6	-14.0	-14.2	-14.6
Trade Balance	2.3	2.0	1.1	2.9	2.7	2.7	1.5
Current account (USD bn)	-1.9	-2.1	-2.5	-1.5	1.4	0.7	-1.9
- % of GDP	-2.8	-3.1	-3.3	-2.3	2.0	0.9	-2.3
Capital & Financial account (USD bn)	3.1	2.9	3.3	-2.1	-0.7	0.5	2.1
- FDI (USD bn)	3.3	1.3	2.4	1.5	1.3	1.4	1.9
Basic balance / GDP (%)	1.8	1.1	1.0	-5.5	1.0	1.6	0.2
Gross FX reserves (USD bn) pe	8.4	8.6	9.7	6.1	5.9	6.8	7.2
- Import cover (months) pe	4.0	4.0	4.3	2.6	2.7	3.1	3.0
Sovereign Credit Rating							
S&P	B-	B-	B-	SD	SD	CCC	B-
Moody's	B3	B3	B3	Ca	Ca	Caa2	B3
Fitch	B	B	B	C	RD	CCC	CCC+
Monetary & Financial Indicators							
Consumer inflation (%) pa	8.6	9.9	10.0	31.5	40.3	22.9	17.8
Consumer inflation (%) pe	7.7	10.4	12.6	54.1	23.2	22.0	13.2
M2 money supply (% y/y) pa	5.6	23.0	19.8	17.1	38.1	27.7	27.4
M2 money supply (% y/y) pe	-8.4	35.1	11.9	27.8	37.2	24.9	33.1
BOG prime rate (%) pa	16.1	14.9	14.0	21.3	29.8	29.0	24.0
BOG prime rate (%) pe	16.0	14.5	14.5	27.0	30.0	29.0	20.0
3-m rate (%) pe	15.1	14.1	12.6	35.4	32.4	23.0	16.2
1-y rate (%) pe	15.5	17.0	16.6	36.1	32.5	26.0	19.4
2-y rate (%) pe	19.3	19.1	20.3	55.0	29.0	28.0	23.4
5-y rate (%) pe	19.0	19.7	21.7	67.5	29.0	28.5	24.1
USD/GHC pa	5.37	5.73	5.92	9.24	11.75	14.32	15.65
USD/GHC pe	5.66	5.87	6.18	10.10	11.96	15.44	15.97

Source: Bank of Ghana; Ghana Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

Kenya: economy emerging slowly – but risks abound

Medium-term outlook: broad-based reforms

We retain our GDP growth forecast of 5.1% y/y for 2024 and 5.3% y/y for 2025.

2023 growth matched our forecast, at 5.6%, buoyed by agriculture, and a strong performance by the services sub-sector at 7% y/y. Accommodation and food services grew by 33.6% y/y, supported by robust tourism arrivals. The finance and insurance sector grew 10.1% y/y, reflecting strong credit appetite despite tighter monetary conditions and FX liquidity concerns. The agricultural sub-sector grew by 6.5% y/y in 2023, after a contraction of 1.5% y/y and 0.4% y/y in 2022 and 2021 respectively. Growth in the agricultural sector likely was reinforced by favourable weather conditions in 2023 and government interventions such as the provision of subsidized fertilizer to farmers. The industrial sector grew at slower pace of 1.9% y/y, weighed down by FX liquidity constraints and higher inputs costs.

We still see aggregate domestic demand under pressure in H2:24, thus diminishing output in industrial sub-sectors and, to a limited extent, the services sector. Further, increases in taxation, as well as elevated interest rates, may constrain private consumption expenditure.

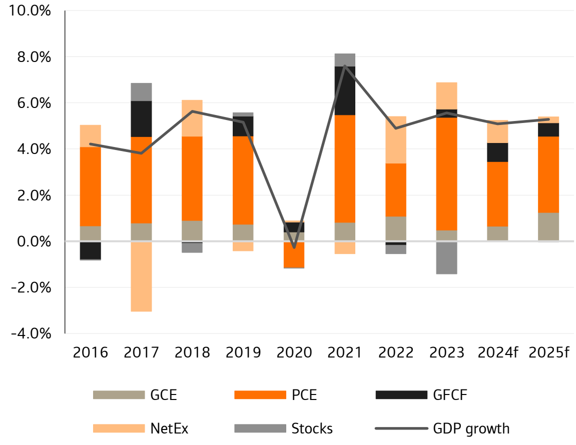
Positively, the pending bills verification committee submitted its first report to the National Treasury, receiving 94,997 claims totalling KES662.3bn. The modalities for clearing pending bills will become clearer in H2:24. The non-clearance of pending bills has been a constant drag on economic growth, leading to increased loan defaults and insolvencies.

The agricultural sector should perform robustly in 2024 due to favourable weather conditions and the continued provision of subsidized fertilizer to farmers. However, recent shortcomings related to quality concerns and distribution of subsidized fertilizer, as well as the heavy rainfall and flooding that occurred in Q2:24, pose a notable downside risk to 2024 agricultural productivity.

Investment in infrastructure has been subdued over the past couple of years, but should pick up in H2:24 and into 2025. Recent projects that have kicked off include the construction of a new 60,000-seater Talanta Stadium and refurbishing existing stadiums ahead of the 2027 Africa Cup of Nations. Cabinet has also approved upgrading the Jomo Kenyatta International Airport after recent flood damage.

The tourism sector should be robust in 2024 as conferencing has picked up, with several high-level conferences held in Nairobi in 2024. However, the recent flooding in the Maasai Mara resulted in camps shutting down along the Mara River, which may affect tourism in H2:24 during the peak season.

GDP contribution by demand



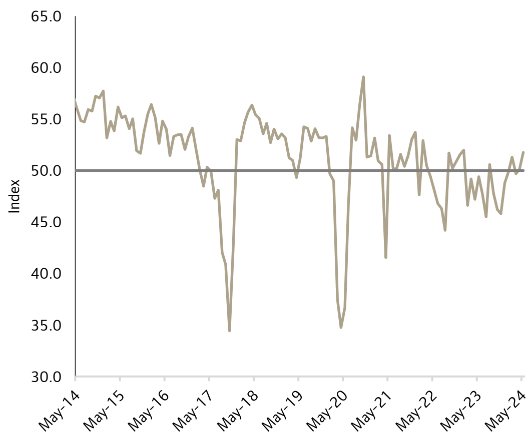
Source: Kenya National Bureau of Statistics

Contribution to GDP by sector

% of GDP	2021	2022	2023
Agriculture	21.5	21.0	21.8
Mining & quarrying	0.8	0.9	0.7
Manufacturing	7.4	7.7	7.6
Electricity & water	1.9	1.8	1.9
Construction	7.1	7.1	6.6
Wholesale & retail trade	7.9	7.7	7.5
Accommodation	1.1	1.1	1.3
Transport & storage	11.6	13.2	13.6
ICT	2.4	2.3	2.2
Financial & insurance	7.2	7.4	7.8
Public administration	5.3	5.0	4.8
Real estate	9.0	8.5	8.4
Education	4.3	4.0	3.8

Source: Kenya National Bureau of Statistics

Stanbic Bank Kenya PMI



Source: S&P Global

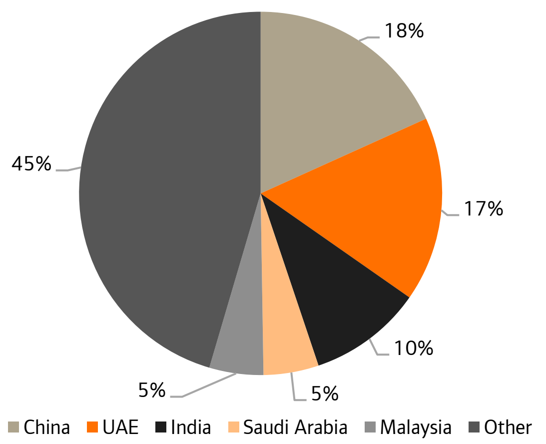
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	5.7	7.0	5.1	2.5	3.0	4.1	7.4	6.6	7.3	7.1	4.7	4.5	3.9	3.4	5.6	5.4
CPI (% y/y) pe	5.7	5.3	5.3	5.2	5.5	4.6	4.1	4.2	5.0	5.6	5.8	5.2	5.6	5.8	5.7	6.0
CBK policy rate (%) pe	12.5	13.0	13.0	12.5	12.5	12.0	11.5	11.5	11.0	11.0	10.5	10.5	10.5	9.5	9.0	9.0
3-m rate (%) pe	16.7	16.0	15.7	14.6	14.1	13.4	13.1	13.1	13.2	13.0	12.6	12.9	12.1	11.4	11.1	11.0
6-m rate (%) pe	16.9	16.7	16.1	15.1	14.6	14.6	14.4	13.9	14.0	13.8	13.3	13.7	13.1	12.3	11.2	11.2
USD/KES pe	131.5	128.4	133.0	136.4	142.1	145.4	143.2	140.3	140.2	139.8	139.4	139.4	141.8	145.5	147.5	147.5

Source: Central Bank of Kenya; National Treasury; Kenya National Bureau of Statistics; Bloomberg; Standard Bank Research

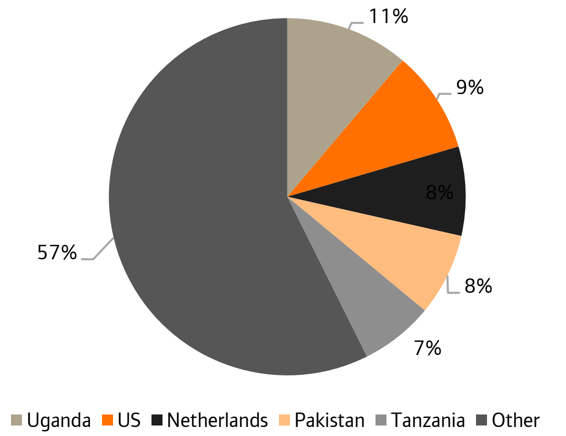
Notes: pe – period end; pa –a period average

Kenya's top 5 imports origins (% of total)



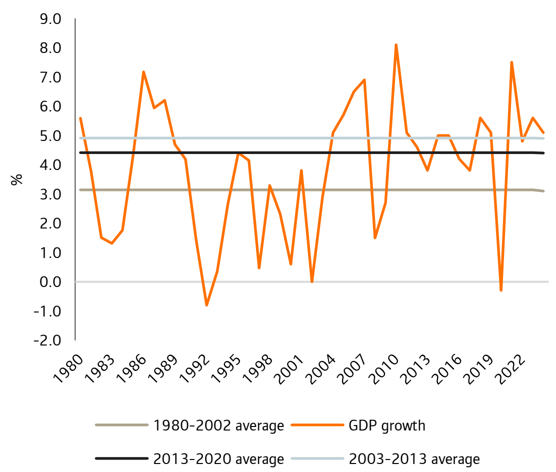
Source: International Trade CentreInternational Trade Centre

Kenya's top 5 exports destinations (% of total)



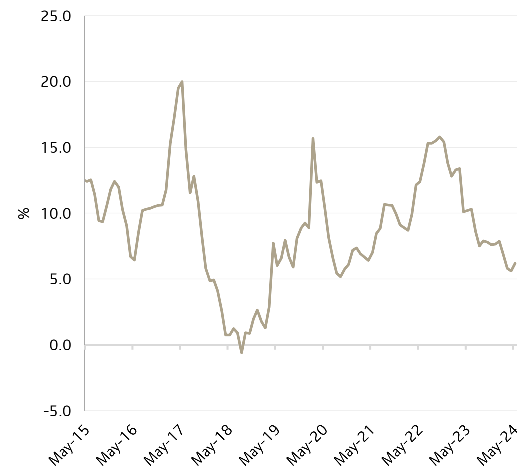
Source: International Trade Centre

Long-term GDP performance



Source: Kenya National Bureau of Statistics, World Bank

Food inflation



Source: Kenya National Bureau of Statistics

Balance of payments: concessional financing should enhance FX reserves

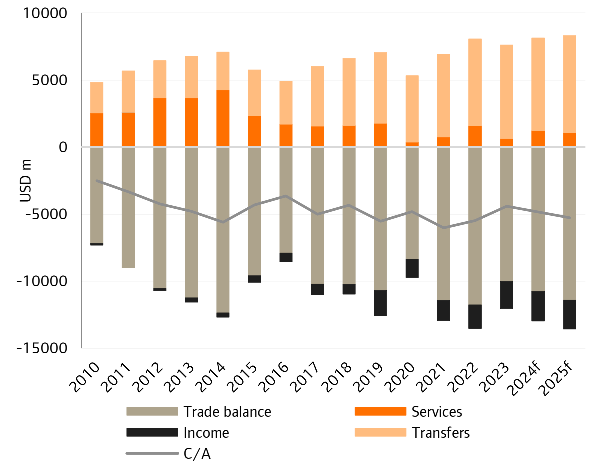
We now see the C/A deficit at 3.9% of GDP in 2024 and 4.1% in 2025. A slightly wider trade balance of USD10.8bn in 2024, from USD10.0bn in 2023, may be impelled by higher imports amid a more favourable FX environment for importers this year.

Exports are anticipated to grow by 13.3% y/y in 2024, to USD8.2bn, due to favourable prices and volumes for tea and horticulture products. Furthermore, we see diaspora remittances growing further, at a strong pace in 2024, likely reaching USD4.7bn, in line with the 10-y average of 12.6%. Downside risks relate to geopolitical risks in source markets for tea such as Iran, Pakistan and Egypt as well as climate-related risks, which may constrain exports.

Imports are projected to rise to USD19.0bn in 2024, from USD17.2bn in 2023, reflecting a rebound in the imports of machinery, transport equipment and manufactured goods. In the first 4-m of 2024, imports stood at USD5.9bn, compared to USD 5.7bn for the same period in 2023. In addition, new infrastructure projects may increase capital goods imports from H2:24.

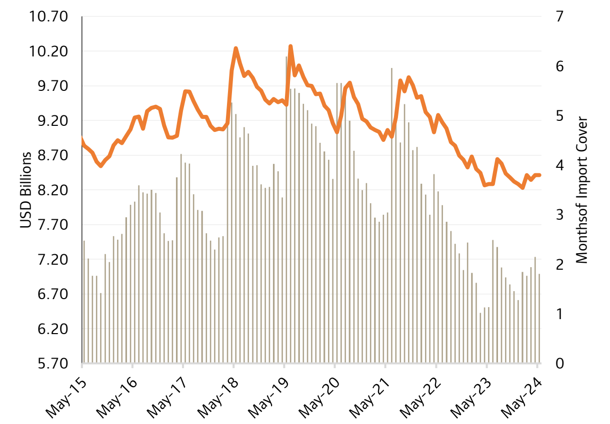
We estimate gross FX reserves at USD7.5-7.8bn by Dec 24. Positively, Kenya has just received USD1.2bn from a World Bank Development Policy Operation (DPO) budget support loan and awaits board approval from the IMF following the staff level agreement for the seventh review of IMF EFF/ECF. The government also intends to pursue a sustainable-linked-bond and debt swap arrangement by Dec 24 which may underpin FX reserves further. In 2025, the government expects to raise external funding via Panda, Samurai and Sukuk bonds. Furthermore, we wouldn't rule out the government also issuing another Eurobond in H1:25.

Current account developments



Source: Kenya National Bureau of Statistics, Standard Bank Research

Foreign exchange reserves



Source: Central Bank of Kenya, Bloomberg

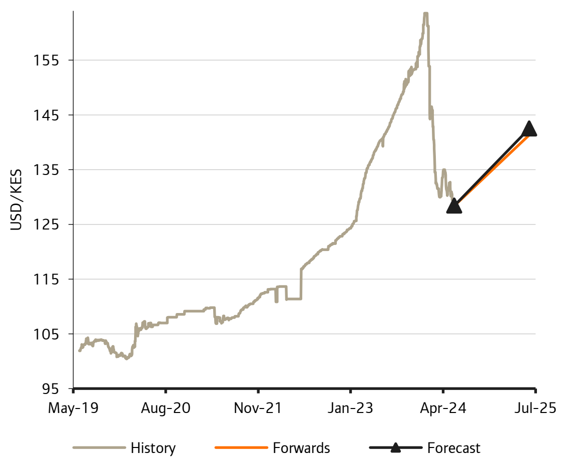
FX outlook: stability in H2:24

We now expect the USD/KES pair to average 132.3 in 2024 and 142.8 in 2025. FX demand and supply should broadly be balanced in Q3:24 notwithstanding an expected increase in importer activity and dividend repatriation from corporates.

During H1:24, foreign portfolio investors returned to the market after the Eurobond buyback and opportunity to invest in the KENIB 2032. An estimated USD800m-1.0bn entered the FX market in Feb 24.

With FX reserves anticipated to be adequate at around USD7.5bn in H2:24, the KES will probably stabilize in a KES 5 to10-shilling range over the next 6-m. However, upside risks are posed by: government's proposal to introduce a withholding tax on infrastructure bonds, likely reducing foreign portfolio inflows in future; and, the G2G oil importing arrangement expiring in Dec 24.

USD/KES: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: an easing bias from H2:24

We foresee the MPC cutting the policy rate by 50 bps in Q4:24 and a further 100 bps in 2025.

The MPC will likely remain cautious on global risk conditions before lowering the Central Bank Rate due to concerns about triggering foreign portfolio outflows, KES depreciation, and imported inflation.

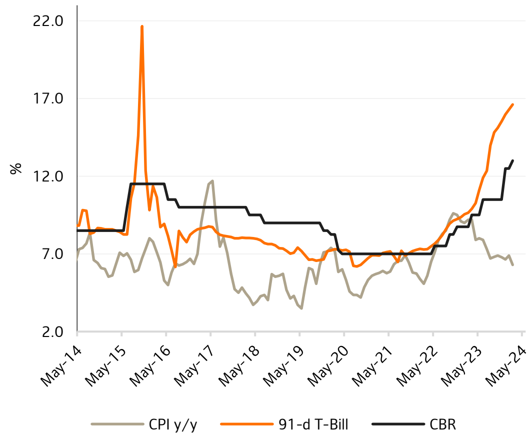
The MPC has refined monetary transmission by narrowing the width of the interest rate corridor around the central bank rate (CBR) from the current ±250 bps, to ±150 bps, as well as also adjusted the applicable interest rate on the discount window from the current 400 bps above CBR, to 300 bps. Reverse repos and window borrowing will now be carried out at a lower threshold than before, with the window borrowing lowered from 17% to 16% and the interest rate corridor narrowed from 500 bps (10.5-15.5%) to 300 bps (11.5-14.5%).

Inflation will likely average 5.4% y/y in 2024 and 4.6% y/y in 2025. The Kenya Meteorological department forecasts above-average rainfall in western Kenya, which should favour crop production in Q3:24.

Risks to our outlook stem from the possibility of La Niña weather conditions from Q4:24.

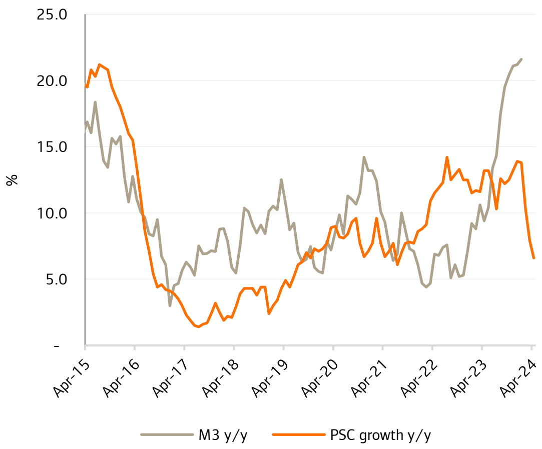
Both private sector credit growth and money supply will likely remain constrained in H2:24 due to relatively tighter monetary conditions, per the current monetary stance.

Inflation and interest rates



Source: Kenya National Bureau of Statistics, Central Bank of Kenya

Monetary aggregates



Source: Central Bank of Kenya

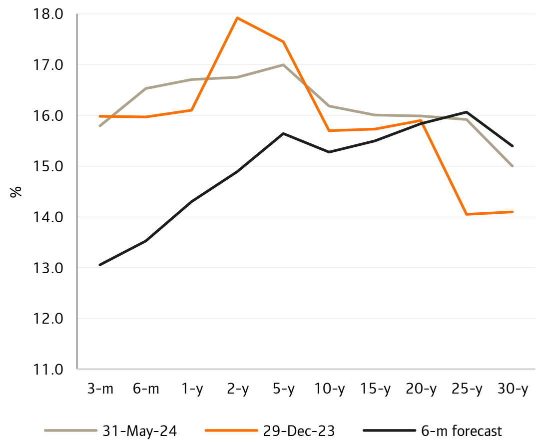
Yield curve outlook: bull-steepening

The yield curve may bull-steepen over the next 6-m. KES liquidity remains tight, and the government's borrowing program has benefited from a higher interest rate environment throughout FY2023/24.

Due to the prospect of a policy rate cut in H2:24, and lower fiscal deficit projected at KES263.2bn in FY2024/25 that seeks to curb the net domestic borrowing target, T-bill and T-bond yields will probably decline gradually in H2:24 amidst the lower domestic borrowing requirements.

The government will likely try to reject expensive bids to guide market to bid lower throughout H2:24.

Changes in the yield curve



Source: Standard Bank Research

Fiscal policy: revenue-led fiscal consolidation path

For FY2024/25, the fiscal deficit including grants is estimated to decline to 3.3% of GDP. Total revenue is set to improve to 18.5% of GDP in FY2024/25, from a projected 17.9% of GDP in FY2023/24. Notably, the government withdrew some tax measures that were initially proposed in the Finance Bill, such as VAT on bread, VAT on transportation of sugar, VAT on financial services, the motor vehicle tax at 2.5%, and eco-tax, amongst other measures following sustained public opposition to the proposals.

In the first 9-m of FY2023/24, total revenue grew 13.8%, to KES1,918.3tn as at Mar 24, exceeding KES1,686bn in Mar 23 but below the target of KES2,126.4bn. All major tax categories were higher than in FY22/23 but still below target despite increased levies and taxes via Finance Act 2023. Total expenditure and net lending too were below target, at KES2,638.8bn, against a target of KES2,787.7bn, affecting disbursements to development and counties. Resources allocated to operations and maintenance and foreign interest payments grew by 22.7% y/y and 53.5% y/y respectively.

Per the budget statement FY2024/25, the government anticipates revenue performance to improve, supported by the new national tax policy, and improved tax administration by the Kenya Revenue Authority to improve tax revenue to 16.2% of GDP. Further, the government proposes to reform and merge around 40 state-owned enterprises (SOEs) and regional development authorities to curb unnecessary spending and overlaps in mandates.

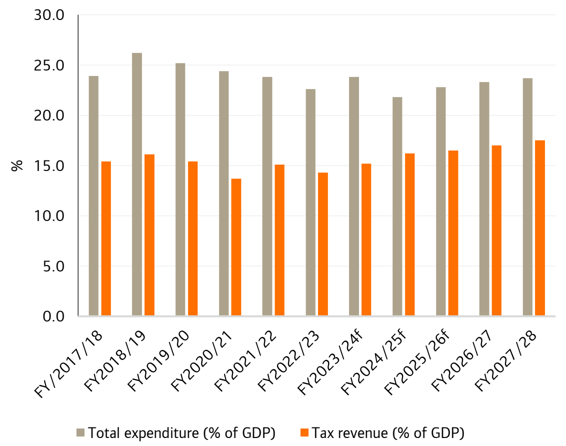
For deficit financing, the government targets receiving USD1.6bn from programme loans, the largest being a development policy operation (DPO) from the World Bank of around USD750m and the final IMF EFF/ECF disbursements as the programme is set to end in April 25. The government may also explore a sustainability-linked bond as well as Samurai, Sukuk and Panda bonds.

Central government budget

% of GDP	FY2022/23	FY2023/24	FY2024/25
Total revenue	16.5	17.9	18.5
Total expenditure	22.6	23.8	22.1
Recurrent	16.2	17.1	15.7
Wages	3.8	3.6	3.6
Interest	4.8	5.3	5.6
Development	3.5	4.0	3.8
Overall balance (+ grants)	-5.6	-5.7	-3.3
Overall balance (- grants)	-6.0	-6.0	-3.6
Net external borrowing	2.2	3.1	1.8
Net domestic borrowing	3.2	2.6	1.5
Donor support	0.2	0.3	0.3

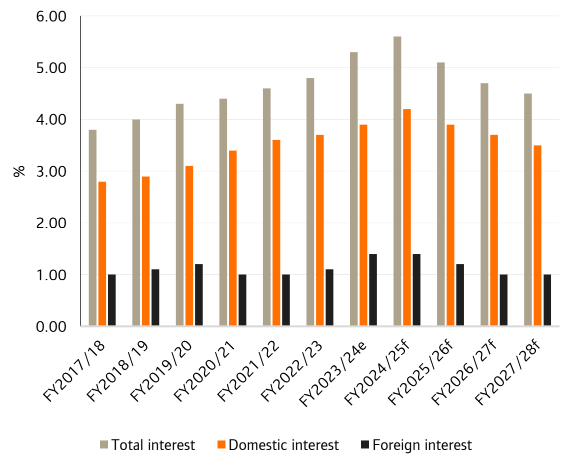
Source: National Treasury

Total revenue and expenditure (% of GDP)



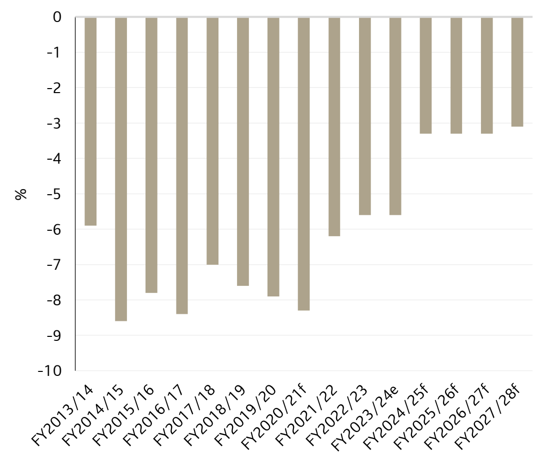
Source: National Treasury

Debt service (% of GDP)



Source: National Treasury

Fiscal deficit including grants



Source: National Treasury

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	47.6	48.8	49.7	50.6	51.5	52.5	53.4
Nominal GDP (KES bn)	10 237.7	10 715.1	12 027.7	13 489.6	15 108.8	16 729.6	18 421.0
Nominal GDP (USD bn)	95.4	100.6	109.1	114.1	104.8	126.4	129.0
GDP / capita (USD)	1 931	2 062	2 195	2 254	2 034	2 407	2 417
Real GDP growth (%)	5.1	-0.3	7.6	4.9	5.6	5.1	5.3
Coffee production ('000 tons)	33.6	24.4	28.2	41.9	32.4	36.6	41.3
Tea production ('000 tons)	458.8	569.5	537.8	535.0	570.3	590.8	609.7
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-7.9	-8.1	-8.5	-6.5	-6.0	-5.9	-3.1
Budget balance (incl. grants) / GDP (%)	-7.7	-7.8	-8.4	-6.2	-5.6	-5.6	-2.9
Domestic debt / GDP (%)	24.5	26.3	27.6	33.9	32.8	32.5	30.5
External debt / GDP (%)	32.5	34.6	35.4	37.5	35.5	36.3	33.9
Balance of Payments							
Exports of goods (USD bn)	5.9	6.1	6.7	7.5	7.2	8.2	8.2
Imports of goods (USD bn)	16.5	14.4	18.2	19.2	17.2	19.0	19.6
Trade balance (USD bn)	-10.6	-8.3	-11.4	-11.8	-10.0	-10.8	-11.4
Current account (USD bn)	-5.5	-4.8	-6.0	-5.5	-4.4	-4.8	-5.3
- % of GDP	-6.0	-4.8	-5.5	-4.8	-4.2	-3.8	-4.1
Financial account (USD bn)	4.8	1.9	5.5	4.1	2.7	6.1	5.5
- FDI (USD bn)	1.1	0.7	0.4	0.4	0.3	0.4	0.6
Basic balance / GDP (%)	-5.0	-4.1	-5.1	-4.5	-4.0	-3.5	-3.6
FX reserves (USD bn) pe	8.8	7.8	8.8	7.4	6.6	7.8	8.0
- Import cover (months) pe	5.4	4.8	5.4	4.2	3.5	4.3	4.5
Sovereign Credit Rating							
S&P	B+	B+	B	B	B	B	B
Moody's	B2	B2	B2	B2	B3	B3	B3
Fitch	B+	B+	B+	B+	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.9	5.4	6.2	7.9	7.6	5.4	4.6
Consumer inflation (%) pe	5.8	5.6	5.7	9.1	6.6	5.2	4.2
M3 money supply (% y/y) pa	8.4	9.9	9.4	11.1	10.4	12.4	11.3
M3 money supply (% y/y) pe	5.6	13.2	8.7	14.5	12.6	13.9	15.2
Policy interest rate (%) pa	8.9	7.3	7.0	7.9	10.8	12.8	11.9
Policy interest rate (%) pe	8.5	7.0	7.0	8.8	12.5	12.5	11.5
3-m rate (%) pe	7.2	6.9	7.3	9.4	16.0	14.6	13.1
1-y rate (%) pe	9.8	8.3	8.9	10.4	16.1	14.8	15.4
2-y rate (%) pe	10.4	9.3	9.8	12.4	17.9	14.9	14.5
5-y rate (%) pe	11.5	10.5	11.4	13.8	17.5	15.0	14.7
USD/KES pa	102.1	106.5	110.2	118.3	144.2	132.3	142.8
USD/KES pe	101.4	109.6	113.1	123.4	156.1	136.4	140.3

Source: Central Bank of Kenya; National Treasury; Kenya National Bureau of Statistics; Bloomberg; Standard Bank Research

Notes: pe – period end; pa –a period average

Malawi: drought and food shortages may subdue growth

Medium-term outlook: though drought a risk to growth, tobacco season off to a good start

GDP growth in 2024 will be constrained by weak private consumption as well as increased imports. We forecast the Malawian economy to grow by 1.8% y/y in 2024, a downward revision from our Jan AMR forecast of 2.3% y/y.

In Mar 24, President Lazarus Chakwera declared a state of disaster in 23 of Malawi's 28 districts. The government estimates that c.44% of Malawi's corn crop has either been damaged by the drought, or failed entirely, affecting an estimated 2m households.

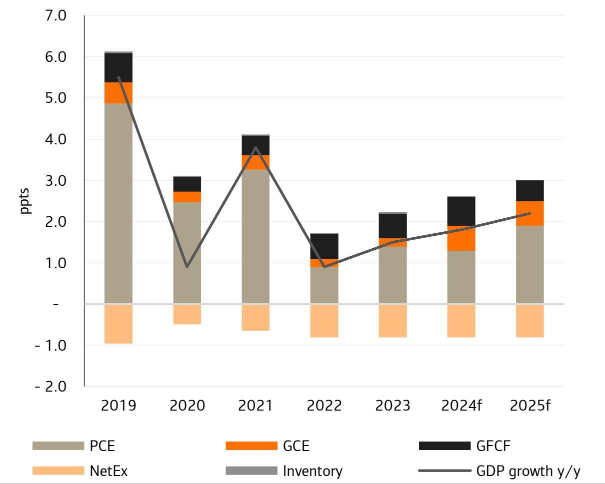
We expect private consumption expenditure to be constrained due to high inflation and food shortages resulting from the drought, which would also increase food import demand. Lower consumption and increased imports would have a net negative impact on GDP.

However, GDP growth should be supported by strong export growth, especially on higher tobacco exports due to a good tobacco harvest season. Not only is the yield of the tobacco harvest good, but the average price per kg is also c.25% higher than at the same time last year. The Tobacco Commission estimates that production will increase to 140m kg in 2024, which is 17% higher than in 2023. The increase in tobacco harvest is welcome, though it is still much lower that the volumes produced in 2015, 2016 and 2018, where production was closer to 200m kg. However, in those years, prices were much lower at c.USD1.7 per kg.

The Extended Credit Facility arrangement from the IMF remains key in supporting the Malawian economy. The IMF visited Malawi in May 24 to discuss economic policies that would be essential in supporting the first review of the ECF arrangement. The ECF, approved in Nov 23, is serving as a catalyst for further potential grants from the World Bank and African Development Bank to Malawi to withstand multiple external shocks and assist the government on returning to a sustainable fiscal path as well as rebuilding external buffers.

Around the time of the IMF mission in May, there was speculation of another stepwise adjustment in the MWK. However, the RBM was quick to emphasize that there would be no adjustment in the MWK anytime soon. Indeed, we do not foresee such stepwise changes. The MWK remained steady after the devaluation in Nov 23, except for a 3% m/m depreciation in Mar 24.

Composition of GDP by demand



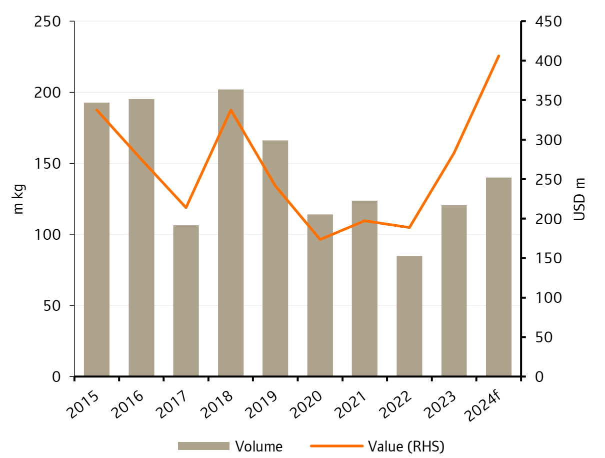
Source: Reserve Bank of Malawi; National Statistical Office; Standard Bank Research

GDP composition by sector

	2017	2019	2022
Agriculture, forestry & fishing	22.9	22.1	23.4
Mining & quarrying	0.7	0.7	0.7
Manufacturing	11.3	11.8	12.2
Electricity gas &water supply	2.7	2.9	2.9
Construction	3.1	3.2	3.2
Wholesale and retail trade	12.7	12.6	12.0
Transport and storage	4.5	4.7	4.4
Accommodation and food	1.5	1.5	1.1
Information and communication	5.2	5.7	6.1
Financial and insurance services	5.9	6.0	6.3
Real estate activities	7.1	6.4	6.4
Professional & support services	1.2	1.3	1.2
Public administration & defence	3.1	3.2	3.3
Education	4.3	4.3	4.0
Health and social work activities	5.9	5.7	5.3
Other services	1.7	1.9	1.8
Plus: Taxes less Subsidies on products	6.2	6.0	5.6
GDP	100.0	100.0	100.0

Source: Reserve Bank of Malawi, National Statistical Office, Standard Bank Research

Tobacco production and auction sales



Source: Reserve Bank of Malawi, Ministry of Agriculture

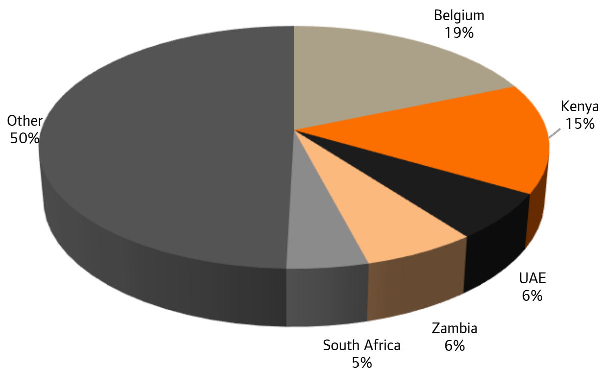
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	1.6	2.2	2.1	1.3	1.6	2.8	2.7	1.8	2.6	3.5	4.1	2.7	2.6	3.7	3.0	4.2
CPI (% y/y) pe	31.8	31.4	29.9	21.5	17.5	14.6	14.6	11.1	11.1	10.6	10.7	11.3	11.4	11.7	12.1	10.4
Policy rate (%) pe	26.0	26.0	26.0	26.0	25.0	24.0	24.0	23.0	22.0	21.0	20.0	20.0	19.0	19.0	18.0	18.0
3-m rate (%) pe	16.0	16.0	16.0	16.0	15.0	14.0	14.0	13.0	12.0	11.0	10.0	10.0	9.0	9.0	8.0	8.0
6-m rate (%) pe	20.0	20.0	20.0	20.0	19.0	18.0	18.0	17.0	16.0	15.0	14.0	14.0	13.0	13.0	12.0	12.0
USD/MWK pe	1751.0	1751.0	1766.0	1796.0	1826.7	1871.8	1916.8	1961.0	2006.0	2051.6	2096.3	2141.5	2186.4	2231.3	2276.8	2321.3

Source: Reserve Bank of Malawi, Malawi Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

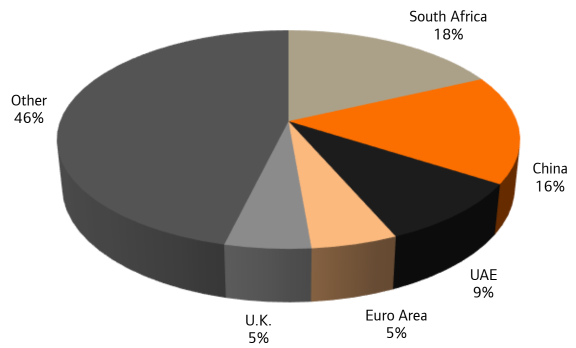
Notes: pa - period average; pe - period end

Share in Malawi's exports (%)



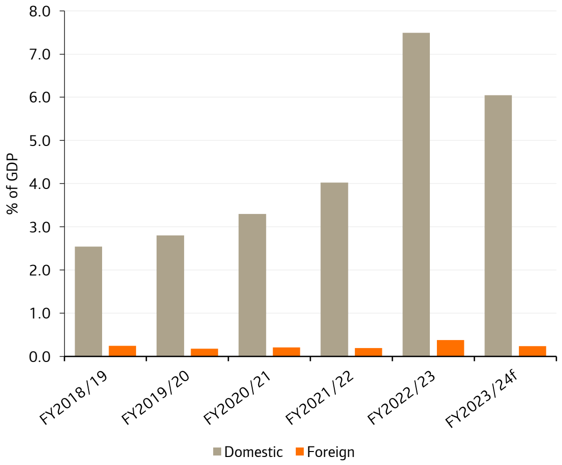
Source: IMF

Share in Malawi's imports (%)



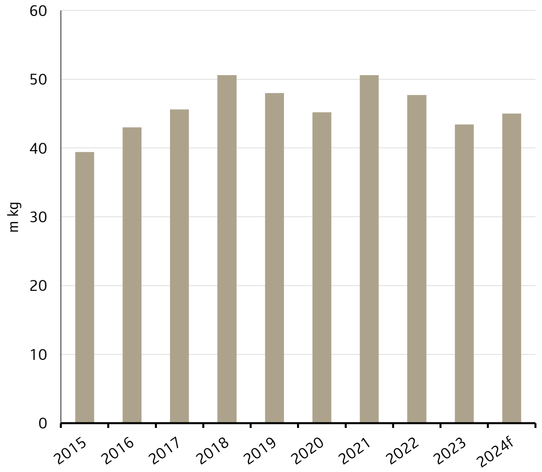
Source: IMF

Debt service payments share of GDP



Source: Reserve Bank of Malawi

Tea production



Source: Reserve Bank of Malawi

Balance of payments: import demand to trump the proceeds from a promising tobacco season

We forecast Malawi's current account deficit to widen from an estimated 17.5% of GDP in 2023 to 18.1% of GDP in 2024 largely due to the increased need to import food because of the drought. This may exceed the expected export gains from what seems a promising tobacco season.

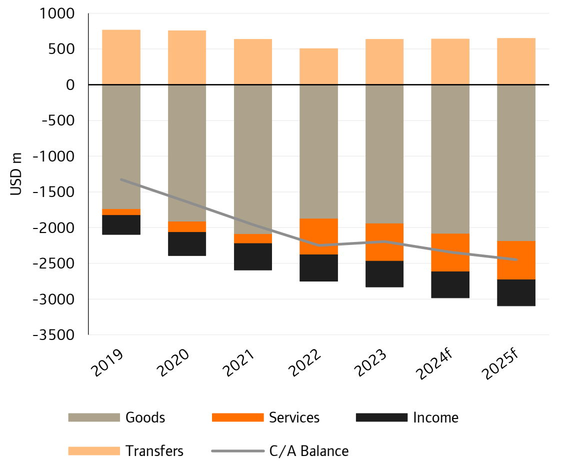
In recent years, the revenue generated from Malawi's key export commodities, such as tobacco and tea, has been insufficient to cover the necessary fuel and fertilizer imports. In 2023, fuel and fertilizer imports accounted for, USD892.1m, less than one-third of total imports, total export earnings from tobacco and tea were USD474.8m meaning that c.50% of Malawi's export revenues could not cover even 30% of import needs for these necessities.

This shortfall in foreign exchange is exacerbated by the seasonal nature of Malawi's primary export products, which further complicates the accumulation of foreign exchange reserves. Consequently, Malawi faces challenges in maintaining a stable supply of essential imports, which can hinder economic stability and growth.

Official FX reserves remain under pressure, at around1-m of import cover. Malawi's weak external position highlights the importance of grants from the IMF and World Bank to aid Malawi in its official imports needs.

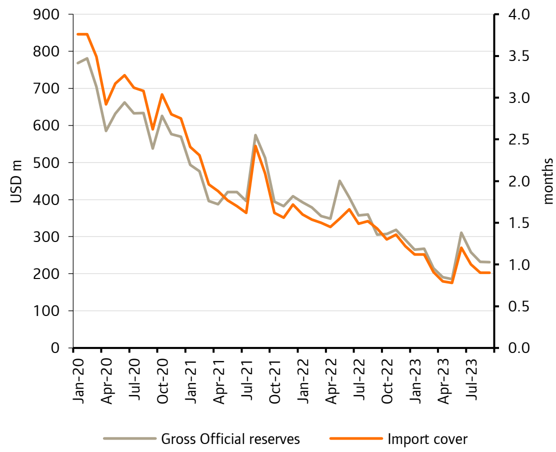
With the 2024 tobacco season looking promising, the Malawi Tobacco Commission forecasts tobacco production as reaching 140m kg in 2024, which is an increase of 17.0% y/y from 2023. During the first 7 weeks of tobacco auctions, prices have been on average c.25% higher than during the same time in 2023. Therefore, export receipts from tobacco may increase considerably this year, which would provide welcome respite for the trade account.

Current account developments



Source: Reserve Bank of Malawi

FX reserves and import cover



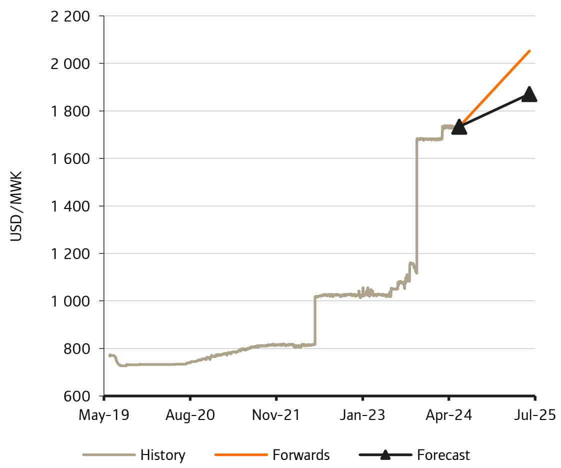
Source: Reserve Bank of Malawi

FX outlook: MWK to remain steady

We forecast the MWK to weaken to 1796 against the USD by Dec 24. The MKW is currently trading at 1751 against the USD, translating to a premium of around 11% in the parallel market. This is a much narrower premium than before both the two most recent devaluations, namely c.25% in May 22 and c.50% in Oct 23.

Around the time of the IMF mission in May, there was speculation of another stepwise adjustment in the MWK. However, the RBM was quick to emphasize that there would be no adjustment in the MWK anytime soon. Indeed, we do not foresee such stepwise changes. The MWK remained steady after the devaluation in Nov 23, except for a 3% m/m depreciation in Mar 24.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation to remain high

We forecast headline inflation to remain high, averaging 30.0-31.0% y/y in 2024. Headline inflation may trend lower in H2:24 largely due to base effects. However, key risks to this inflation outlook is the lower crop harvest, high money supply growth, and higher global oil prices.

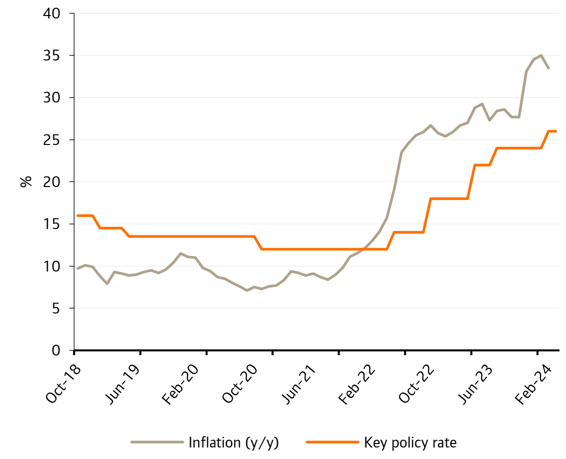
Headline inflation increased by 32.7% y/y (1.8% m/m) in May, from 32.3% y/y (-2.0% m/m) in April. Food prices rose 40.7% y/y (2.5% m/m) in May, while non-food prices increased 22.1% y/y (0.6% m/m) in April. Food comprises 53.7% of the consumer basket in Malawi and has averaged price growth of 41.3% y/y in the first five months of 2024. We expect food price inflation to remain the main driver of overall inflation in Malawi given the loss of food crops due to the drought and the concomitant increased need for imports.

The Reserve Bank of Malawi (RBM)'s Monetary Policy Committee (MPC) kept the key policy rate unchanged at 26% on Friday 3 May, after hiking the policy rate by 200 bps in Feb. The MPC cited the recent slowdown in inflation and the projected further downward trend in the near term as key motivators in its decision.

The MPC kept the Lombard rate at 20 basis points above the policy rate and the liquidity reserve requirement (LRR) ratio for foreign currency deposits at 3.75%.

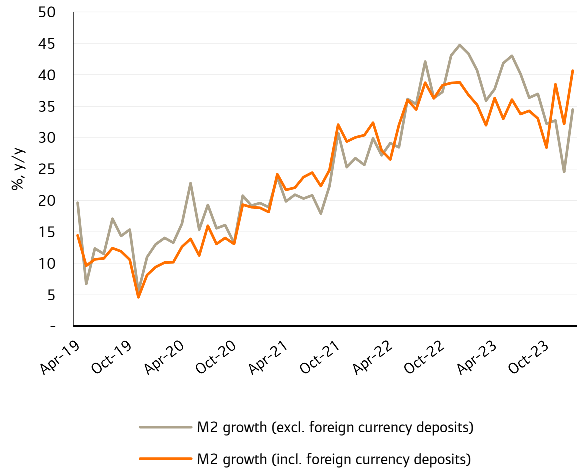
However, the MPC increased the LRR ratio for domestic currency deposits by 100 basis points, to 8.75%, to address the rapid growth in money supply. The MPC remains concerned about the sharp growth in money supply, which includes FX deposits, recorded at 47.8% y/y in Q1:24, from 32.2% y/y in Q4:23. From Mar 23 to Mar 24, the MWK has depreciated by 65.6%.

Inflation and key policy rate



Source: Reserve Bank of Malawi; Standard Bank Research

Money supply growth



Source: Reserve Bank of Malawi; Standard Bank Research

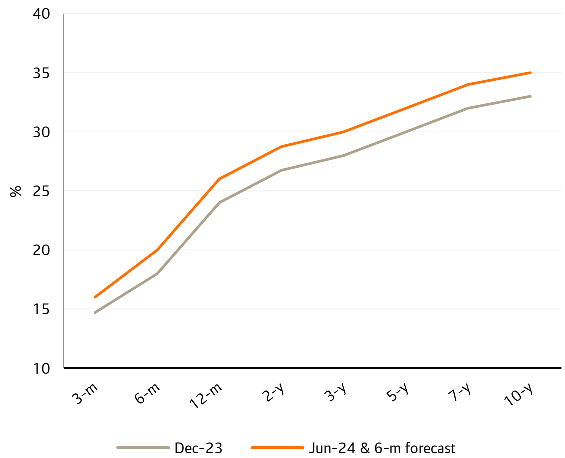
Yield curve outlook: yields to remain steady

We expect yields to continue to move in sync with any adjustment in the key policy rate. With the MPC having kept the policy rate flat, we'd therefore not expect any significant moves in the yield curve as we expect the key policy rate being kept at 26.0% into year-end.

In Mar 24, the RBM temporarily suspended auctions for the 182-d T-bill to manage upcoming maturities. However, in late Apr 24, the auctions for the 182-d T-bill resumed. Most of Malawi's domestic debt is in longer-dated securities. Currently, of the debt maturing in the remainder of 2024, 57% are longer-dated issuances, while of that maturing in 2025, 70% are longer-dated securities.

From Jan 24 to Apr 24, the RBM recorded net T-bill issuance averaging MWK45.9bn per month, in contrast to net maturities averaging MWK23.8bn per month in Q4:23.

Yield curve changes



Source: Reserve Bank of Malawi; Standard Bank Research

Fiscal policy: grants essential to support the fiscus

Finance Minister Chithyola Banda has tabled a MWK5.98tn budget for FY2024/25. Key assumptions by the Ministry of Finance underpinning the budget are that real GDP may grow by 3.6% y/y in FY2024/25 and that inflation may average 23.4% y/y in FY2024/25. However, we forecast GDP growth averaging 2% and inflation averaging c.30% y/y in FY2024/25.

The government's revenue policy and administrative measures for FY2024/25 are aimed at both improving economic activity and broadening the tax base. Measures to improve economic activity include the support of green investments by removing import duties from certain goods used in the renewable energy sector. To increase tax collections, the government is implementing measures, such as increasing the import duty on various petroleum products as well as expanding the corporate income tax regulations to include more businesses. Further, adjusting mechanisms in which the transport sector is taxed.

The 4-y ECF arrangement from the IMF has served as a catalyst for financial aid from development partners such as the World Bank, the European Union, and the African Development Bank. Grants could constitute c.25% of total revenue in FY2024/25.

The IMFs latest DSA, released in Nov 23, reports that "Malawi's external and overall public debt is assessed as 'in distress'".

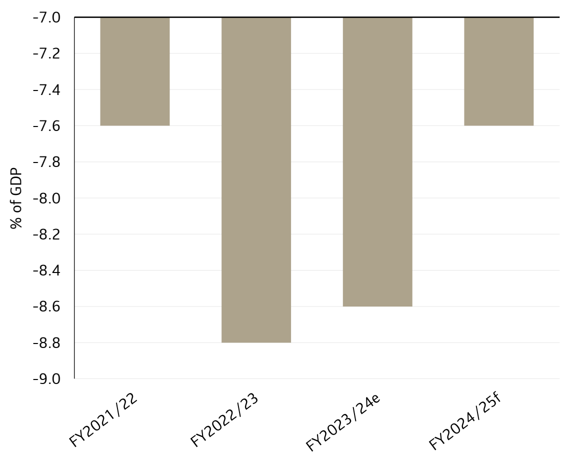
Malawi's debt service-to-revenue ratio was 27.5% in FY2023/24, which is double the IMF's 14% threshold. One-third of Malawi's external debt, amounting to c.2% of GDP, is being renegotiated; approximately two-thirds is being held by multilateral development banks (MDBs) and are "precluded from debt relief efforts". External debt service to bilateral and commercial creditors would comprise c.55% of total external debt service in 2024. External debt relief would therefore contribute a great deal to Malawi's overall debt sustainability.

Central government budget

% of GDP	FY2022/23	FY2023/24e	FY2024/25f
Total revenue	17.8	16.7	24.3
Total expenditure	26.7	25.4	31.9
- Recurrent	20.6	19.5	22.5
- Development	6.0	5.9	9.4
Overall balance (- grants)	-12.1	-11.6	-13.8
Overall balance (+grants)	-8.8	-8.6	-7.6
Net domestic borrowing	7.9	7.7	6.8
Net foreign borrowing	0.9	0.9	0.8

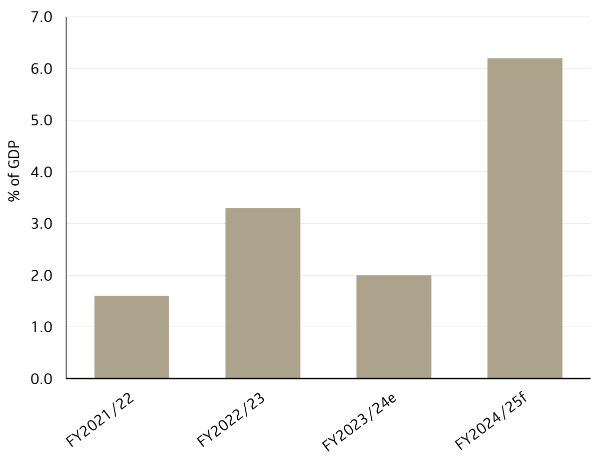
Sources: Ministry of Finance; IMF

Fiscal deficit



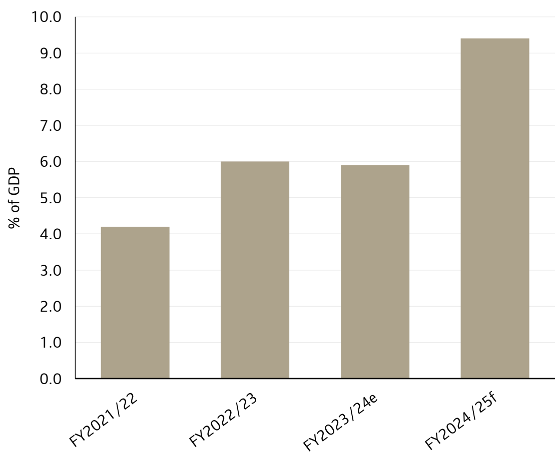
Source: Ministry of Finance; Standard Bank Research

Budget grants



Source: Ministry of Finance; Standard Bank Research

Development spending



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	20.3	20.9	21.5	22.1	22.7	23.4	24.1
Nominal GDP (MWK bn)	8239.6	8821.3	9975.5	11795.7	14594.0	22401.8	25202.0
Nominal GDP (USD bn)	11.0	11.8	12.4	12.4	12.6	12.8	13.4
GDP / capita (USD)	543.4	563.5	576.4	562.6	553.0	548.7	557.8
Real GDP growth (%)	5.7	0.8	4.6	0.9	1.5	1.8	2.2
Tobacco auction sales (million kgs)	166.1	114	123.7	84.8	120.6	140.0	150.0
Tea production (million kgs)	48	45.2	50.6	47.7	43.4	45.0	42.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.3	-6.0	-9.6	-12.1	-11.6	-13.8	n/a
Budget balance (incl. Grants) / GDP (%)	-4.6	-4.5	-7.0	-8.8	-8.6	-7.6	n/a
Domestic debt / GDP (%)	25.0	21.9	30.0	40.9	42.0	39.8	41.0
External debt / GDP (%)	30.0	32.9	31.5	34.8	39.3	35.2	33.8
Balance of Payments							
Exports (USD m)	1078.5	866.7	1076.6	990.1	1051.5	1209.3	1269.7
Imports (USD m)	2819.5	2786.2	3167.8	2866.0	2996.7	3296.4	3461.2
Trade balance (USD m)	-1741.1	-1919.6	-2091.2	-1875.9	-1945.2	-2087.1	-2191.5
Current account (USD m)	-1327.0	-1638.7	-1960.3	-2248.8	-2196.9	-2341.9	-2449.2
- % of GDP	-12.0	-13.9	-15.8	-18.1	-17.5	-18.1	-18.2
Financial account (USD m)	-505.5	-638.2	-473.0	-855.3	-601.3	-877.6	-860.0
- FDI (USD m)	55.5	252.2	129.5	198.7	203.3	211.5	208.1
Basic balance / GDP (%)	-11.6	-11.8	-14.8	-16.5	-15.8	-16.5	-16.7
FX reserves (USD m) pe	839.84	584.64	456.05	293.6	236.4	195.0	230.0
- Import cover (months) pe	2.9	4.0	1.7	1.2	0.9	1.1	1.3
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	9.4	8.6	9.3	21.0	28.7	30.1	14.4
Consumer inflation (%) pe	11.5	7.6	11.5	25.4	34.9	21.5	11.1
M2 money supply (% y/y) pa	11.3	13.9	23.7	34.5	33.8	44.6	39.2
M2 money supply (% y/y) pe	10.2	16.7	30.0	38.8	32.2	47.2	37.1
Policy interest rate (%) pa	13.8	13.3	12.0	14.3	22.0	25.5	23.8
Policy interest rate (%) pe	13.5	12.0	12.0	18.0	24.0	26.0	23.0
3-m rate (%) pe	10.9	9.5	9.4	13.0	14.7	16.0	13.0
USD/MWK pa	742.2	749.5	805.9	949.0	1161.1	1746.0	1878.0
USD/MWK pe	738.9	773.1	819.4	1034.7	1697.9	1 796.0	1 961.0

Source: Reserve Bank of Malawi; National Statistical Office; Ministry of Finance; International Monetary Fund; Bloomberg; Standard Bank Research

Notes: pe – period end; pa – period average; na – not available; nr – not rated

Mauritius: disinflation and better-than-expected growth

Medium-term outlook: stellar 2023 to be followed by slower, but still strong, 2024

2023 real GDP growth of 7.0% y/y was significantly higher than consensus and our 5.4% y/y forecast due to faster-than-expected growth in investment and tourist arrivals.

Private and public sector gross fixed capital formation growth increased 20% y/y and 74% y/y respectively, while tourist arrivals increased 30% y/y, to 1.3m. We forecast 2024 real GDP growth to cool but to a still solid 4.7% y/y, compared to the 4.2% y/y real GDP forecast in our Jan AMR. We see public sector investment in the metro light rail project coming to an end in 2024, and tourism arrivals growth slowing to 11% y/y due to base effects.

Household consumption as a percentage of GDP reached a cyclical low of 65% in 2023, compared to the pre-Covid average of 73%, as high inflation since 2022 constrained spending. This was compensated for by cyclically high contributions from gross fixed capital formation (GFCF), 21% in 2023, versus an 18% average pre-Covid, and a greater contribution from net exports due to a reduction in imports which fell to 43% of GDP in 2023 as a percentage of GDP, compared to an average of 54% pre-Covid.

Both consumer spending and imports are likely to revert higher, towards historical averages, as household real income growth is being supported by a steep disinflationary trend. Moreover, labour market improvement should also support private consumption expenditure (PCE), as the unemployment rate declined to 6.1% in Q4:23, the lowest in 25-y, with female and youth unemployment rates also near historical lows.

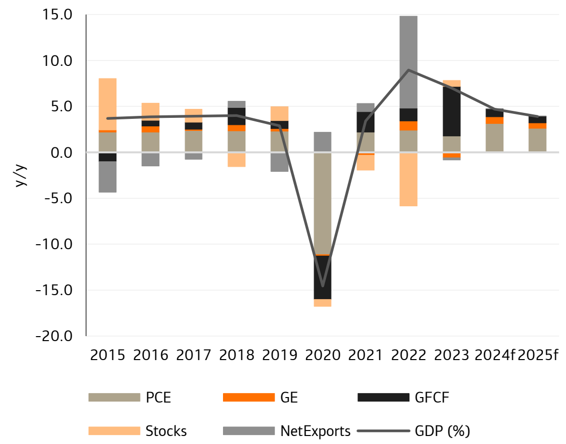
Public and private investment in infrastructure will continue to support GFCF in 2024, albeit to a potentially a lower degree than in 2023. Three of the most significant projects are the Metro Express project, social housing development, and flood management projects. The largest of these is the metro express project, which is planned to conclude in Oct 24, with the extension to St. Pierre and La Vigie representing an outlay of approximately MUR3bn in 2024, versus MUR6.8bn in 2023.

General parliamentary elections are scheduled for 30 Nov 24. Prime Minister Pravind Jugnauth's ruling Militant Socialist Movement (MSM) party currently holds a dominant position in the National Assembly and is likely the favourite due to indications of an unsettled opposition coalition.

On 14 Ap 24, the Parti Mauricien Social Démocrate (PMSD) exited its alliance with the Mauritian Militant Movement (MMM) and the Labour Party (PTr), leading to internal strife and the formation of a splinter group named the New Democrats. This new faction has since re-entered the opposition coalition with MMM and PTr, now under the leadership of Navin Ramgoolam as the prime ministerial candidate.

While localized protests and political demonstrations may occur, the overall environment is anticipated to remain stable, maintaining Mauritius's tradition of peaceful electoral processes.

Composition of GDP growth by demand



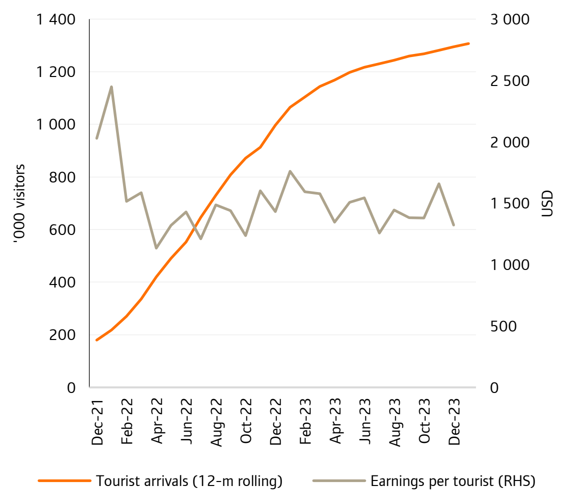
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector

% of GDP	2020	2021	2022
Agriculture	3.41	3.52	3.38
Manufacturing	12.29	12.79	12.69
Food excl. Sugar	4.71	4.74	4.84
Textiles	2.84	2.98	2.89
Electricity	1.64	1.61	1.54
Construction	4.21	4.96	4.57
Wholesale & retail trade	12.48	12.49	11.70
Transportation and storage	5.65	5.58	5.34
Accommodation and food service	2.80	2.32	6.35
ICT	5.29	5.45	5.15
Financial and insurance	15.02	15.04	14.26
Real estate activities	6.59	6.42	5.94
Professional activities	5.51	5.56	5.32
Public administration	6.89	6.69	6.44
Education	5.27	5.06	4.76
Health	5.14	5.17	5.00
Entertainment	2.87	2.50	2.46
Other	4.94	4.85	5.10

Source: Statistics Mauritius

Tourism trends



Source: Statistics Mauritius; Standard Bank Research

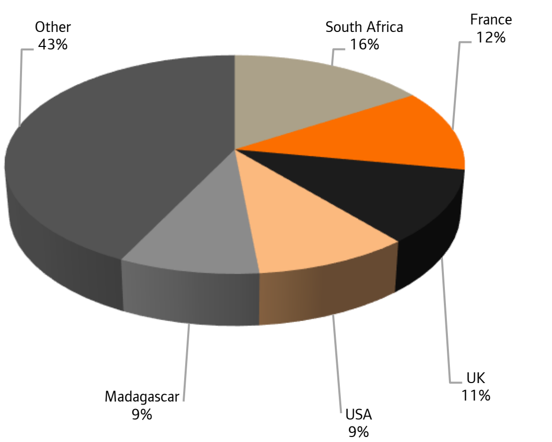
Medium-term economic growth scenario

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	4.32	4.61	4.70	5.17	3.59	3.82	3.90	4.29	3.22	3.43	3.50	5.44	3.04	3.23	3.30	3.63
CPI (% y/y) pe	5.01	4.70	4.39	4.08	3.94	3.79	3.65	3.50	3.45	3.40	3.35	3.30	3.25	3.20	3.15	3.10
BoM policy rate (%) pa	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.50
3-m rate (%) pe	3.24	3.47	3.16	2.85	2.71	2.56	2.42	2.27	2.22	2.17	2.12	2.07	2.02	1.97	1.92	1.87
6-m rate (%) pe	3.60	3.77	3.46	3.15	3.01	2.86	2.72	2.57	2.52	2.47	2.42	2.37	2.32	2.27	2.22	2.17
USD/MUR pe	45.77	47.21	47.14	47.08	47.01	46.95	46.89	46.83	46.77	46.71	46.65	46.59	46.53	46.47	46.42	46.37

Source: Bank of Mauritius; Statistics Mauritius; Ministry of Finance; Bloomberg; Standard Bank Research

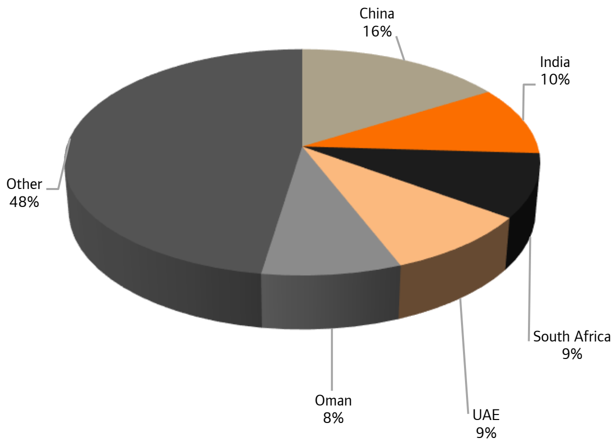
Notes: pa - period average; pe - period end

Share in Mauritius's exports (%)



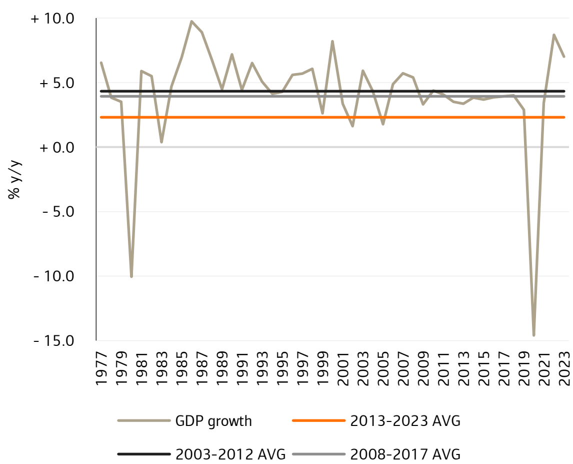
Source: ITC

Share in Mauritius's imports (%)



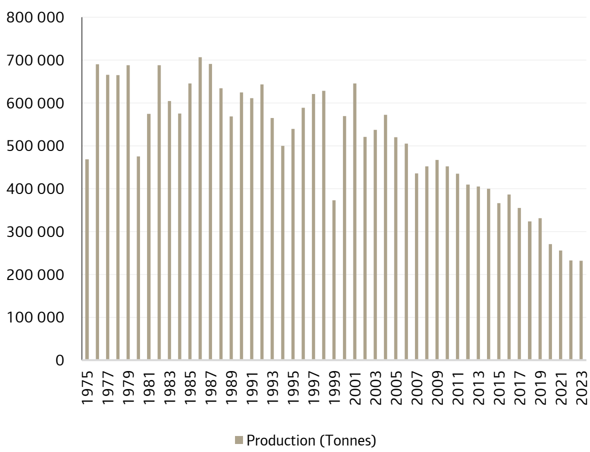
Source: ITC

Long-term GDP performance



Source: World Bank; Statistics Mauritius

Sugar production



Source: Statistics Mauritius

Balance of payments: tourism and FDI drive improvement in 2024, while Bank of Mauritius (BoM) focuses on reserves accumulation

The current account deficit in 2023 improved to 4.5% of GDP, from 11.2% in 2022, ahead of our Jan AMR estimate of 5.8%. This improvement was driven primarily by a strong rebound in tourism earnings, higher net income from portfolio investments, and a reduction in the commodity imports bill.

We forecast the current account to reduce slightly in 2024, to around 4.4% of GDP, as the 11% y/y increase in tourist arrivals helps compensate for the negative trade balance in goods caused by imports for infrastructure projects and improved consumer spending.

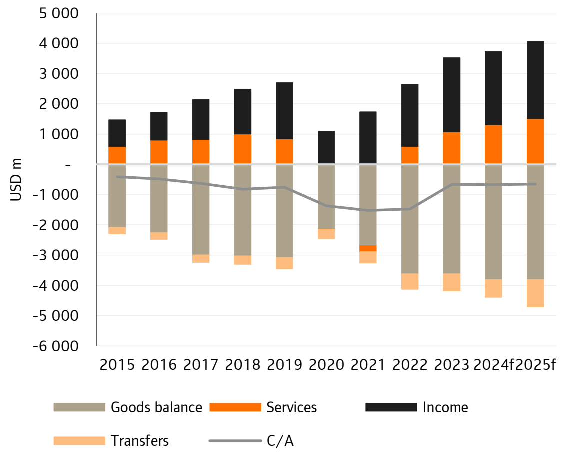
We expect foreign direct investments (FDI) will finance the current account deficit, with international reserves increasing gradually over the medium term, to cover 11-m of imports in 2024. FX reserves declined by 7% y/y in 2023, representing just under 11-m of import cover.

Gross FDI inflows in the domestic economy improved to 5.3% of GDP in 2023, from 4.2% of GDP in 2022, and remain concentrated in the real estate sector.

According to the IMF, Mauritius's reserve adequacy assessment concluded that international reserves at the end of 2023 were below the lower boundary of the advisable range. This assessment was corroborated by authorities who are now focused on the accumulation of reserves to enhance Mauritius's external buffers against shocks, likely reducing the frequency and quantum of foreign exchange interventions.

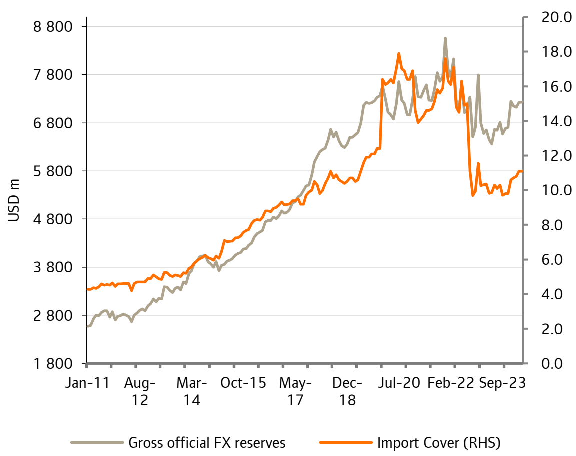
The BoM's goal is to rebuild reserves to USD8bn this year and a USD10bn in the medium term, indicating a prolonged period of limited support for the rupee.

Current account developments



Source: Bank of Mauritius; Standard Bank Research

FX reserves



Source: Bank of Mauritius

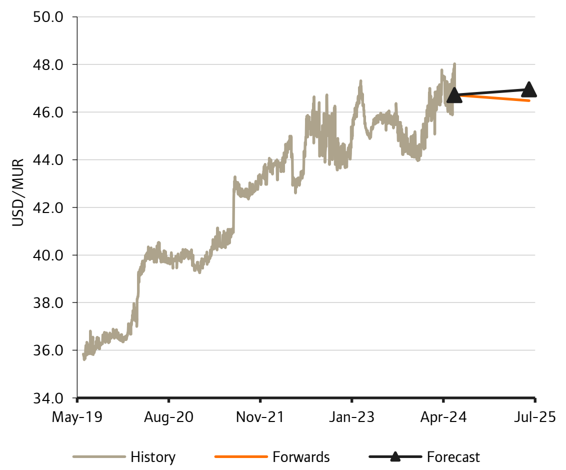
FX outlook: less BoM support implies the USD/MUR pair trending higher in 2024

We expect the rupee to have a weakening bias against the USD in 2024.

Excess demand for USD from importers remains prevalent. This imbalance is currently being reflected in the forward market, rather than in the local spot rate, leading to a widening gap between the onshore and offshore forward USD/MUR rates, and an anticipation of spot conversion, particularly given that the BoM is now focusing more on rebuilding foreign exchange reserves, rather than supporting the MUR against the USD.

The BoM plans to issue guidelines regarding forward-curve pricing, with the aim to ensure orderly functioning of the domestic FX market. Until such time, we'd expect this dynamic to persist.

USD/MUR: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing inflation makes the case for rate cuts in 2024

Headline CPI averaged 7.1% y/y in 2023, compared to our 9.8% y/y forecast in the Jan AMR. Faster-than-expected disinflation in food and transport drove a decline from 11.8% y/y in Jan 23, to 3.4% y/y in Dec 23.

We forecast CPI to average 4.1% y/y in 2024, ending the year at 3.9%, in line with the Bank of Mauritius's (BOM) 2%-5% range. Favourable global food price trends will help with imported food inflation, while supply-side shocks driven by geopolitics remain the source of upside risks.

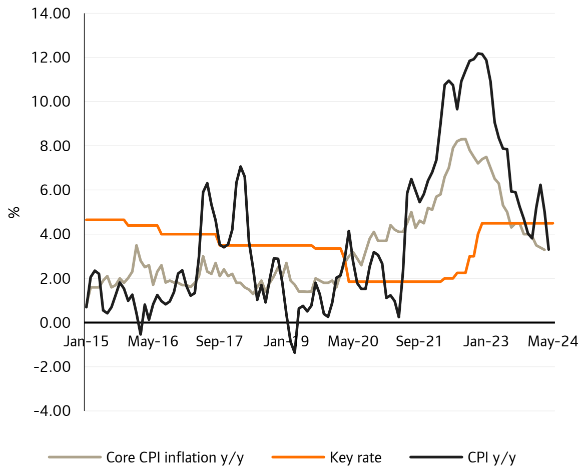
We forecast a 25bps cut in the key rate in 2024, in line with the timing of US Fed rate cuts. The central bank adopted an inflation-targeting framework in Jan 23, aiming for 3.5% y/y inflation over the medium term.

The key rate was negative in real terms between Jan and Oct 23; the policy stance was expressed by open market operations (OMO) via the issuance of 7-day BoM bills, which successfully raised interbank rates close to 4.5% in H1:23. However, this framework's effectiveness waned in H2:23 when capped issuance of 7-Day BOM bills led to a divergence, with the interbank rate falling to 3.1% as excess liquidity built up again, leading to increased treasury bill issuance as a liquidity management tool.

2023 highlighted the weak monetary policy transmission of the key rate. Despite the new framework and unchanged policy rate, savings deposit and prime lending rates remained unresponsive in 2023, failing to activate the credit channel as intended.

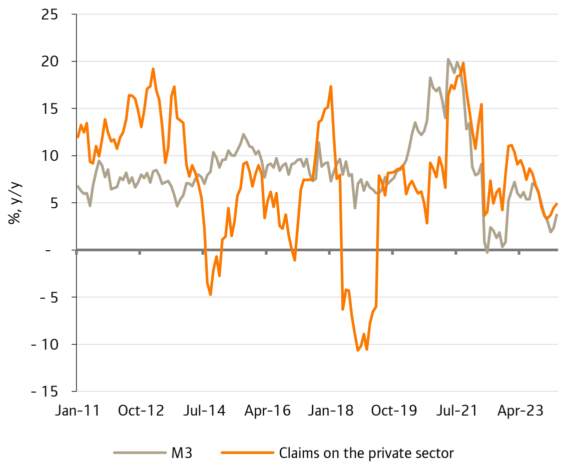
In 2024 we expect BoM to maintain its framework of fine-tuning liquidity with OMOs. To improve policy transmission, the BOM plans to enhance its policy effectiveness by resuming uncapped issuance of 7-Day BOM bills to realign the interbank rate with the policy rate.

Inflation and interest rates



Source: Bank of Mauritius; Standard Bank Research

Money supply



Source: Bank of Mauritius

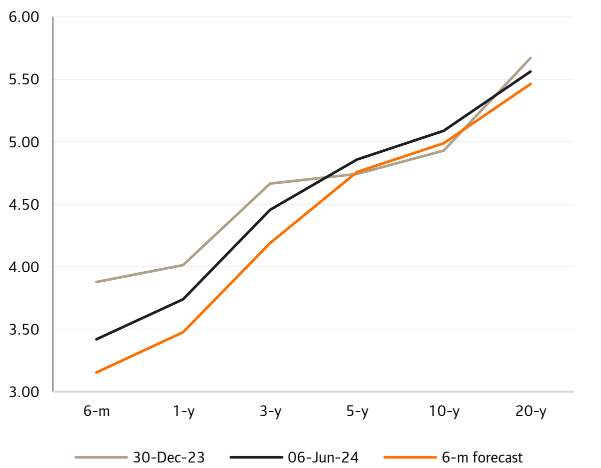
Yield curve outlook: moderate bull-steepening likely to continue

In our Jan AMR, we forecast yields falling in a parallel fashion by Jun 24 due to disinflation and fiscal consolidation. Our forecasts were in line regarding treasury bills, with 12-m yields falling around 111 bps, compared to our forecast of 110 bps over the period.

However, yields for longer-term, 5-y and above, bonds have lagged, creating a bull-steepening scenario over the last 6-m and 12-m.

A downward move in the whole curve remains likely as disinflationary and fiscal consolidation trends continue, with the shorter end of the curve likely to see more interest as the system occasionally needs to handle excess liquidity.

Change in yield curve



Source: Bank of Mauritius; Standard Bank Research

Fiscal policy: growth-friendly fiscal consolidation in FY23/24

The fiscal deficit including grants and capital expenditure is estimated by the Ministry of Finance to narrow to 4.0% of GDP in FY23/24, from 5.10% of GDP in FY22/23. The planned FY24/25 budget deficit is 3.88% of GDP.

Expenditure growth in FY24/25 will be driven by social benefits, especially pensions, likely rising to 30.7% of GDP, from 29.7% in FY23/24. This increase, partly influenced by the upcoming Nov 24 elections, aligns with historical patterns. However, revenue growth is expected to outpace expenditure, which should assist fiscal consolidation.

We forecast the public debt-to-GDP ratio to decline from 74.9% in 2023, to 69.7% in 2024 and 66.2% in 2025, supported by robust GDP growth. The government aims to further reduce this ratio to about 60% in the medium term.

Mauritius's strategic fiscal policy reflects a balancing act between pursuing consolidation to ensure debt sustainability, while maintaining social spending to protect vulnerable groups, especially in the face of inflation. The focus on economic development projects aims to generate long-term economic growth and revenue flows.

This strategy seems to be working. Despite challenges, fiscal imbalances are narrowing, debt is declining, and growth remains robust.

However, risks remain. Global commodity price shocks could disrupt inflation targets, while an aging population poses long-term fiscal pressures.

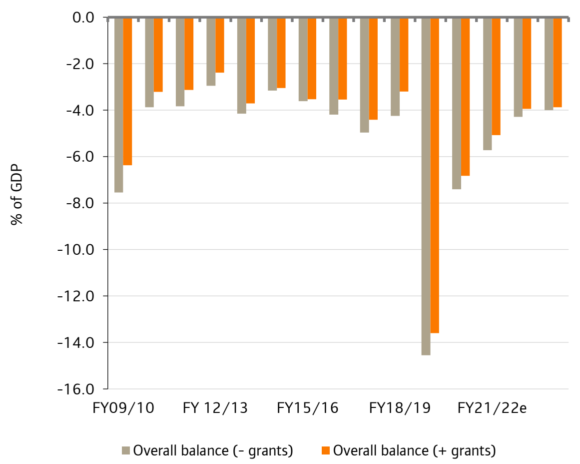
Pension system reform is key to fiscal sustainability, given Mauritius's aging population. Reform is likely to include gradually increasing the Basic Retirement Pension eligibility age and reforming the Contribution Sociale Généralisée (CSG) to collect contributions from workers. Additionally, regular adjustments to domestic fuel prices will be vital to protect fiscal space and avoid subsidisation.

Central government budget

% of GDP	FY2023/24e	FY2024/25f
Total revenue	24.8	26.4
Total expenditure	28.7	29.7
- Interest	2.6	2.5
- Wages	5.5	5.2
- Capital expenditure	3.9	3.6
Overall balance (- grants)	-4.0	-3.6
Overall balance (+ grants)	-3.9	-3.3
Net external borrowing	1.7	0.6
Net domestic borrowing	1.7	2. 6
Donor support (grants)	0.1	0.2

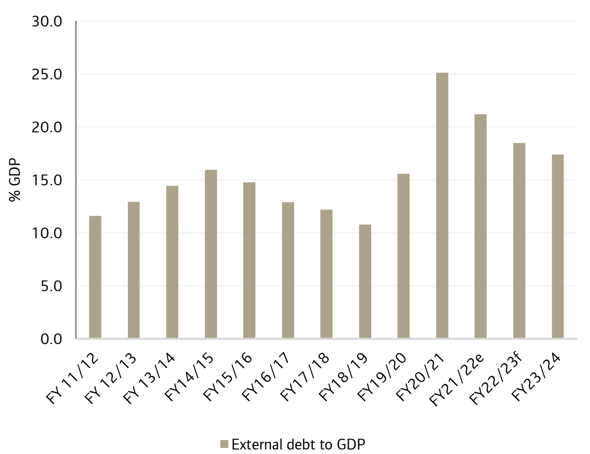
Source: Ministry of Finance and Economic Development

Fiscal deficit



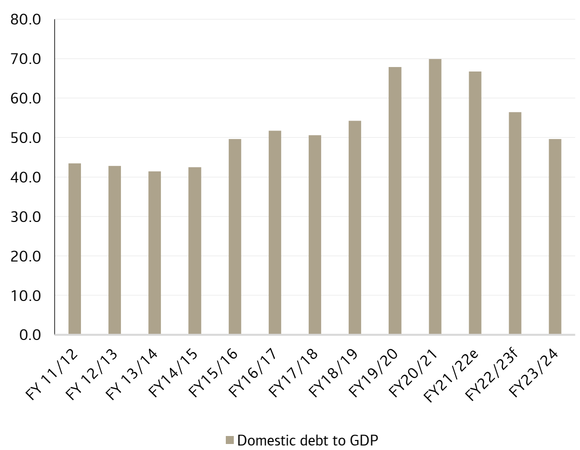
Source: Ministry of finance and Economic Development

External debt



Source: Ministry of finance and Economic Development

Domestic debt



Source: Ministry of finance and Economic Development

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Nominal GDP (MUR bn)	512.1	448.9	478.8	571.2	651.9	709.1	761.6
Nominal GDP (USD bn)	13.7	11.7	12.1	13.2	14.4	15.2	16.2
GDP / capita (USD)	10818.1	9240.9	9512.6	10296.9	11245.8	11884.0	12676.4
Real GDP growth (%)	3.0	-14.5	4.1	9.0	7.0	4.7	3.9
Sugar production ('000 Tonnes)	331.1	270.9	255.8	232.7	232.0	236.6	241.4
Tourism arrivals ('000)	1383.5	309.0	179.8	997.3	1295.4	1435.2	1507.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.2	-14.6	-7.4	-5.7	-4.3	-4.0	-3.6
Budget balance (incl. Grants) / GDP (%)	-3.2	-13.6	-6.8	-5.1	-3.95	-3.88	-3.34
Domestic debt/GDP (%)	54.2	67.9	69.9	66.8	56.4	53.6	50.2
External debt/GDP (%)	10.8	15.6	25.1	21.2	18.5	16.1	16.0
Balance of Payments							
Exports of goods and services (USD bn)	5.2	3.1	3.2	5.0	5.5	5.9	6.3
Imports of goods and services (USD bn)	-7.4	-5.2	-6.1	-8.0	-8.0	-8.4	-8.6
Trade balance (USD bn)	-2.2	-2.1	-2.9	-3.0	-2.5	-2.5	-2.3
Current account (USD bn)	-0.8	-1.4	-1.5	-1.5	-0.66	-0.67	-0.65
- % of GDP	-5.5	-11.7	-12.6	-11.2	-4.6	-4.4	-4.0
Capital & Financial account (USD bn)	0.7	1.2	1.6	1.4	0.1	1.0	1.0
- FDI (USD bn)	2.0	2.8	3.6	2.3	0.4	0.5	0.5
Basic balance / GDP (%)	-0.3	-1.0	0.7	-0.3	-4.2	1.9	2.2
FX reserves (USD bn) pe	7.4	7.3	8.6	7.8	7.3	7.4	7.6
- Import cover (months) pe	12.4	16.9	17.6	13.3	10.8	10.5	10.5
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	BBB-	BBB-	BBB-
Moody's	Baa1	Baa1	Baa2	Baa3	Baa3	Baa3	Baa3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.5	2.5	4.3	10.8	7.1	3.9	3.8
Consumer inflation (%) pe	0.9	2.7	6.7	12.2	7.0	4.1	3.5
M2 money supply (% y/y) pa	7.1	13.2	16.4	3.3	5.9	4.0	6.7
M2 money supply (% y/y) pe	8.5	16.8	8.8	5.3	3.6	5.3	8.0
BoM Policy rate (%) pa	3.43	1.85	1.85	2.94	4.50	4.44	4.19
BoM Policy rate (%) pe	3.35	1.85	4.50	4.50	4.50	4.25	4.00
3-m rate (%) pe	2.9	0.3	0.6	1.0	3.6	2.9	2.3
5-y rate (%) pe	5.2	1.2	3.5	4.4	4.7	4.7	4.4
USD/MUR pa	35.7	39.4	41.9	44.4	45.3	46.6	46.9
USD/MUR pe	36.3	39.7	43.8	44.3	44.3	47.1	46.8

Source: Bank of Mauritius; Statistics Mauritius; Ministry of Finance; Bloomberg; Standard Bank Research

Notes: pe – period end; pa –a period average

Mozambique: growth takes a breather before LNG boom

Medium-term outlook: growth heavily reliant on pending LNG investment

We retain our Jan AMR forecasts of GDP growth slowing to 4.6% y/y in 2024 and 3.8% y/y in 2025 as favourable base effects, from the liquified natural gas (LNG) production ramp-up at Coral South FLNG platform, will likely abate.

Growth slowing may also reflect persisting government fiscal pressure and still choppy FX supply.

Furthermore, despite inflation easing, last reported at 3.1% y/y in May, and the beginning of an easing cycle of monetary policy, with a cumulative 225 bps cuts in the MIMO policy rate from Jan 24 to May 24, to the 15%, interest rates in real terms remain high.

The prime lending rate is declining but remains high, at 22%, which, alongside cash reserves ratios (CRR) currently at 39% for local currency (LCY) deposits and at 39.5% for foreign currency deposits (FCY), implies domestic financing conditions remaining tight, which too may subdue growth.

Nevertheless, GDP grew 5.4% in 2023 due to the extractive sector growing at 34.1% y/y, from 8.7% y/y in 2022, after the production ramp-up at Coral South to 3.4m tonnes of LNG nominal capacity. However, growth for the rest of the economy slowed to 2.2% y/y in 2023, from 3.9% y/y in 2022, reflecting tight monetary policy and persistent fiscal pressure.

Agriculture, accounting for 25% of GDP and providing a means of subsistence for 75% of the population, has been impacted by recurrent climate change events. This sector slowed to 3.7% y/y in 2023, from 5.7% y/y in 2022.

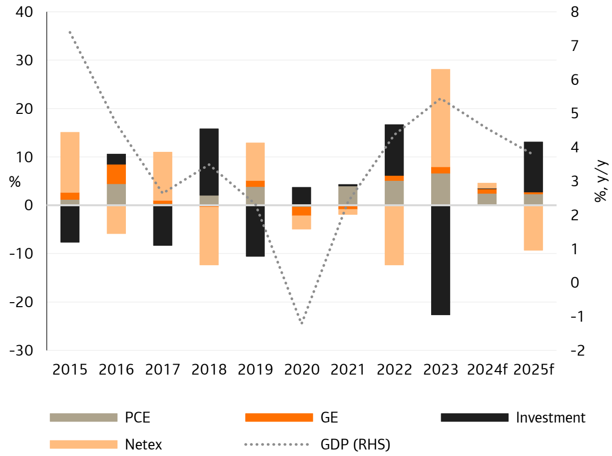
Further, the 39.7% y/y increase in the government wage bill in 2022, to MZN194.4bn, or 16.1% of GDP, consuming 68% of revenue, implies limited fiscal space for either development expenditure or support for agriculture.

Indeed, the government's financial support to agriculture fell by 33% y/y in 2023, to MZN16.1bn, 4.5% of government expenditure (excluding debt service and financial operations) and well below the10% target.

Despite general elections on 9 Oct, government expenditure is likely to remain constrained. Creating fiscal space would imply liability management in helping to deal with hefty government domestic bonds maturities falling due in 2025 and 2026.

GDP growth has become heavily reliant on LNG investment. Despite ongoing insecurity in Cabo Delgado, we still see TotalEnergies lifting its *force majeure* this year, with GDP growth then likely accelerating as of 2026.

GDP by demand



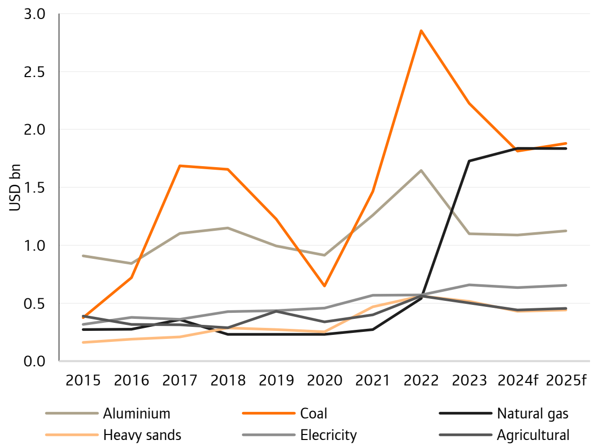
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution of GDP by sector (% of total)

	2015	2021	2022	2023
Agriculture & forestry	23.4	25.0	25.3	24.9
Fishing	1.3	1.3	1.3	1.3
Extractive	8.4	9.7	10.1	12.9
Manufacturing	9.4	8.7	8.4	7.6
Electricity & gas	3.0	2.5	2.5	2.4
Water supply	0.3	0.3	0.3	0.3
Construction	1.6	1.3	1.2	1.1
Trade	11.7	9.9	9.5	9.1
Transport & storage	6.3	5.9	6.4	6.4
Accommodat. & food	1.7	1.2	1.3	1.3
Information & comm.	2.9	3.2	3.1	3.0
Financial	3.8	4.2	4.1	4.1
Real estate	3.8	3.4	3.3	3.2
Public administration	6.5	6.4	6.2	6.2
Education	3.6	3.3	3.3	3.2
Health	1.3	1.6	1.6	1.5
Other	0.7	0.7	0.7	0.6
Taxation minis subs.	10.4	11.4	11.3	10.8
GDP	100.0	100.0	100.0	100.0

Source: Instituto Nacional de Estatística; Standard Bank Research

Principal exports



Source: Banco de Moçambique; Standard Bank Research

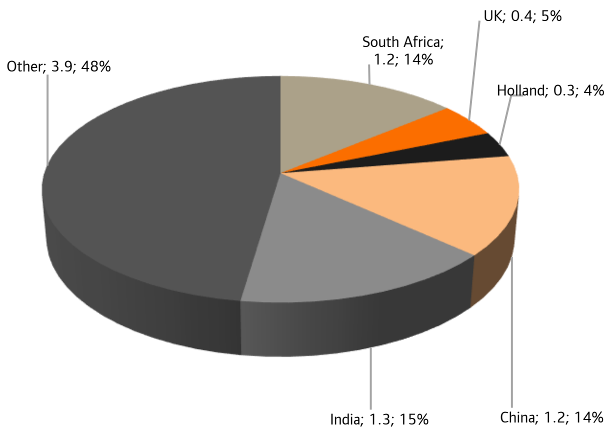
Medium-term economic growth forecasts

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	4.9	4.6	4.1	4.6	4.5	3.7	3.1	3.8	4.6	4.7	4.8	4.7	5.3	5.4	5.6	5.4
CPI (% y/y) pe	3.0	2.9	3.4	5.1	5.5	5.8	5.7	5.6	5.3	5.2	5.2	5.4	5.7	5.9	5.8	5.7
Policy rate (%) pe	15.75	15.00	13.50	13.50	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
3-m rate (%) pe	17.6	16.3	13.2	13.2	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
6-m rate (%) pe	18.1	16.2	13.1	13.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1
USD/MZN pe	63.9	63.9	63.9	63.9	63.9	65.6	65.8	66.4	66.9	66.8	66.3	65.7	66.2	66.1	66.3	66.9

Source: Banco de Moçambique; Instituto Nacional de Estatística; Ministério da Economia e Finanças; Standard Bank Research

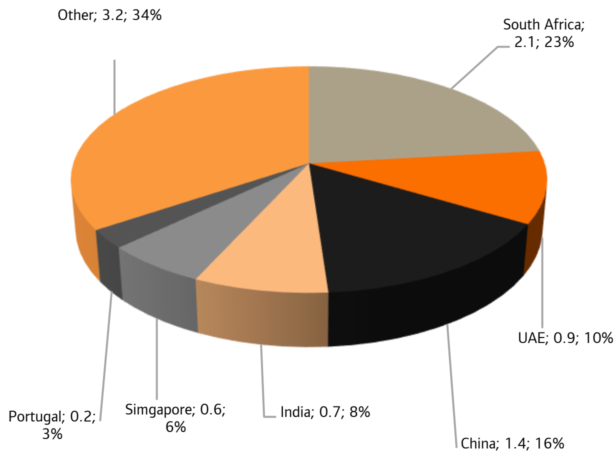
Notes: pa - period average; pe - period end

Exports destinations (USD bn)



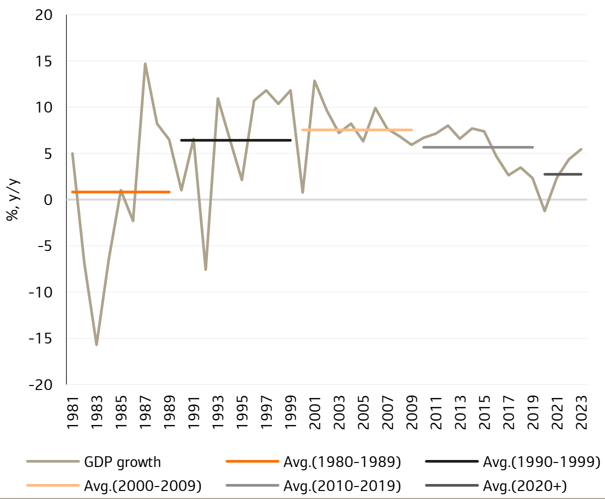
Source: Banco de Moçambique; Standard Research

Imports origins (USD bn)



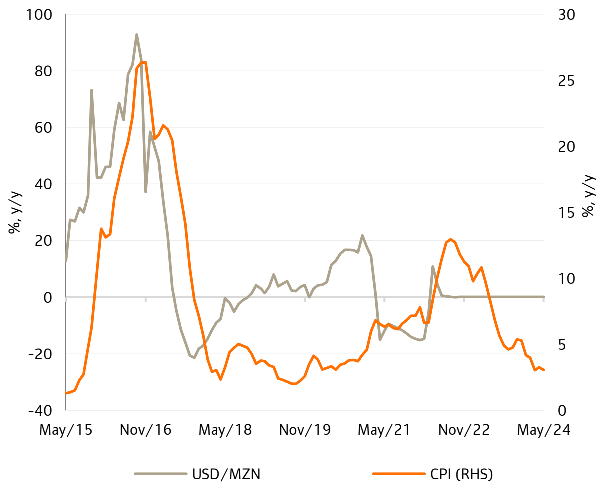
Source: Banco de Moçambique; Standard Bank Research

Long-term GDP performance



Source: Instituto Nacional de Estatística; Standard Bank Research

Annualised FX rate changes versus inflation



Source: Banco de Moçambique; Instituto Nacional de Estatística; Standard Bank Research

Balance of payments: easing C/A deficit

We forecast the current account (C/A) deficit to ease further in 2024, to USD1.6bn, or 6.8% of GDP.

The deficit had eased to a 13-y low of USD2.2bn, or 10.5% of GDP, in 2023. This was mainly due to the impact of goods and services exports still rising.

We forecast exports growing 1.8% y/y in 2024, to USD9.7bn, and 2.3% y/y in 2025, to USD9.9bn, mainly supported by coal and natural gas exports. For 2025, we also foresee a further easing in goods and services imports, due to delayed LNG investment as well as the impact of the Banco de Moçambique (BOM) keeping financing conditions tight.

In the absence of a flexible metical FX rate that would act as a balance-of-payments (BOP) shock absorber, the BOM is keeping financing conditions tight to help deal with the impact of fiscal pressure and to help subdue import demand (besides for large projects) in rebalancing FX supply/demand.

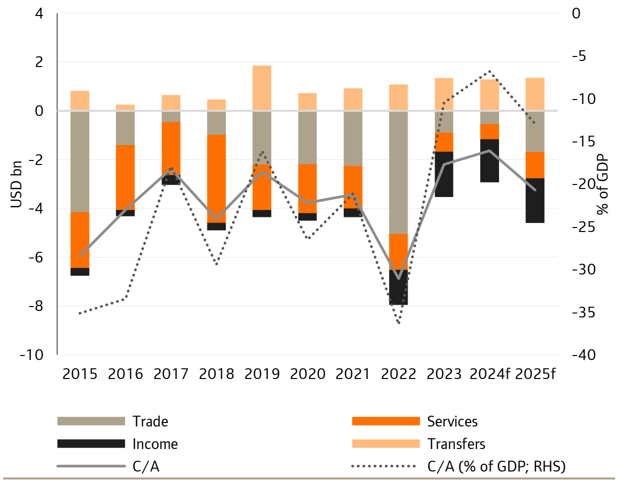
LNG investment resuming during H2:24 should see imports growing, thereby deepening the C/A deficit as of 2025 because LNG projects rely heavily on imports during the construction phase. Nevertheless, with these imports well-funded offshore, there should be no pressure on the FX market nor on FX reserves.

After reaching a recent low of USD2.7bn, or 3.2-m of imports in May 23, the BOM has been rebuilding FX reserves, last reported at USD3.6bn, or 4.9-m of imports in Apr 24, up 30.4% y/y.

This reflects the BOM cutting its FX sales for fuel imports since Jun 23, a higher CRR in FCY, and external financial assistance to the government from the World Bank and IMF.

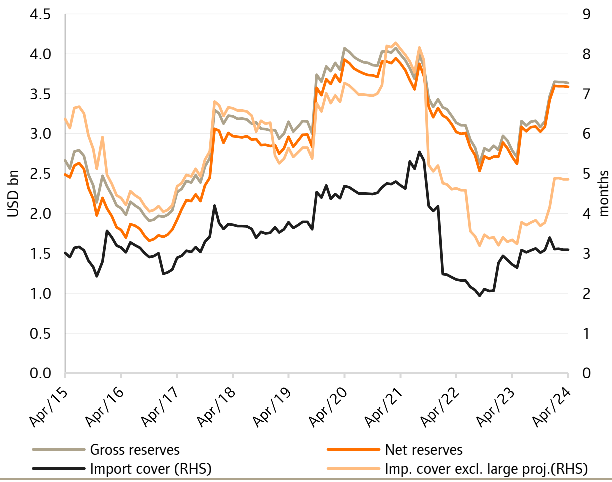
We see FX reserves rising to USD3.7bn in 2024 and USD4.1bn in 2025, supported by disbursements under the IMF USD456m 3-y ECF, which ends in Jun 25. At the completion of the fourth review in Jul, a disbursement of USD60m is expected.

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX reserves



Source: Banco de Moçambique; Standard Bank Research

FX outlook: USD/MZN stable

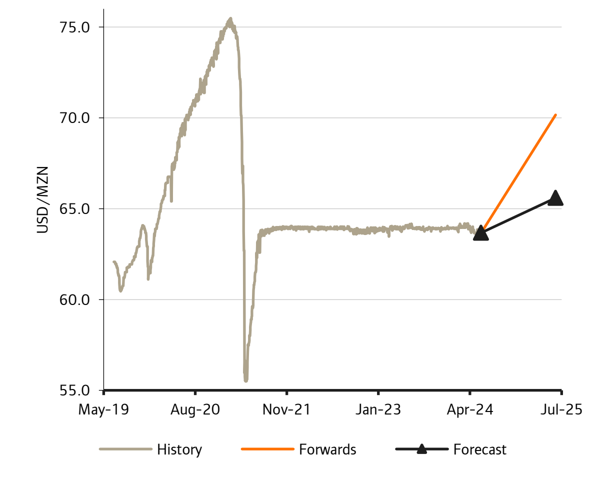
The USD/MZN pair has been stable for the past 3-y and is seen as still steady into year-end, even with the FX market still experiencing choppy FX supply.

Reform progress towards a more flexible metical is expected – but with no material depreciation expected.

Commercial banks' cumulative FX sales from Jan 24 to May 24, at USD2.9bn, or an average of USD577m per month, fell by 17.3% y/y, mainly reflecting the BOM not selling FX for fuel imports since Jun 23 to protect FX reserves. During the first 5-m of 2023, the BOM sold to commercial banks on average USD96.3m per month to support fuel imports.

As a result, this market had an FX backlog of over USD200m as at Jun 24.

USD/MZN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: further policy rate cuts

The Banco de Moçambique (BOM) MPC began an easing cycle for monetary policy in Jan 24, with the MIMO policy rate being cut by cumulative 225 bps, to 15%. We forecast a further 150 bps of cuts in 2024, to 13.5%, and 125 bps of cuts in 2025, to 12.25%.

The current easing cycle follows a hiking cycle from Jan 21 to Sep 22 when the MIMO rate policy rate was hiked by 700 bps, to 17.25%, to help subdue inflation.

Inflation, last reported at 3.1% y/y in May 24, has declined from a recent high of 13% y/y in Aug 22, supported by metical stability and tight financing conditions.

We now adjust lower our year-end inflation forecast for 2024 to 5.1% y/y, from 5.9% y/y in the Jan AMR, and to 5.6% y/y in 2025, from 6.3% y/y.

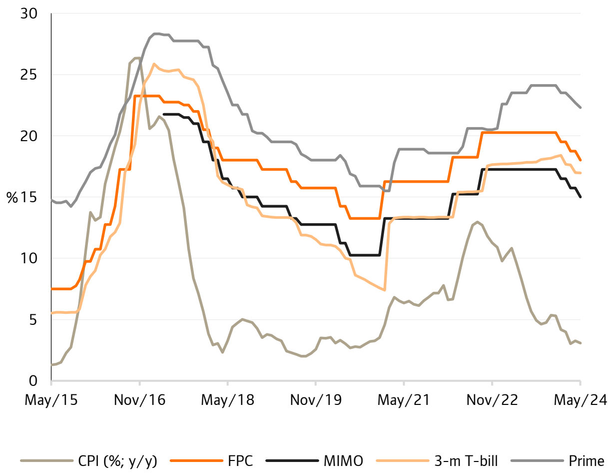
This year, despite tropical storms and floods in some regions and El Niño dry conditions in other regions crimping agricultural output, seasonal month-on-month (m/m) disinflation resumed in May, which typically lasts until Jul-Aug.

Agricultural output has been resilient, and there has been a positive FX rate effect on imported food from South Africa, both of which saw food inflation easing to 4.9% y/y in May, from a peak of 18.2% y/y in Mar 23. A shift in climate forecasts, to La Niña, in H2:24 should also soften inflation.

Financing conditions remaining tight further subdues aggregate demand and inflation. Despite the current interest rate easing cycle, cash reserves ratios (CRR) have been kept stable at 39% for local currency (LCY) deposits and 39.5% for foreign currency (FCY), limiting private sector credit growth.

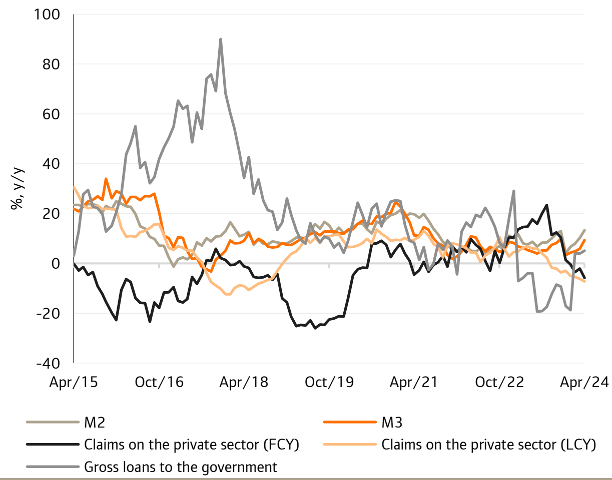
Apr 24 data shows credit to the economy as contracting by 7% y/y, from an 8% y/y expansion a year ago, as real interest rates remain high and CRR limits commercial banks' ability to lend.

Inflation and interest rates



Source: Banco de Moçambique; Instituto Nacional de Estatística; Standard Bank Research

Monetary statistics



Source: Banco de Moçambique; Standard Bank Research

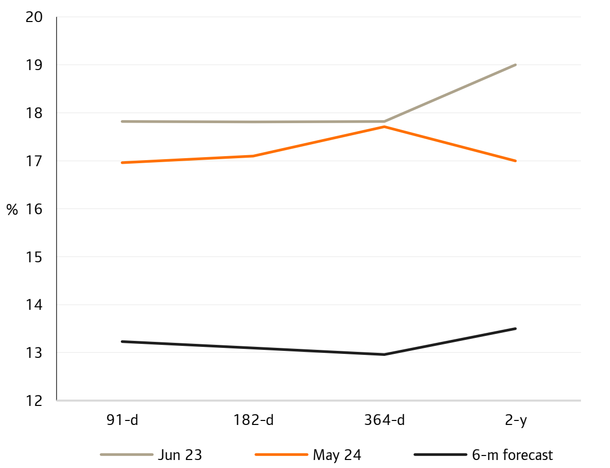
Yield curve outlook: downward shift

In line with our views of the BOM further cutting interest rates, we see yields declining, implying a downward shift in the yield curve. In the short term, the pace of downward adjustment in T-bill yields could well be less than proportional than what is implied by the policy rate cuts, due to persistent government domestic debt pressure.

Nevertheless, should the government succeed in smoothing the large domestic bond repayments of 2025 and 2026, most likely through liability management, we may see T-bill yields adjustments as more aligned to policy rate changes.

Government bonds are still being issued at complex hybrid structures of fixed rate for the first four semi-annual coupons, then floating. This does little to help develop a local currency yield curve. The latest 5-y issuance attracts a fixed coupon of 16.5% for the first 2-y, then becomes a floating coupon (T-bill+0.25%).

Yield curve changes



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: relentless public debt pressure

Fiscal pressure tightened in 2022 when the 39.7% y/y increase in the wage bill, to 16.1% of GDP, consuming 68% of revenue, forced the government to borrow more aggressively in the domestic market, increasing domestic debt by 23.7% y/y in 2022, to 23.3% of GDP, and by 11.5% y/y in 2023, to 23.4% of GDP.

To help restore fiscal sustainability, the government approved in Jun the medium-term fiscal scenario (MTFS) whereby the government commits to making progress on wage bill reform to reduce the wage bill to GDP ratio to 11.2% of GDP by 2027, from a planned 13% in 2024.

Under the MTFS, the government is targeting an increase in the domestic primary surplus before grants, from 0.2% of GDP in 2023, to 4% of GDP by 2027, to reduce the overall debt to GDP ratio to 42.7% by 2027, from 75.6% in 2023.

To achieve this, the government is introducing fiscal rules to constrain the wage bill.

LNG delays and subdued growth, besides the extractive sector, imply limited upside for government revenue, which, alongside expenditure pressure, implies persistently high fiscal risks.

To create some fiscal space, the government may attempt liability management on domestic debt to smooth the impact of hefty domestic bond repayments of MZN37bn falling due in 2025 and MZN44.1bn in 2026. Overall domestic debt principal repayments for 2025 and 2026, including these domestic bond maturities, are high, at MZN42.5bn and MZN 44.9bn.

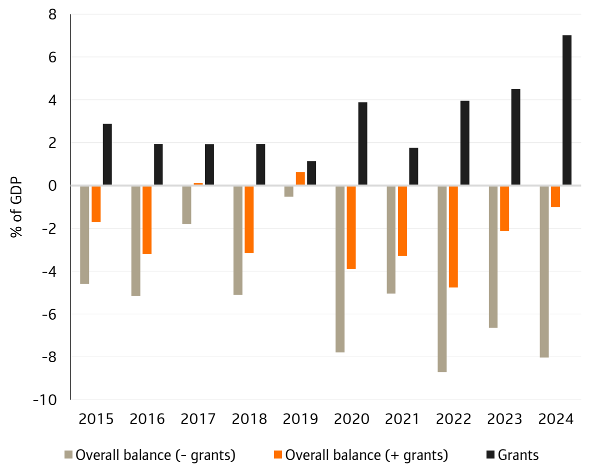
For 2025 and 2026, debt service, domestic plus external, and interest plus principal repayment consume 30% and 29.1% of revenue, leaving limited room for development expenditure. After temporarily easing to 17.3% of revenue in 2027, debt service rises again in 2028 when repayment of the USD900m Eurobond begins.

Central government finances

% of GDP	2021	2022	2023	2024
Total revenue	25.1	23.7	24.4	25.0
Total expenditure	30.2	32.4	31.0	33.0
- Recurrent	23.3	26.2	25.5	22.1
- Domestic interest	1.7	2.0	3.0	2.6
- External interest	0.9	0.9	0.8	0.9
- Wages	13.2	16.1	15.2	13.0
- Development	6.5	6.0	5.2	10.6
- Net lending to SOEs	0.3	0.2	0.2	0.3
Overall balance (-grants)	-5.0	-8.7	-6.6	-8.0
Overall balance (+grants)	-3.3	-4.8	-2.1	-1.0
Grants	1.8	4.0	4.5	7.0
Net domestic borrowing (-saving)	2.4	4.2	0.4	1.5
Net external borrowing (-saving)	0.6	0.8	-0.6	-0.5
Previous years revenue allocation	1.5	1.1	2.7	0.0
Changes in balances	-1.2	-1.4	-0.4	0.0

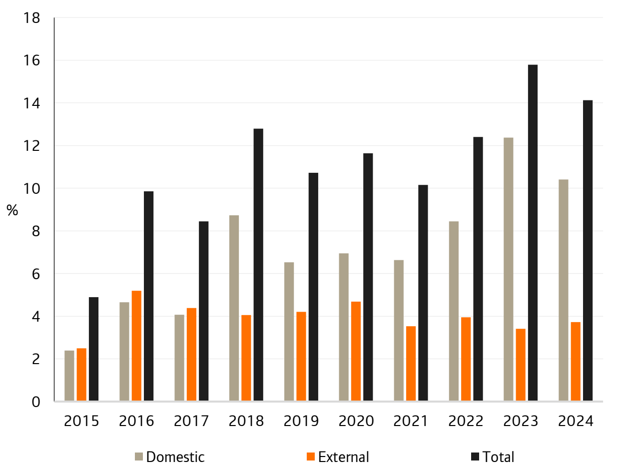
Source: Ministério da Economia e Finanças; Standard Bank Research

Fiscal balance and grants



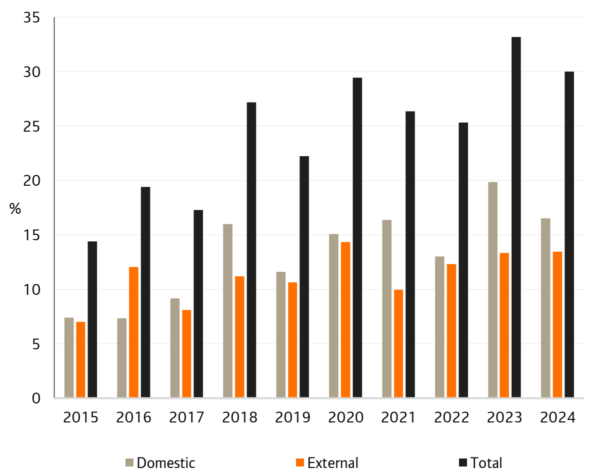
Source: Ministério da Economia e Finanças; Standard Bank Research

Interest to revenue



Source: Ministério da Economia e Finanças; Standard Bank Research

Debt service to revenue



Source: Ministério da Economia e Finanças; Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	29.3	30.1	30.8	31.6	32.4	33.2	34.1
Nominal GDP (MZN bn)	970.3	988.9	1,058.4	1,205.7	1,338.7	1,536.5	1,638.0
Nominal GDP (USD bn)	15.5	14.2	16.2	18.9	21.0	24.0	25.1
GDP / capita (USD)	529.1	473.4	526.5	597.4	646.4	723.3	735.3
Real GDP growth (%)	2.3	-1.2	2.4	4.4	5.4	4.6	3.8
Coal output ('000 000 tonnes)	10.3	8.0	11.1	14.8	15.0	14.1	13.9
LNG output ('000 BOE/d)				1.2	66.2	73.9	76.0
Central Government Operations							
Budget balance (- grants)/ GDP (%)	-0.5	-7.8	-5.0	-8.7	-6.6	-8.0	-2.9
Budget balance (+ grants)/ GDP (%)	0.6	-3.9	-3.3	-4.8	-2.1	-1.0	-0.3
Domestic debt / GDP (%)	19.0	22.7	24.0	25.5	25.1	22.1	20.3
External debt / GDP (%)	84.2	89.4	83.7	54.7	50.5	45.1	40.2
Balance of Payments							
Exports (USD bn)	5.7	4.5	6.5	9.4	9.5	9.7	9.9
Imports (USD bn)	-9.8	-8.7	-10.5	-15.9	-11.2	-10.8	-12.6
Trade balance (USD bn)	-4.1	-4.2	-4.0	-6.5	-1.7	-1.2	-2.8
Current account (USD bn)	-2.5	-3.8	-3.4	-6.9	-2.2	-1.6	-3.2
- % of GDP	-16.1	-26.5	-21.2	-36.4	-10.5	-6.8	-12.9
Capital and financial account (USD bn)	3.0	4.0	3.4	6.6	2.1	1.6	3.2
- FDI (USD bn)	3.4	3.0	5.1	2.5	2.5	1.7	4.9
Basic balance / GDP (%)	5.8	-5.2	10.3	-23.4	1.5	0.1	6.6
FX reserves (USD bn) pe	3.8	4.0	3.4	2.9	3.5	3.7	4.1
- Import c. excl. large proj. (months) pe	6.9	7.2	4.9	3.7	4.6	5.0	5.1
Sovereign Credit Rating							
S&P	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	Caa2	Caa2	Caa2	Caa2	Caa2	Caa2	Caa2
Fitch	CCC	CCC	CCC	CCC+	CCC+	CCC+	CCC+
Monetary & Financial Indicators							
Headline inflation (%) pa	2.8	3.1	5.7	10.3	7.1	3.6	5.6
Headline inflation (%) pe	3.5	3.5	6.7	10.9	5.3	5.1	5.6
M2 money supply (% y/y) pa	12.4	15.6	15.2	6.0	9.0	8.6	8.2
M2 money supply (% y/y) pe	14.3	19.9	5.6	11.2	4.1	8.1	8.6
Policy interest rate (%) pa	13.46	11.04	13.25	15.58	17.25	14.75	12.33
Policy interest rate (%) pe	12.75	10.25	13.25	17.25	17.25	13.50	12.25
3-m rate (%) pe	11.2	7.6	13.4	17.7	18.3	13.2	12.0
1-y rate (%) pe	11.6	7.3	13.4	17.7	18.6	13.0	12.2
USD/MZN pa	62.6	69.5	65.2	63.8	63.9	63.9	65.3
USD/MZN pe	61.5	74.9	63.8	63.9	63.9	63.9	66.4

Source: Banco de Moçambique; Bloomberg; Instituto Nacional de Estatística; Ministério da Economia e Finanças; Standard Bank Research

Notes: pa - period average; pe - period end; na - not available; nr – not rated

Namibia: mining still the growth engine

Medium-term outlook: mining sector upside

We now project GDP growth of 3.5% y/y this year (from 3.2% y/y previously), again underpinned by the mining sector, from 4.2% y/y in 2023, then 4.0% y/y in 2025, and averaging 3.7% y/y in 2026-2027.

The economy grew by 4.2% y/y in 2023, undershooting our 6.1% y/y estimate in the Jan AMR edition, from growth of 5.3% y/y in 2022. Notably, GDP growth outcomes for all quarters of 2023 were revised down by some margin. Growth in 2023 was again led by the primary industries, driven by the mining and quarrying sector, still the growth engine, contributing 2.1 percentage points (50%) to GDP growth of 4.2% y/y.

The mining sector will likely support growth in 2024 too. The exploration activities for oil and gas in Namibia, classified under 'other mining and quarrying', have boosted the mining sector's performance. In 2023, these activities posted growth of 37.2% y/y, from 6.7% y/y in 2022. The Ministry of Mines and Energy has announced five offshore oil-drilling projects to be initiated in the Orange Basin this year. In Apr 24, Galp Energia completed the first phase of the explorations at the Mopane Field (discovered in January), off the coast of Namibia, and estimates that this might produce at least 10 billion barrels of oil equivalent, or more – which would add to the 2022 oil discoveries by Shell and TotalEnergies. In the long term, these oil discoveries may prove a game-changer for the USD13bn Namibian economy, contingent on progress being made on final investment decisions.

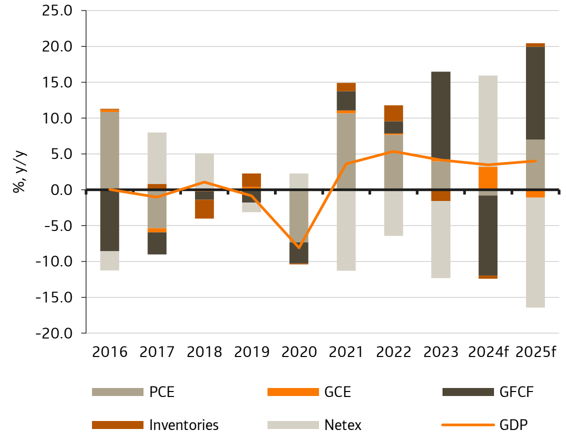
Increasing demand for uranium, due to the global policy shift towards nuclear power as a more sustainable energy source, should continue driving uranium mining in the near- to medium term. The Langer Heinrich uranium mine is set to return online this year, from full care and maintenance since 2018. Furthermore, two mining licences have been granted for uranium projects to Bannerman and Deep Yellow (Reptile Uranium). Namibia's third gold mine, the Twin Hills project, is also in the pipeline. The development of these new mines is anticipated in the next 3-y. Diamond production however may falter – the IMF has downwardly revised the global outlook for 2024, which may soften demand given that diamonds are a luxury spend. Competition from lab-grown diamonds, which retail for far lesser price, poses a further risk to international diamond prices.

Ancillary sectors such as hotels, restaurants, transport, and trade should also remain supported by the continued increase in tourism. Tourist arrivals were up 33.5% y/y in 2023.

However, agriculture may be a poor performer in 2024 too, due to the El Niño-induced droughts affecting the 2023/24 agricultural season, before rising in 2025 on base effects.

On the GDP demand side, government expenditure may pick up this year due to election-related spending. Namibia heads to the polls in Nov.

Composition of GDP by demand



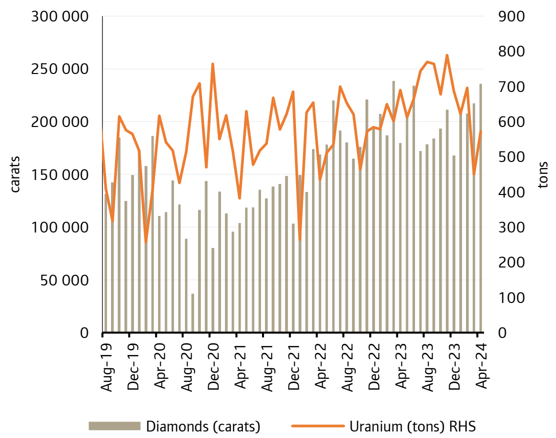
Source: Namibia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2018	2023
Agriculture, forestry & fishing	6.7	7.8	7.7
-Fishing	2.6	2.5	2.8
Mining and quarrying	8.9	8.8	14.4
Manufacturing	11.4	12.3	11.2
Electricity and Water	1.7	3.7	3.0
Construction	5.5	2.1	1.4
Wholesale and retail trade	11.2	9.9	11.0
Hotels and restaurants	1.9	1.9	1.5
Transport & storage	3.1	3.2	3.1
ICT	1.4	1.4	1.3
Financial and insurance	7.0	7.7	6.8
Real estate	5.1	5.3	4.8
Professional, scientific & technical	0.8	0.7	0.5
Administrative and support	1.3	1.0	1.0
Arts and Entertainment	1.6	1.7	1.5
Public administration and defence	11.4	11.4	8.8
Education	8.8	9.6	9.4
Health	3.5	3.4	3.1

Source: Namibia Statistics Agency

Diamond and uranium production



Source: Namibia Statistics Agency

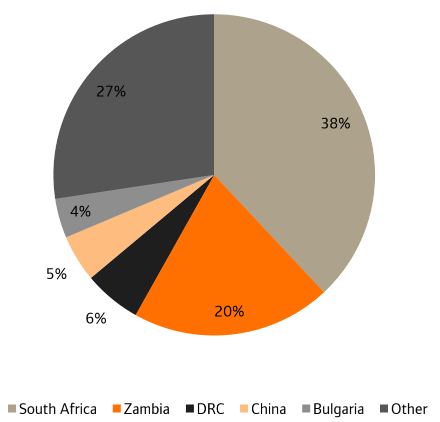
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	3.4	3.6	4.2	2.9	4.2	3.8	3.6	4.4	2.8	3.4	3.7	4.2	4.3	3.1	2.4	3.8
CPI (% y/y) pe	4.5	5.0	4.5	3.9	4.3	4.0	4.0	4.2	4.2	4.2	4.1	4.0	4.0	4.4	4.6	4.9
Policy interest rate (%) pe	7.75	7.75	7.25	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
3-m rate (%) pe	8.82	8.58	8.08	7.83	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58
6-m rate (%) pe	8.83	8.72	8.22	7.97	7.72	7.72	7.72	7.72	7.72	7.72	7.72	7.72	7.72	7.72	7.72	7.72
USD/NAD pe	18.88	18.30	18.25	18.20	18.13	18.05	17.98	17.90	17.86	17.83	17.79	17.75	17.73	17.86	17.97	18.07

Source: Namibia Statistics Agency; Bank of Namibia; Ministry of Finance; Bloomberg; Standard Bank Research

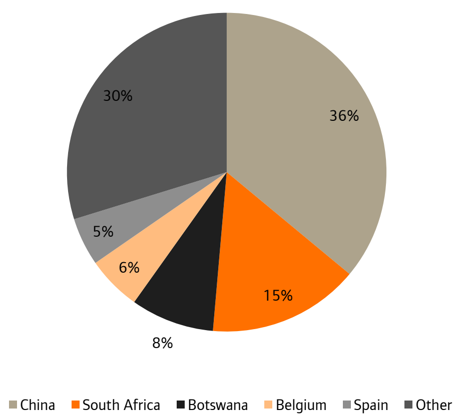
Notes: pa - period average; pe - period end

Top 5 imports origin markets (% of total)



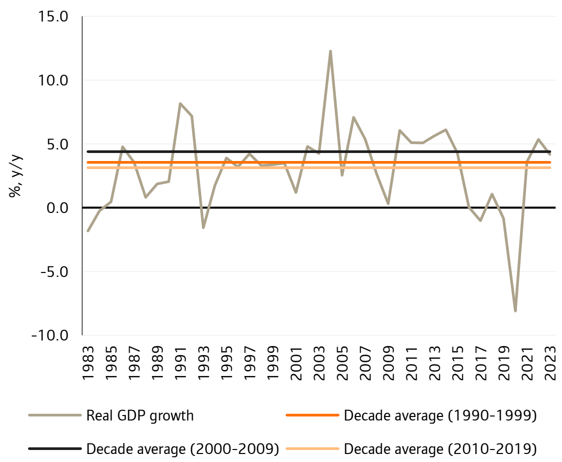
Source: International Trade Centre

Top 5 exports destination markets (% of total)



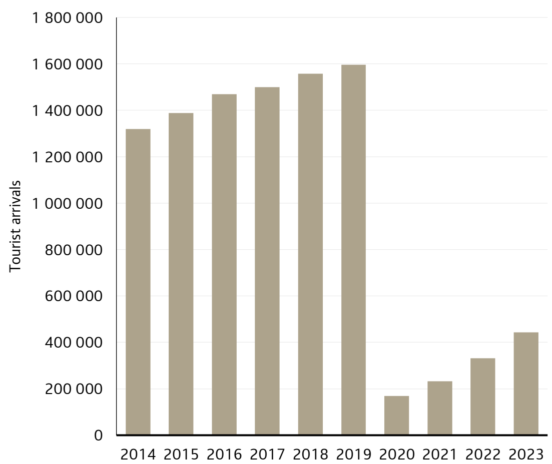
Source: International Trade Centre

Long-term growth performance



Source: Namibia Statistics Agency; Standard Bank Research

Tourist arrivals



Source: Ministry of Environment, Forestry and Tourism, Bank of Namibia

Balance of payments: C/A deficit narrowing

We foresee the C/A deficit narrowing to 9.8% of GDP this year, then narrowing further, to 8.5% of GDP in 2025, from a deficit of 15% of GDP in 2023, closer to our estimate of 14% of GDP in the Jan AMR.

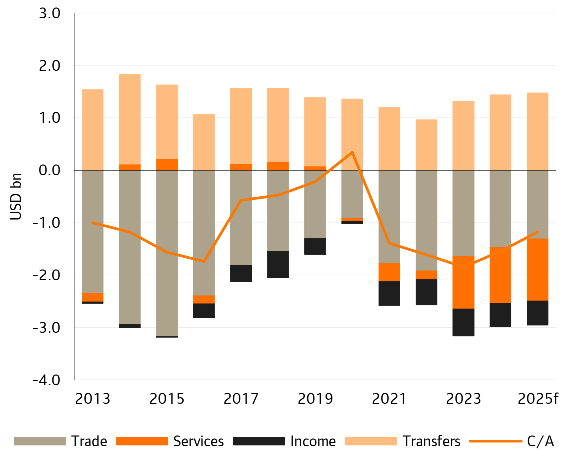
The expected increase in secondary income flows in 2024, due to higher SACU receipts for FY2024/25, and the higher export prices, amid increased mineral production, should ease the C/A deficit. Market dynamics and global supply concerns have propelled copper prices. Copper exports accounted for 4.4% of total goods exports in 2023. Recent price increases for other commodities such as uranium, zinc and gold should also support the C/A, were the price increase sustainable. There are new uranium and copper mines that are anticipated to come online in the next 3-y, which should boost mineral output. The tourism sector too has seen a significant rebound, which should continue boosting travel receipts in 2024. Notably, travel receipts were up 62% y/y in 2023.

We should see a softer fuel import bill this year on relatively lower international oil prices. However, shortages for local skills in the green energy and fossil-fuel energy sectors will likely keep the services import bill elevated, with Namibia having to import the requisite skills. The likely accommodative bias from H2:24, due to lower inflation trajectory, should revive household import spending.

The C/A deficit will likely still be financed largely through FDI (foreign direct investment) as well as net borrowing.

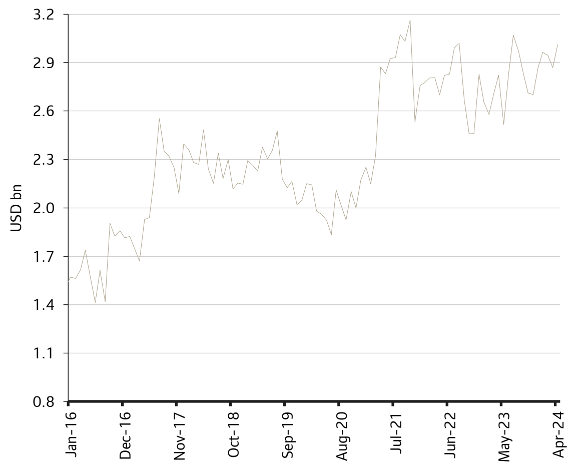
The rebound in custom receipts should buoy FX reserves over the next 3-y, in time for the USD750m RepNam'25 redemption. We foresee FX reserves stabilising at USD3.5bn (5.8-m of import cover) by this Dec, from USD3.0bn as at end Apr. Net FDI inflows are also likely to recover in the next 2-y, with ongoing new investments in, but not limited to, the uranium, zinc, gold and oil sectors.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves



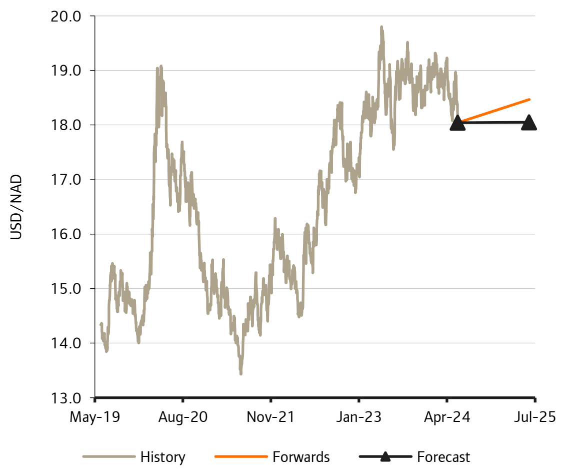
Source: Bank of Namibia

FX outlook: trade-weighted gains still limited

The peg between the NAD and the ZAR should continue, with the USD/NAD taking its cue from the USD/ZAR outlook in the near- to medium term. The USD/ZAR is forecast at 18.20 by this Dec (averaging 18.57 in 2024), then 17.90 by end 2025.

The rand gained some ground against the USD in May due to several local and global factors. The SA-macroeconomics desk model implies the rand as currently slightly undervalued and incorporating a modest risk premium. However, it faces several global headwinds, including wars and elections in several countries, as well as idiosyncratic risks, and persistent investor concerns about weak trend growth and fiscal sustainability. In the medium term, premised on our G10 strategist's expectation for dollar weakness, a rand recovery is likely to be more pronounced against the USD than against other major currencies. However, real trade-weighted gains will likely be limited.

USD/NAD: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative bias

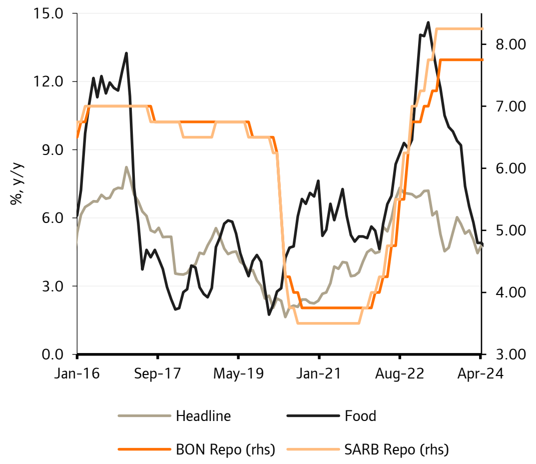
As inflation eases further in the coming months, the Bank of Namibia's (BON) MPC is likely to start a cutting cycle in H2:24. We believe that the repo rate may be cut by cumulative 50-75 bps in 2024. Thereafter, a further 25-50 bps is likely in 2025.

Headline inflation eased to 4.5% y/y in Mar 24, from an average of 5.9% y/y in 2023 – but came under some pressure in Apr (4.8% y/y) and May 24 (4.9% y/y), largely driven by the effect of higher fuel pump prices on transport inflation. Transport inflation contributed 1.2ppts to overall inflation in May, from 0.9ppts in Apr, whilst other sub-categories contributions' either softened or stagnated. However, the Ministry of Mines and Energy has kept domestic fuel prices for both petrol and diesel unchanged for the month of June, which should keep transport inflation contained over this period. Food inflation has also declined meaningfully, now at 4.2% y/y as of May 24, from double-digits over most of 2023, with meaningful declines in meat, fish and vegetables prices.

We forecast headline inflation at 4.9-5.1% y/y in the next 2-m, when factoring in higher electricity tariffs that will come into effect from 1 Jul. The Electricity Control Board (ECB) has approved an 8% increase in NamPower's electricity bulk tariff for the 2024/25. Given that the 'housing, water, electricity, gas, and other fuels' sub-category accounts for almost a third (28.4%) of the overall consumer basket, the increased electricity tariff is likely to see Jul 24 inflation breaching 5% y/y. Thereafter, inflation could moderate to 4.5% y/y by Sep 24 and end 2024 at 3.9% y/y largely due to favourable base effects. For 2025, we forecast an average inflation of 4.2% y/y.

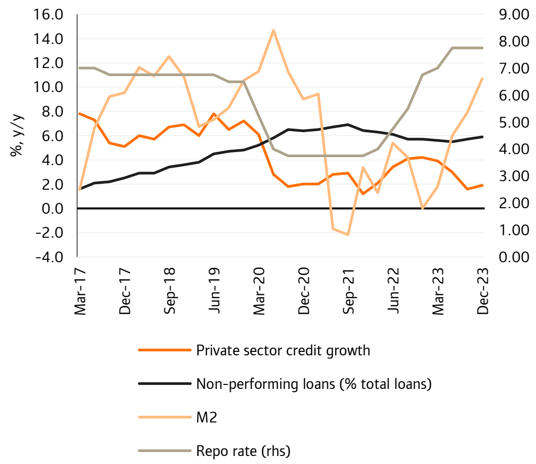
Upside risks to our inflation outlook include higher international oil prices due to the ongoing tensions in the Middle East. Food inflation is also much softer now; however, the Namibian Ministry of Agriculture, Water, and Land Reform expects a substantial food deficit, particularly in staple cereal crops such as maize and pearl millet (mahangu), which might necessitate imports. This then might arrest the significant food inflation declines of the last few months. The drought relief programme, in effect from Oct last year until end Jun 24, may also spell food price pressures, if not extended.

Inflation and interest rates



Source: Bank of Namibia; South African Reserve Bank; National Statistics Agency

Monetary statistics, policy rate



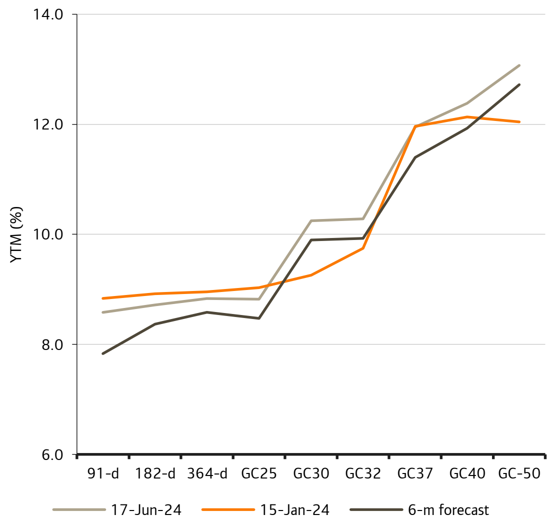
Source: Bank of Namibia

Yield curve outlook: downside bias

We foresee an accommodative bias by the BON only by H2:24. This easing then is likely to be followed by lower T-bill yields. Hence, T-bill yields may hold relatively steady for the next 3-m, and only fall meaningfully from around Aug/Sep, partly driven by the BON's accommodative bias. Demand for credit by the private sector remains very subdued; thus, commercial banks are likely to still entrust excess liquidity to the short end of the curve. Further, non-performing loans (as % of total loans) had crawled to 5.9% as at end Dec-23, and is bordering the trigger point of 6.0%, from 5.5% in Jun 23.

The government statedly will be looking to source some 70% of its financing needs from the domestic market in the medium term. Per the government's borrowing plan for FY2024/25, domestic issuances remain tilted largely towards longer-dated bonds, with the allocation for GC32-GC50 bonds accounting for 79.7% of planned bond issuances. It then seems to imply considerable issuance at the longer end, which may exert some upward pressure on yields. But, with underlying inflation pressures now easing, the government may well not accept persistently high yields.

Yield curve changes



Source: Bank of Namibia; Standard Bank Research

Fiscal policy: SACU revenues earmarked to replenish the sinking fund

The tabled budget is still showing the government as keen to consolidate public finances. The fiscal deficit is now seen improving to 3.2% of GDP (NAD8.9bn) in FY2024/25, matching the downwardly revised deficit estimate for FY2023/24. 2024 is a general elections year, which might see some fiscal slippage. For FY2025/26, a projected 3.3% decline in revenue may widen the fiscal deficit to 3.9% of GDP.

The narrowing deficit for FY2024/25 is seen as largely a function of higher revenue, supported by an upward revision in GDP projections over this period. GDP is now seen at NAD275.8bn, up NAD25.5bn, from a previous estimate of NAD250.3bn. Total revenue (incl. grants) may rise by 11.5%, or NAD8.1bn, in nominal terms, to NAD90.4bn in FY2024/25, on an expected boost from SACU revenue (31% of budgeted total revenue). Due to the revenue formula adjustments, with forecast errors adjusted with a 2-y lag, SACU revenue is now forecast at NAD28.1bn, up NAD3.7bn, from NAD24.4bn in FY2023/24. However, SACU revenue pool projections for FY2025/26 and FY2026/27 were revised down by R12.7bn, or 14.9% (in comparison to MTBPS forecasts); therefore, SACU disbursements are projected to decline, to NAD22.8bn in FY2025/26. While Namibia's SACU disbursements in the MTEF may still decline, the outlook is still better than the average of NAD17.1bn in SACU proceeds over the last five financial years.

To fund the FY2024/25 fiscal deficit, the government plans to limit its financing to both multilaterals and domestic debt.

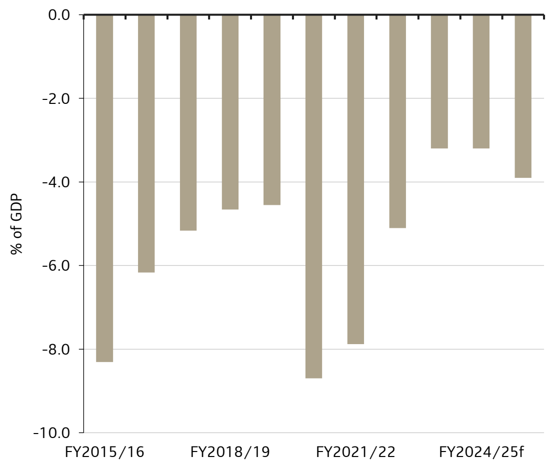
The government plans to earmark NAD5.5bn of SACU receipts during FY2024/25 and FY2025/26 for replenishing the sinking fund to manage the rollover risk and retire USD500m of the RepNam'25s at maturity. The remaining USD250m will be refinanced in FY2025/26 through an instrument deemed as the most cost-effective at the time; consideration will also be given to domestic markets and DFI (development finance institutions), cognisant of the prevailing high interest rate environment as well as the need to manage debt servicing costs.

Central government budget

% of GDP	FY2022/23 Actual	FY2023/24 Revised estimates	FY2024/25 Budgeted
Total revenue and grants	29.9	33.2	29.2
Total expenditure	35.0	36.4	32.4
- Operational	27.8	27.8	27.1
- Interest	4.4	4.8	4.7
- Development	2.7	3.4	4.6
Budget deficit (excl. grants)	-5.1	-3.2	-3.2
Budget deficit (incl. grants)	-5.1	-3.2	-3.2
Domestic debt	49.0	46.6	45.1
Foreign debt	17.1	15.8	15.1
Total debt	66.2	62.5	60.1

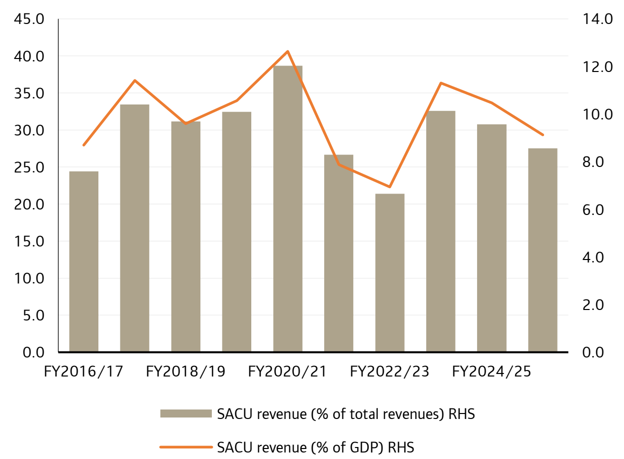
Source: Ministry of Finance

Fiscal deficit



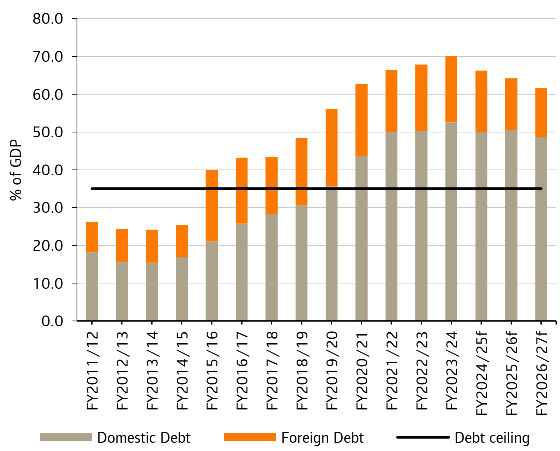
Source: Ministry of Finance

SACU revenue



Source: Ministry of Finance, Standard Bank Research

Fiscal deficit



Source: Ministry of Finance

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	2.3	2.4	2.5	2.5	3.0	3.1	3.1
Nominal GDP (NAD bn)	181.2	174.2	183.9	206.2	226.9	245.5	265.2
Nominal GDP (USD bn)	12.5	10.6	12.4	12.6	12.3	13.2	14.7
GDP / capita (USD)	5 454	4 409	4 976	4 944	4 100	4 330	4 729
Real GDP growth (%)	-0.8	-8.0	3.6	5.3	4.2	3.5	4.0
Diamonds ('000 carats)	1713	1452	1475	2065	2891	2741	2691
Uranium (MT)	6529	6861	6782	6618	6757	6892	7030
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.6	-8.2	-7.9	-5.1	-3.2	-3.2	-3.9
Budget balance (incl. Grants) / GDP (%)	-4.6	-8.7	-7.9	-5.1	-3.2	-3.2	-3.9
Domestic debt / GDP (%)	30.6	35.6	43.7	50.7	49.0	46.6	45.1
External debt / GDP (%)	17.8	20.5	19.0	16.5	17.1	15.8	15.1
Balance of Payments							
Exports (USD bn)	3.9	3.2	3.7	4.4	4.6	5.1	5.6
Imports (USD bn)	5.2	4.1	5.5	6.3	6.3	6.5	7.0
Trade balance (USD bn)	-1.3	-0.9	-1.8	-1.9	-1.6	-1.5	-1.3
Current account (USD bn)	-0.2	0.3	-1.4	-1.6	-1.8	-1.5	-1.2
- % of GDP	-1.8	3.2	-11.2	-12.8	-15.0	-9.8	-8.5
Financial account (USD bn)	0.0	0.3	-1.4	-1.6	-0.3	-0.5	-0.5
- FDI (USD bn)	1.0	0.7	1.4	1.2	2.2	3.4	3.3
Basic balance / GDP (%)	6.2	9.8	0.1	-3.3	2.9	14.0	34.3
FX reserves (USD bn) pe	2.0	2.2	2.8	2.8	3.1	3.5	3.6
- Import cover (months) pe	4.7	6.4	5.8	5.9	5.1	5.8	5.9
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Ba2	Ba3	Ba3	B1	B1	B1	B1
Fitch	BB	BB	BB	BB-	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.7	2.2	3.6	6.1	5.9	4.6	4.1
Consumer inflation (%) pe	2.6	2.4	4.5	6.9	5.3	3.9	4.2
M2 money supply (% y/y) pa	8.5	11.2	11.9	12.6	12.1	10.6	10.4
M2 money supply (% y/y) pe	9.3	8.8	11.0	10.4	10.6	11.6	12.6
BON bank rate (%) pa	6.75	4.19	3.75	5.25	7.56	7.44	6.75
BON bank rate (%) pe	6.75	3.75	3.75	6.75	7.75	7.00	6.75
3-m rate (%) pe	7.7	4.3	4.6	7.2	8.7	7.8	7.6
5-y rate (%) pe	8.9	9.4	9.9	10.3	9.1	10.2	11.2
USD/NAD pa	14.45	16.47	14.79	16.42	18.45	18.57	18.04
USD/NAD pe	14.00	14.87	15.89	17.29	18.63	18.20	17.90

Source: Namibia Statistics Agency; Bank of Namibia; Ministry of Finance; Bloomberg; Standard Bank Research

Notes: pa - period average; pe - period end

Nigeria: still a crude oil narrative, amid a non-oil slowdown

Medium-term outlook: higher economic growth – but reform hurdles remain

We now lower our real GDP growth forecast for Nigeria to 3.1% y/y in 2024, from our Jan AMR forecast of 3.4% y/y. This reduction factors in the anticipated impact on the non-oil sector from elevated inflationary pressures, FX volatility, and high interest rates. However, we still forecast that the oil sector will record in 2024 its first full-year of growth since 2019 given the higher crude oil production in 2024 than in 2023.

We now expect crude oil production to average 1.57m bpd in 2024 (previous forecast: 1.59m bpd), up from 1.43 mbpd in 2023. This projected rise can be attributed primarily to the cumulative impact of the government's ongoing anti-crude oil theft drive and base effects of the preceding year, which would mark the oil sector's first full-year growth since 2019. However, this would still be significantly short of the peak of 2.07m bpd in Q1:20 largely due to waning investments, protracted processes involved in International Oil Companies (IOCs) divestments away from onshore assets; inadequate contributions from licensed oil marginal fields; and ageing infrastructure amid intermittent pipeline downtime for repair purposes.

Although we expect headline inflation to moderate in H2:24, price pressures will remain elevated, relative to the prior year. This, in addition to high interest rates and ongoing FX pressures, will most likely see the non-oil sector growth soften. Notably, we expect the interest-rate-sensitive sub-sectors of manufacturing, construction, trade, and real estate to bear the brunt of such a slowdown. Already in Q1:24, construction (-2.14% y/y vs Q4:23: 3.70% y/y) recorded its first contraction since Q2:20, while growth moderated across trade (1.23% y/y vs Q4:23: 1.40% y/y) and real estate (0.84% y/y vs Q4:23: 1.34% y/y).

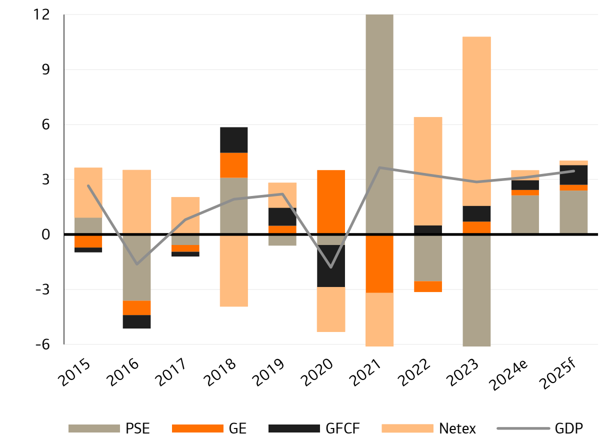
From a structural perspective, we forecast the agricultural sector to grow by 1.7% y/y in 2024, from 1.1% y/y in 2023, supported by the low base effects from the prior year – even as productivity is still likely to remain below the long-term average, exacerbated by the deteriorating state of internal security and unfavourable weather conditions.

Still, higher crude oil production and a modest base effect improvement in manufacturing activities should support industrial sector growth.

Further, we expect that the ICT and finance & insurance sub-sectors will remain the key drivers of services sector growth, which should counter the likely slowdown in trade and real estate.

Downside risk factors to our GDP growth forecast include worsening FX liquidity, inflation higher than anticipated, increased insecurity, and less crude oil production.

GDP by expenditure



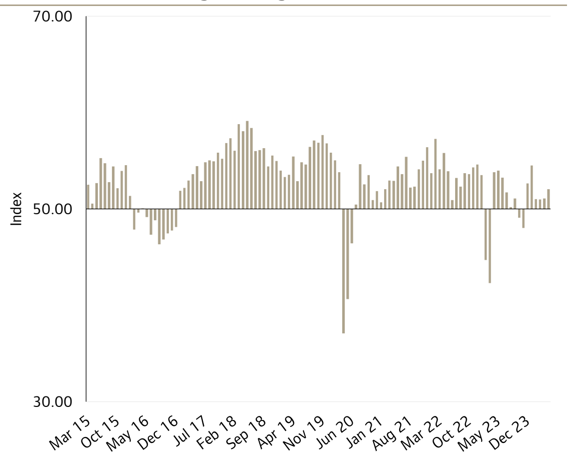
Source: National Bureau of Statistics; Standard Bank Research

GDP by sector (%) contribution

	2010	2020	2021	2022	2023
Agriculture	40.87	26.21	25.88	25.58	25.18
Mining and Quarrying (Oil)	15.88	8.31	7.41	5.88	5.56
Manufacturing	4.16	8.91	8.98	8.92	8.81
Electricity, Gas, Steam and Air	0.4	0.38	0.47	0.45	0.46
Water Supply, Sewerage, Waste	0.08	0.18	0.21	0.23	0.25
Construction	1.99	3.5	3.49	3.54	3.56
Trade	18.69	14.94	15.68	16	15.83
Accommodation	0.5	0.75	0.72	0.73	0.73
Transportation and Storage	1.27	1.18	1.32	1.48	1
Information and Communication	4.55	15.28	15.56	16.51	17.34
Financial and Insurance	3.56	3.36	3.57	4.03	4.97
Real Estate	1.74	5.66	5.6	5.64	5.59
Professional and Scientific Services	3.13	3.35	3.24	3.22	3.21
Public Administration	3.66	2.1	2.03	2	1.99
Education	1.51	1.88	1.8	1.77	1.75
Other Services	6.82	3.24	3.12	3.06	3.77
GDP	100	100	100	100	100

Source: National Bureau of Statistics; Standard Bank Research

Stanbic IBTC Purchasing Managers Index



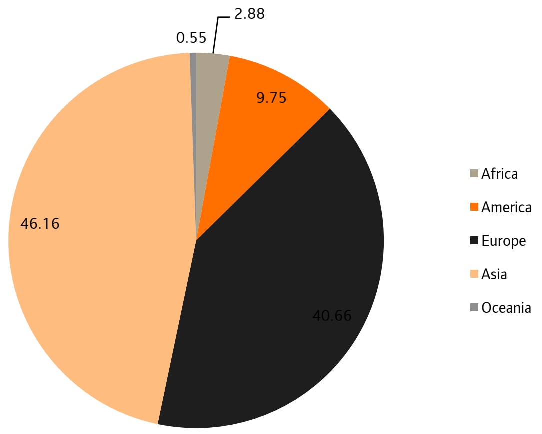
Source: S&P Global

Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	3.0	3.5	3.2	3.0	3.4	3.3	3.6	3.5	3.2	3.4	3.0	3.4	4.0	3.9	3.9	4.1
CPI (% y/y) pe	33.2	34.0	30.4	27.5	22.2	20.4	19.7	20.1	19.9	19.2	18.3	16.8	15.9	14.7	14.2	14.1
CBN policy rate (%) pe	22.8	26.3	26.3	26.3	23.3	20.8	18.5	18.5	17.0	17.0	16.0	15.0	14.0	12.5	11.5	11.5
3-m rate (%) pe	14.9	17.0	17.5	15.8	14.6	15.1	14.5	13.0	13.1	13.7	12.5	12.0	11.4	9.8	8.5	8.0
6-m rate (%) pe	16.4	19.0	18.0	17.2	16.8	17.5	16.8	15.0	14.9	14.5	13.9	13.0	12.9	11.0	10.1	10.3
USD/NGN pe	1309.4	1348.8	1229.5	1219.3	1284.1	1255.3	1231.9	1243.6	1319.7	1316.1	1303.5	1277.5	1332.0	1289.3	1260.9	1260.6

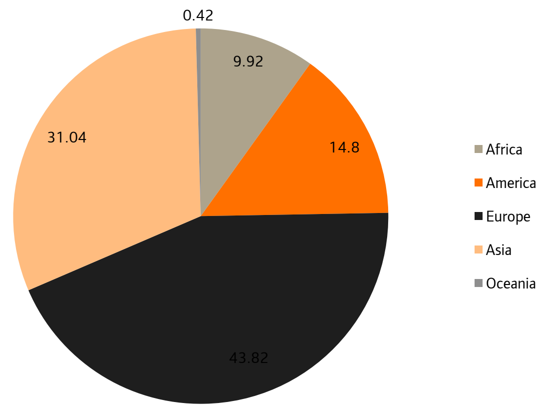
Source: Central Bank of Nigeria; National Bureau of Statistics; Bloomberg; Ministry of Finance; Standard Bank Research Notes: pa - period average; pe - period end

Import source markets



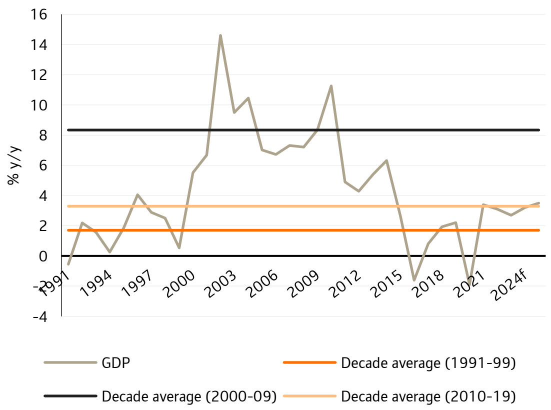
Source: NBS; Standard Bank Research

Export destination markets



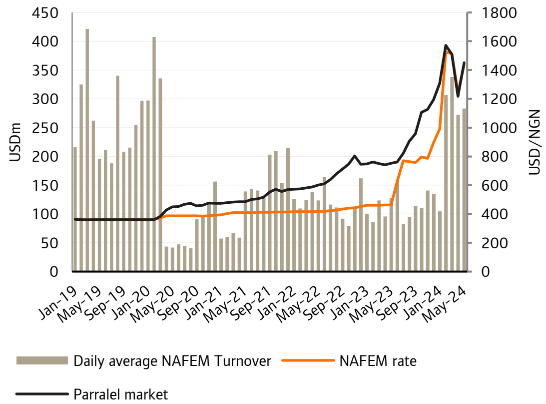
Source: NBS; Standard Bank Research

Long-term GDP growth rate



Source: Bloomberg

USD/NGN rate and NAFEM turnover



Source: FMDQ; Standard Bank Research

Balance of payments: a relatively flat current account position

We forecast the current account (C/A) surplus to settle at USD5.13bn in 2024, from an estimated USD5.52bn in 2023. However, due to the FX depreciation impact on nominal GDP in USD terms, the C/A surplus may rise to 2.4% of GDP in 2024, from an estimated 1.6% of GDP in 2023.

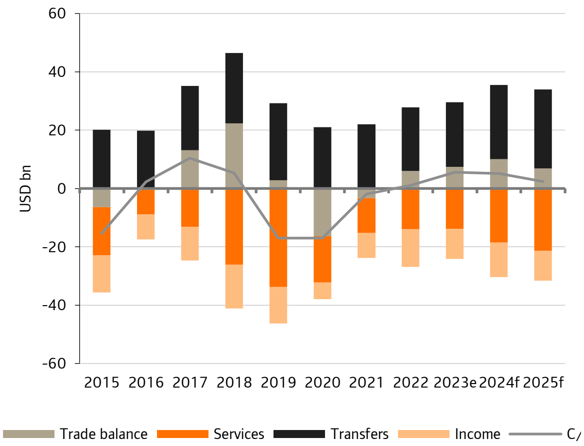
We forecast non-oil imports (60.8% of total import in Q3:23) to moderate, in line with the negative impact of renewed FX pressures on domestic demand. However, Dangote Refinery obtaining a significant portion of its crude oil from international sources may counter the effect of lower demand for refined oil imports when refinery operations commence fully. Still, freight costs remain the major savings from domestic refining.

Higher travel costs exacerbated by ongoing currency pressures are likely to continue to constrain the growth of services imports at pre-Covid levels. Nonetheless, we anticipate seasonal demand of summer and education travels in Q3:24 to support an increase in the services account deficit.

Gross FX reserves hit a 9-month high of USD34.45bn on 18 Mar 24, reflecting higher remittance inflows as well as improved FX inflows from foreign investors buying government debt securities. Since then, FX reserves have declined, settling at USD33.16bn as of 11 Jun 24. At the May policy meeting, the MPC urged the CBN to sustain its focus on building FX reserves. This implies that the CBN has switched its focus (as stated at the 29 Feb FPI call) of ensuring the market has enough FX supply when FPI flows arrive.

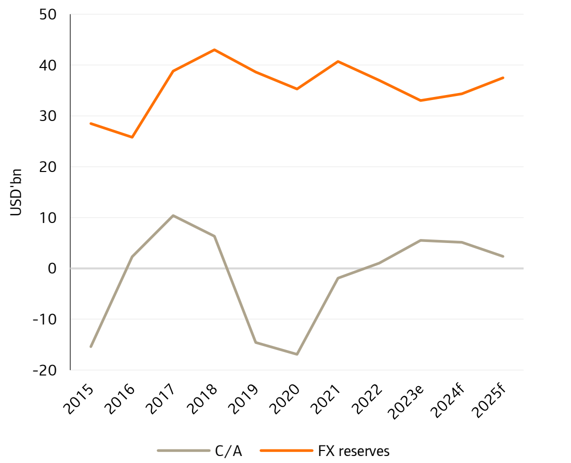
As expected, on 6 Jun, the Afrexim bank announced that it had disbursed an additional USD925m to Nigeria's state-owned NNPC under the USD3.30bn crude prepayment facility, bringing the total current funded facility size to USD3.18bn. This, in conjunction with the inflows from the World Bank budget support facility (USD1.50bn) announced on 13 Jun and potential Eurobond issuances as well as FX-denominated local debt, may support FX reserves in H2:24, giving the CBN more ammunition to support the FX market during periods of volatility.

Current account developments



Source: Central Bank of Nigeria; Standard Bank Research

FX reserves and current account



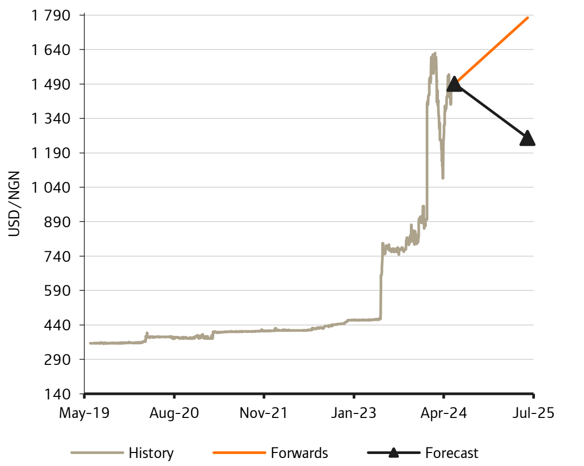
Source: Central Bank of Nigeria; Standard Bank Research

FX outlook: USD/NGN to end 2024 at 1,219

We now see the USD/NGN pair at 1,219 by Dec 24 (previous forecast: 1399) in the official market. Our expectation is hinged on an anticipated deceleration in headline inflation in H2:24 while monetary policy remains tight, thereby reducing the negative interest rate gap. Furthermore, the aforementioned inflows should also support domestic and foreign investor sentiment.

The key risks to our currency forecast include (1) fiscal authorities returning to the use of the CBN's overdraft facilities amidst an expansionary budget; a U-turn of CBN's tightening stance, leading to a wider negative real interest rate gap, though this seems unlikely; a significant dip in crude oil production, lowering USD earnings and potentially causing the CBN to reduce FX sales to BDCs and NAFEM; and inflation meaningfully overshooting our expectations.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: MPC to keep rates unchanged in H2:24, albeit with hawkish bias

We expect the MPC to keep the policy rate unchanged throughout H2:24, with the first interest rate cut likely in Mar 25. Headline inflation may not reach the CBN's 21.4% Dec 24 target until Apr 25.

Based on our current estimates, we expect headline inflation to peak in Jun 24, after which the disinflationary process likely kicks off and becomes entrenched by Jul 24. Bar any significant shocks to domestic prices, we estimate headline inflation at 27.5% by Dec 24.

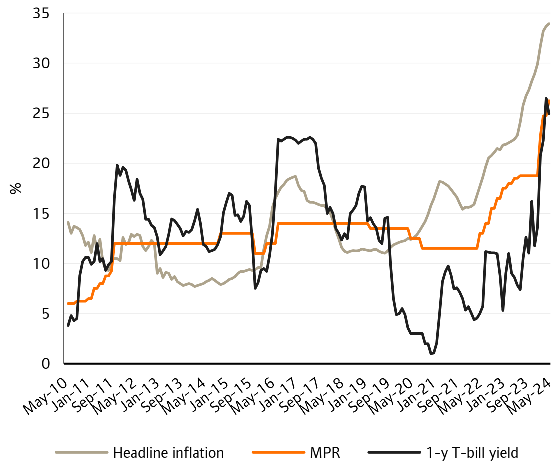
Disinflation would likely come from the unwinding of statistical base effects, coupled with the primary harvest season in late Q3:24 and early Q4:24. Nonetheless, the risk to consumer prices is skewed to the upside, including a likely below-average primary season harvest, increase in the minimum wage, and FX volatility.

With the CRR at a record high of 45.0%, banks' credit creation ability is under pressure as banks seek to strike a balance between meeting the liquidity ratio of 30% and earning higher interest income. Nonetheless, the CRR mechanism has been normalized across banks. We expect the CRR to remain at the current level until Nigeria's inflation rate declines significantly – possibly in 2027, based on our current estimates.

Money supply (M2) expanded by 74.2% y/y as of Apr 24, still significantly above the CBN's 28.0% targe. Assuming foreign currency deposits increased by 10% between Dec 23 and Apr 24, we estimate that M2 (excluding FCY deposits) had increased by 65.5% y/y as of Apr 24. This implies that non-FX quasi money is still a big concern that needs to be tamed to curtail the growth of money supply.

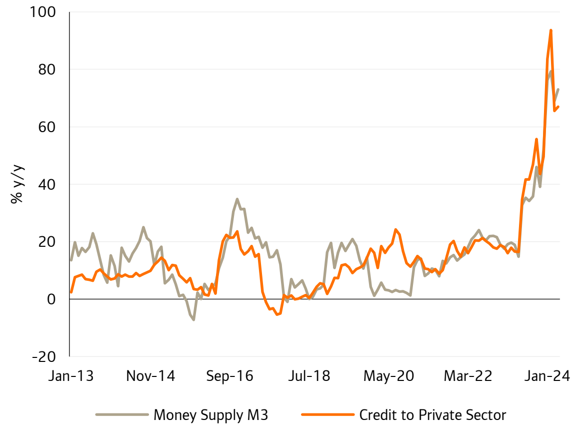
Nonetheless, we acknowledge that CBN communication and transparency have improved significantly since the first 2024 MPC meeting in Feb. The CBN has been engaging investors and stakeholders on its actions and providing forward guidance regarding monetary policy.

Inflation and interest rates



Source: Central Bank of Nigeria; FMDQ, National Bureau of Statistics, Standard Bank Research

Monetary statistics



Source: Central Bank of Nigeria; Standard Bank Research

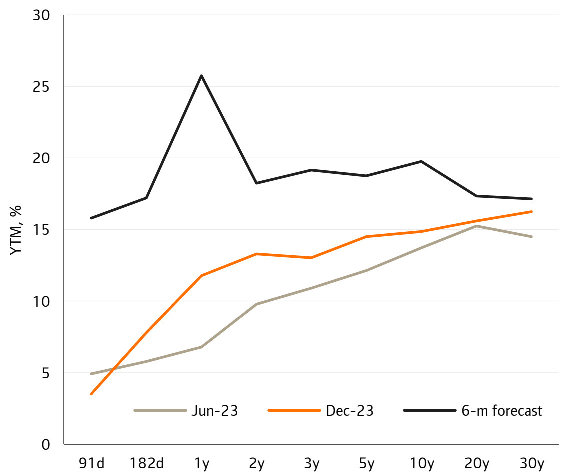
Yield curve outlook: bear-flattening

Per our Jan AMR, the CBN phased out the arbitrary CRR debits and adopted an equitable approach in its CRR mechanism, while also issuing high yielding OMOs. This, in conjunction with the removal of caps placed on the standing deposit facility (SDF), has ensured an improvement in the interest rate transmission mechanism to the fixed income market.

Indeed, the effective yield on the 1-year OMO rate was 28.9% at the most recent auction held in May 24, up from 21.5% at the beginning of this year. Yields on treasury bills have also increased by a similar magnitude, albeit slightly below the OMO yields, likely due to the DMO's need to manage the cost to government.

Looking ahead, the DMO may not feel compelled to increase treasury bills rate at subsequent auctions as the cost of borrowing becomes a concern. OMO yields may have also reached a peak amid our expectation that the MPC may retain the MPR in H2:24.

Yield curve changes



Source: FMDQ; Standard Bank Research

Fiscal policy: debt servicing cost remains bloated

Since the FX liberalization in Jun 23, exchange rate gains have contributed 60.8% to the increase in the amount disbursed by the three tiers of the government in the period Jun 23 and Feb 24, compared to the 12-m before the abovesaid reform. Still, we estimate that actual revenue remains below the government's target amid the resurgence of implicit fuel subsidy payments and lower crude oil production relative to budget.

In the 5-m to May 24, the government had raised NGN8.25tn in domestic borrowing (NGN3.09tn in bonds and NGN5.16tn in treasury bills) to partly finance the 2024 budget deficit and pay down NGN4.91tn out of the NGN7.33tn CBN's ways & means advances utilized in H2:23. This, in addition to the unprecedented increase in interest rates, may have led to a significant increase in debt servicing costs, implying that actual government expenditure so far this year is likely to have exceeded the pro-rate budget.

The government expects that a supplementary budget for NGN6.65tn would need to be in place for the 6-month economic plan tagged "Accelerated Stabilization and Advancement Plan (ASAP)". The government expects this intervention to lead to a wider fiscal deficit in 2024, of NGN16.42tn (or 6.9% of GDP). However, we estimate the fiscal deficit at NGN19.29tn (or 8.2% of GDP) post-intervention after accounting for our expected shortfall in revenue. To fund this additional spending, we anticipate that the DMO would increase domestic bond issuances as much as they can pending when the inflows from external sources eventually come.

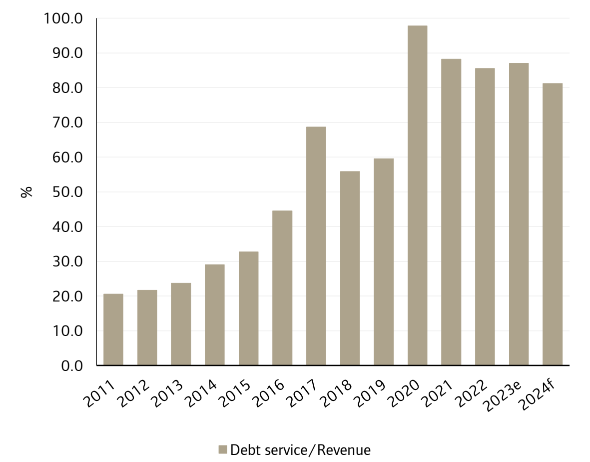
The Presidential Fiscal Policy and Tax Reforms Committee says that its policy document will be ready to go to the National Assembly in Q3:24. The committee envisages the new tax policy to kick off in 2025. Nigeria's tax system is currently fraught with multiple taxation and inefficiencies, thereby limiting citizens' tax compliance. Hence, the committee believes that removing the role of non-state actors, streamlining the multiple taxes into very few levies, and widening the tax net, would generate more revenue for the government.

Federal government budget

% of GDP	FY2022	FY2023e	FY2024f
Total revenue and grants	4.42	4.90	7.75
Total expenditure (- amort)	-7.16	-11.01	-11.64
- Interest	-2.84	-2.91	-3.59
- Salaries	-1.75	-1.84	-2.03
Overall balance (+grants -amort)	-2.74	-6.11	-3.88
Overall balance (-grants -amort)	-3.31	-6.13	-4.17
Net domestic borrowing	-1.83	-4.45	-2.56
Net external borrowing	-0.26	-0.78	-0.75
Privatisation and other financing	-0.65	-0.88	-0.57
Donor support (grants)	0.57	0.02	0.29
Total revenue and grants	4.4	4.9	7.8
Oil price assumption (US$/bbl)	73	75	78
Oil price actual (US$/bbl) pa	100.2	82.2	n/a
Oil production assumption (m bbl)	1.6	1.7	1.8
Exchange rate assumption	410.2	700	750
Exchange rate actual (pa)	428.3	648.5	n/a

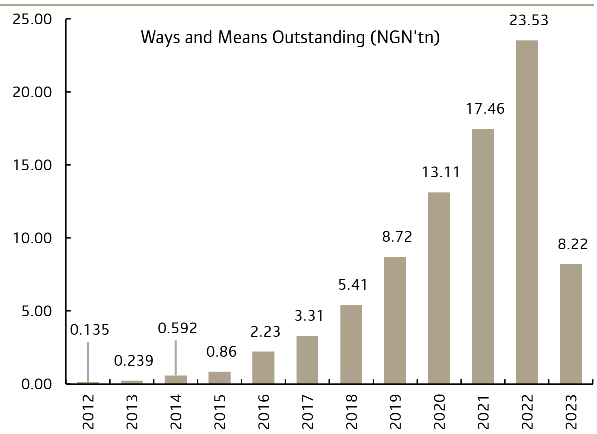
Source: Federal Ministry of Finance; Standard Bank Research

Debt-service-to-revenue



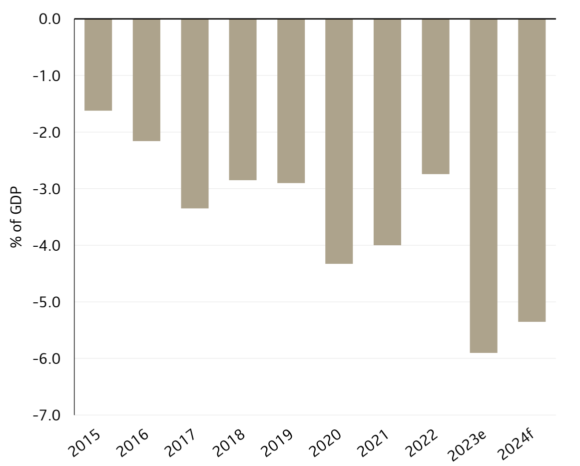
Source: Federal Ministry of Budget and National Planning; Standard Bank Research

CBN's ways & means outstanding (NGN tn)



Source: Central Bank of Nigeria, Standard Bank Research

Fiscal deficit



Source: Federal Ministry of Budget and National Planning; Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	192.3	197.3	202.5	207.7	213.1	218.7	224.4
Nominal GDP (NGN bn)	144210.5	152324.1	173527.7	199336.0	229912.9	302704.4	371115.5
Nominal GDP (USD bn)	402.7	403.9	430.5	465.4	354.5	237.1	296.0
GDP / capita (USD)	2093.6	2046.7	2126.1	2240.3	1663.3	1084.1	1319.3
Real GDP growth (%)	2.3	-1.9	3.4	3.1	2.74	3.1	3.5
Crude oil production (mbpd) pa	2	1.7	1.6	1.37	1.47	1.57	1.62
Central Government Operations							
Budget balance / GDP (%)	-2.9	-4.3	-4	-2.7	-6.1	-3.9	na
Domestic debt / GDP (%)	12.7	13.3	13.7	13.8	25.7	30.9	na
External debt / GDP (%)	6.3	8.3	9.1	9.4	16.6	26.4	na
Excess crude account/SWF (USD bn)	0.3	0.036	0.036	0.00	0.00	0.00	0.00
Balance of Payments							
Exports (USD bn)	65.0	35.9	46.9	64.2	55.0	59.3	59.5
Imports (USD bn)	62.1	52.4	51.4	58.2	46.6	49.2	52.6
Trade balance (USD bn)	2.9	-16.4	-4.6	6.0	8.4	10.0	6.9
Current account (USD bn)	-16.7	-17.0	-1.9	1.0	5.5	5.1	2.4
- % of GDP	-3.7	-4.2	-0.4	0.2	1.6	2.4	0.8
Financial account (USD bn)	21.4	-1.0	6.2	6.5	-9.2	-3.7	0.8
FDI (USD bn)	0.9	1.0	0.7	0.5	0.5	0.8	1.2
Basic balance / GDP (%)	-0.8	-0.3	0.1	-0.7	-1.0	0.6	1.1
FX reserves (USD bn) pe	38.1	36.5	40.2	36.6	32.9	34.4	37.5
Import cover (months) pe	7.9	7.7	7.8	6.9	5.2	5.6	8.0
Sovereign Credit Rating							
S&P	B	B-	B-	B-	B-	B-	B
Moody's	B2	B2	B2	B3	Caa1	B3	B3
Fitch	B+	B	B	B-	B-	B-	B
Monetary and financial Indicators							
Headline inflation pa	11.4	13.2	17.0	18.8	24.5	31.1	21.1
All items less farm produce CPI pa	9.2	10.8	13.1	16.0	20.5	24.9	18.3
Food CPI pa	13.7	16.1	20.6	20.8	26.9	36.4	21.7
M2 money supply (% y/y) pa	10.4	20.3	20.1	21.4	24.4	12.3	11.1
M2 money supply (% y/y) pe	6.3	31.0	16.2	18.1	22.3	13.5	11.1
Policy interest rate (%) pa	13.6	12.3	11.5	13.7	18.4	25.4	20.3
Policy interest rate (%) pe	13.5	11.5	11.5	16.5	18.8	26.3	18.5
3-mth rate (%) pe	5.2	0.4	5.0	4.4	3.5	15.8	13.0
1-yr rate (%) pe	4.4	1.0	5.3	8.5	11.8	25.8	19.1
3-yr rate (%) pe	10.0	3.9	9.2	11.8	13.0	19.2	17.4
5-yr rate (%) pe	10.3	6.3	12.3	12.9	14.5	18.8	15.0
USD/NGN pa	361.7	381.9	409.0	428.3	648.5	1276.8	1253.7
USD/NGN pe	364.7	395.0	415.0	461.5	907.1	1219.3	1243.6

Source: Central Bank of Nigeria; Federal Ministry of Finance; National Bureau of Statistics; International Monetary Fund; Bloomberg; Standard Bank Research

Notes: pe — period end; pa — period average; nr — not rated; na — not available

Rwanda: right on track with reform targets

Medium-term outlook: rebound in agricultural sector should support GDP growth

We forecast the Rwandan economy to grow by 8.1% y/y in 2024. IMF data implies that population growth will be slower than GDP growth. We therefore estimate that GDP per capita to reach USD1,141 in 2024. During 2021-23, Rwanda's GDP per capita increased by an average of 9.2% y/y.

The services sector will remain a key driver of GDP growth in 2024. The services sector has increased as a share of GDP, from 42.6% 2007, to 50.3% in 2023. Art, entertainment, and recreation attracted the third most investments in 2023, signalling the strong growth trend in the tourism sector, an upward trend we expect to continue. Information and telecommunication as well as transport services should again post strong growth in 2024.

Recovery in the agricultural sector in 2024, from a low base due to a poor harvest in 2023, should also support growth, given the good harvest from agricultural season A (Sep 23-Feb 24). Though agriculture has trended lower as a share of GDP, from above 30% in 2007, to below 22% in 2023, this sector still contributed to the second most jobs created in 2023.

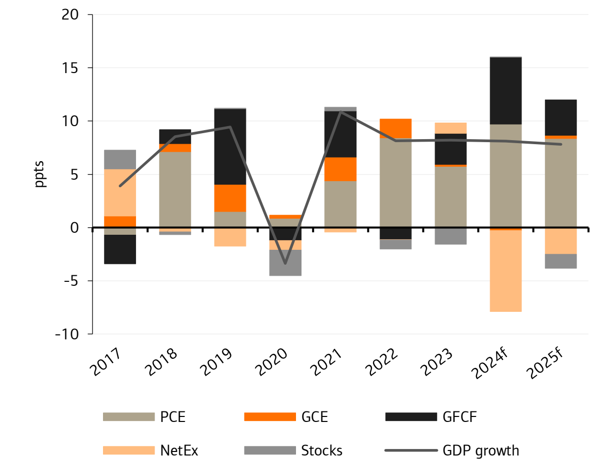
Rwanda met all its targets under the IMF's Policy Coordination Instrument (PCI) and Resilience and Sustainability Fund (RSF) arrangements in the third review of the RSF, and first review of the Standby Credit Facility. (SCF). This allowed for the immediate disbursement of c.USD76.2m under the RSF and c.USD88.4m under the SCF. Fiscal consolidation is key in the PCI; therefore, private consumption and investment are expected to be the main growth drivers in the medium term as fiscal consolidation continues.

Rwanda remains a key investment destination. Investments in real estate, manufacturing and agriculture created 6200, 9900 and 7600 jobs in 2023, respectively. On the supply side, the services sector should continue to expand robustly, coupled with a continued recovery in the agricultural sector. Inflation trending lower should support consumer spending. However, the weakening of the RWF does pose a risk here as imported inflation has proved sticky in the most recent inflation outcomes.

The real effective exchange rate depreciation should in theory support net exports; however, the extent to which import demand exceeds that of exports may keep the trade balance under pressure.

Rwanda's election is due on 15 Jul 24; President Paul Kagame (first elected as president in 2000) is seeking re-election for another term. His eligibility for this follows a constitutional amendment in 2015 that allows him to run for three more terms. We foresee President Kagame to be re-elected, remaining in office.

Composition of GDP by demand



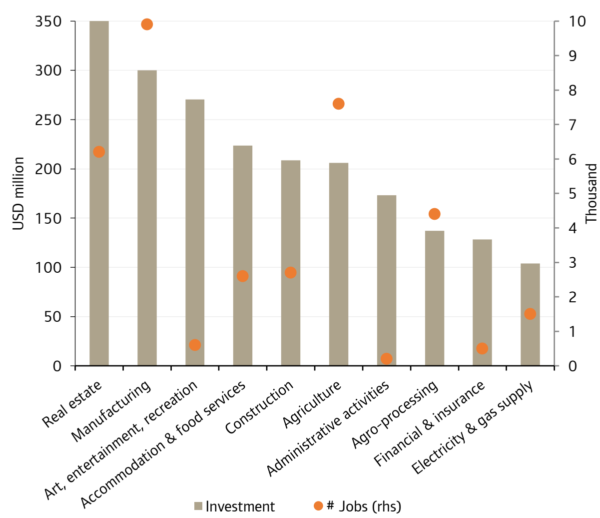
Source: National Institute of Statistics of Rwanda; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2013	2018	2023
AGRICULTURE	29.6	27.5	25.8	21.8
Food crops	18.4	17.6	16.5	13.2
Forestry	6.6	5.5	4.7	4.4
INDUSTRY	16.6	18.2	17.3	18.5
Mining & quarrying	2.0	1.8	2.0	1.6
Manufacturing	9.4	9.1	8.0	9.0
Construction	5.1	6.3	5.7	6.3
SERVICES	43.4	45.6	48.4	50.3
Wholesale & retail trade	7.1	7.5	8.4	9.5
Transport services	3.7	4.1	5.1	5.0
Hotel & restaurants	1.9	1.6	1.8	2.3
Information & communication	1.3	1.5	1.8	3.6
Financial services	1.9	2.4	2.5	2.7
Real estate activities	9.4	7.4	7.0	5.9
Professional activities	2.6	2.2	2.1	2.0
Admin	3.5	3.0	3.5	2.7
Public admin	4.3	5.8	5.7	5.6
Education	2.9	3.4	2.9	2.9
TAXES LESS SUBSIDIES	10.5	8.6	8.5	9.4

Source: National Institute of Statistics of Rwanda

Investments in 2023, top 10 sub-sectors



Source: Rwanda Development Board

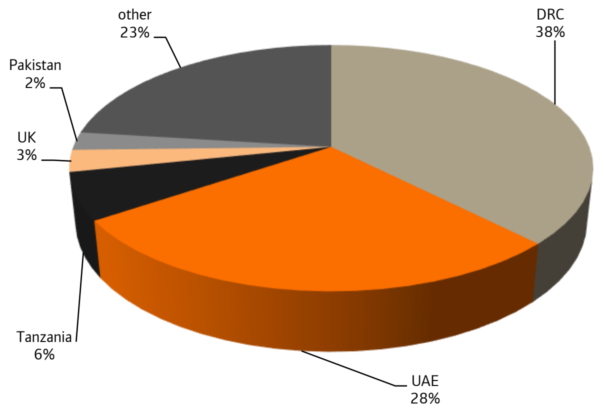
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	9.7	9.5	7.2	6.0	8.2	8.5	7.8	6.7	7.4	7.3	6.9	6.6	6.6	6.6	6.7	6.6
CPI (% y/y) pe	4.2	5.6	3.7	7.3	5.5	4.9	3.3	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Policy rate (%) pe	7.50	7.00	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.75	5.50	5.50	5.50	5.25	5.25	5.00
3-m rate (%) pe	8.5	7.7	7.5	7.3	7.1	7.1	6.9	6.7	6.7	6.5	6.5	6.3	6.3	6.1	6.1	6.0
6-m rate (%) pe	9.8	9.5	9.3	9.1	8.9	8.7	8.5	8.3	8.1	7.9	7.7	7.5	7.3	7.1	7.0	7.0
USD/RWF pe	1288.7	1305.9	1328.6	1363.0	1384.8	1396.6	1410.3	1427.9	1436.9	1452.1	1474.8	1492.8	1510.8	1528.8	1546.8	1564.8

Source: Standard Bank Research

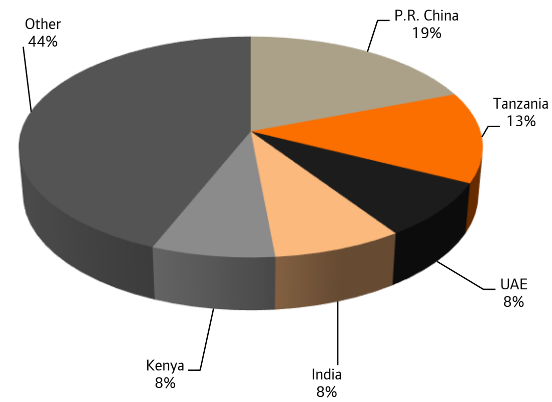
Notes: pa - period average; pe - period end

Share in Rwanda's exports (%)



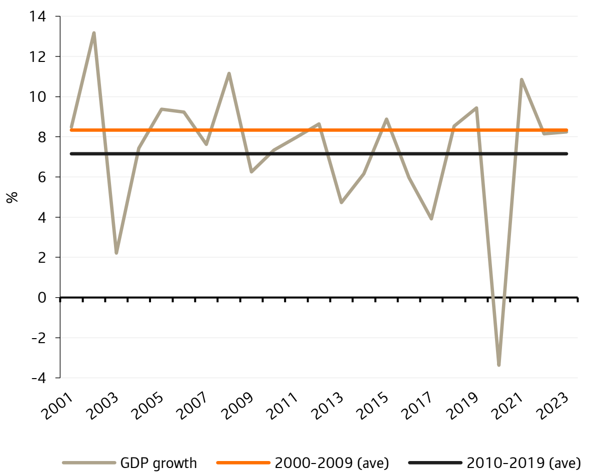
Source: IMF

Share in Rwanda's imports (%)



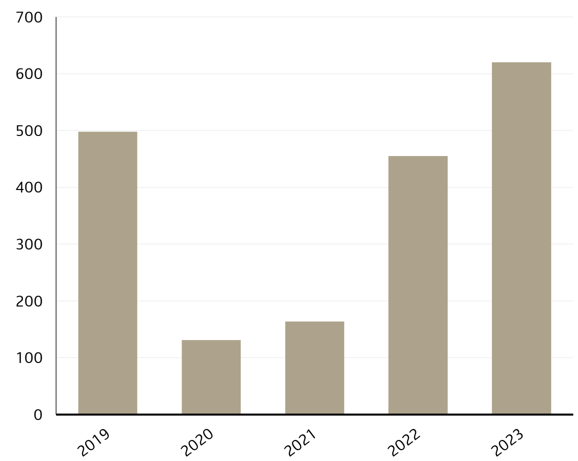
Source: IMF

Long-term GDP performance



Source: National Institute of Statistics of Rwanda; Standard Bank Research

Tourism revenues (USD m)



Source: Rwanda Development Board

Balance of payments: IMF funding provides external support

We forecast the current account deficit to widen further in 2024, to 11.9% of GDP. This would be due largely to the widening of the goods trade deficit and the inability of services exports to fill that gap.

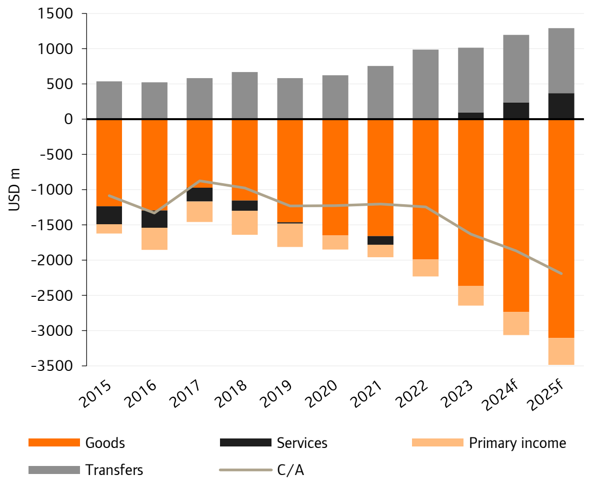
In Q1:24, the trade deficit deteriorated by 22.0% q/q and 37.5% y/y. The weakening in the RWF has made imports more expensive but export volume has not increased by the same magnitude.

The ongoing conflict in the Democratic Republic of Condo (DRC) increases the risk to Rwanda's exports as the DRC is Rwanda's most important trade partner in the region and takes the lion's share of Rwanda's re-exports.

Rwanda's total reserves increased to USD1,835m in Jan 24. Import cover recovered to c.5-m of import cover. We expect Rwanda's reserves to be supported in 2024 by multiple donations coinciding with the renewed IMF program(s). Given these anticipated inflows, the MPC expects reserves to remain above 4.0-m of import cover. RSF disbursements are helping build up external buffers by way of increasing reserves.

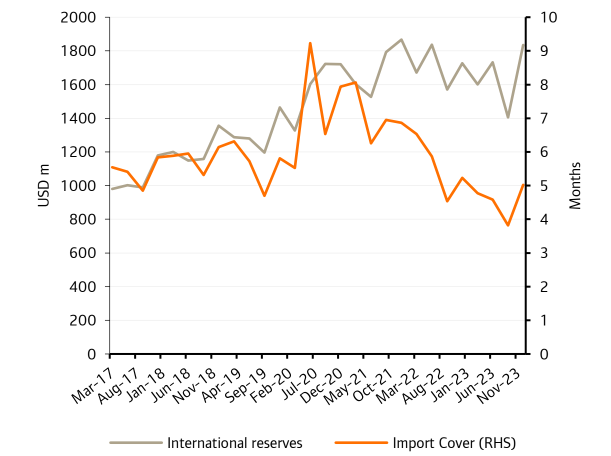
According to the IMF's latest report, the next disbursements of funding under the RSF and SCF, subject to the 4th review of the RSF and 2nd review of the SCF end-June 24 performance, will enable the disbursement of SDR71.9m (c.US96.8m) under the RSF and SDR66.75m (c.USD88.4m) under the SCF, which will also support external buffers, and which should flow in Nov 24, according to the IMF disbursement schedule.

Current account developments



Source: National Institute of Statistics of Rwanda; Standard Bank Research

FX reserves & import cover



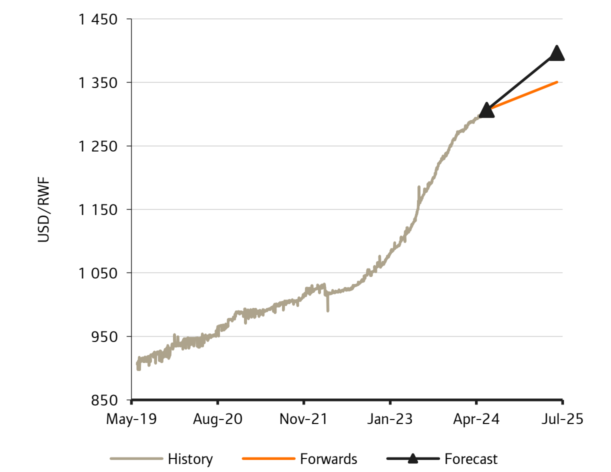
Source: National Bank of Rwanda

FX outlook: likely remaining under pressure

A key metric of the IMF's PCI arrangement with Rwanda is to improve external buffers through weakening the RWF. YTD, the RWF has depreciated 3.3%; we forecast the RWF to end 2024 at RWF1363 against the USD, which would be a depreciation of 8.0% over the year. This would be much lower than the 18.1% depreciation recorded in 2023.

Furthermore, the IMF is proposing a change in how the RWF exchange rate gets calculated, to better reflect market conditions, by including the exchange rates from market transactions from the previous day. The NBR is on track to revise its official exchange rate calculation. This reform target (RT) is due by end June 24.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing underway

Inflationary pressures have eased considerably due to improvements in domestic food production and tight monetary policy by the NBR. Urban inflation averaged 4.7% y/y in Q1:24, down from an average of 8.9% y/y in Q4:23. Rwanda's inflation path should remain steady and trending downward in H2:24, though imported inflation continues to pose a risk to the overall inflation outlook. The persistently sticky imported inflation leads us to revise our inflation forecast for 2024 higher to an average of 5.0-5.5% y/y.

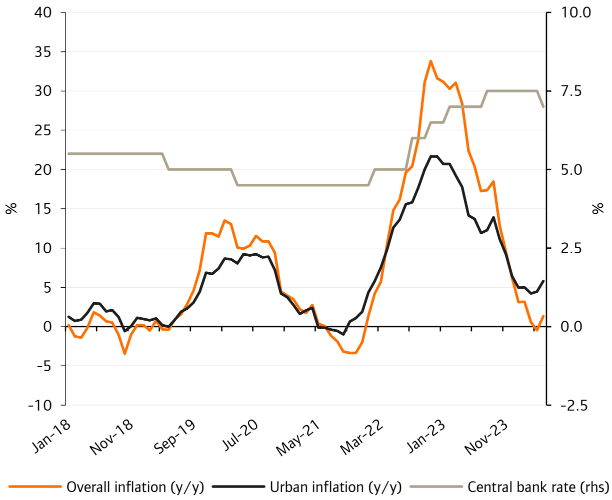
Inflation is within the quantitative targets (QTs) of the IMF's PCI. The upper bound target for Dec 23 was 10.0% y/y, and inflation came in at 8.9% y/y in Dec 23. The inflation QT for Jun 24 and Dec 24 is 5.0% y/y, and we expect the target to be met in both instances.

Producer price inflation has also slowed considerably, from a high of 26.8% y/y in Sep 23, to 10.0% y/y in Apr 24. The manufacturing sector comprises 71.4% of the index, and food manufacturing comprises close to half of the manufacturing index. The slowdown in producer prices will help ease the impact on the consumer. Producers won't have to pass the costs on the consumers as much.

We foresee a further cumulative 75 bps cut in the central bank rate (CBR) through to Dec 24. The MPC cut the CBR by 50 bps, to 7.0% in May 24, as it foresees inflation remaining stable around the mid-point of 5% in 2024 and 2025. The MPC's target range for inflation is 2-8% y/y. At the next CBR announcement in August, we expect a 25 bps cut.

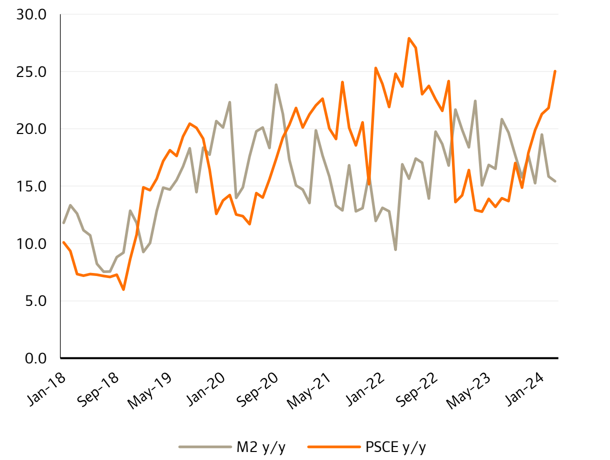
Private sector credit growth has rebounded from the lows of 2023. And we expect, now that the MPC has started to cut rates, that private sector credit growth will remain strong in 2024. The more subdued money supply growth has also aided the easing in inflationary pressures.

Inflation and key repo rate



Source: National Bank of Rwanda; National Institute of Statistics of Rwanda

Money supply



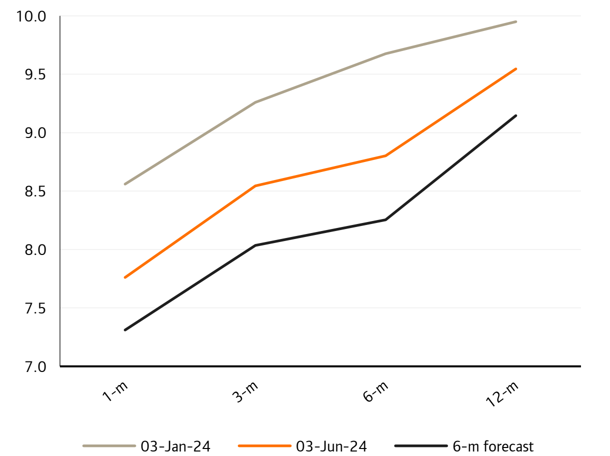
Source: National Bank of Rwanda

Yield curve outlook: downward trend to continue

In H2:23, the spread between the 364-d and 28-d T-bills narrowed owing to the expectation that the hiking cycle has come to an end and that the easing cycle would start soon.

The easing cycle has indeed started, and yields have come down across the curve since the start of the year. We expect yields to continue to trend lower in H2:24, in line with the easing of monetary policy.

Yield curve changes



Source: Bloomberg; National Bank of Rwanda; Standard Bank Research

Fiscal policy: consolidation front of mind

The budget for FY24/25 is set at RWF5,690.1bn. This is an 11.2% increase from the previous budget. The Ministry of Finance estimates the budget deficit of 6.7% of GDP for FY23/24 and 5.2% in FY24/25.

Most of the IMF's PCI quantitative targets are aimed at fiscal consolidation. The three key pillars of the government's fiscal consolidation plan will be budget spending rationalization, implementing the medium-term revenue strategies, and improving the fiscal oversight of SOEs. According to the Ministry of Finance, through spending rationalization the government should be able to save 2.6% of GDP in FY2024/25, and 1.7% of GDP in FY2025/26, mainly on capital spending and use of goods and services. The government's goal is to bring public debt levels (estimated at 80% of GDP in 2024) down to 65% of GDP by 2031.

According to the IMF's DSA, Rwanda is at moderate levels of external and overall debt distress. Key to the sustainability of Rwanda's external debt is that c.70% of the debt is concessional. Most of Rwanda's debt metrics are well below the external debt burden thresholds of the IMF. PV of external debt as a share of exports is 131.8 % in 2024 and 131.9 % in 2025, well below the IMF threshold of 240%.

External debt as share of GDP is 37.9 in 2024 and 41.5% in 2025 (IMF threshold is 55%). PPG debt service as a share of exports is projected at 5.5% in 2024 and 6.3% in 2025 (IMF threshold is 21%). PPG debt service as a share of revenue is projected at 8.8% in 2024 and 10.3% in 2025 (IMF threshold is 23%). All these debt ratios are well below the respective thresholds of debt sustainability, as per the IMF/WB Debt Sustainability Framework.

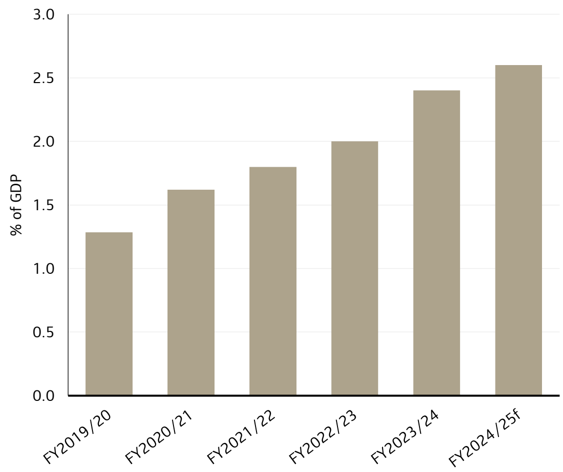
Central government budget

% of GDP	FY2022/23	FY2023/24e	FY2024/25f
Total revenue & grants	22.3	22.3	22.2
Total expenditure	28.5	29.0	27.4
- Wages	2.4	2.7	2.9
- Interest	2.0	2.4	2.6
- Capital expenditure	9.8	9.7	8.9
Overall fiscal deficit	-6.2	-6.7	-5.2
Net domestic borrowing	0.9	0.6	-1.2
Net foreign borrowing	5.3	6.1	4.0
Donor support (grants)	4.7	4.4	3.8

Source: Ministry of Finance and Economic Planning; Standard Bank Research

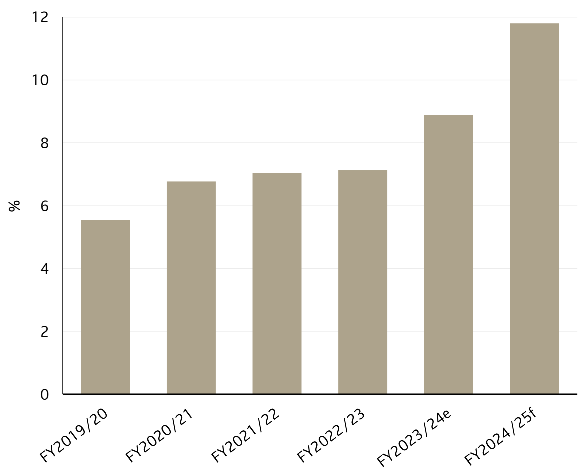
*original budget forecasts

Interest expenditure



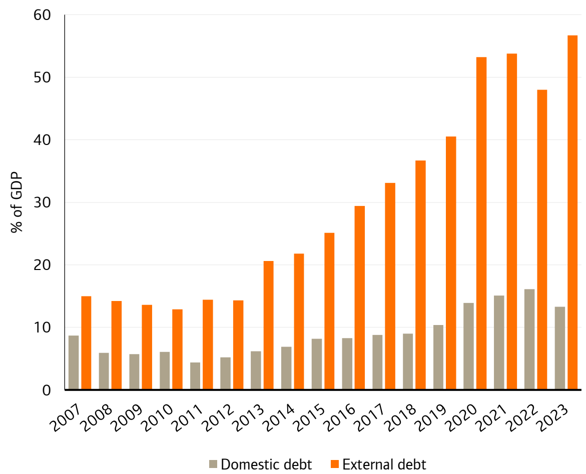
Source: Ministry of Finance and Economic Planning, Standard Bank Research

Debt-service-to-revenue ratio



Source: Ministry of Finance and Economic Planning, Standard Bank Research

Public debt



Source: Ministry of Finance and Economic Planning, Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	12.37	12.66	12.96	13.25	13.50	13.90	14.16
Nominal GDP (RWF bn)	9307	9597	10943	13720	16356	18246	20633
Nominal GDP (USD bn)	10	10	11	13	14	15.8	17.9
GDP / capita (USD)	836	803	853	1005	1044	1141	1264
Real GDP growth (%)	9.5	-3.4	10.9	8.2	8.2	8.1	7.8
Coffee production ('000 tons)	23.3	20.3	19.5	18.9	19.8	20.9	21.5
Central Government Operations							
Budget balance (incl. Grants) / GDP (%)	-2.96	-4.00	-7.07	-6.0	-6.2	-6.7	-5.2
Budget balance (excl. Grants) / GDP (%)	-7.05	-8.96	-12.20	-11.21	-10.9	-11.1	-9.0
Domestic debt / GDP (%)	10.4	13.9	15.1	16.1	16.6	15.0	12.5
External debt / GDP (%)	40.5	53.2	53.8	48.0	56.9	65.0	67.5
Balance of payments							
Exports of goods (USD m)	1239.71	1407.51	1530.83	2111.89	2465.95	3172.0	2756.0
Imports of goods (USD m)	2704.63	3057.79	3189.53	4100.43	4834.71	5907.0	5860.5
Trade balance (USD m)	-1464.93	-1650.27	-1658.70	-1988.53	-2368.76	-2735.0	-3104.5
Current account (USD m)	-1230.87	-1227.53	-1203.08	-1246.43	-1632.85	-1867.3	-2191.1
- % of GDP	-11.9	-12.1	-10.9	-9.4	-11.6	-11.9	-12.3
Financial account (USD m)	-813.89	-786.73	-953.72	-833.43	-1207.94	-1104.6	-1116.4
- FDI (USD m)	257.74	152.61	233.38	305.10	459.17	470.0	510.0
Basic balance / GDP (%)	-9.7%	-10.7%	-8.8%	-7.2%	-8.4%	-8.9%	-9.5%
FX reserves (USD m) pe	1465.0	1720.0	1867.0	1726.0	1834.0	1 940.0	1 970.0
- Import cover (months) pe	5.80	7.90	6.80	5.20	4.0	5.5	5.4
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	B2	B2	B2	B2	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Urban consumer inflation (%) pa	2.4	7.7	0.8	13.9	14.0	5.3	4.9
Urban consumer inflation (%) pe	6.7	3.7	1.9	21.7	6.4	7.3	4.9
M3 money supply (% y/y) pa	12.75	17.10	16.28	17.89	18.0	16.5	15.7
M3 money supply (% y/y) pe	15.42	17.97	15.68	22.59	15.3	15.4	15.1
Policy interest rate (%) pa	5.17	4.67	4.50	5.39	7.12	6.81	6.0
Policy interest rate (%) pe	5.00	4.50	4.50	6.50	7.50	6.25	5.75
3-m rate (%) pe	6.0	6.3	6.5	7.3	8.9	7.3	6.7
1-y rate (%) pe	7.6	8	7.7	8.7	9.7	9.1	8.3
USD/RWF pa	899.5	943.3	988.9	1030.6	1160.1	1313.9	1399.6
USD/RWF pe	922.5	972.5	1009.6	1070.7	1263.9	1363.0	1427.9

Source: National Bank of Rwanda; National Institute of Statistics of Rwanda; Ministry of Finance and Economic Development; IMF; Bloomberg; Standard Bank Research

Notes: pa – period average; pe – period end

Senegal: first offshore oil project to spur GDP growth

Medium-term outlook: base and contemporaneous effects still to propel growth

We still forecast GDP growth of 8.2% y/y for 2024 and 9.5% y/y for 2025; growth was 4.3% y/y in 2023. Favourable base effects, particularly from public and private capital formation, will most likely drive growth, in addition to the effects of oil and gas production.

GDP growth may even average 7.0% y/y in 2024, were q/q growth to mirror pre-Covid growth (without taking into account any contemporaneous effects). But now, with considerable contemporaneous effects to consider, our 8.2% y/y GDP growth forecast of the Jan AMR edition seems perfectly reasonable – despite some downside risks in case the non-extractive sector underperforms.

Base effects remain positive. Economic growth slowed down a tad in 2022 and 2023, after rising in 2021 to 6.8% y/y. Growth then slowed to 3.6% y/y in 2022 before increasing to a, still modest, 4.3% y/y in 2023. Capital formation in 2023 slowed down considerably. However, this might have been transitory given that it had resulted from asset sales and a drop in investments backed by external funding. Moreover, it is unlikely that the weak economic activity of Q1:24, attributed to consumer spending reductions and firms postponing investments, will persist because political unrest during that time was the likely culprit. We therefore foresee capital formation growth rising in 2024.

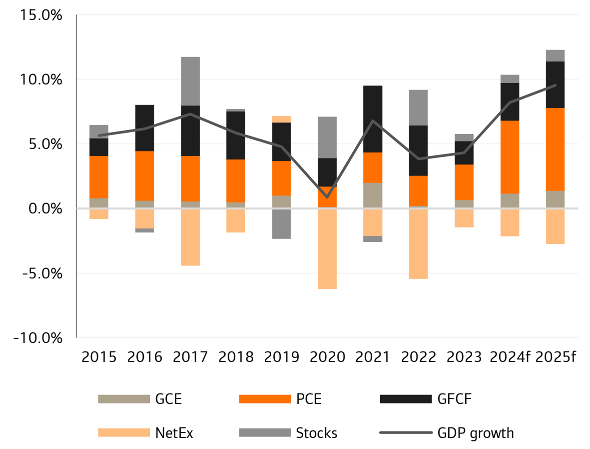
However, investment spending may be constrained by the fiscal consolidation plan due to the Extended Fund Facility, Extended Credit Facility, and Resilience and Sustainability Facility agreements with the IMF. Still, private capital formation may continue to underpin growth. Beyond 2024, private capital formation—including investments brought on by the development of the offshore Yakaar-Teranga (Y-T) field—will likely keep driving robust growth.

Investor sentiment should benefit from Senegal's improvement in political standing and fiscal consolidation. However, the new administration's intention to review foreign companies' oil and gas contracts might discourage foreign direct investment.

Though pace of GDP growth may be slowed by the delays in the Greater Tortue Ahmeyim Phase 1 gas project, we maintain that oil production should contribute significantly to GDP growth.

Indeed, Senegal's first offshore oil project, the Sangomar field offshore Senegal, was completed in June 2024. The Sangomar Field Development Phase 1 has a capacity of 100,000 barrels per day, and a sub-sea infrastructure built to support future development phases. In terms of the GTA Phase 1 LNG project, the Floating Production Storage and Offloading (FPSO), a vital component of the development, has arrived offshore Mauritania and Senegal.

Composition of GDP by demand



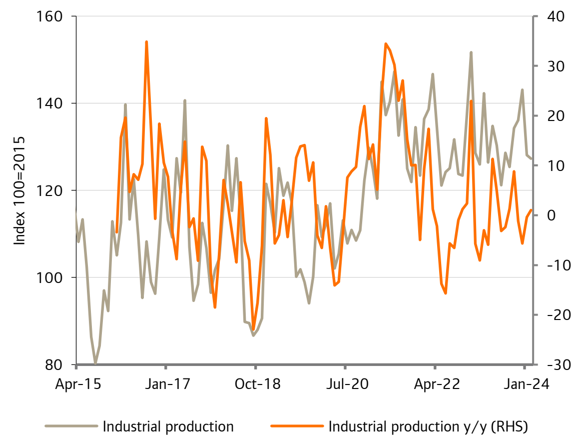
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

GDP contribution by sector (%)

	2017	2020	2022	2023
Agriculture	9.2	11.1	10.0	10.4
Breeding and Hunting	3.5	3.5	3.5	3.5
Forestry	0.5	0.4	0.4	0.4
Fishing	1.1	1.0	0.8	0.8
Mining and Quarrying Activities	2.0	2.3	2.3	1.9
Manufacturing	18.4	17.9	18.0	18.2
Electricity/Gas	1.0	1.1	1.2	1.3
Construction	2.8	2.6	2.3	2.4
Trade	13.0	13.0	12.7	12.7
Transport Network	3.5	3.2	3.4	3.3
Information and Communication	4.9	4.5	4.7	4.5
Financial and Insurance Activities	2.2	2.3	2.6	2.6
Real Estate Activities	8.0	8.1	7.9	7.8
Business Services	5.9	5.7	6.4	6.7
Professional activities	4.2	4.0	4.4	4.6
Public Administration Activities	5.4	6.1	6.0	6.0
Education	4.3	3.7	4.2	4.2

Source: Agence Nationale de la Statistique et de la Demographie

Harmonised index of industrial production



Source: Agence Nationale de la Statistique et de la Demographie

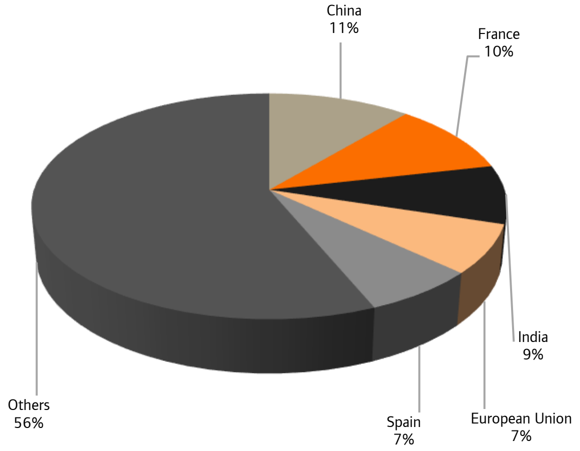
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	6.9	8.3	8.5	9.1	9.1	9.1	10.0	10.0	6.5	6.8	5.6	5.4	6.7	5.9	5.4	5.9
CPI (% y/y) pe	3.29	1.33	1.39	3.29	2.05	1.40	1.27	1.47	1.55	1.64	1.26	1.32	1.20	1.06	1.64	1.54
Marginal lending facility (%) pe	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25
USD/XOF pe	607.9	596.3	613.0	601.8	580.5	570.4	537.7	542.1	546.6	546.6	508.5	500.7	500.7	500.7	500.7	500.7

Source: International Monetary Fund; Ministère de l'Economie et des Finances; Agence Nationale de la Statistique et de la Demographie; Banque Centrale des Etats denotes

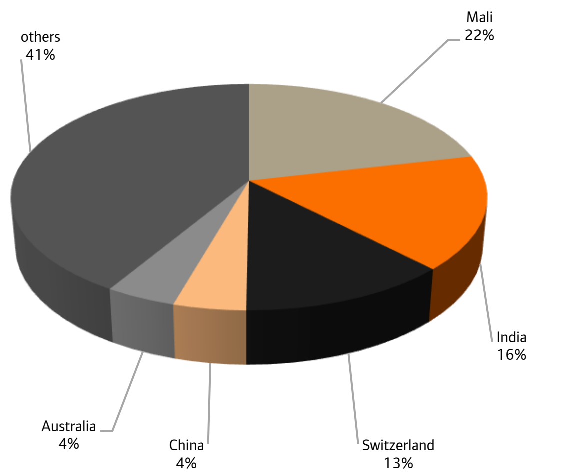
pa - period average; pe - period end

Import source markets



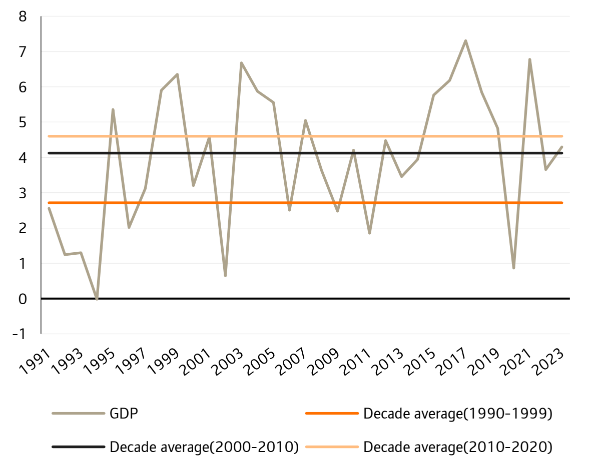
Source: ITC

Export destination markets



Source: ITC

Long-term GDP performance



Source: Bloomberg; Standard Bank Research

Historical USD/XOF

Source: Bloomberg; Standard Bank Research

Balance of payments: C/A deficit still hefty – but now narrowing

The C/A deficit should narrow further in 2024 and 2025. However, compared to our Jan AMR forecast of 10.9% of GDP for 2024 and 6.1% of GDP for 2025, the C/A account may now only narrow to 11.3% of GDP and 6.5% of GDP in 2024 and 2025 respectively because of gas exports delays.

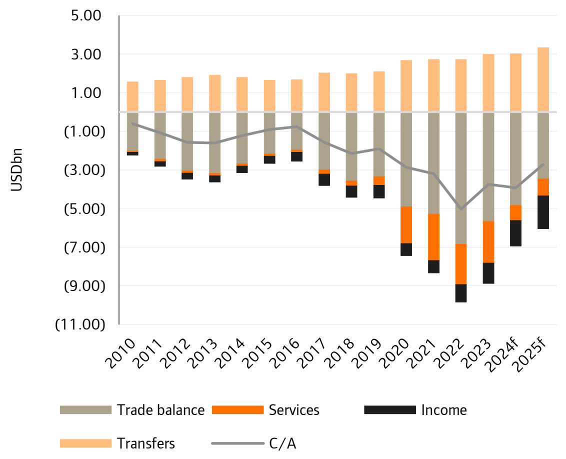
The C/A deficit narrowed to 12.5% of GDP in 2023, from 18.2% of GDP in 2022, despite sluggish growth in goods exports which increased 4% y/y. Thus, the C/A deficit narrowed due to falling imports and robust growth in remittances and tourism. Key components in funding the C/A deficit were the government's external borrowing, the IMF programme, and foreign direct investment.

As goods imports increased by 3.3% y/y and goods exports decreased by 5.3% y/y, the cumulative goods trade deficit at end Apr 24 was c.USD2.05bn, from USD1.8bn during the same period in 2023. However, exports should support the C/A now that oil production at Sangomar Field is underway.

However, imports, which include FPSO imports, will likely rise further, in tandem with the growth in oil and gas developments. Robust current transfers from significant inward diaspora remittances and budgetary aid too should support the C/A balance. However, the requirement to repatriate significant amounts of fees and profits may see negative income and service balances lingering.

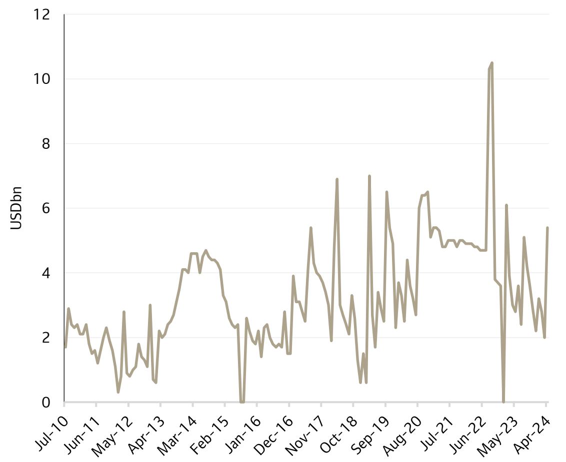
With the government having issued a USD750m Eurobond in Jun and perhaps receiving a further USD558m from the IMF as part of the EFF/ECF/RSF programme, financing the C/A deficit may be feasible. Further, FDI has remained ample thus far as investors continue to import capital to fund various projects.

Current account developments



Source: Agence Nationale de la Statistique et de la Demographie; Banque Centrale des Etats

FX reserves



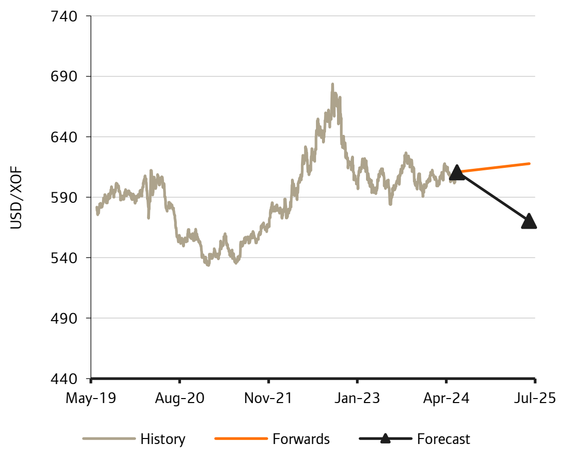
Source: Bloomberg

FX outlook: XOF to remain linked to EUR/USD movements over the forecast period

The implementation of the proposed common currency of the Economic Community of West African States (ECOWAS), the "eco", which was postponed to 2027, still faces challenges, and is likely to be delayed further due to the divergence, by most of the member states, from the required criteria. Per the latest West African Monetary Agency (WAMA) report, none of the 15 member states had met all four primary convergence criteria (budget deficit, gross FX reserves, average inflation, and central bank financing of fiscal deficit) by 2022, and it seems unlikely that most regional economies would have converged by the 2027.

Therefore, EUR/USD movements will still determine the direction of the XOF given the CFA franc's peg to the euro at 655.957. We foresee the EUR/USD ranging between 1.07 -1.09 during H2:24, then likely reaching 1.21 by end 2025. Thus, we forecast USD/XOF at 601.8 Dec 24 and 542.1 by end 2025.

USD/XOF: forwards versus forecasts



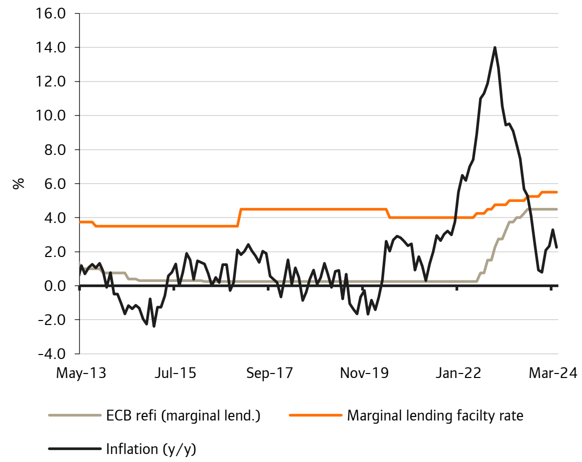
Source: Bloomberg; Standard Bank Research

Monetary policy: an easing bias

The BCEAO left key policy rates steady in H1:24, with the liquidity calls and marginal lending window respectively at 3.50% and 5.50%. We still believe that the MPC should have room to cut rates by a cumulative 50 bps in H2:24 and a further 50 bps, at the very least, in 2025. Inflation on the WAEMU bloc inched up to 3.7% y/y in Apr 24, from 2.8% y/y in Q1:24, mainly due to higher food prices (4.9% y/y, from 3.3% y/y in Mar). The BCEAO foresees overall inflation hovering around 3.7% y/y in May and Jun 24, attributable to higher prices for cereal products as persistent tensions are keeping 2023/24 cereal production lower, particularly in the Sahelian ("shore") countries. Notwithstanding, the BCEAO forecasts local food supply improving in H2:24 and expects inflation to average 2.8% y/y in 2024, from an average of 3.7% y/y in 2023, then declining further, to 2.5% y/y in 2025. This would be within the 1%-3% y/y targeted inflation range and may compel an accommodative bias from Q3:24. However, upside risks to the inflation outlook include the persistence of security crisis in some countries in the region as well as any worsening of geopolitical tensions exacerbating high global energy and food prices.

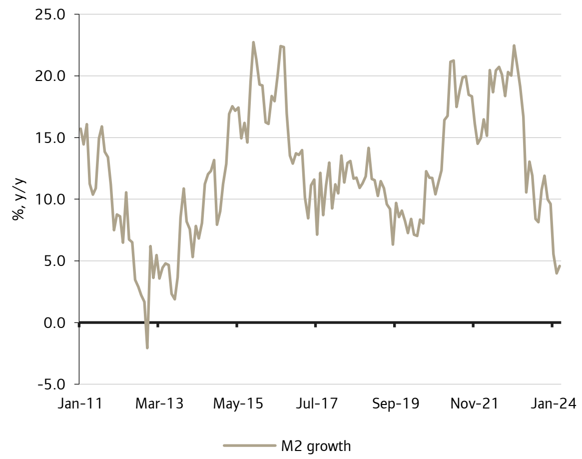
Senegal is prone to drought and erratic rainfall and is therefore at risk of imported inflation because more than half of its food demands are met by imports. However, average- to above-average rainfall is highly likely over the Jun-Aug period, according to meteorological forecasts, which should support agricultural production. Senegal's headline inflation fell to 2.0% y/y in May, from 2.3% y/y in Apr, remaining within target; BCEAO limit is 3.0%. We anticipate a benign inflation environment that may only slightly increase to 3.2% y/y to 3.3% y/y between Dec 24 and Jan 25 before subsiding below 3.0% y/y from Feb 25. The start of hydrocarbon production, together with the adoption of appropriate policies, should keep Senegal's medium-term prospects positive as it turns net oil exporter. However, there may be upside pressure for inflation if an electrical pricing adjustment plan, based on Senelec's financial audit, with the goal of eliminating electricity subsidies by 2025, is accepted by the new administration.

Inflation and interest rates



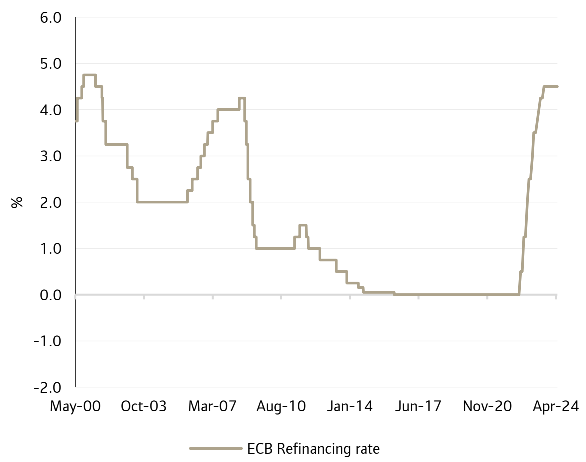
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

Money supply growth



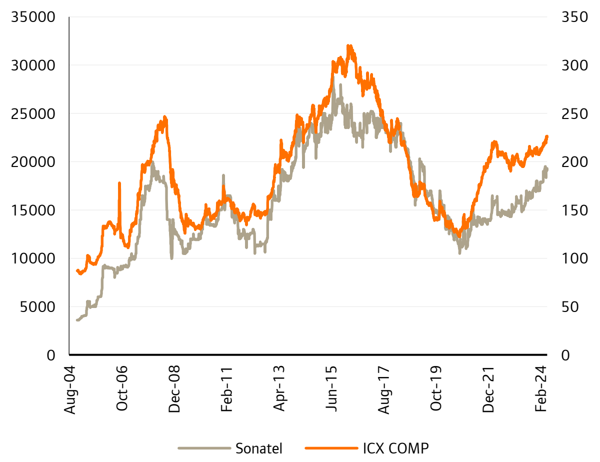
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Historical ECB refinancing rate



Source: Bloomberg

Capital market



Source: BRVM; Bloomberg

Fiscal policy: fiscal deficit may disappoint

The amount of tax revenue that can be collected this year may increase alongside strong economic growth; however, spending may exceed budget. As of Q1:24, CFA803.2bn in general budget resources have been mobilised, representing 17.1% of the initial budget. About CFA1 358.7bn, or 24.3% of the initial budget, was spent. Overspending may also result from debt servicing and social expenditure.

The provisional interest cost for the debt for Q1:24 was CFA181.6bn, or roughly 31.4% of the total budgeted. However, according to the ministry of finance, in contrast to the same time last year, interest expense decreased by 52.7%. This was mostly due to a 51.9% decrease in external debt charges and a 57.1% decrease in domestic debt charges.

With a 24.51% execution rate, personnel spending in Q1:24 was CFA353.5bn. The Ministry of Finance reports that personnel expenses rose by 11% y/y, or CFA34.7bn. This increase is pertaining to agreements struck in 2022 between trade union organisations and the government in the fields of health and education. With an execution rate of 32.10%, compared to 35.14% in 2023, the current transfers totalled almost CFA402.74bn.

Election-related expenses in Q1:24, and new expenditure that may be introduced by the new administration, may cause Senegal's budget deficit to deepen beyond what was projected in the initial budget.

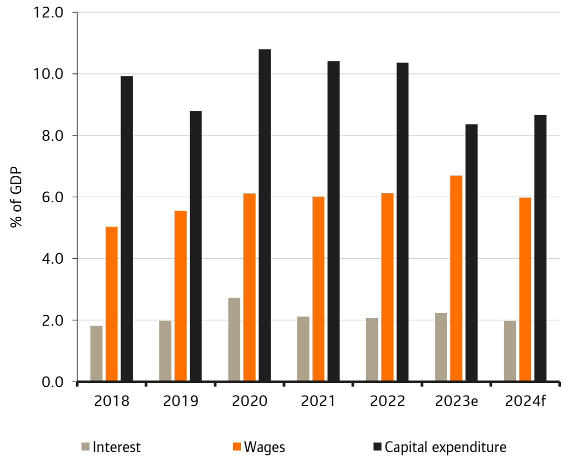
Nevertheless, proposals to expand focused social safety programmes, and gradually eliminate energy subsidies, may improve fiscal consolidation, even if politically controversial, particularly for the newly inaugurated government. But still, Senegal's reputation for economic stability should be preserved, and the government's attention to market sentiment should guarantee that the nation's historically conservative fiscal policies remain.

Central government budget

% of GDP	2021	2022	2023e	2024f
Revenue	20.4	20.7	20.6	21.4
Grants	1.5	1.6	1.5	1.3
Expenditure	26.7	26.9	26.1	25.0
- Salaries	6.0	6.1	6.7	6.0
- Interest	2.1	2.1	2.2	2.0
- Capital	10.4	10.4	8.4	8.7
Fiscal deficit (excl. grants)	-7.9	-7.8	-6.3	-5.0
Fiscal deficit (incl. grants)	-6.3	-6.2	-4.8	-3.6

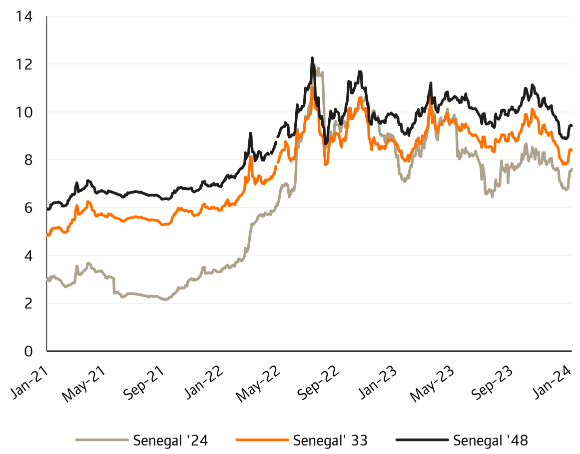
Source: Ministre de l'Economie et des Finances et du Plan

Components of expenditure



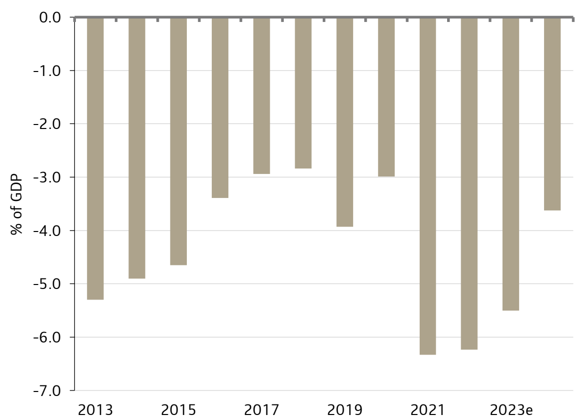
Source: Ministre de l'Economie et des Finances et du Plan

Eurobonds yields



Source: Bloomberg

Fiscal deficit (incl grants)



Source: Ministre de l'Economie et des Finances et du Plan

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	16.0	16.4	16.9	17.3	17.8	18.2	18.2
Nominal GDP (XOF bn)	13 712.7	14 119.5	15 261.2	17 228.0	18 126.9	19 975.8	22 243.9
Nominal GDP (USD bn)	23.4	24.5	27.5	27.6	29.9	33.0	39.9
GDP / capita (USD)	1462.6	1492.5	1630.7	1595.0	1682.8	1814.7	2191.5
Real GDP growth (%)	4.8	0.9	6.8	3.9	4.3	8.2	9.5
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-3.9	-3.0	-6.3	-6.2	-4.8	-3.6	-3.0
Budget balance (incl. grants) / GDP (%)	-5.6	-4.9	-7.9	-7.8	-6.3	-5.0	-4.30
Domestic debt / GDP (%)	18.6	19.2	16.1	19.6	20.8	16.8	14.7
External debt / GDP (%)	39.1	48.9	57.2	56.4	58.7	55.70	52.70
Balance of Payments							
Exports of goods (USD bn)	6.9	5.1	6.7	7.4	8.0	9.0	11.6
Imports of goods (USD bn)	-10.8	-9.7	-12.1	-14.2	-13.6	-13.4	-14.8
Trade balances	-3.9	-4.6	-5.4	-6.7	-5.6	-4.4	-3.2
Current account (USD bn)	-1.9	-2.9	-3.2	-5.0	-3.7	-3.6	-2.6
- % of GDP	-8.12	-11.67	-11.62	-18.20	-12.4	-10.8	-6.5
Capital & Financial account (USD bn)	2.21	2.41	3.23	4.70	3.44	3.65	4.57
- FDI (USD bn)	1.24	1.87	2.44	2.64	2.57	2.67	3.45
Basic balance / GDP (%)	1.33	-1.84	0.10	-1.17	-0.87	0.26	4.94
FX reserves (USD bn) pe	3.4	3.2	2.8	5.0	5.1	5.4	7.3
- Import cover (months) pe	5.5	5.1	4.1	2.8	5.0	4.9	5.9
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	-0.4	1.5	2.4	9.6	6.1	2.0	1.8
Consumer inflation (%) pe	-1.7	2.5	3.8	12.8	0.8	3.3	1.5
M2 money supply (% y/y) pa	9.7	9.7	18.3	19.0	12.57	6.14	11.50
M2 money supply (% y/y) pe	8.2	12.3	12.3	22.5	5.55	5.76	11.91
Marginal lending facility (%) pe	4.50	4.00	4.00	4.75	5.50	5.00	4.50
USD/XOF pa	495.9	569.5	563.9	625.1	606.4	604.80	557.70
USD/XOF pe	468.5	537.6	576.8	612.8	601.0	601.80	542.10

Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Agence Nationale de la Statistique et de la Demographie; Ministère de l'Economie et des Finances; International Monetary Fund; Bloomberg; Standard Bank Research

Notes: pe — period end; pa — period average; nr — not rated; na — not available

Tanzania: infrastructure investment to further spur growth

Medium-term outlook: relatively robust, with EACOP, the Standard Gauge Railway, and LNG investment

We trim our growth forecast for both years of 2024 and 2025 to 5.0-5.4% y/y, from 5.7-6.0% before. Still, this slightly softer growth should be supported by the government's ongoing business reforms – which should benefit the services sector, agriculture, mining, and tourism.

However, the downside risks remain insufficient FX liquidity and concerns about funding infrastructure projects.

Per official data, economic activity was robust in 2023, at 5.1% y/y, driven by finance and insurance, ICT, transport and storage, electricity, trade, and repair, as well as an expansion in mining and quarrying.

However, agriculture, that contributes about 25.9% of GDP, posted growth of only 3.4% y/y in 2023, after 3.3% y/y in 2022, well below the 4.8% y/y 10-y average. Growth for 2024 may match recent trends because of likely climate shocks due to El Niño (largely wet) switching to La Niña (largely dry). Indeed, the Tanzania Meteorological Authority (TMA) has advised farmers to prepare for drier conditions during H2:24. Positively, however, such drier conditions would benefit the construction, mining and transportation sectors.

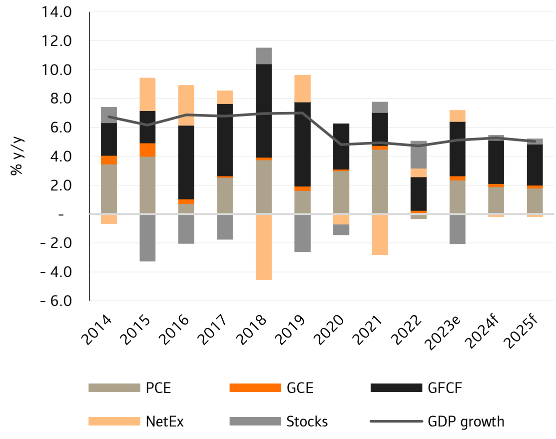
The tourism sector should perform strongly in 2024, with tourist arrivals likely breaching 2 million.

The government remains optimistic about its strategic infrastructure plans over the medium term. There has been further progress on the Standard Gauge Railway (SGR), with phase 1 complete, and operations between Dar es Salaam and Dodoma set to commence from Jun 24. Further, progress on the construction of the East Africa crude oil pipeline to Uganda should also boost economic activity in 2024.

The industrial sector too should benefit from H2:24 as 460MW of power has joined the grid, thus offering relief following a period of power outages constraining industrial activity.

On LNG, the host government agreement (HGA) has been delayed, exacerbating uncertainty about its due date; still, the next step should be the final investment decision (FDI) by between 2026-2027, which should impel significant investment in project construction during 2026-30, with LNG production then expected to start in 2030.

Composition of GDP by demand



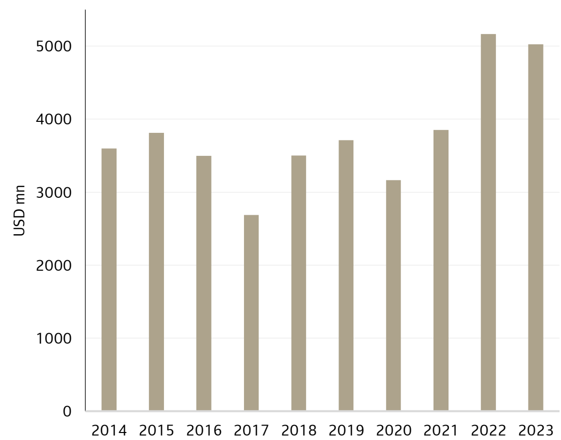
Source: National Bureau of Statistics, Standard Bank Research

Contribution to GDP by sector

% of GDP	2021	2022	2023
Agriculture	26.8	26.1	25.9
Mining & quarrying	7.3	9.0	9.4
Manufacturing	7.2	7.2	7.0
Electricity & gas	0.2	0.1	0.1
Construction	15.1	14.1	13.1
Wholesale & retail trade	8.7	8.0	8.3
Transport & storage	6.9	6.7	7.3
Hotels & restaurants	1.0	1.1	1.2
ICT	1.5	1.5	1.4
Finance & insurance	3.4	3.2	4.5
Real estate	2.9	2.9	2.7
Public administration	3.8	3.7	3.5
Education	2.3	2.3	2.2

Source: National Bureau of Statistics

Capital goods imports



Source: Bank of Tanzania

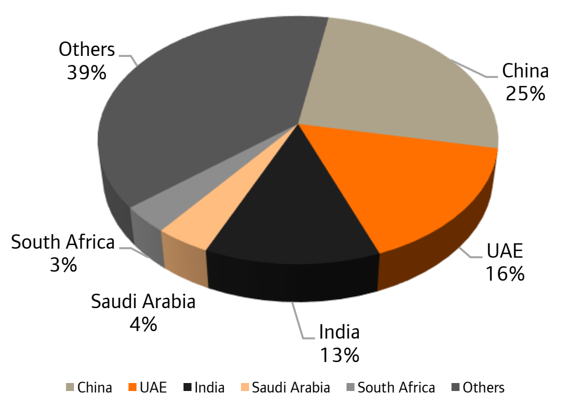
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	3.8	5.5	4.4	7.5	6.1	5.5	4.9	3.7	5.2	6.6	6.0	6.5	6.5	6.1	6.7	6.7
CPI (% y/y) pe	3.0	3.3	3.5	3.5	4.3	4.2	3.7	3.9	3.9	3.9	3.9	3.9	3.6	3.5	3.6	3.5
BoT policy rate	5.5	6.0	6.0	6.0	5.5	5.5	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
3-m rate (%) pe	8.1	7.8	8.5	8.1	7.8	7.5	7.0	7.2	6.6	6.1	5.1	5.6	5.3	5.1	4.6	4.9
6-m rate (%) pe	8.6	8.2	8.4	8.5	8.3	7.5	7.4	7.3	7.0	6.1	5.9	5.8	5.6	5.0	4.9	4.8
USD/TZS	2565.0	2613.9	2676.0	2719.3	2753.3	2785.4	2820.2	2827.3	2843.0	2846.2	2844.3	2848.7	2892.3	2919.8	2950.8	2950.2

Source: Bank of Tanzania; Ministry of Finance; National Bureau of Statistics; Bloomberg; Standard Bank Research

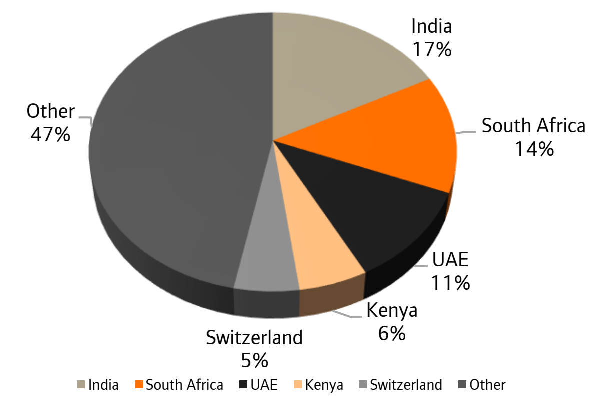
Notes: pe – period end; pa –a period average

Top 5 imports origins (% of total)



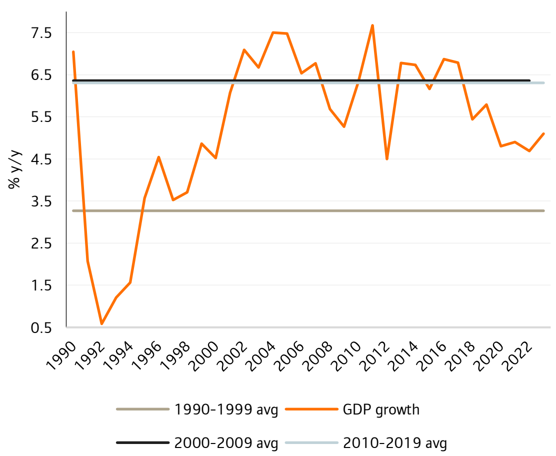
Source: International Trade Centre

Top 5 exports destinations (% of total)



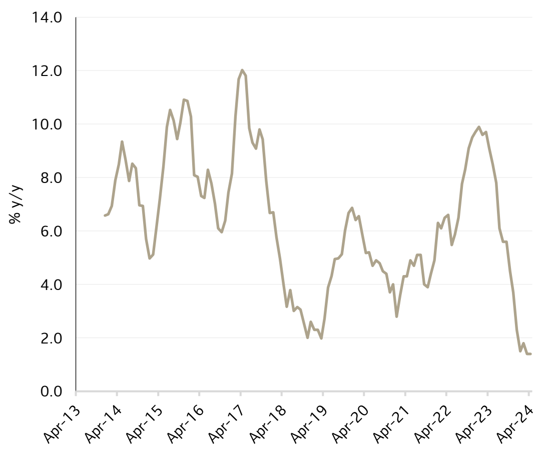
Source: International Trade Centre

Long-term GDP growth



Source: World Bank

Food inflation



Source: National Bureau of Statistics

Balance of payments: Current account narrows

We now trim our forecast for the C/A deficit, to 3.5% of GDP for 2024.

Despite stable capital expenditure related to investment in infrastructure, the trade balance is now expected to narrow in 2024 because of lower imports of oil and higher exports of goods, and higher service receipts due to increased tourist arrivals.

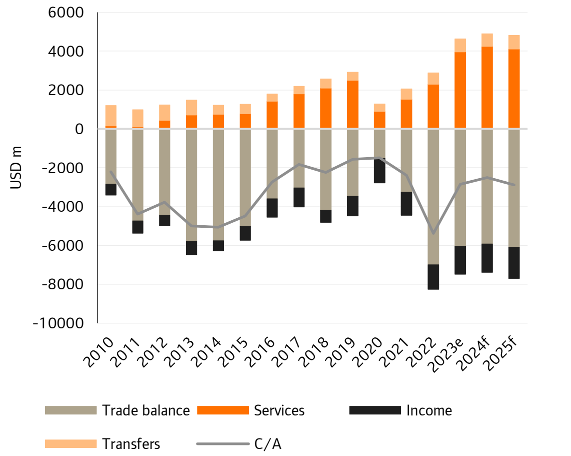
Exports of goods and services grew by 8.2% y/y in Apr 24, to USD14.5bn, buttressed by an increase in volumes and prices of cashews, coffee, cotton and tobacco as well as exports of gold, horticultural exports products and tourism receipts. Tourism receipts performed strongly, growing by 26.3% y/y, to USD3.6bn in Apr 24, from USD2.83bn in Apr 23.

Imports of goods and services declined slightly, by 5.3% y/y, to USD16.1bn in Apr 24, from USD17.0bn y/y in Apr 23. Capital goods imports grew modestly, by 3.5% y/y in Apr 24, while fuel imports fell by 17.5% y/y in Apr 24. Other notable declines were fertilizer imports declining 46.7% y/y in Apr 24.

With international oil prices likely moderating in H2:24 due to less global demand, this may lower oil imports, further narrowing the trade balance. With USD liquidity pressure likely to persist, imports over the coming year may remain subdued.

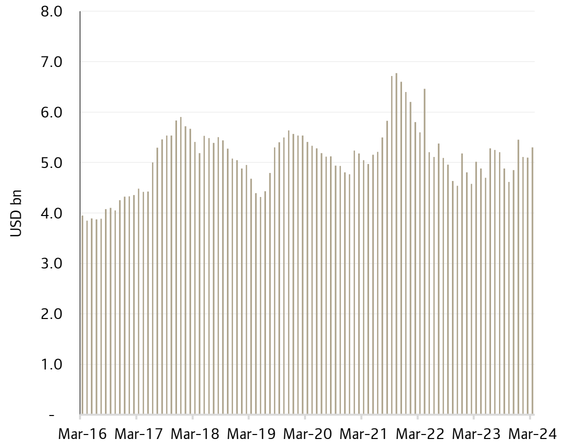
We estimate FX reserves rising to USD5.6-5.8bn by Dec 24, supported by way of external budget financing and the gold purchase program. In FY2024/25, Bank of Tanzania plans to purchase 6 tonnes of gold estimated at USD 400m. Positively, Tanzania successfully completed the third review under the Extended Credit Facility (ECF) arrangement, thus allowing for the immediate disbursement of SDR113.3m (c.USD150.5m). We still foresee further IMF support in Q4:24.

Current account developments



Source: Bank of Tanzania, Standard Bank Research

FX reserves



Source: Bank of Tanzania

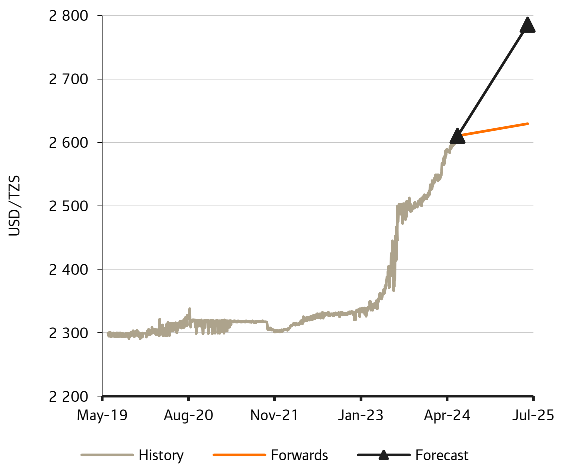
FX outlook: near-term upside risks for USD/TZS

We still see the USD/TZS pair trading around 2,719.3 by end Dec 24 and 2,785.4 by Jun 25. However, unmet demand is estimated at over USD500m, and remains prevalent in the market at the official exchange rate. Foreign exchange imbalances persisted in H1:24, with the BOT intervening with USD 155.8m between Jan and Apr 24.

Further reform by the BOT will be crucial in reviving the interbank market, allowing for further exchange rate adjustment, and limiting forex interventions to address FX market inefficiencies. Indeed, the authorities published a revised interbank forex market Code of Conduct and have committed to more transparency after interventions.

However, we still believe that currency flexibility will be required to enable the market to better address pent-up demand in the FX market.

USD/TZS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: from hawkish to neutral

Tightening of monetary policy kicked off with a 50 bps hike of the policy rate in Apr 24, bringing it to 6.0%, to keep inflation anchored within the targeted range of 3.0-5.0% y/y. We anticipate that the MPC will likely keep the policy rate unchanged during H2:24.

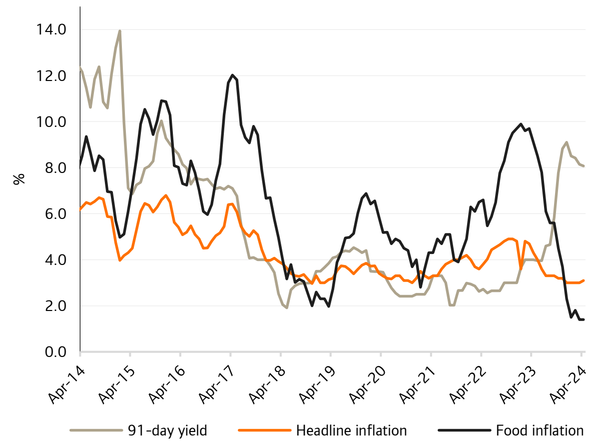
The BOT officially transitioned to an interest rate based monetary policy framework in Jan 24. Indeed, this transition will likely bode well for overall monetary policy transmission which would also further aide in anchoring inflation expectations.

We now expect headline inflation to average 3.3% y/y in 2024 and 4.0% y/y in 2025, from 3.7% y/y in 2023, largely due to better agricultural output leading to lower food prices despite La Niña conditions forecast for H2:24. With the possibility of lower oil prices, expected in the medium term, relative to the last 2-y, inflation should remain well below the BOT target of 5% y/y.

Private sector credit (PSC) growth and money supply are seen trending lower in 2024 due to relatively tighter monetary conditions. By Apr 24, M3 had declined to 10.9% y/y, while PSC had declined to 17.6% y/y. Crucially, the monetary aggregates remain well above 10%, supportive for economic growth while also curbing upside pressure for demand driven inflation.

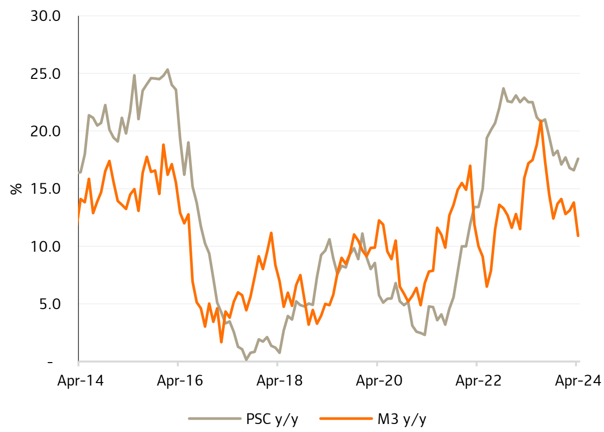
The upside risks to inflation over the coming year may come by way of TZS depreciation through second-round impacts, which may cause food inflation to exceed expectations if La Niña weather conditions play out.

Inflation and interest rates



Source: Bank of Tanzania, National Bureau of Statistics

Monetary aggregates



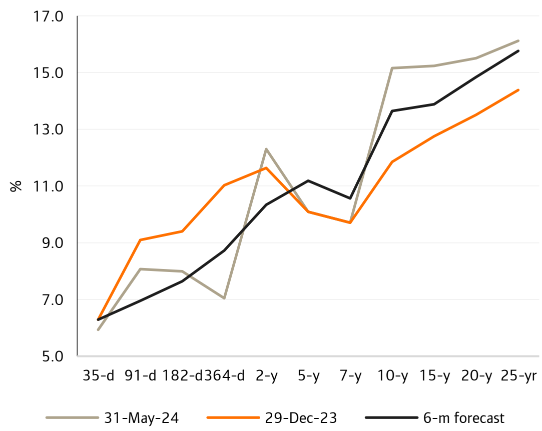
Source: Bank of Tanzania

Yield curve outlook: T-bill yields to stabilise in H2:24

While T-bill yields have been relatively unchanged since Dec 23, bond yields on average rose faster, reflecting the government's desire to re-issue longer-dated instruments as they potentially seek to lengthen the duration of their liabilities. These longer dated bonds had higher coupons rates in order to attract more investor interest.

Headline inflation will likely remain low and stable in H2:24 but the BOT will probably keep TZS liquidity conditions tight, thereby sustaining T-bill yields at present levels. The government's domestic debt maturities are estimated at TZS 1.7tn in H2:24 and TZS 2.1tn in H1:25. With that in mind, the government may attempt to front-load their borrowing programme – but higher refinancing requirements in H1:25 may keep upward pressure on the yield curve.

Change in yield curve



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: fiscal deficit seen steady

The Tanzanian government is targeting a budget deficit, excluding grants, of 6.7% in FY2024/25. Development expenditure is likely to decline slightly, to TZS15.8tn (7.2% of GDP) over the next year, from 7.7% FY2023/24. The government intends to increase tax revenue to 12.9% of GDP, from 12.6% in FY 2023/24, by measures such as the introduction of withholding taxes of 2-5% targeting various sectors such as digital, industrial minerals, and agricultural produce.

Furthermore, in FY2024/25, the government is expected to make progress on strategic infrastructure projects such as the Standard Gauge Railway (SGR) Lot 3 (Makutupora – Tabora), Lot 4 (Tabora – Isaka), Lot 6 (Tabora – Kigoma), Lot 7 (Uvinza – Musongati), the Dodoma Expressway, and the Rufiji hydropower project. Increased social spending is also anticipated ahead of local and general elections.

For the 9-m of FY2023/24, total revenue collected stood at TZS22,029.3bn, against a target of TZS23,196.9bn, or 95.0%, an increase of 11.1%, compared to the same period in 2022/23. Total expenditure for 9-m was TSZ31,938.0bn, against target of TZS32,783.4bn, or 97.4%. Recurrent expenditure totalled TZS20,232.0bn, reflecting a performance of 96.9% of the target. Development expenditure totalled to TZS11,706.0bn, or 98.3%.

In H2:24, the government's external financing requirements will be financed largely via concessional loans and grants. Disbursements will include IMF ECF of USD150m and AfDB of USD120m. During the Korea-Africa summit in May 24, Tanzania signed a USD 2.5bn loan agreement with Korea's Economic Development Co-operation Fund, to be spread over 5-y period.

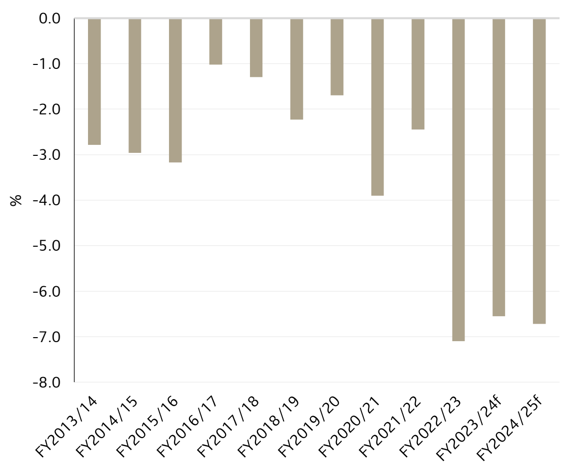
Risks relate to higher external debt service due to further TZS depreciation, unplanned spending ahead of local elections in H2:24, and either delays in the payment of outstanding arrears or a further accumulation of arrears. Positively the government remains committed to clearing outstanding arrears, during Jul 23 to Mar 24, the government paid verified arrears totalling TZS1,068.9bn.

Central government budget (% of GDP)

	FY2022/23	FY2023/24	FY2024/25f
Total revenue	14.4	15.4	15.8
Total expenditure	21.5	21.9	22.5
Wages	5.0	5.5	5.4
Interest	4.8	3.2	2.5
Development	8.0	7.7	7.2
Overall balance (-grants)	-7.1	-6.6	-6.7
Overall balance (+ grants)	-4.6	-6.0	-6.4
Net domestic borrowing	1.3	2.7	3.0
Net external borrowing	0.8	3.3	3.3
Donor support (grants)	2.5	0.6	0.4

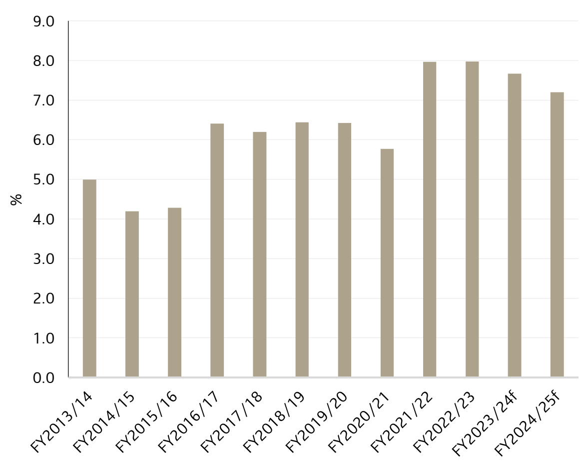
Source: Ministry of Finance

Fiscal deficit excluding grants



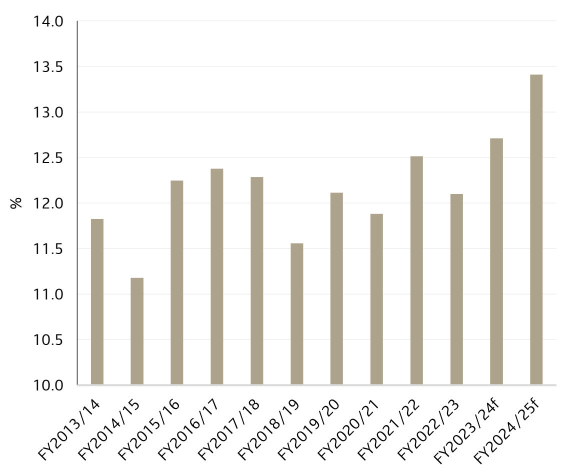
Source: Ministry of Finance

Developmental expenditure



Source: Ministry of Finance

Tax revenue



Source: Ministry of Finance

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	54.3	55.9	57.7	61.7	62.6	64.6	66.6
Nominal GDP (TZS bn)	134 384	145 430	156 375	170 256	178 110	188 562	199 014
Nominal GDP (USD bn)	60.5	62.9	67.9	73.2	73.1	71.3	71.2
GDP / capita (USD)	1 075	1 158	1 214	1 268	1 185	1 140	1 102
Real GDP growth (%)	7.0	4.8	4.9	4.7	5.1	5.3	5.0
Gold production ('000 Kg)	48.4	55.8	59.6	56.9	66.0	70.6	75.3
Tobacco production ('000 MT)	70.8	37.5	58.5	70.7	66.0	68.8	71.6
Coffee production ('000 MT)	68.1	60.7	73.0	66.8	77.2	82.0	86.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.9	-1.7	-3.9	-6.3	-7.1	-6.6	-6.7
Budget balance (incl. Grants) / GDP (%)	-3.2	-1.4	-3.5	-3.8	-4.6	-6.0	-6.4
Domestic debt / GDP (%)	11.1	10.7	12.6	14.7	16.0	15.3	14.9
External debt / GDP (%)	28.6	28.0	30.1	28.1	29.5	31.7	30.1
Balance of Payments							
Exports of goods and services (USD bn)	9.7	8.8	10.0	11.6	13.5	14.4	14.5
Imports of goods and services (USD bn)	10.9	8.9	11.7	16.7	16.1	16.1	16.5
Trade balance (USD bn)	-1.2	-0.1	-1.8	-5.1	-6.0	-5.9	-6.1
Current account (USD bn)	-1.6	-1.0	-2.4	-5.4	-2.9	-2.5	-2.9
- % of GDP	-2.6	-1.5	-3.5	-7.4	-3.9	-3.5	-4.1
Financial account (USD bn)	2.5	1.0	3.4	3.9	4.1	4.1	4.7
- FDI (USD bn)	1.2	0.9	1.2	1.3	1.3	1.3	1.4
Basic balance / GDP (%)	-1.2	-1.0	-2.9	-6.8	-3.4	-3.0	-3.6
FX reserves (USD bn) pe	5.6	4.7	6.4	5.2	4.6	5.8	5.5
- Import cover (months) pe	6.5	6.2	5.4	4.7	4.0	5.0	4.9
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	B2	B2	B2	B2	B2
Fitch	nr	nr	nr	nr	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.5	3.3	3.7	4.4	3.7	3.3	4.0
Consumer inflation (%) pe	3.8	3.2	4.2	4.9	3.0	3.5	3.9
M3 money supply (% y/y) pa	7.4	8.8	10.2	11.7	15.6	10.0	10.6
M3 money supply (% y/y) pe	9.6	5.7	15.5	11.6	14.1	8.7	13.2
BoT discount rate (%) pa	7.0	5.5	5.0	5.0	5.0	5.9	5.4
BoT discount rate (%) pe	7.0	5.0	5.0	5.0	5.0	6.0	5.0
3-m rate (%) pe	4.5	2.5	3.0	3.0	9.1	8.1	7.2
1-y rate (%) pe	5.9	4.3	4.2	6.6	11.0	10.7	9.8
2-y rate (%) pe	11.1	7.1	7.7	8.5	11.6	11.0	10.8
5-y rate (%) pe	12.0	9.1	9.4	9.1	10.1	13.2	12.3
USD/TZS pa	2311.0	2313.6	2303.8	2327.1	2435.5	2643.5	2796.6
USD/TZS pe	2300.0	2319.0	2297.8	2329.1	2511.3	2719.3	2827.3

Source: Bank of Tanzania; Ministry of Finance; National Bureau of Statistics; Bloomberg; Standard Bank Research

Notes: pe – period end; pa –a period average

Uganda: medium-term prospects still appear promising

Medium-term outlook: banking on increased oil investment

We still see GDP growth at 5.7-5.9% y/y in FY2023/24 and 6.0-6.2% y/y in FY2024/25.

GDP growth rose to 5.5% y/y in Q2:FY23/24 (Q4:23), from average growth of 4.2% y/y in the three preceding quarters. However, due to heavy El Niño rain in Q4:23, growth in the agricultural sub-sector subsided to 1.6% y/y in Q4:23, from 3.7% y/y in Q3:23.

Heavy rain continued for the most part of Q1:24, which may further diminish agricultural output. Furthermore, usually when growth in the agrarian sector deteriorates, domestic demand too weakens because a large portion of the informal workforce is employed in this sector.

However, favourable GDP growth base effects should see GDP growth recovering to 6.3% y/y in both Q3 and Q4:24. Notably, the impact of El Niño rain in H1:24 seems less severe in Uganda than the detrimental impact on growth in neighbouring Kenya and Tanzania.

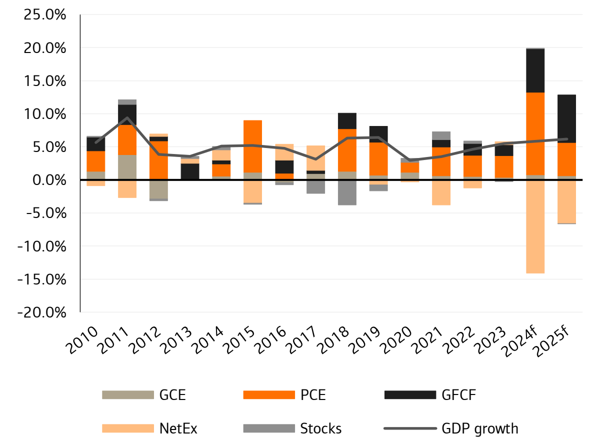
Growth in H1:25 may reach an average of 6.0% y/y, underpinned by oil sub-sector investment. The government has initiated talks with a consortium of international investors to construct a USD4.0bn oil refinery, which should further spur FDI and economic growth over the medium term, should this project come to fruition.

We reiterate that the expenditure multiplier benefits from increased investment in the oil sector should boost a broad range of other sectors within the economy – such as construction, tourism, and accommodation. Unsurprisingly, the mining sub-sector grew by an impressive average of 121.3% y/y in the 9-m to December 24, from an average contraction of 41.7% y/y between Q4:23 and Q1:24.

However, there are abiding downside risks to growth both in the near- and medium term. In H2:24, should the UGX come under further pressure owing to an increase in foreign portfolio outflows, the MPC may choose to tighten policy more aggressively, thereby crimping both domestic demand and private sector credit (PSC) growth. Moreover, should the government continue to struggle to attract adequate external funding, investment in infrastructure may come under strain. La Niña drought concerns too may weigh on growth from Q4:24.

Over the medium term, further delays in securing financing for oil-related infrastructure may delay first oil beyond the widely expected 2025-26, thereby weighing on investment spending.

GDP by expenditure



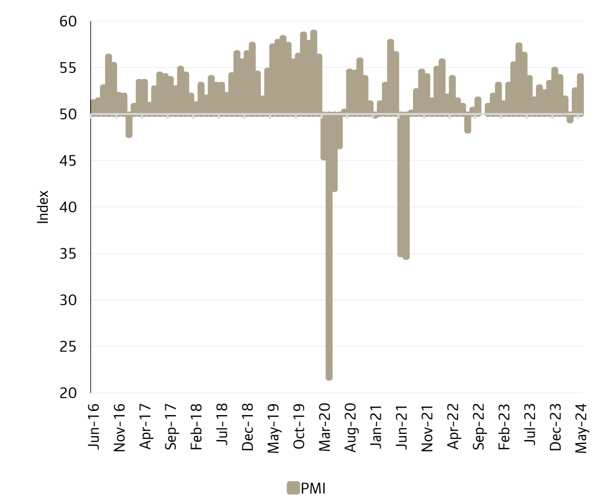
Source: Uganda Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2015	2023
Agriculture	27.1	23.2	23.8
Mining	1.2	1.0	1.9
Manufacturing	8.7	16.1	15.6
Construction	5.5	5.1	5.3
Trade & repairs	13.3	9.7	9.2
Transport	2.6	3.3	3.6
Accommodation & food	2.1	2.5	2.2
ICT	4.2	1.6	1.5
Financial & insurance	2.4	2.8	2.8
Real estate	5.5	6	6.1
Public administration	2.8	2	2.8
Education	5.3	5.2	3.6

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

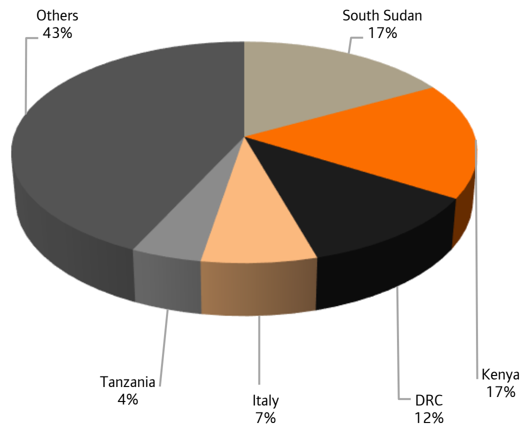
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	5.3	5.5	6.3	6.3	6.1	5.9	6.2	6.6	6.6	7.1	7.7	6.4	5.7	5.6	7.9	6.4
CPI (% y/y) pe	3.3	4.0	3.7	3.4	3.0	2.8	2.8	2.9	3.0	2.8	3.0	3.0	3.1	3.2	3.1	3.1
BOU policy rate (%) pe	10.00	10.25	10.25	9.75	9.25	8.50	8.50	8.50	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00
3-m rate (%) pe	9.60	10.60	10.85	10.40	10.00	9.70	9.25	9.13	8.60	8.50	8.50	8.58	8.70	8.90	9.00	9.08
6-m rate (%) pe	12.36	12.90	13.20	12.77	12.50	12.20	11.75	11.50	11.20	11.00	11.00	10.70	10.40	10.30	10.10	10.10
USD/UGX	3881	3760	3820	3750	3850	3810	3830	3870	3900	3900	3860	3850	3860	3860	3880	3870

Source: Bank of Uganda; Uganda Bureau of Statistics; Ministry of Finance; Bloomberg; Standard Bank Research

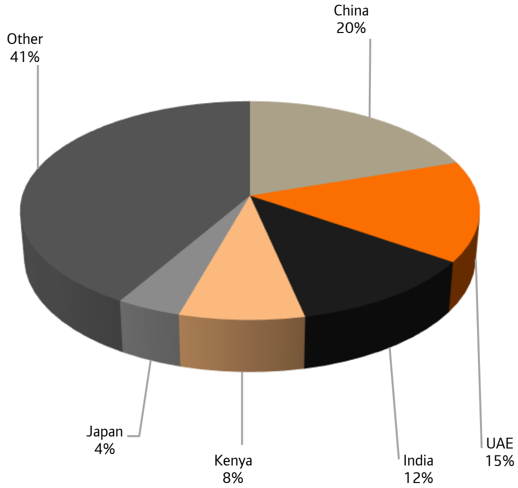
Notes: pa – period average; pe – period end

Uganda's top 5 exports destinations (% of total)



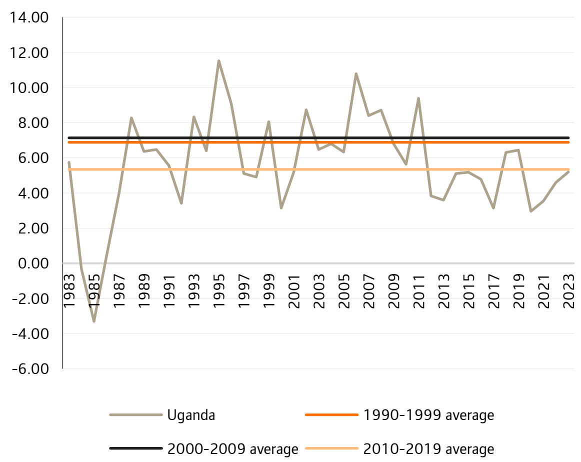
Source: International Trade Centre

Uganda's top 5 imports origins (% of total)



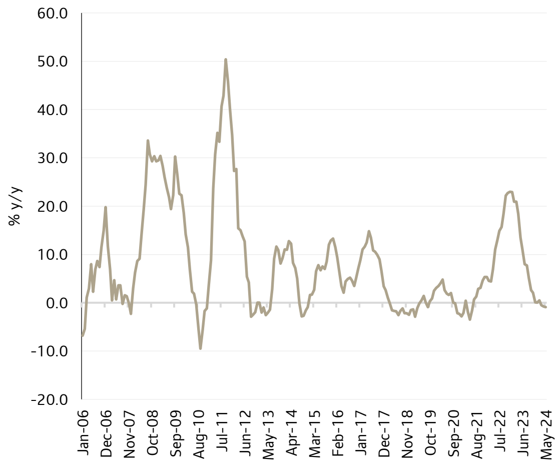
Source: International Trade Centre

Long-term GDP performance



Source: World Bank; Standard Bank Research

Food inflation (%)



Source: Uganda Bureau of Statistics

Balance of payments: exports performing well

We now revise lower our C/A deficit forecast for 2024 to 8.4% of GDP, from 9.8% of GDP in the Jan AMR edition. Further, we scale down our 2025 C/A deficit forecast to 9.3% of GDP, from 11.4% of GDP previously.

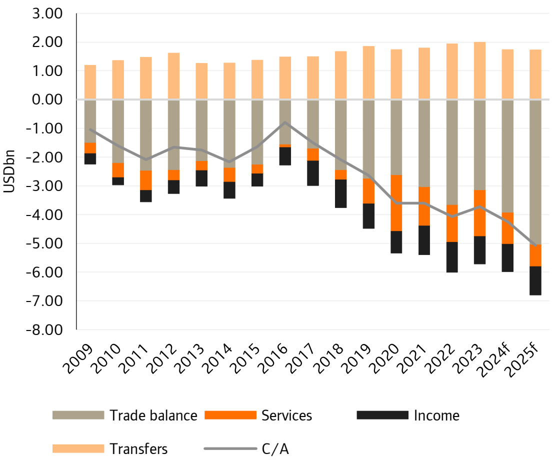
Despite a recovery in goods imports, exports may grow meaningfully over the coming year. Goods exports rose by 24.6% y/y, to a cumulative USD2,472.7m during Jan to Apr 24. This was largely due to higher gold and coffee exports being buoyed by higher international prices. Gold exports rose to USD976.30m during Jan to Apr 24, compared to USD480.71m in the same period in 2023. Meanwhile, coffee exports recovered to USD317.56m, from USD264.91m, in that time.

Goods imports may rise further over the next 2-y largely because of an increase in capital expenditure requirements associated with the oil sector. Total imports of goods rose to USD3,653.5m during Jan to Apr 24, compared to USD2,962.9m during Jan to Apr 23. However, should external funding constraints persist, capital goods imports may rise more moderately over the next 2-y than we currently anticipate.

FX reserves have been under pressure due to rising public sector import requirements owing to higher oil investments amid a reduction in foreign portfolio inflows and subdued external funding. Thus, gross FX reserves declined by USD440m, to USD3.46bn, during Oct 23 to Apr 24.

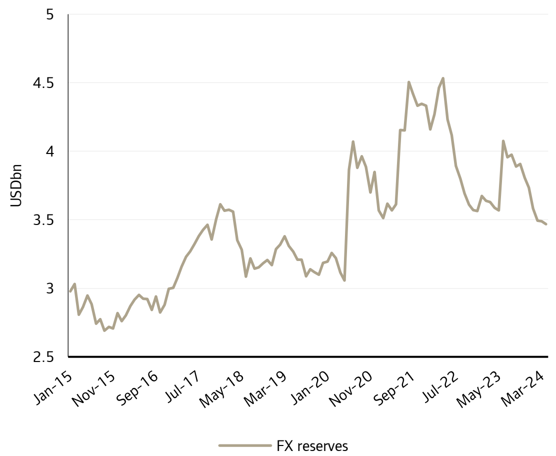
Following a delay in the fifth review of the IMF Extended Credit Facility (ECF), a further delay in the sixth review now seems likely too. The government remains keen to extend this programme beyond the 2024 expiry. Aside from an expected increase in net foreign direct investment (FDI) over the medium term, the government will probably continue to issue commercial debt (excluding Eurobonds) over the coming year, which should support FX reserves.

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves



Source: Bank of Uganda

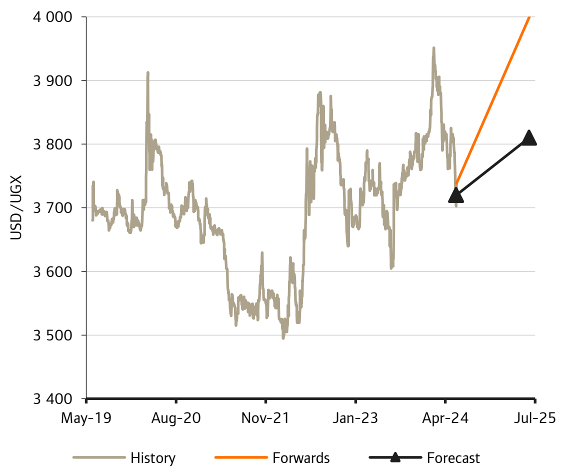
FX outlook: coffee USD flows helping UGX

The UGX will likely trade within a 3700-3830 range in H2:24. The UGX came under pressure in Q1:24 mainly due to increased foreign portfolio outflows. However, proactive monetary policy tightening by the BoU assisted in underpinning the UGX.

Additionally, since coffee exporters had initially missed out on hedging their flows when USD/UGX rose to 3950 levels in Q1:24, they have now been selling USD in the spot market following a spike in the pair again after the recent downgrade by Moody's to B3 from B2. This has capped USD/UGX upside.

Because of the government's bulky net domestic borrowing requirements, UGX bond yields may rise further and thereby attract offshore portfolio investment, which may support the UGX. However, the high beta nature of the local unit will continue to make it vulnerable to swings in global risk sentiment.

USD/UGX: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias from Q4:24

The MPC will likely cut the CBR by 50 bps in Q4:24. Further easing is also likely in H1:25 too.

Contrary to our and the broader market's expectation, the MPC hiked the policy rate by a cumulative 75 bps during March and April 24 despite headline inflation remaining below the 5.0% y/y mid-point target of the BoU.

The MPC opted to tighten proactively, perhaps mainly due to concerns that the weaker UGX from Q1:24 would increase inflation expectations. However, since this proactive tightening, the UGX has appreciated and stabilised, while inflationary pressures, initially anticipated from the passthrough of the weaker UGX, haven't transpired.

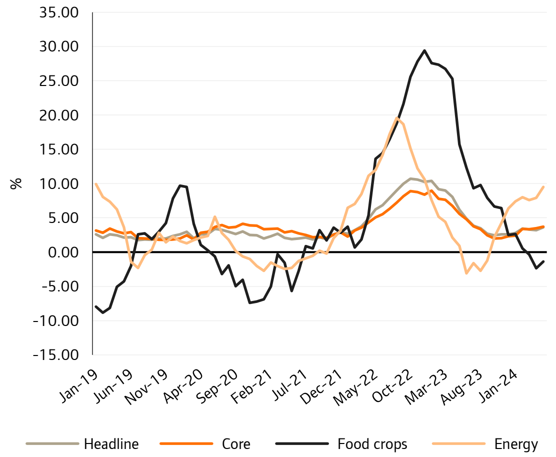
From the June 24 communiqué, the MPC now sees inflation rising to 5.0-5.4% y/y over the coming year, below the 5.5-6.0% y/y MPC forecast in April 24.

We see headline inflation at 3.7% y/y in September 24 and 3.4% y/y in December 24. The outlook for inflation remains benign, with an average of 3.4% y/y expected in H1:25.

However, looser fiscal policy and an uncertain global risk environment still present upside risks for USD/UGX and therefore for inflation too. Hence, should the UGX face renewed pressures, the MPC may turn cautious. The MPC may therefore not ease policy conditions this year, should the Federal Reserve not have turned accommodative by Dec.

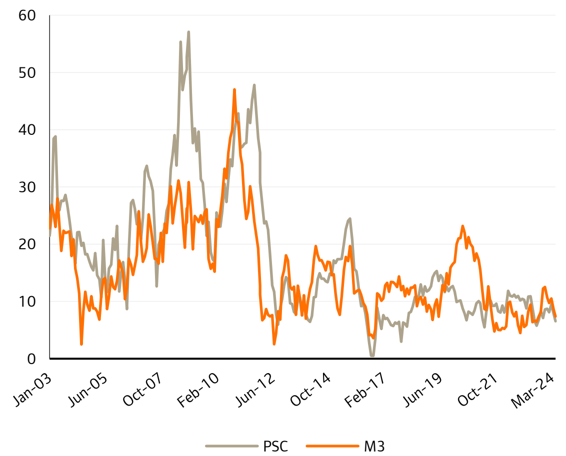
Private sector credit (PSC) remains subdued. PSC declined to 6.5% y/y in April 24, from an average of 8.1% y/y in Q4:23 and an average of 9.9% y/y in Q1:23.

Inflation and interest rates



Source: Bank of Uganda; Uganda Bureau of Statistics

Monetary aggregates



Source: Bank of Uganda

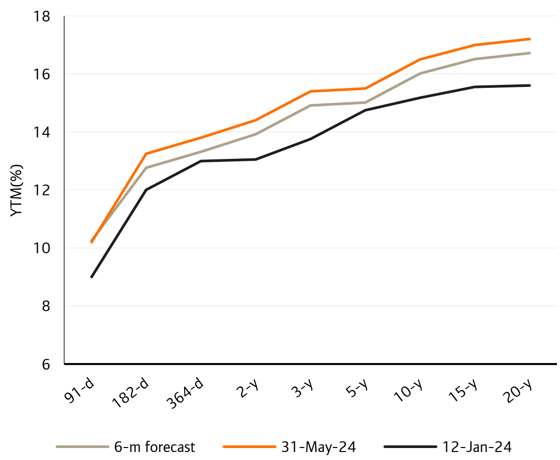
Yield curve outlook: near-term upside bias

Our decision to take profit on the 2037s in our shadow portfolio in Jan 24 has proved prudent. We still recommend staying short duration into the end of FY2023/24.

The market still widely expects the government to issue a private placement bond auction before end June 24. However, even were the government not to opt for issuing a private placement, net domestic borrowing will likely have to increase notably due to tax receipts for FY2023/24 being behind target. This may push UGX bond yields up further.

Further, with the sharp rise in the domestic borrowing refinancing for FY2024/25, UGX bond yields could remain elevated in H2:24. However, UGX bond yields above 17.0% may be tempting for offshore investors given the outlook for monetary policy easing.

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: expansionary as oil spending picks up

In FY2024/25, the fiscal deficit including grants is seen widening to 5.7% of GDP, from an expected outturn of 4.5% of GDP.

The FY2023/24 budget deficit was originally seen moderating to 3.5% of GDP. This fiscal slippage was mainly due to both higher expenditure and lower tax revenue collections, which resulted in supplementary budgets being issued in the fiscal year.

Total expenditure rises to UGX47,612bn in FY2024/25, from UGX38,396bn in FY2023/24. Of this, development expenditure grows 46.7%, to UGX15,449bn, while recurrent expenditure rises 16.5%, to UGX31,677bn.

Total revenue excluding grants is seen rising to UGX31,982bn in FY2024/25, from UGX27,726bn in FY2023/24. Looking ahead, the government has budgeted for oil revenue of UGX3,581bn (c.USD957m), UGX5,658.5bn (c.USD1.5bn) and UGX7,202bn (c.USD1.9bn) in FY2025/26, FY2026/27 and FY2027/28 respectively.

This expected oil revenue will likely help offset the increase in external debt amortisations over the next 5-y. External debt amortization increases to UGX3,109bn (c.USD830m) in FY2024/25 and UGX4,032bn (c.USD1.1bn) in FY2025/26, from UGX2,652bn (c.USD700m) in FY2023/24. This rises further, to c.USD1.2bn in FY2026/27, c.USD1.3bn in FY2027/28, and c.USD1.7bn in FY2028/29.

Moreover, the government plans to clear UGX7.8tn of its overdraft at the BoU via the issuance of government bonds to the apex bank and a further UGX1.3tn in cash settlements.

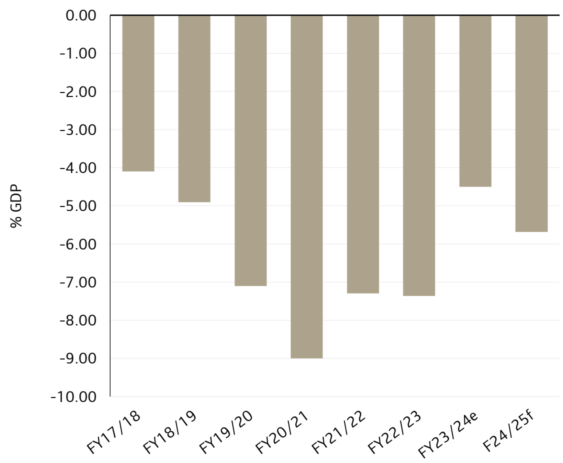
Therefore, domestic debt refinancing rises to UGX12,021bn in FY2024/25, from UGX8,358bn, with domestic borrowing growing to UGX8,968bn, from UGX3,163bn.

Central government operations

% of GDP	FY2022/23	FY2023/24e	FY2024/25f
Total revenue	14.1	14.4	15.6
Total expenditure	21.5	18.9	21.2
Wages	3.5	3.6	3.5
Interest	3.1	3.2	4.3
Development expenditure	7.9	5.2	6.9
Overall balance (- grants)	-8.1	-5.3	-7.0
Overall balance (+ grants)	-7.4	-4.5	-5.7
Net domestic borrowing	3.4	3.9	3.5
Net external borrowing	3.0	0.0	2.2

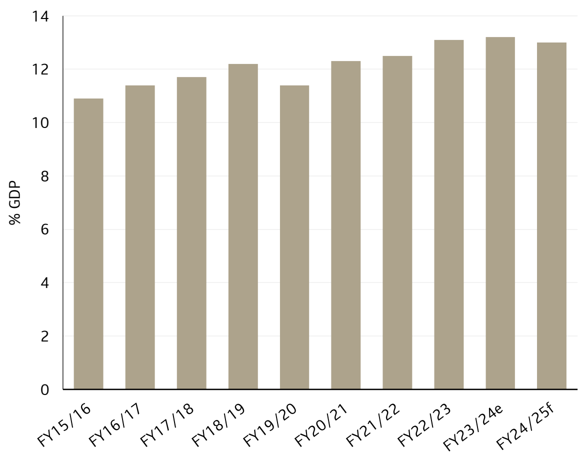
Source: Ministry of Finance

Fiscal deficit inclusive of grants



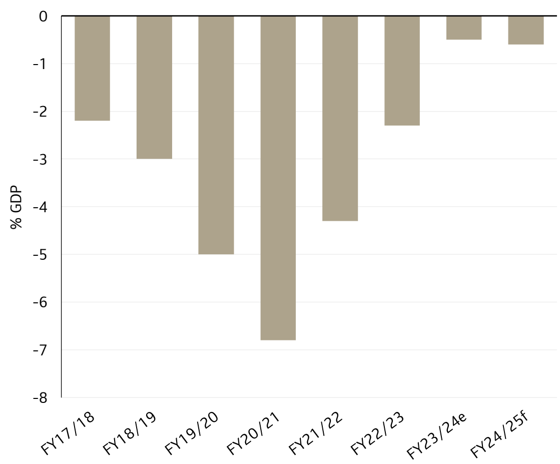
Source: Ministry of Finance

Tax revenue



Source: Ministry of Finance

Primary balance



Source: Ministry of Finance

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	40.3	41.6	42.9	44.2	45.6	46.3	47.5
Nominal GDP (UGX bn)	132 628	139 689	148 310	162 750	176 059	192 491	210 023
Nominal GDP (USD bn)	37.1	38.9	42.8	45.5	47.1	50.3	54.3
GDP / capita (USD)	920.8	935.0	998.8	1028.3	1 034	1 088	1 143
Real GDP growth (%)	6.4	3.0	3.5	4.7	5.5	5.8	6.2
Coffee production ('000 Tonnes)	220.5	228.5	227.8	218.5	225.20	229.30	232.45
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.8	-8.0	-10.8	-8.1	-8.1	-5.3	-7.0
Budget balance (incl. Grants) / GDP (%)	4.9	-7.1	-9.5	-7.4	-7.4	-4.5	-5.7
Domestic debt / GDP (%)	11.7	13.1	17.2	18.8	18.7	18.1	20.3
External debt / GDP (%)	23.4	27.9	29.7	29.6	28.2	29.3	27.4
Balance Of Payments							
Exports of goods and services (USD bn)	6.2	5.6	6.2	6.1	9.0	9.4	9.6
Imports of goods and services (USD bn)	-9.8	-10.2	-10.6	-11.1	-13.8	-14.4	-15.4
Trade balance (USD bn)	-3.6	-4.6	-4.4	-5.0	-4.8	-5.0	-5.8
Current account (USD bn)	-2.6	-3.6	-3.6	-4.1	-3.7	-4.2	-5.1
- % of GDP	-7.1	-9.3	-8.4	-8.9	-7.9	-8.4	-9.3
Financial account (USD bn)	-2.5	-3.5	-3.5	-4.0	-3.8	-3.3	-1.6
- FDI (USD bn)	1.3	1.2	1.6	3.0	2.9	3.2	3.5
Basic balance / GDP (%)	-3.6	-6.2	-4.6	-2.4	-1.8	-2.1	-2.9
FX reserves (USD bn) pe	3.2	3.8	4.3	3.6	3.7	3.5	3.8
- Import cover (months) pe	4.0	3.9	4.6	4.1	3.5	2.9	3.0
Sovereign Credit Rating							
S&P	B	B	B	B	B-	B-	B-
Moody's	B2	B2	B2	B2	B2	B3	B3
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	2.1	2.8	2.3	7.2	5.4	3.5	2.9
Consumer inflation (%) pe	2.4	2.5	2.9	10.2	2.6	3.4	2.9
M3 money supply (% y/y) pa	10.9	19.8	9.2	6.9	8.3	9.9	14.4
M3 money supply (% y/y) pe	15.9	17.1	5.1	7.5	10.7	13.0	12.7
BOU policy rate (%) pa	9.75	7.50	6.60	8.30	9.75	10.06	8.69
BOU policy rate (%) pe	9.00	7.00	6.50	10.00	9.50	9.75	8.50
3-m rate (%) pe	9.2	8.5	6.5	11.0	10.0	10.4	9.1
1-y rate (%) pe	12.9	14.0	10.4	12.5	12.8	13.0	12.7
2-y rate (%) pe	14.5	16	10.7	13.3	13.1	14.2	13.8
5-y rate (%) pe	16.0	16.5	13.9	15.0	14.80	15.3	14.9
USD/UGX pa	3573	3593	3462	3580	3737	3803	3840
USD/UGX pe	3665	3650	3544	3716	3780	3750	3870

Source: Bank of Uganda; Uganda Bureau of Statistics; Ministry of Finance; Bloomberg; Standard Bank Research
Notes: pa - period average; pe - period end

Zambia: steady progress despite drought

Medium-term outlook: progress in debt restructuring – but 2024 weather crisis may halve GDP growth

GDP growth in 2023 was 4.3% y/y, matching our forecast. We now see 2024 real GDP growth at 2.5% y/y, below our previous forecast of 4.4% y/y in the Jan AMR.

Growth in gross value added in 2023 was driven by the services sector which grew 9.9% y/y, particularly information and communications (28% y/y), financial services (13.5% y/y), and education 15.4% y/y. Construction grew by 9.3% y/y, driving a 5.1% y/y increase in the secondary sector. Copper production for 2023 was 779kMT, too matching our forecast.

Hydroelectric power accounts for 85% of Zambia's electricity output. The El Niño drought decimated Zambia's hydropower, leading to Zambia Electricity Supply Corporation Limited (ZESCO) announcing 12 hours of blackouts nationwide due to a 500MW to 700MW shortfall.

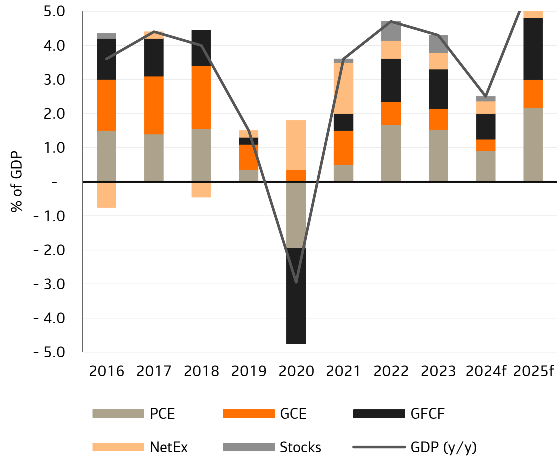
The mining and services sectors consumed on average 52% and 33% of the 2,200GW of electricity generated by ZESCO in 2023. Larger mining houses are remedying this shortfall by importing electricity from regional power traders. Because such remedies are less available to the services industry and SMEs, GDP growth in wholesale and retail trade will likely be much lower in 2024.

The impact of the drought on the agricultural sector in 2024 was the most pronounced, with crop estimates released in June showing 30% y/y, 54% y/y and 78% y/y declines in cassava, maize and soybeans respectively, leading to a large importation requirement to cover the ensuing shortages.

We forecast a 6% y/y real GDP growth recovery in 2025, driven by base effects and a probable return to normal rain patterns, which should then ease inflationary pressures. According to the National Oceanic and Atmospheric Administration (NOAA) in the US, La Niña conditions are highly probable in H2:24, with probabilities ranging from 70% to 90%. El Niño conditions recurring is considered highly unlikely, providing some cause for optimism for 2025 electricity generation and the 2024/25 agricultural season.

A further cause for optimism is Zambia's USD13.1bn external debt restructuring progress. Zambia has completed its Eurobond restructuring and signed deals with official creditors. At the time of writing, USD3.3bn of commercial, non-Eurobond external debt is left to be restructured, with USD1.8bn owed to Chinese commercial banks; this restructuring is likely to be concluded in 2024, in our view.

Composition of GDP growth by expenditure



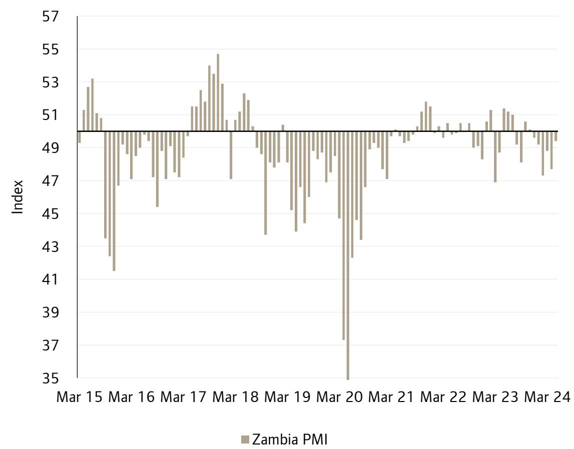
Source: Zambia Statistics; Standard Bank Research

Contribution to GDP by sector

	2014	2019	2023
Wholesale and retail trade	23.38	21.76	19.84
Transportation and storage	3.85	9.02	12.08
Mining and quarrying	15.70	15.36	14.65
Construction	9.57	11.89	13.17
Manufacturing	7.32	7.35	8.85
Financial and insurance	3.37	7.68	7.64
Public administration and defence	4.74	4.60	5.19
Information and communication	2.46	2.76	2.87
Agriculture, forestry, and fishing	7.27	3.10	2.98
Education	8.40	4.02	3.18
Real estate activities	4.41	4.00	2.56

Source: Zambia Statistics Agency

Stanbic Zambia PMI



Source: IHS Markit; Bloomberg

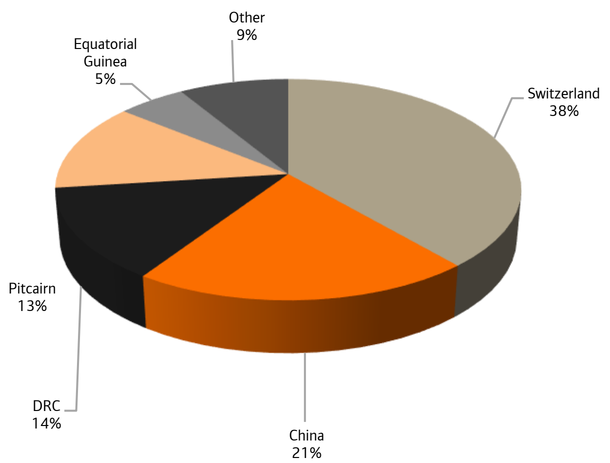
Medium-term economic growth scenarios

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27
GDP (% y/y) pa	2.4	2.5	2.6	2.6	5.7	5.9	6.1	6.2	4.8	4.9	5.1	5.2	4.9	5.02	5.22	5.30
CPI (% y/y) pe	13.7	14.0	13.8	13.5	12.7	11.8	11.0	10.1	9.8	9.6	9.3	9.0	8.8	8.50	8.25	8.00
BOZ policy rate (%) pe	12.50	13.50	13.50	13.50	13.50	12.75	11.75	10.75	10.25	10.00	9.75	9.50	9.50	9.50	9.50	9.50
3-m rate (%) pe	9.5	10.5	10.5	10.4	10.4	10.0	9.5	9.0	8.8	8.7	8.5	8.4	8.4	8.42	8.42	8.42
6-m rate (%) pe	9.5	9.5	10.0	10.5	10.5	10.1	9.6	9.1	8.9	8.8	8.6	8.5	8.5	8.52	8.52	8.52
USD/ZMW	25.53	25.63-27.71	25.58-27.65	25.53-27.60	24.75-25.38	24.00-24.58	23.18-23.78	22.40-22.97	22.80-23.38	23.20-23.79	23.60-24.21	24.00-24.62	23.50-24.10	23.00-23.59	22.50-23.08	22.00-22.56

Source: Bank of Zambia; Zambia Statistics Agency; Bloomberg; Standard Bank Research; Ministry of Finance and National Planning

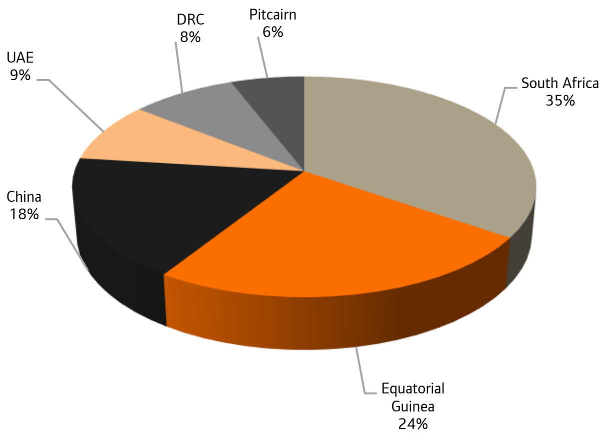
Notes: pa - period average; pe - period end

Share in Zambia's exports (%)



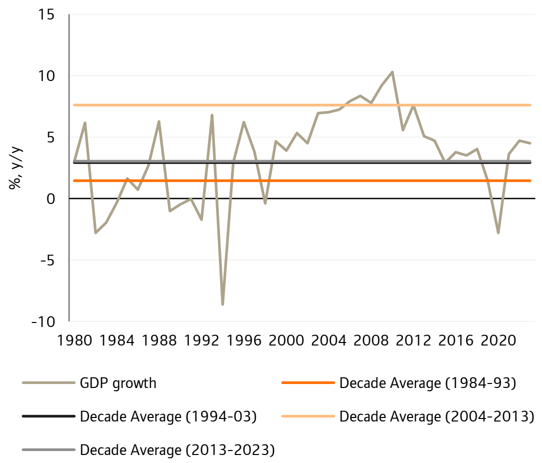
Source: ITC

Share in Zambia's imports (%)



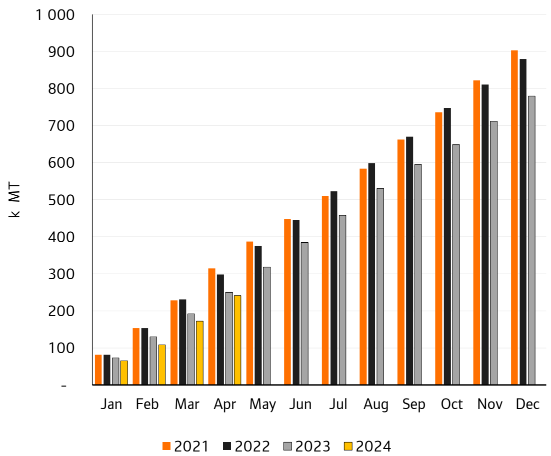
Source: ITC

Long-term GDP performance



Source: World Bank; Standard Bank Research

Cumulative export volumes of refined copper



Source: Zambia Statistics Agency

Balance of payments: 2024 another current account deficit year due to energy and food importation

We downgrade our 2024 C/A forecast from a surplus of 2.0% of GDP (2023: -1.1%), to a deficit of 1.9% of GDP. This is due to a worse than previously expected goods trade account balance as imports of maize and electricity due to the drought dampen the benefits of additional export earnings from increased copper production.

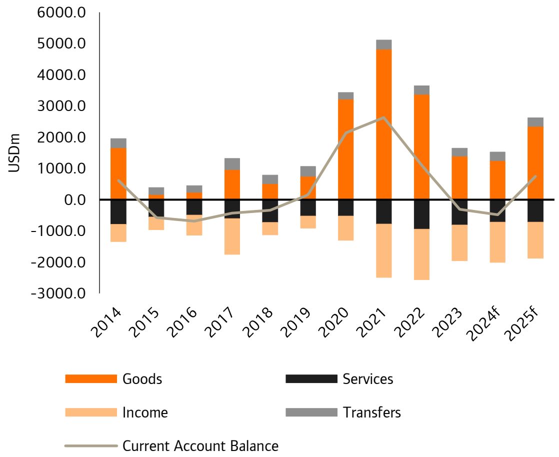
We maintain our 2024 copper output forecasts of 838.1kMT, from 779kMT in 2023. This will be driven by increased production from Konkola and Mopani Copper mines.

We acknowledge risks to this scenario in copper production given that as of Apr 24 production was down 2% y/y, in part due to the decline in electricity production. Offsetting measures include importing electricity, recommissioning of the 105MW Ndola Energy Power Plant, the development of the Chisamba solar plant, erecting 120MW of diesel generators in Ndola and Mpika, investment in thermal energy, and other regulatory steps to encourage improved generation in the short term.

We forecast an improvement in the financial account balance with upside risk due to assistance from the IMF, World Bank, and African Development Bank (AfDB). In June, Zambia and the IMF reached a staff-level agreement on the third review of the USD1.3bn 38-m extended credit facility programme, with authorities requesting an augmentation of USD387m funding for relief efforts. Zambia will have immediate access to SDR433.34m (c.USD574m), subject to IMF executive board approval.

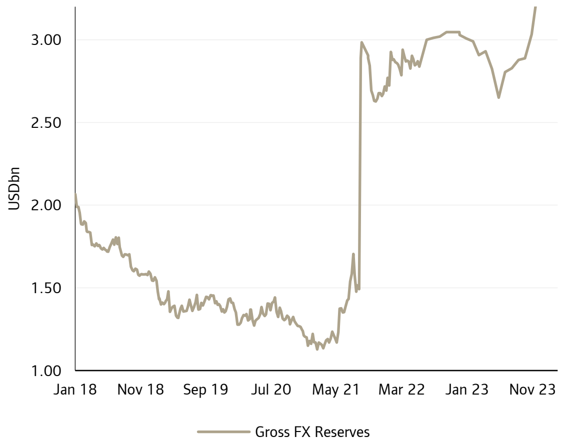
The key risk to the balance of payments remains “Other” investment outflows, much of which is made up of related-party-transactions and repatriation of profits from local subsidiaries, largely in the extractive industry, to their global parents. These outflows are volatile and hard to predict. Over the last decade these outflows have ranged between USD118m in 2019, to USD4.9bn in 2014.

Current account developments



Source: Bank of Zambia; Standard Bank Research

Gross FX reserves



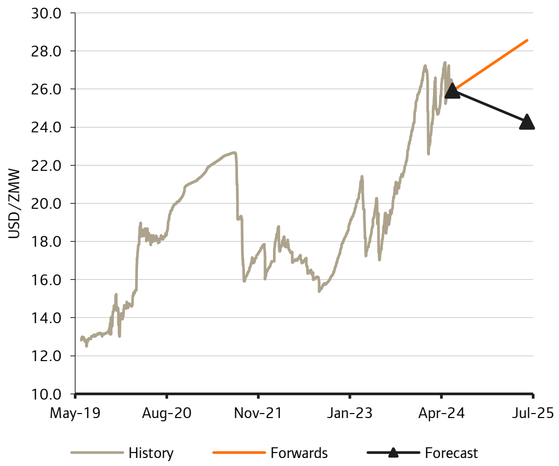
Source: Bank of Zambia; Standard Bank Research

FX outlook: USD/ZMW volatile with fair value alignment in 2025 an increasing likelihood

We forecast a 3% depreciation of the kwacha against the USD in 2024, based on the midpoint of the USD/ZMW forecast range of 25.53-27.60. ZMW/USD is undervalued by 12.2% on a REER basis, with alignment probability by 2025 increasing from low to moderate.

In Q1: 24, ZMW depreciation against the USD moderated to 10.6% from 17.5% in Q4:23. However, in Q2, low foreign exchange supply and high demand accelerated depreciation by 10.2% to K27.37 by mid-May. Positive news on debt restructuring and IMF program augmentation led to a 6.8% appreciation to K25.58 by 19 June. Despite the Bank of Zambia selling USD369m in Q1:24, reserves increased to USD3.6bn from USD3.3bn in Dec 23 and covering 3.9-m of imports. This was due to increased net statutory reserving on USD deposits.

USD/ZMW: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: central bank likely to hold in H2:24

We now forecast average 2024 inflation of 13.8% y/y; our forecast was 11.8% y/y in the Jan AMR. This upward revision is due to food inflation which averaged 15.06% y/y in the first 5-m of 2024, driven by maize prices having risen 63% y/y as at end May.

The Bank of Zambia (BoZ) increased the monetary policy rate by 100 bps, to 13.5%, after its 13-14 May meeting in response to rising inflation risks.

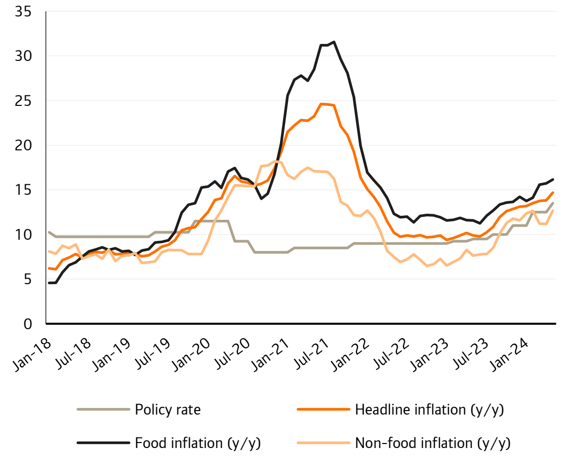
The BoZ also raised its average inflation forecast for 2024, from 12.9% y/y in its Feb 24 monetary policy report, to 13.7% y/y in its updated monetary policy report.

The BoZ increased the statutory reserve requirement (SRR) from 17% to 26% in Feb 24, contributing to a 15.4% m/m appreciation of the kwacha against the USD from February to March. In May 24, having successfully engineered adequately tight monetary conditions, as exemplified by the interbank overnight rate averaging 6% in real terms since Feb 24, compared to -2.2% in January, the BoZ held the statutory reserve requirement on ZMW deposits steady in May. We expect the BoZ to hold rates and SRR at their current levels into Dec.

We foresee inflation easing in 2025, ending that year at 10.1% y/y and averaging 11.4% y/y, likely driven by deflation in maize prices in the 2025 harvest in mid-Q2:25.

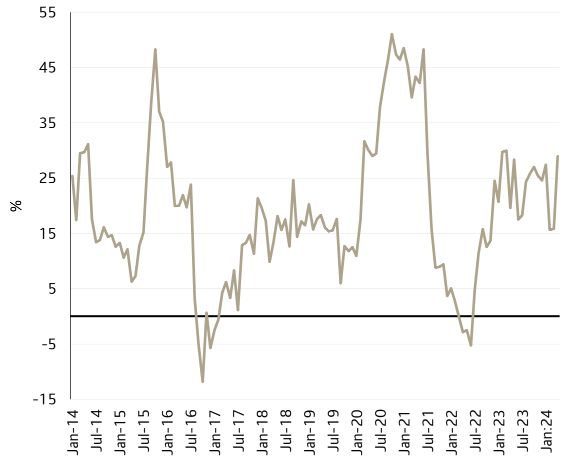
However, for the rest of 2024, maize prices are likely to remain high, incentivising planting such as the record planting in the 2023/24 season – but this time with a resumption of normal rains as El Niño transitions to La Niña during Q4:24.

Inflation and interest rates



Source: Bank of Zambia; Zambia Statistics Agency

Money supply growth



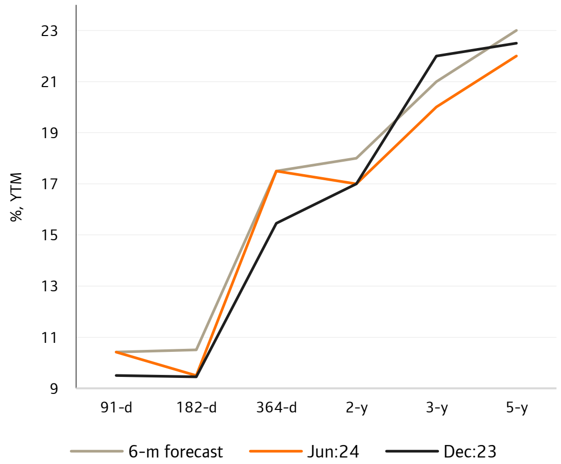
Source: Bank of Zambia; Standard Bank Research

Yield curve outlook: steepening in H2:24

Our bear-steepening call in the Jan AMR did not play out. At the time of writing, yields across all maturities, except the 12-m T-bill, are lower, resembling a bull-flattening. This is despite tight liquidity and rising inflation suggesting higher rates. A major reason for this is the government's desire to keep its borrowing costs low, leading to many rejected bids at primary auctions, especially between Jan 24 and May 24 when yields were flat at the short end.

A shift in strategy in June saw more bids being accepted, particularly in the 12-m T-bill which rose 180 bps, to 17.5%, with bond yields flat, exacerbating the flattening of the curve. At half-way through the year, we estimate that only 36% of planned issuance has been raised. Consequently, we again forecast a steepening from here, with higher bond yields in H2:24, particularly in the 3-y and above tenors, as the government's funding needs may override any lowering of borrowing costs.

Changes in the yield curve



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: consolidation paused due to weather crisis; now awaiting supplementary budget

A supplementary budget is expected by end June. To mitigate the impact of the drought, we expect subsidies to the agricultural sector to increase significantly in 2024, as in previous El Niño years. This may be offset by savings elsewhere, but the overall balance may still exceed the one approved in in Dec 23.

The government’s weather crisis relief expenditure plan is ZMW10.8bn in 2024, about 1.4% of GDP, and ZMW12.7bn, around 1.7% of GDP, in 2025. Between 2024 and 2025, 55% (ZMW12.6bn) of additional expenditure is targeted for immediate food assistance. 13% (ZMW3.0bn) is earmarked for irrigation, water resource development and management, and 11% (ZMW2.5bn) is targeted towards agricultural production incentives for the 2024/25 season.

To cover this additional expenditure, authorities requested an augmentation of the IMF's financial support by SDR293m (about USD388m), or 1.5% of GDP, which was agreed to at staff level in Jun 24. We anticipate this additional financing to be disbursed immediately after the IMF's board approval of the third review of the Extended Credit Facility. According to the Secretary of the Treasury, Zambia is in talks for additional grant funding from the World Bank and concessional loans from the African Development Bank, the latter likely only to disburse funds once Zambia has exited default status.

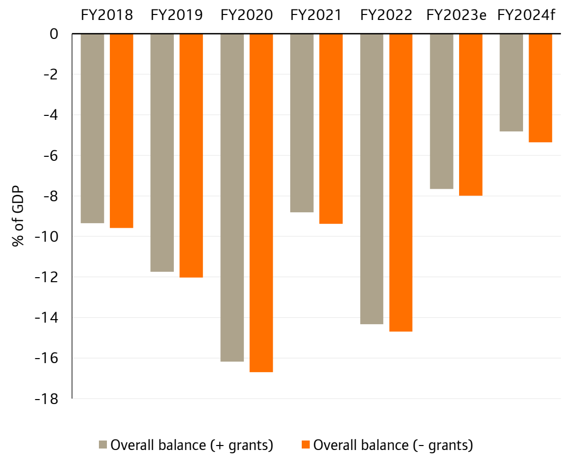
Fitch Ratings has assigned Zambia's proposed USD bonds, issued on 11 Jun 24, a 'CCC+' rating. Fitch has also affirmed Zambia's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'RD' because around USD3.3bn non-Eurobond external commercial debt restructuring negotiations, particularly with Chinese private banks, are ongoing. We expect completion of this last leg of restructuring by end 2024.

Central government budget

% of GDP	FY2022	FY2023e	FY2024f
Total revenue and grants	20.4	21.3	22.6
Total exp. (- amort)	-34.7	-28.9	-27.4
- Interest	6.2	6.7	6.2
- Salaries	7.6	8.7	8.3
Overall balance (+grants)	-14.3	-7.7	-4.8
Overall balance (-grants)	-14.7	-8.0	-5.4
Net domestic borrowing	5.0	2.9	2.6
Net external borrowing	9.4	4.7	2.3
Donor support (grants)	0.4	0.3	0.5
Domestic debt service	5.5	5.7	5.1
Ext. debt service	10.4	3.4	0.9

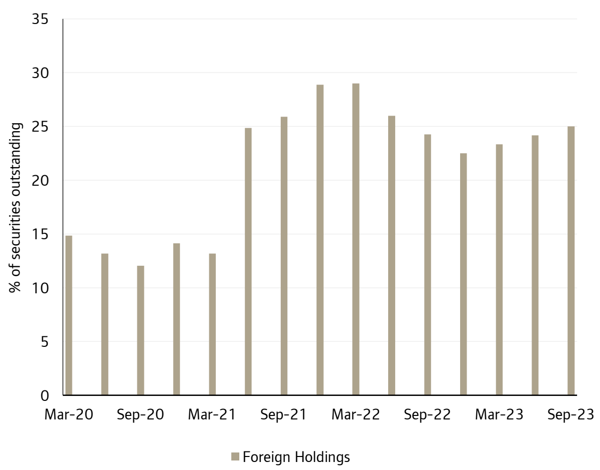
Source: Ministry of Finance and National Planning

Fiscal deficit



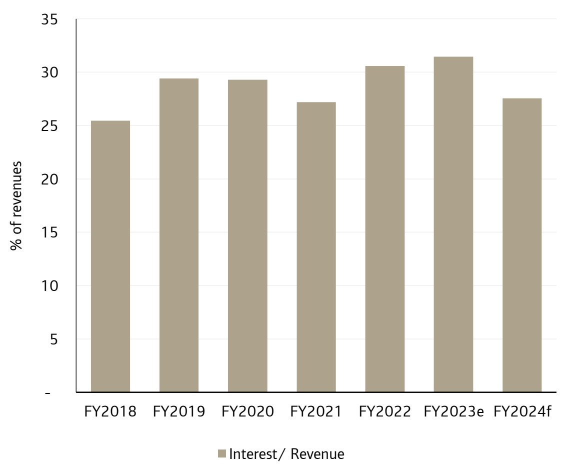
Source: Ministry of Finance and National Planning; Standard Bank Research

Foreign holdings of domestic debt



Source: Bank of Zambia; Standard Bank Research

Interest payments



Source: Ministry of Finance and National Planning; Standard Bank Research

Annual indicators

	2019	2020	2021	2022	2023	2024f	2025f
Output							
Population (million)	17.9	18.4	19.5	20.0	20.6	21.1	21.7
Nominal GDP (ZMW m)	300 449	332 223	443 362	493 964	567 831	660 104	774 797
Nominal GDP (USD bn)	23.2	18.1	21.6	28.7	28.1	25.2	31.5
GDP / capita (USD)	1 298	983	1 108	1 437	1 363	1 197	1 450
Real GDP growth (%)	1.4	-2.8	3.6	4.2	4.3	2.5	6.0
Copper production ('000 tons)	797	931	903	880	779	838	947
Central Government Operations							
Budget balance / GDP (%)	-11.7	-16.2	-8.8	-14.7	-7.7	-4.8	n/a
Domestic debt / GDP (%)	26.7	39.2	43.1	41.3	38.8	36.0	n/a
External debt / GDP (%)	61.7	87.5	65.3	48.7	50.6	59.4	n/a
Balance of Payments							
Exports of goods and services (USD bn)	8.3	8.6	11.7	12.4	11.5	12.3	13.7
Imports of goods and services (USD bn)	8.0	5.8	7.7	10.0	10.9	11.8	12.0
Trade balance (USD bn)	0.2	2.7	4.0	2.4	0.6	0.5	1.6
Current account (USD bn)	0.2	2.2	2.6	1.1	-0.3	-0.5	0.7
- % of GDP	0.7	12.0	12.2	3.7	-1.1	-1.9	2.4
Financial account (USD bn)	0.1	-2.4	-2.1	-2.9	-1.7	-0.9	-0.9
- FDI (USD bn)	1.6	0.3	-0.6	-0.3	-0.1	0.2	0.3
Basic balance / GDP (%)	0.1	0.4	-1.5	-1.8	-2.0	-1.4	-0.1
FX reserves (USD bn) pe	1.4	1.2	2.8	3.0	3.3	3.6	3.8
- Import cover (months) pe	2.1	2.5	4.3	3.6	3.6	3.7	3.8
Sovereign Credit Rating							
S&P	B	RD	RD	RD	RD	CCC+	B-
Moody's	B3	Ca	Ca	Ca	Ca	Caa1	B3
Fitch	B-	SD	SD	SD	SD	CCC+	B-
Monetary & Financial Indicators							
Consumer inflation (%) pa	9.1	15.7	22.1	11.1	10.9	13.8	11.4
Consumer inflation (%) pe	11.7	19.2	16.4	9.9	13.1	13.5	10.1
M3 money supply (% y/y) pa	15.0	34.9	28.6	6.2	24.3	16.3	17.4
M3 money supply (% y/y) pe	12.6	46.4	3.7	24.5	24.6	17.0	17.5
Policy interest rate (%) pa	10.2	9.7	8.5	9.0	9.8	13.3	12.2
Policy interest rate (%) pe	11.5	8.0	9.0	9.0	11.0	13.5	10.8
1-y rate (%) pe	27.5	25.8	9.5	15.0	15.5	17.5	16.5
5-y rate (%) pe	33.0	33.0	21.8	28.0	22.5	23.0	22.8
USD/ZMW pa	12.9	18.4	19.6	17.2	20.2	26.1	24.6
USD/ZMW pe	14.2	21.2	16.7	18.1	25.7	26.6	22.7

Source: Bank of Zambia; Zambia Statistics Agency; Bloomberg; Standard Bank Research; Ministry of Finance and National Planning

Notes: pa - period average; pe - period end

Glossary

For brevity, we frequently use acronyms that refer to specific institutions or economic concepts. For reference, below we spell out these and provide definitions of some economic concepts that they represent.

14-d	14-day, as in 14-d deposit, which denotes 14 day deposit
10-y	10-year
16 Jan 24	16 January 2024
3-m	3 months
3m	3 million, as in USD3m, which denotes 3 million US dollars
3bn	3 billion, as in UGX3bn, which denotes 3 billion Ugandan shillings
3tr	3 trillion, as in TZS3.0tr, which denotes 3 trillion Tanzanian shillings
AOA	Angola Kwanza
BAM	Bank Al Maghrib
BCC	Banque Central du Congo (Central Bank of Congo)
BCEAO	Banque Central des États de L'Afrique de l'Ouest (Central Bank of West African States)
BCT	Banque Central de Tunisie
BM	Banco de Moçambique
BNA	Banco Nacional de Angola
BOB	Bank of Botswana
BOG	Bank of Ghana
BOM	Bank of Mauritius
BON	Bank of Namibia
BOP	Balance of payments – a summary position of a country's financial transactions with the rest of the world. It encompasses all international transactions in goods, services, income, transfers, financial claims and liabilities.
BOT	Bank of Tanzania
BOU	Bank of Uganda
BOZ	Bank of Zambia
BR	Bank Rate (Reserve Bank of Malawi)
BRVM	Bourse Régionale des Valeurs Mobilières (Regional Securities Exchange)
BWP	Botswana Pula

C/A	Current account balance. This is the sum of the visible trade balance and the net invisible balance of a country. The latter includes net service, income and transfer payments.
Capital account	Captures the net change in investment and asset ownership for a nation by netting out a country's inflow and outflow of public and private international investment.
CBE	Central Bank of Egypt
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CDF	Congolese Franc
CPI	Consumer Price Index – An index that captures the average price of a basket of goods and services representative of the consumption expenditure of households within an economy.
Discount rate	Policy rate for Bank of Uganda
Disinflation	A decline in the rate of inflation. Here prices are still rising but with a slower momentum.
Disposable income	After tax income
DM	Developed markets
ECB	European Central Bank
ECF	Extended Credit Facility is an IMF facility. It assists PRGT-eligible countries with a protracted balance of payments problem to implement economic programs that make significant progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.
EFF	Extended Fund Facility is an IMF facility. It provides assistance to countries experiencing serious payment imbalances because of structural impediments or slow growth and an inherently weak balance-of-payments position
EGP	Egyptian pound
EM	Emerging markets
ETB	Ethiopian Birr
Eurobond	A bond denominated in a currency other than the home currency of the issuer.
Exports	The monetary value of all goods and services produced in a country but consumed broad.
FMDQ	FMDQ OTC Securities Exchange, Nigeria
FX	Foreign Exchange
FY2024/25	2024/25 fiscal year
GCE	Government Consumption Expenditure - Government outlays on goods and services that are used for the direct satisfaction of the needs of individuals or groups within the community. This would normally include all non-capital government spending.
GDE	Gross domestic expenditure, the market value of all goods and services consumed in a country – both private and public – including imports but excluding exports. This is measured over a period of time – usually a quarter/year.

GFCF	Gross Fixed Capital Formation – this is investment spending, the addition to capital stock such as equipment, transportation assets, electricity infrastructure, etc to replace the existing stock of productive capital that is used in the production of goods and services in a given period of time, usually a year/quarter. Normally, the higher the rate of capital, the faster an economy can grow.
GDP	Gross Domestic Product – the monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter.
GHS	Ghanaian Cedi
H1:24	First half of 2024
Imports	The monetary value of goods and services produced abroad and consumed locally.
Inflation	The rate at which the general level of prices of goods and services are rising. It is usually measured as the percentage change in the consumer price index over a specific period, usually a month/year.
Invisible trade balance	The value of exports of services, income and transfers, less imports of same.
Jan 24	January 2024
KBRR	Kenya Bankers' Reference Rate
KES	Kenya Shilling
KR	Key Rate (Bank Al Maghrib)
KRR	Key Repo Rate
m/m	Month on month, in reference to a rate of change
MAD	Moroccan Dirham
MLF	Marginal Lending Facility
MOF	Ministry of Finance
MPC	Monetary Policy Committee, the committee that makes the decision on policy rates
MPR	Monetary Policy Rate
MUR	Mauritian Rupee
MWK	Malawian Kwacha
MZN	Mozambican Metical
NAD	Namibian Dollar
NBE	National Bank of Ethiopia
NBR	National Bank of Rwanda
NEER	Nominal Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies, usually trading partner currencies. It is measured in index format.

NGN	Nigerian Naira
Nominal GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in current prices.
NPL	Non-Performing Loans
Parity	Refers to the par or nominal value of a debt instrument. This is usually the price at which the said instrument is redeemed on maturity.
PCE or HCE	Personal or Household Consumption Expenditure: The monetary value of household purchases of durable goods, non-durable goods, semi durables and services within a given period of time, usually a year/quarter.
PR	Policy Rate
Prime rate	key lending rate
q/q	quarter on quarter, in reference to a rate of change
Q1:24	First quarter of 2024
RBM	Reserve Bank of Malawi
Real GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in constant prices.
REER	Real Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies - usually trading partner currencies – while taking into account any changes in relative prices between the host country and its trading partners. It is often measured in index format.
RSF	Resilience and Sustainability Facility is an IMF facility. It provides longer-term financing to strengthen economic resilience and sustainability by (i) supporting policy reforms that reduce macro-critical risks associated with climate change and pandemic preparedness, and (ii) augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges
RWF	Rwandan Frank
SARB	South African Reserve Bank
SDF	Standing Deposit Facility (Mozambique)
SLF	Standing Lending Facility (Mozambique)
T-bill	Treasury bill – A short-dated, government backed security that yields no interest but is issued at a discount over a period of less than one year.
TND	Tunisian Dinar
Treasury bond	A marketable government debt security with a maturity of a year or longer
TZS	Tanzanian Shilling
UGX	Uganda Shilling
USD	US Dollar
VAT	Value Added Tax

Visible trade balance	The value of exports of visible goods less imports.
WAEMU	West African Economic and Monetary Union, also known as Union Economique et Monetaire Ouest Africaine (UEMOA)
XAF	Central African Franc
XOF	West African Franc
y/y	Year on year, in reference to a rate of change
Yield	The return on an investment, usually expressed as a percentage over a period of time, usually a year.
YTD	Year to date
ZAR	South African Rand
ZMW	Zambian Kwacha

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