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African Markets Revealed

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Welz, Jean Max Friedrich (1900 – 1975). Still-Life, Undated, Oil On Panel, 41 x 62cm

Jean Welz was born in Salzburg, Austria, into a family in the picture-framing and gilding trade. He studied art and architecture, and in 1925 travelled to Paris, where he stayed until 1937. In 1937 he emigrated to South Africa and began work as an architect at the University of the Witwatersrand, where he designed the entrance foyer of the Great Hall and the Institute for Geophysical Research. In 1939 he became ill with tuberculosis and moved with his family to Barrydale in the Little Karoo, where he and his family operated a tea-room.

In 1941 Welz became principal of the Hugo Naudé Art Centre in Worcester, Western Cape, remaining in Worcester for 28 years. He held his first exhibitions in Stellenbosch and Cape Town in 1942, and the same year became a member of the New Group of South African artists. Welz was a successful and influential artist until he again became ill in 1968. His health deteriorated and he died in 1975. One of his sons, Martin Welz, is a well-known South African investigative journalist, his other son, Stephan Welz was an art dealer.

There is nothing of Africa imprinted on his paintings, there is little that is truly modern, even in his abstract style. He explained that his paintings were “documents of his soul” and said that his objective was to create “painterly poems”.

Source: Standard Bank Corporate Art Collection

Contents

2 African markets: unperturbed by trade uncertainty
21 Angola: still should exit recession in 2020
27 Botswana: spending in pre-election year to crimp growth
33 Côte d'Ivoire: still strong growth, but some slowing likely
39 DRC: finally, a new cabinet
45 Egypt: growth of likely over 5% in the medium term
51 Ethiopia: GDP growth will likely subside
57 Ghana: transitioning to a period without IMF support
63 Kenya: private sector reforms required
69 Malawi: poised for stronger growth
75 Mauritius: fiscal policy expansionary, ahead of elections
81 Morocco: still stable – but growth may slow
87 Mozambique: peace and LNG projects improve the outlook
93 Namibia: drought delays economic recovery
99 Nigeria: a long, long road
105 Rwanda: robust growth momentum
111 Senegal: set to stage solid growth again
117 Tanzania: infrastructure spending to support growth
123 Tunisia: a year of setbacks
129 Uganda: delay in oil investment decision
135 Zambia: fiscal policy restraint required
141 Glossary

Unperturbed by trade uncertainty

- Our constructive assessment of Africa's economic progress is informed by a number of factors that still point to robust economic growth on a multi-year basis. Commodity-exporting countries that experienced recession at some point between 2015 and 2018 are likely to have economic growth accelerating over the next 2-y. Of course, some of them, like Angola and Namibia, are still in recession. However, even in these economies, growth seems likely to resume next year. Combined with persistently high growth among the non-commodity-exporting countries, economic growth in Africa seems set to accelerate.
- We are not alone in our relatively positive assessment of Africa's growth potential. The IMF's *World Economic Outlook* points to Sub-Saharan Africa as the only region likely to have economic growth accelerating this year relative to last year despite the uncertainty that rising trade protectionism poses to global economic growth. Sure, in its Jul Update of the WEO the IMF lowered its forecast for SSA growth to 3.4% y/y in 2019 from the 3.8% y/y that it had forecast in the Jul 18 Update of the WEO. But the 2019 growth forecast is still higher than the Fund's estimated 3.1% y/y growth in 2018 despite the forecast slowdown in global growth to 3.2% y/y in 2019 from 3.6% y/y in 2018.
- Uncertainty regarding trade is a factor leading to flux in financial markets too. But the nature of the impact of this uncertainty is quite curious. Suppose the end result of the US administration's trade policy was to increase the effective tariff rate on Chinese imports to some number – say 50%. Consider another possible outcome being to increase the effective tariff rate on all imports to the US in the same manner. Then tariffs on Chinese imports would trigger substitution of imports from China to other low-cost manufacturing sources, perhaps in Asia. But an increase in tariffs on all imports would not trigger such substitution. Either way, the implications of either tariff policy on US economic growth could be estimated with a reasonable degree of confidence. Regardless, trade uncertainty hardly warrants the degree of flux we have seen in financial markets, seemingly with every communication from either set of policymakers triggering an exaggerated movement in asset prices.

- There haven't been many opportunities to put on recovery trades in carry or local currency duration trades thus far this year. As the adjacent table shows, the FX return with carry, on the most tradable currencies in our coverage, is less than 5% thus far this year. UGX duration seems sufficiently compelling for us to enter a trade. Perhaps KES duration warrants a careful look. In the 3-m to the end of Jul, it depreciated at over a 10% annualised pace. If the pressure persists in Q4:19, then it might offer the chance of a recovery trade since a surge in flower exports during Q1 tends to support the KES. Given conservative monetary policy management, the MZN is also worth a look. Pity the implied NDF yields are so low and the bonds have this fixed-floating structure. But, even with the upcoming elections, the medium-term outlook for the BOP should be favourable for the MZN.
- We are inclined to believe that the Eurobond market will experience a solid recovery in the next 2 – 3 months. We like Egypt and Senegal, and have recently taken tactical overweight exposure to Gabon and Nigeria.

USD performance, YTD

Asset class	Return, %
FX	
Africa 8, spot (with carry)	-2.6 (4.8)
Africa 10, spot (with carry)	-2.4 (4.1)
EM 10, spot (with carry)	-0.8 (3.7)
Bloomberg USD index, spot	1.2
Local bonds	
Africa 8	13.3
Africa 10	11.2
EM 10	10.8
Bloomberg DM Sovereign	5.8
Credit	
Africa (ex SA)	16.9
Africa	16.7
EMBI Global	12.2
Bloomberg HY Global Corporate	9.9
Equity	
MSCI Frontier Africa	-5.2
MSCI Africa	2.7
MSCI EM	5.3
MSCI DM	16.5

Source: Bloomberg; Standard Bank Research

SSA growth acceleration proceeding against global slowdown

Despite the often dramatic reaction in the financial markets to every twist and turn of the US-China trade negotiations, we find it hard to believe that the economic impact of this on Africa is going to be significant. Hence, we retain a constructive outlook for economic growth on the continent.

We continue to stress that the channel through which the trade spat between these two countries can affect economic growth on the continent would be through its impact on commodity prices. By extension, it would be the commodity-producing countries that would feel it the most.

Despite these concerns, it is worth pointing out that even the IMF expects economic growth in Sub-Saharan Africa to accelerate to 3.4% y/y this year from 3.1% y/y in 2018, and then further on to 3.6% y/y in 2020. Contrast that with the Fund's forecast deceleration in global growth to 3.2% y/y from 3.6% y/y in 2018. Notably, the Fund expects global growth to accelerate to 3.5% y/y in 2020.

The Jul update of the *World Economic Update* points to the slowing in global growth being widespread. In fact, the forecast recovery in 2020 might be in doubt. The IMF forecasts growth among advanced economies decelerating to 1.9% y/y and 1.7% y/y in 2019 and 2020 respectively from 2.2% y/y in 2018. Interestingly, it expects the deceleration in US economic growth to extend to 2020 as well, with the economy growing by 1.9% y/y from 2.6% y/y it expects for 2019 and the actual growth rate of 2.9% y/y in 2018. Evidently, this deceleration is not limited to the unwinding of the fiscal stimulus in 2018.

The Fund expects Chinese growth to decelerate to 6.2% y/y and 6.0% y/y in 2019 and 2020 respectively from 6.6% y/y in 2018. Curiously, it expects emerging and developing economies to accelerate to 4.7% y/y growth in 2020 from 4.1% y/y in 2019 and 4.5% y/y in 2018. The recovery that the Fund projected in 2020 seems to be predicated on a recovery in Latin America and emerging and developing Europe. Of course, some Latin American countries scored own goals through the macro policies they pursued.

Also noteworthy is the Fund's expectation of a recovery in the euro area in 2020. It expects growth there to accelerate to 1.6% y/y from 1.3% y/y in 2019 and 1.9% y/y in 2018. It expects countries like Germany and Italy to sponsor that recovery. Perhaps if this recovery were not to materialise, then even emerging and developing European countries would not see the revival that the IMF expects.

Trade uncertainty – the impact is probably overstated

One reason we have not been overly concerned about the impact of the trade war on African economic growth is that it is very much US-centric. It is the US administration that is either imposing tariffs or threatening to do so on other countries. First in the crosshairs were the US's NAFTA partners, then China, then the EU. Interestingly, the EU, China, Mexico and Canada are not engaged in any trade war among themselves.

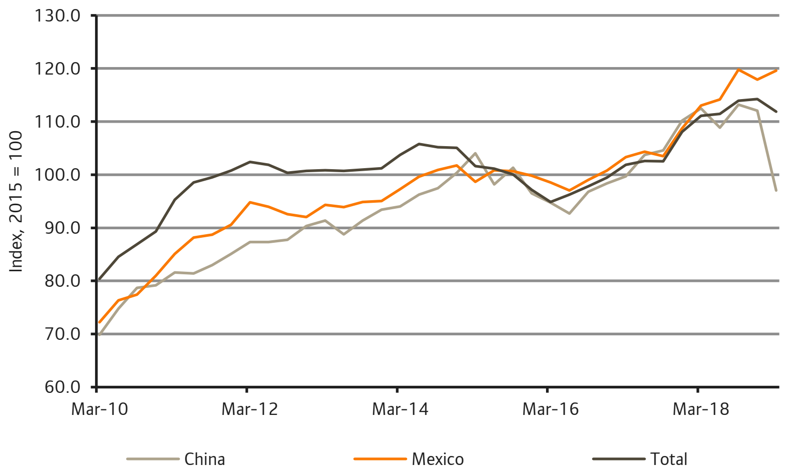
What we find strange regarding the trade war is the responsiveness of the financial markets to every twist and turn, every announcement – be it new tariffs, recanting new tariffs, or going back to imposing them. The market moves can seem to be exaggerated somewhat, with the markets apparently anticipating doom one moment, then prolonged prosperity the next.

Suppose instead there was a reasonable basis to believe that the end-game of all these trade policy moves by the US administration was to increase effective tariff rates in the US on Chinese imports to some number, say 50% or 150%, then the impact of that on US economic growth can be estimated with a fair degree of confidence. Of course, in making such estimates, the market would have to factor in the potential substitution of Chinese imports with imports from other low-cost locations, perhaps also in Asia.

This is, in fact, not an idle academic exercise. There are already some indications that this substitution is taking place. The trajectory of the US trade deficit has not changed much as a result of the trade war. While overall US imports are still elevated, US imports of Chinese goods have slowed down, and has been countered by increased imports from somewhere else such as say Mexico (Figure 1).

So, evidently imposing tariffs on Chinese imports has a distributional effect, shifting US demand away from China. So, the impact of US tariffs on Chinese imports may not affect global demand that much, especially of commodities. It's not so clear what the impact of retaliatory Chinese tariffs on US imports is. But we suspect it would not affect the prices of the commodities that matter to Africa's commodity exporters in such a deleterious manner that we would need to get worried.

Figure 1: US import trajectory – quarterly seasonally adjusted data



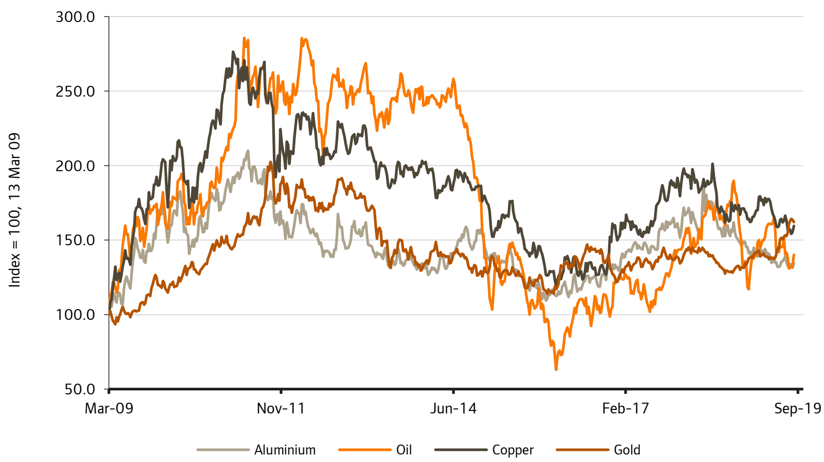
Source: United States Bureau of Economic Analysis

Of course, there is always the likelihood that the end result of US trade policy moves is to increase the effective tariff rate on all US imports, not just those sourced from China. Arguably, the impact of this trade policy would be a larger negative impact on commodity prices that matter for Africa's commodity exporters than just tariffs on imports of Chinese goods.

Crucially, the key take-away is that if there was a reasonable basis for predicting what the end game of US trade policy moves is, then much of the flux in financial markets, especially commodity markets, would be far less than what we are seeing right now. For that reason, we don't see the flux in global financial markets having much impact on Africa's economic trajectory.

Commodity prices: no longer falling

Figure 2: Commodity prices seem to be bottoming out



Source: Bloomberg

Commodity prices have broadly declined since publication of the last edition of this report in May. Most notably are oil prices that, at the time of writing, were roughly 13%

lower than they were in mid-May. They are off the lows reached during this period, up over 10% from those lows.

There is still plenty to suggest that oil prices will remain mostly above USD60.0/bbl over the next 4 – 6 months. Geopolitical strains surrounding Iran, lately implicated in an attack on a Saudi Arabian oil facility, could push oil prices higher. Additionally, OPEC seems prepared to stick with production quotas to keep prices elevated.

Consensus forecasts for oil prices drifted marginally lower in recent months, with forecasts putting the Brent crude oil price roughly around USD65/bbl at the end of both 2019 and 2020. The average for the Brent crude oil price is near USD65.0/bbl thus far this year. We have kept USD65.0/bbl as the assumption for our forecasting purposes.

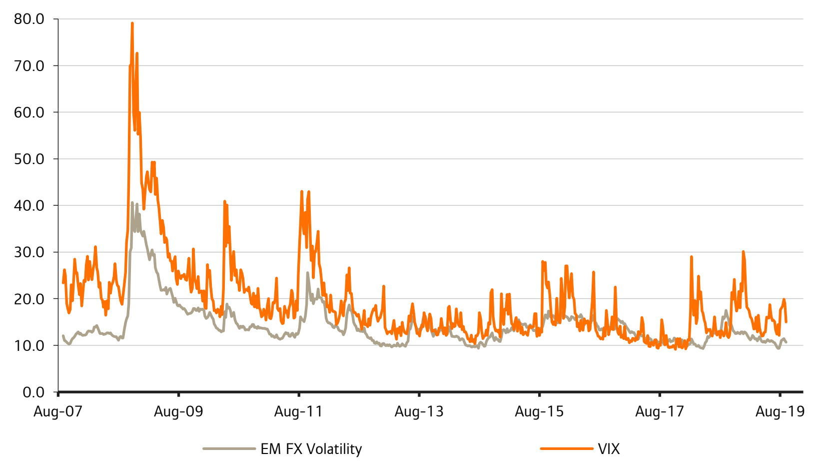
Of course, the supply-demand balance for oil might have a significant impact on oil prices. The broad expectation of the International Energy Agency has been that global oil demand growth would subside, thereby potentially depressing oil prices. Any upward revisions to those forecasts might support oil prices. Additionally, the behaviour of OPEC member countries will be crucial. A few, like Nigeria, have been producing in excess of their quota. Non-compliance for an extended time might prompt others to follow suit.

Consensus forecasts for copper prices were consistently revised lower over the course of this year. The evident global economic slowdown may have been a factor leading to those forecast revisions. Yet, even as copper prices approached USD5,600/MT, consensus forecasts envisaged them being above USD6,000/MT by the end of this year and marginally higher by the end of 2020.

Global risk appetite: in flux, but a risk-on bias will probably prevail

At the time of writing the S&P 500 Volatility index had fallen close to the 15 level, having risen above 20 during Aug. To be fair, the index was pretty much at that level when we published the last edition of this report, first having declined to a low of about 12.

Figure 3: Volatility rising again



Source: Bloomberg; Standard Bank Research

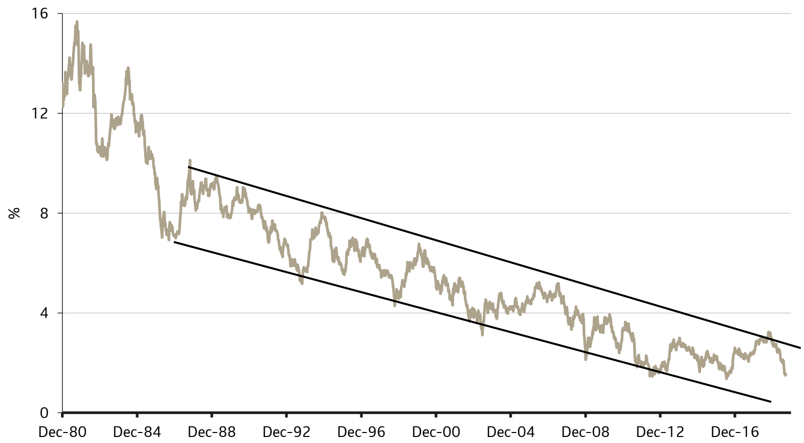
That same pattern is likely to be repeated over the next 4 – 6 months. The markets went from worrying that overtightening of monetary policy by the Fed potentially put the US economy on a trajectory to recession. Having seemingly resisted the market's forecasts, the Fed not only called a pause in its rate hiking cycle but actually switched to cutting the Fed Funds rate. This switch could be enough to resuscitate risk appetite.

There is always a risk that bellicose rhetoric regarding trade from the US administration might agitate the markets now and again over the next 4 – 6 months. However, it is likely that political calculus will start to influence the administration's approach to trade negotiations. Being up for re-election, the US president would be well served by a strong and strengthening economy closer to the election. Evidence thus far has suggested that such bellicose rhetoric undermines sentiment and could add impetus to the slowdown in the real economy. So, refraining from stoking such concerns might be in the president's interest.

Global rates: divergence between US and other developed markets

Over the next 2 – 3 months, perhaps the market will be mostly focussed on whether the Fed will follow through will the widely anticipated cuts to the Fed Funds rate. Consensus forecasts have the Fed Funds rate at 1.75% by the end of the year, 50 bps lower than the current level. During 2020, the consensus expectation is for the Fed to hold its Fed Funds rate unchanged. Steve Barrow, our G10 Strategist, concurs.

Figure 4: US Treasury 10-y yields below Fed Funds rate



Source: Bloomberg

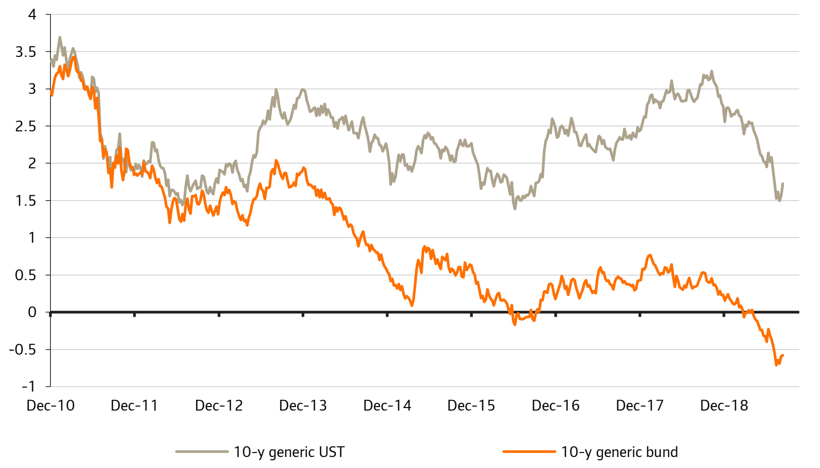
The case for the Fed to cut its policy rates has built up over the course of the past 5-m, with consensus forecasts being ratcheted lower over that period. There has been mounting evidence that economic activity has been decelerating.

Of course, the likelihood of an economic slowdown was not completely a surprise to the market. Economic growth was boosted by fiscal stimulus last year, something that was bound to unwind this year. However, what might have given the market a scare is the impact of the uncertainty regarding trade, especially given the US administration's tariff policy and retaliation by other governments, like China.

Quite frankly, the Fed was slow in coming around to the view that it needed to cut its policy rates. Anxiety in the markets built up in the meantime, with worries mounting that the US economy would slump into a recession. The curve bull flattened as longer-term yields collapsed. Various parts of the yield curve inverted, heightening that anxiety regarding the economic outlook. Inversion of the US yield curve has typically been a good predictor of US recessions.

US 10-y yields fell below 1.5% in late Aug. Since then, they have risen above 1.7%, the level they were at the time of writing. Perhaps this increase reflects waning concerns about the economic outlook. If the Fed indeed delivers the 50 bps of rate cuts that is the consensus forecast, then there is a likelihood that 10-y rates will increase further. Steve Barrow expects the US 10-y yield to rise to 1.9% by the end of Q2:20, on the way to 2.3% by the end of 2020.

Figure 5: 10-y generic US Treasury and German bund yields



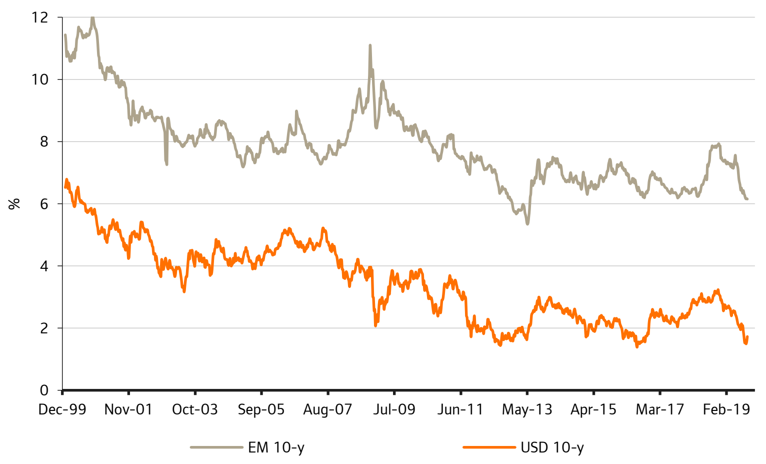
Source: Bloomberg

The situation is a bit different among other developed markets. For instance, in the euro zone yields are likely to initially fall further, becoming more negative. Consensus forecasts for the 10-y Bund yield put it closer to -0.5% by the end of this year, rising to -0.14 by the end of 2020. Steve has the 10-y Bund yield reaching -1.0% in Q1:20, before rebounding to -0.4% by the end of 2020.

The ECB is expected to ease the policy stance, perhaps reviving asset purchases. Of course, the transition in leadership of that institution, with Christine Lagarde to replace Mario Draghi as President of the Governing Council of the ECB, creates a bit of uncertainty. But there is a widespread belief that the ECB is somewhat behind the curve, and more easing is baked in.

Other developed country central banks are likely to ease monetary policy. The BOE, Bank of Canada, Reserve Bank of Australia, Reserve Bank of New Zealand are central banks that Steve Barrow expects to ease monetary policy. In all of these cases, he expects the respective 10-y yields to initially fall in the next 3 – 6 months.

Figure 6: EM 10-y average bond yields versus US Treasury 10-y yields



Source: Bloomberg; Standard Bank Research

Political risks: limited in the next 4-m

Among the countries in our coverage that have elections for the remainder of this year, perhaps the most closely watched will be the Mozambican ones in Oct. The outcome of the elections could be close, and contentious.

Our core view is that these elections will be peaceful, and the aftermath will not be characterised by violence. It certainly helps that the RENAMO party and the government signed a peace agreement that, among other things, commit them to integrating RENAMO's fighters into the army and the decentralisation of power.

The latter could be a crucial aspect, allowing RENAMO to appoint governors in provinces that it has a majority following rather than have those appointed by the central government. Certainly, the stakes will be high. The winner of the elections will essentially oversee the process that will lead to the commencement of commercial production of natural gas.

Arguably, Namibia's elections in Nov are not going to be as close, nor as contentious. The ruling party has a large majority currently. So much so that the internal processes that led to nominations for parliament by the party may actually turn out to be more contentious that the elections themselves.

Ghana's elections are at the end of next year. But their impact on the markets could well be felt over the next 4-m. To be sure, it is not that there is much uncertainty. There are two major political parties that the electorate has switched between every two terms since the reintroduction of multi-party democracy in the early 90's. The ruling NPP won the elections in 2016, and it is looking to retain power. Will that empirical regularity of the electorate giving the party in power another term in office persist? That remains to be seen.

Regardless, the market continues to fret that the NPP will essentially try to buy the election by passing a populist budget next year. There are concerns that the government will not observe the Fiscal Responsibility Act that was passed last year. Hence, we see little to suggest that appetite for GHS bonds will recover anytime soon. To be sure, all these vexations aside, foreign investors have not been exiting the GHS bond market in droves.

Côte d'Ivoire's elections are highly unpredictable, something likely to keep the market apprehensive despite the elections only being next year. As is the norm, coalitions will be formed in the run-up to the Oct 20 elections. Yet, at this stage it is not clear how these will be composed. Guillaume Soro, the former President of the National Assembly who fell out with President Ouattarra, seems to be positioning himself for a presidential run.

Other notable players might be Henri Bedie, who pulled his party from the ruling coalition last year, miffed at the refusal of the ruling party to agree to nominating a presidential candidate from his party. It is not clear whether he intends to run for the presidency. Then there is former President Gbagbo, who was acquitted by the International Criminal Court. While he might not run, an endorsement from him might carry significant weight.

Kenya doesn't have elections to concern the market. Yet the latter will likely focus on the parliamentary processes that relate to the interest rate capping provisions of the rate cap. At the time of writing parliament was working through an amendment to the Banking Act. Naturally, the president would rather have it repealed altogether. A repeal would likely have an impact on credit growth and demand for paper in the T-bill and bond markets.

FX strategy: keeping our core EGP exposure

At the time of writing the AOA and GHS had depreciated by an annualised 30% and 18% respectively over the past 4-m, while the EGP and MZN appreciated by13% and 15% respectively in annualised terms over the same period.

The USD/AOA move is clearly policy-determined. It's hard to see how far it could go, and more importantly, what would arrest it. Policymakers have indicated their determination to open the AOA fixed income market to foreign investors. There is still no certainty regarding how long it would take before this happens.

It also seems as if the gap between the official exchange rate and the street rate is not converging. There is no definitive evidence to suggest that the backlog of FX demand has been satisfied. But then, given the USD-linked government bonds that are used as hedging instruments, USD buyers whose outstanding demand has not been satisfied are not incurring losses as a result of the AOA depreciation. Hence, even as the currency loses value, the outstanding demand for USD does not shrink. Instead, the stock of government bonds increases.

Yet, it seems highly probable that the speed at which the pair is rising will dissipate in coming months. The acceleration in the pace of increase of the pair, especially since about early May, does not look durable.

Could the upcoming elections in 2020 be a factor pushing USD/GHS higher? After all, we have encountered many investors who express trepidation at the prospect of an election while the government is without an IMF-funded program. For these investors it is highly probable that the government will increase the budget deficit meaningfully next year as the government tries to secure the election.

Well, if that is the case, then such trepidation has not translated into a notable reduction in exposure to GHS bonds. The Central Securities Depository indicates that foreigners were holders of GHS28.58bn in GHS bonds in Jul, not far from the GHS28.87bn in Mar that is the peak thus far this year. The actual peak was GHS29.22bn in Apr 18. From this, it is not so clear that foreign investors are selling down their holdings of GHS bonds.

This trend strongly suggests that in aggregate foreigner investors are not reinvesting coupons, repatriating them instead. Given the high coupon rates, coupon payments are probably substantial. If one assumes an average 18% coupon rate on bonds held by foreigners, then annual coupon payments would be close to GHS5.0bn.

Arguably, the BOP is in a sufficiently strong position that the BOG can provide FX supply to the market, thereby helping to stabilise the exchange rate for an extended period. It is in the government's interest to restrain the pace of depreciation of the GHS. Doing so might help to anchor inflation expectations, and ultimately help to prevent persistent depreciation of the GHS.

USD/ZMW has been mostly around 13.00 since late-Jun, after shooting up from nearly 12 in late -Mar to nearly 14.00 in mid-May. It is hard to see any fundamental developments that would make this stability around the 13.00 level durable. If anything, the decline in the volume of copper exports suggests some underlying weakness in the BOP that would lead to further upward pressure on the pair.

The government continues to service its external debt. This is one reason there has been so much pressure on FX reserve, which have dropped so much that import coverage is less than 2-m at present. Drought conditions in parts of the country may exacerbate the pressure. Food production has been constrained, as has hydro electricity generation. This might prompt imports to supplement inadequate domestic supply. There have already been indications that ZESCO, the electricity utility, will import power from Eskom, the South African utility. Clearly, that would increase the country's FX requirements.

One of the reasons we did not enter a trade even though USD/ZMW spiked between Apr and May is that we didn't have much conviction that BOP fundamentals would improve. Ultimately, an improvement in the BOP would require a tighter fiscal policy stance. Perhaps even external support, whether it be for the drought, could help provide assistance to the BOP.

The depreciation of the KES of roughly an annualised 8% might not appear to be much. As we have pointed out in other research, there is a seasonal tendency for the KES to depreciate during Q4 of any year due to increased demand for FX on account of dividend payments, among other things. However, it typically recovers in Q1, helped along by increased flower sales.

Incidentally, the last time the KES depreciated by near 8% annualised pace in a 4-m period was in Q4:18. It staged a recovery in Q1:19, appreciating by close to an annualised 5% pace by the end of Mar. So, there might be an opportunity for a tactical trade at some point over the next 2 – 3 months.

Even though in the 4-m to early May the MZN depreciated at close to a 13% annualised pace, low implied yields on NDFs kept us from taking a position. We were certainly convinced that the increase in the pair up to that point would not prove to be enduring.

So, what do we do now that the MZN has appreciated at more than a 15% annualised pace in the past 4-m? Well, we're still not inclined to do anything. Implied yields on NDFs are even lower now than they were in early May.

There is a case to be made that perhaps the prospective improvement in the BOP, combined with prudent monetary policy management, justifies some exposure to the MZN. Even though headline inflation has been 5.0% y/y or lower since the beginning of 2018, the central bank's MPC has been resolute in keeping a fairly tight policy stance. The real policy rate is the highest of the countries in our coverage.

The announcement of the final investment decision by Anadarko on its gas project is one impetus for the probable improvement in the country's BOP. This announcement seems to have bolstered confidence in the local market, as could be expected. Of course, looking forward to the commencement of natural gas exports, the structural transformation of the economy will support the MZN on a multi-year basis.

The elections in Oct are an obvious risk event. While we expect the elections, and the aftermath, to be peaceful, there is always a chance of some noise around it. But the fact that the opposition RENAMO party and the government signed a peace agreement is a positive step. There has also, reportedly, been progress made in integrating RENAMO's fighters into the army.

We have maintained exposure to the EGP since May 17 without interruptions. Of course, at the time we entered the trade we believed that the CBE would truly let the EGP float. Under that scenario, we expected USD/EGP to eventually fall below 16.00.

It is possible that the latter might transpire in the next 12 – 18 months. So, we have no intentions of relinquishing our exposure to the EGP in that time. While there has been a fair amount of volatility in portfolio flows over the past 18-m, it seems as if inflows will turn out to filter through into EGP strength. The first time that holdings of EGP T-bills by foreigners increased over USD20.0bn equivalent in Apr 18; USD/EGP was not too far away from 18.00, having barely moved over the preceding 12-m.

Foreign portfolio holdings of EGP T-bills fell dramatically last year, especially in H2:18 and bottomed out in Dec. The resurgence since then has been associated with appreciation of the EGP. It seems as if the decline in inflation has given further impetus for foreign portfolio inflows into the EGP bond market. This is adding further support to the EGP.

We see no reason to relinquish our exposure to the NGN either in the near term. We have also had long-running exposure to the NGN beginning in late 2016, although there have been breaks. The CBN tends to fine-tune NGN liquidity conditions, which tends to generate a fair bit of volatility in foreign portfolio flows. The sequence goes something like this: after a prolonged period of stability in the FX market, the CBN allows NGN liquidity to build up in the system. Such liquidity build-up then pushes yields, whether they be T-bill yields or those on OMO bills, lower. As yields decline foreign portfolio investors take profit on their NGN positions and exit the market, increasing FX demand. The latter then prompts the CBN to intervene in the FX market, exerting downward pressure on FX reserves. Eventually the CBN will tighten conditions again, leading to an increase in yields and a resurgence of foreign portfolio inflows.

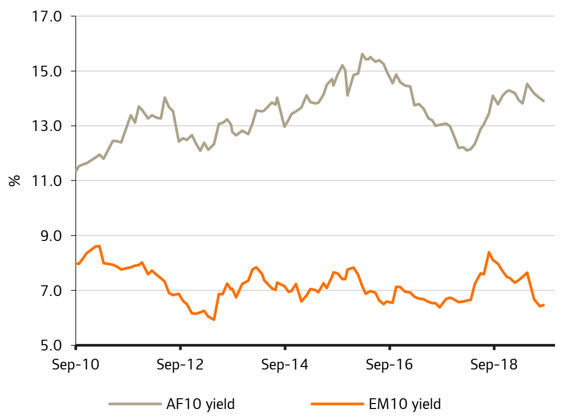
In the past 2 – 3 months we were in the high-liquidity, portfolio-outflow phase of this cycle. It is likely that the CBN will tighten liquidity up over the next 2 – 3 months to bolster FX reserves. Naturally, this would open up interesting re-entry points into the NGN carry trade.

As is always the case, the key risk to this trade is the trajectory of oil prices. While we do not doubt that the CBN would defend the NGN, a sharp and prolonged drop in oil prices, say to less than USD45.0/bbl, would create some policy challenges that might prompt the CBN to let USD/NGN rise in the IEFX window.

Fixed income strategy: focus on East African duration

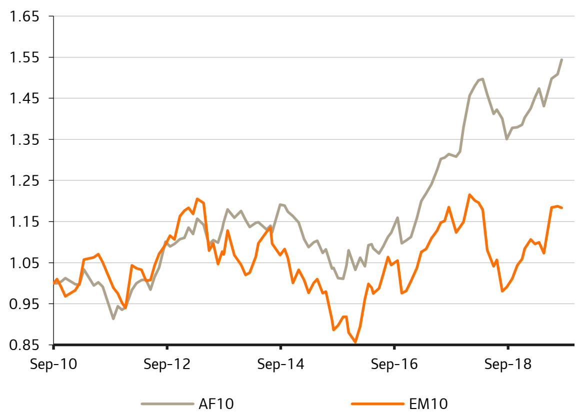
The case for Ugandan duration is quite strong. We often refer to 15% as a yield level that provides some comfort when investing in African local currency bonds. Not many currencies frequently depreciate at over a 15% annualised pace over a 3-y investment horizon. Instead, most currencies typically remain stable for many months before depreciating sharply on account of some BOP shock. After appropriate policy intervention, the currency typically resumes its stability.

Figure 7: EM10 versus AF10 average 10-y bond yield



Source: Bloomberg; Standard Bank Research

Figure 8: EM10 versus AF10 average 10-y bond return



Source: Bloomberg; Standard Bank Research

Where does the UGX fit into all of this? Well, persistent depreciation of the UGX in excess of a 15% annualised pace is quite rare. In any 3-y investment horizon since 2004 the UGX has depreciated at more than a 15% annualised pace in less than 2% of the time. However, 10-y UGX-denominated bonds are yielding less than 15.0%. But the 14.25% pre-tax yield seems sufficiently attractive at this point. As Figure 7 illustrates, this yield is at the higher end of the yields available on the most tradeable markets in our coverage.

Another factor that enhances the attraction of UGX duration is the low inflation rate, providing an extremely high real rate in the context of the markets in our coverage. The roughly 12% real10-y yield for UGX duration is second only to the Zambian real 10-y yield. Core inflation has been close to the bottom of the BOU's target range, with hardly any indication that it will rise markedly anytime soon. Food inflation is well contained, and the currency has been relatively stable, thereby removing any concerns about potential passthrough of currency depreciation to inflation.

Given this, it would be reasonable to judge that the bias is for the BOU's MPC to cut the policy rate in the near term rather than raise it. Yet, the committee seems to believe that inflation will rise closer to the upper end of the target range in the medium term, perhaps prompting it to adopt a cautionary stance. Specifically, in the statement the committee released following the Aug policy meeting, the committee indicated that it expected core inflation to rise to a peak of 6.4% y/y in Q4:20 driven by stronger domestic demand. It also seemed to believe the bias for inflation to be to the upside.

Even if the committee is correct in its forecast, a nearly 6.5% inflation rate would provide an *ex-ante* real 10-y yield of close to 7.75%. This would still be in the upper end of the range of real yields in the markets in our coverage.

Higher budgeted domestic borrowing is something of a concern, potentially exerting some upward pressure on bond yields. But the likelihood of this increased borrowing shifting yields materially higher, say taking the 10-y yield back above 16%, seems somewhat low.

As we have already argued, there is a strong likelihood that seasonal factor will conspire to weaken the KES further during Q4:19. However, this will likely be reversed in Q1:20. Rather than expressing this view via either the NDFs or T-bills, we would rather express it via a tactical duration trade. However, we are not ready to commit to the trade just yet.

There could be some volatility in KES bond yields over the next few months. Just to be clear, this has nothing to do with either the direction of monetary policy changes or the trajectory of inflation. Core inflation, as has been consistently communicated by the CBK's MPC that indicates that inflation excluding food and fuel is below 5.0% y/y, is well contained. A spurt in food inflation has dissipated, leaving headline inflation still well within the target range. Additionally, thanks to a broadly stable currency, despite the recent depreciation, there doesn't appear to be latent inflation pressures that would arise from passthrough of KES depreciation to inflation. Hence, it is all the more likely that the MPC will keep its policy stance unchanged too.

Instead, it is the probable repeal of the interest rate cap that is at issue, and the impact thereof on the yield curve. As already argued, while it is hard to handicap this outcome, it seems more probable that the cap will be amended such that it is less restrictive. The ramifications of this could be to persuade banks to expand credit, thereby reducing demand for T-bills and bonds. This shift in demand could exert some upward pressure on bond yields.

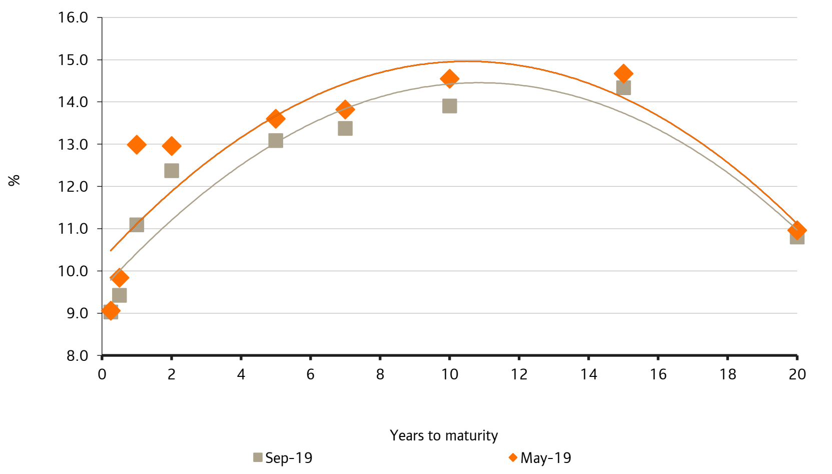
Despite our frustration with fiscal policy management, we have retained our exposure to Zambian duration. Yields are quite elevated, having been in excess of 20% in the primary auction since the end of Dec 18. In fact, BOZ data indicates that the average bond yield rate in the 2-y to Dec 18 was about 19.3%.

Such high bond yields are bound to affect fiscal policy in a fundamental way. There is a strong likelihood that interest expenditure will absorb an ever rising proportion of revenues, and account for a bigger share of total spending. Barring a fiscal adjustment this scenario could undermine overall macroeconomic stability.

This might be the year that the government finally delivers on the fiscal consolidation to which it has committed itself. We acknowledge, though, that the various shocks to have hit the economy, particularly the drought, could make fiscal consolidation hard to effect. The government's budget for FY2019/20 and the medium-term expenditure framework will provide some useful guidance in this respect.

We still favour EGP duration. The Egyptian disinflation that we have been looking for has finally transpired, taking both headline and core inflation into single digits. It seems probable that inflation will stay there on a multi-month basis. The MPC of the CBE will deliver more rate cuts over the coming 6 – 9 months, perhaps returning its policy rates to single digits by mid-2020. There is scope for bond yields to decline further during this period.

Figure 9: AF10 yield curve simple yield average



Source: Bloomberg; Standard Bank Research

It's hard to see what the impetus for much lower yields in Ghana and Nigeria will be. Hence, our duration exposure in those markets needs a careful review. As we have pointed out before, our favourite trades are recovery trades. Neither Ghana nor Nigeria can be characterised as such. Indeed, the GHS duration position is the antithesis of a recovery trade. We have held the position since late 2016. At the time, it seemed reasonable to believe that an improving BOP and ongoing disinflation would slow the pace of depreciation of the GHS while also leading to lower government bond yields.

The currency drag on this trade has been far too high. While inflation is low, resulting in very high real yields, the third-largest in the tradable markets in our coverage universe, we don't see impetus for much lower yields. A year ago, we surmised that perhaps the ideal strategy would be to actively trade these bonds, buying them when yields rise well above 20%, perhaps close to 22%, and sell them at yields in the high teens. Well, there hasn't been much chance to do that.

Earlier we alluded to an NGN liquidity cycle that the CBN has encouraged to develop in the past 2-y or so. Perhaps we should look to actively trade the bonds, taking advantage of these liquidity swings.

African Eurobonds: spread compression ahead

African Eurobonds have outperformed the broader EM, as measured by the EMBI Global Index, as the table on page 2 indicates. Incidentally, African Eurobonds outperformed local currency bonds too, returning over 16% at the time of writing, compared with just over 13% for local currency bonds as measured by our Africa 8 index.

It hasn't been straightforward, with gyrations in global risk sentiment due to the trade war not leaving African Eurobonds unscathed. Earlier in the year, African Eurobonds were swept up in the bullish run in risk assets that followed the decision by the Fed to pause. But when the trade war's so-called truce was over, sentiment deteriorated, undermining risk assets like African Eurobonds. Lately, easing by the Fed has added impetus to risk assets, with African Eurobonds dragged along as well. This will likely last for a few months.

To be sure, increased confidence that the Fed will lower its policy rates seems to have removed anxiety about economic growth from the market. Hence, US Treasury yields have increased, with the market also seemingly reducing the magnitude of rate cuts that it is pricing the Fed to make. With that increase in base rates, spreads have compressed since mid-Aug. Yet, interestingly, African sovereign spreads are little changed from their levels in mid-May.

We still believe that the improvement in Egypt's macroeconomic performance warrants an overweight position, one of our core overweight positions. The government's determination to arrest the debt is indubitable. In all likelihood it will target primary surpluses, perhaps of at least 2% of GDP, in the coming 3 – 5 years. We are likely to see the economy continue to record solid economic growth above 5.0% y/y on a multi-year basis. Even though the major credit rating agencies have upgraded the country's credit rating, there is a chance of more upgrades in the next 2-y.

Senegal is another core overweight. Despite election uncertainty now out of the way, Senegalese bonds have underperformed, especially against Côte d'Ivoire and Kenya. We suspect that the latter was playing catchup. Hence, it is likely that Senegal will outperform again.

With tensions between the US and China thawing in recent weeks, we have taken a decision to tactically increase our exposure to oil sovereigns, specifically Gabon and Nigeria. Gabon has underperformed the other oil sovereigns, something we believe will not be enduring.

We have recently chosen to increase our exposure to long duration bonds. One motivation for switching to longer duration bonds is that the spread between these and shorter duration bonds is close to historical highs. Take the spread between the Egypt '47s and '23s. At the time of writing it was nearly 2 standard deviations away from the mean. Similarly, the spread between the Senegal '48s and '21s was nearly 1.9 standard deviations away from the mean. Notably, over the past month or so, this spread has stopped widening. There is a chance that it might even compress on a multi-week basis.

Hedging CNY exposure

Trade consummated between Africa and China is still predominantly conducted in USD. Yet, for importers, it is often cheaper to hedge CNY exposure than to hedge USD exposure. Standard Bank offers forwards that allow African importers to hedge CNY exposure.

Indicative CNY forward prices

	Historical prices				Forward prices		
	-12m	-6m	-3m	spot	+3m	+6m	+12m
CNY/BWP	1.54	1.60	1.55	1.54	1.54	1.54	1.53
CNY/GHS	0.71	0.77	0.79	0.78	0.80	0.83	0.88
CNY/KES	14.67	15.01	14.91	14.70	14.78	14.87	15.05
CNY/MUR	5.00	5.20	5.19	5.10	5.09	5.08	5.06
CNY/ZAR	2.06	2.16	2.05	2.07	2.09	2.11	2.15
CNY/UGX	555.87	553.44	538.10	518.86	525.44	534.17	557.96

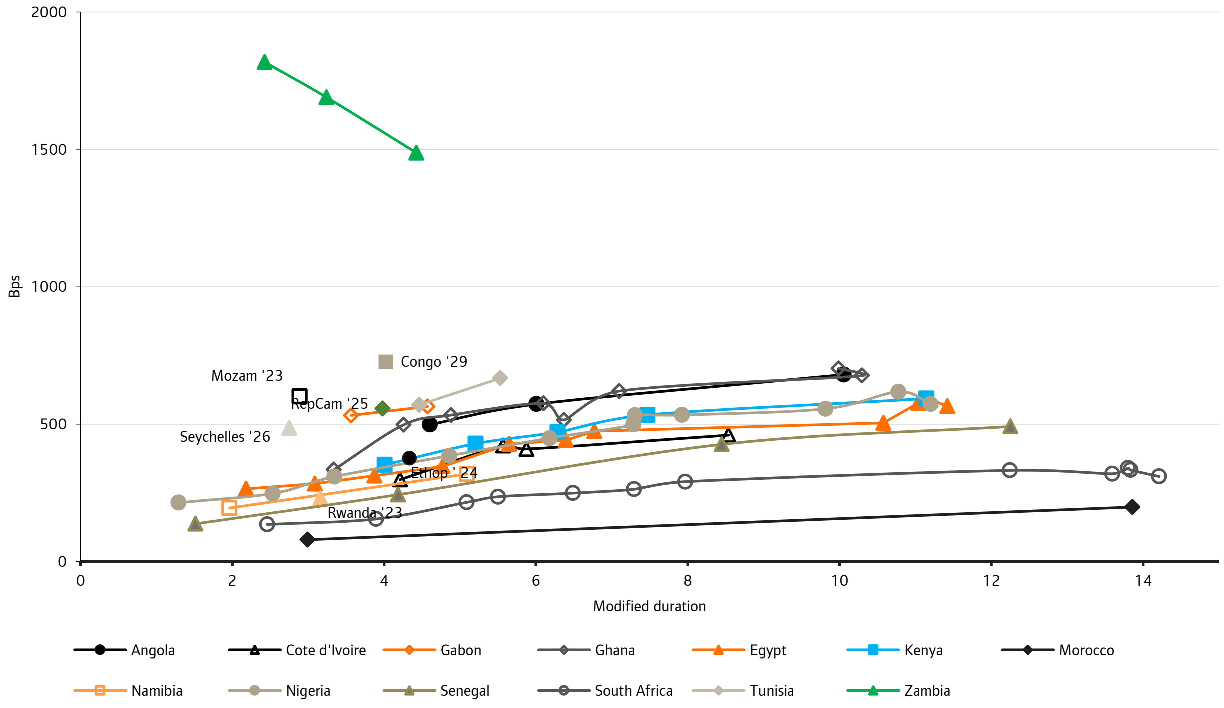
Source: Bloomberg Standard Bank Research

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	113.754	4.6	6.73	498	504	-15	-92	35	-0.6	14.2	11.3
ANGOL 8.25% 09-MAY-2028	B3/	104.527	6.0	7.53	573	580	-14	-80	52	-0.8	16.6	12.1
ANGOL 9.375% 08-MAY-2048	B3/	106.809	10.1	8.72	680	685	-14	-54	65	-1.5	21.0	13.5
REPCAM 9.5% 19-NOV-2025	/B	109.246	4.0	7.31	556	562	-22	-98	-47	-0.1	13.7	15.6
REPCON 3% 30-JUN-2029	/CCC	88.046	4.0	9.01	726	728	-9	-167	-142	-0.7	18.0	21.6
EGYPT 6.125% 31-JAN-2022	B2/B+	103.816	2.2	4.40	264	264	-11	-164	-103	-0.2	9.9	11.3
EGYPT 5.577% 21-FEB-2023	B2u/B+	103.138	3.1	4.58	283	287	-15	-171	-99	-0.3	12.7	13.5
EGYPT 6.2004% 01-MAR-2024	B2/B+	105.283	3.9	4.87	312	318	-16			-0.4		
EGYPT 5.875% 11-JUN-2025	B2/B+	103.348	4.8	5.19	346	351	-16	-164	-67	-0.5	18.0	16.3
EGYPT 7.5% 31-JAN-2027	B2/B+	108.435	5.6	6.06	427	435	-11	-140	-32	-0.9	18.5	16.1
EGYPT 6.588% 21-FEB-2028	B2u/B+	102.384	6.4	6.22	442	449	-14	-124	-20	-0.9	19.4	16.6
EGYPT 7.6003% 01-MAR-2029	B2/B+	107.280	6.8	6.55	474	481	-9			-1.3		
EGYPT 6.875% 30-APR-2040	B2/B+	98.904	10.6	6.99	504	512	-19	-110	-15	-1.2	27.8	21.6
EGYPT 8.5% 31-JAN-2047	B2/B+	108.676	11.0	7.73	576	585	-16	-99	9	-1.6	25.9	19.2
EGYPT 8.7002% 01-MAR-2049	B2/B+	109.621	11.2	7.86	588	598	-16			-1.6		
EGYPT 7.903% 21-FEB-2048	B2u/B+	103.151	11.4	7.63	565	575	-13	-89	13	-1.9	25.3	18.8
ETHOPI 6.625% 11-DEC-2024	B1/B	105.014	4.3	5.51	376	382	-26	-119	-34	-0.1	14.3	13.7
GABON 6.375% 12-DEC-2024	/B	97.529	3.6	7.06	532	537	-37	-113	33	0.4	13.5	10.9
GABON 6.95% 16-JUN-2025	Caa1/B	97.962	4.6	7.39	564	570	-37	-89	59	0.5	14.5	10.7
GHANA 7.875% 07-AUG-2023	B3/B	109.714	3.3	5.09	334	339	-21	-254	-45	-0.2	17.1	12.1
GHANA 8.125% 18-JAN-2026	B3/B	106.158	4.3	6.73	498	504	-15	-155	41	-0.5	16.4	10.7
GHANA 7.875% 26-MAR-2027	B3/B	102.902	4.9	7.08	533	538	-7			-0.9		
GHANA 7.625% 16-MAY-2029	B3/B	100.433	6.1	7.55	575	582	-16	-91	98	-0.7	17.6	8.8
GHANA 10.75% 14-OCT-2030	B1/BB-	127.120	6.4	6.95	515	520	-21	-103	47	-0.4	18.5	12.0
GHANA 8.125% 26-MAR-2032	B3/B	99.790	7.1	8.02	620	625	-20			-0.6		
GHANA 8.627% 16-JUN-2049	B3/B	99.255	10.3	8.69	676	683	-17	-47	97	-1.4	20.4	9.8
GHANA 8.95% 26-MAR-2051	B3/B	100.115	10.0	8.94	702	707	-16			-1.3		
IVYCST 5.375% 23-JUL-2024	Ba3/B+	102.801	4.2	4.72	298	304	-24	-172	-62	-0.2	15.9	14.3
IVYCST 2.5% 31-DEC-2032	/B+	98.577	5.6	6.00	422	425	-2	-108	-4	-1.3	16.2	13.6
IVYCST 6.375% 03-MAR-2028	Ba3/B+	102.875	5.9	5.89	409	418	-18	-137	-41	-0.5	18.9	17.0
IVYCST 6.125% 15-JUN-2033	Ba3/B+	97.020	8.5	6.47	460	467	-25	-91	0	-0.4	21.6	17.4
KENINT 6.875% 24-JUN-2024	/NR	106.711	4.0	5.26	352	358	-5	-218	-117	-0.9	18.4	17.3
KENINT 7% 22-MAY-2027	B2u/B+	105.076	5.2	6.06	429	436	-5			-1.2		
KENINT 7.25% 28-FEB-2028	B2u/B+	104.724	6.3	6.51	471	479	-3	-162	-68	-1.5	22.1	20.4
KENINT 8% 22-MAY-2032	B2u/B+	106.417	7.5	7.18	534	539	-6			-1.7		
KENINT 8.25% 28-FEB-2048	B2u/B+	103.936	11.1	7.90	593	602	-12	-110	-36	-2.0	27.5	25.1
MOROC 4.25% 11-DEC-2022	/BBB-	105.264	3.0	2.54	79	83	-25	-88	-53	0.0	7.9	9.2
MOROC 5.5% 11-DEC-2042	/BBB-	120.919	13.9	4.10	198	220	-28	-50	-3	-0.6	21.6	18.7
MOZAM 10.5% 18-JAN-2023	Caa3u/	104.533	2.9	7.75	600	604	-22	-381	-569	0.0	11.2	24.4
REPNAM 5.5% 03-NOV-2021	Ba1/BB+	103.554	2.0	3.74	195	196	-10	-135	-23	-0.2	8.2	7.5
REPNAM 5.25% 29-OCT-2025	Ba1/BB+	101.569	5.1	4.95	318	326	-27	-138	-21	0.0	16.8	13.5
NGERIA 6.75% 28-JAN-2021	/B+	103.585	1.3	4.02	214	209	-9	-140	-49	0.0	6.8	7.3
NGERIA 5.625% 27-JUN-2022	B2/B+	103.586	2.5	4.24	247	250	-21	-161	-62	-0.1	10.8	10.4
NGERIA 6.375% 12-JUL-2023	/B+	105.311	3.3	4.83	309	314	-14	-179	-36	-0.4	13.9	11.5
NGERIA 7.625% 21-NOV-2025	B2/B+	110.439	4.9	5.60	385	391	-16	-183		-0.6	19.5	
NGERIA 6.5% 28-NOV-2027	B2/B+	101.303	6.2	6.29	449	457	-19	-123	0	-0.6	19.3	14.8
NGERIA 7.143% 23-FEB-2030	B2/B+	102.447	7.3	6.81	498	505	-14	-111	15	-1.1	20.6	15.2
NGERIA 8.747% 21-JAN-2031	B2/B+	112.243	7.3	7.15	532	538	-14	-114		-1.0	21.4	
NGERIA 7.875% 16-FEB-2032	B2/B+	105.500	7.9	7.20	533	540	-15	-105	38	-1.2	21.4	13.9
NGERIA 7.696% 23-FEB-2038	B2/B+	102.291	9.8	7.47	556	561	-12	-80	32	-1.7	22.4	15.9
NGERIA 9.248% 21-JAN-2049	B2/B+	112.403	10.8	8.13	618	626	-16	-61		-1.4	21.9	
NGERIA 7.625% 28-NOV-2047	B2/B+	99.068	11.2	7.71	573	582	-13	-70	39	-1.8	23.5	15.5
RWANDA 6.625% 02-MAY-2023	/B+	108.632	3.2	4.04	229	234	-20	-198	-125	-0.2	13.8	14.2
SENEGL 8.75% 13-MAY-2021	Ba3/	108.816	1.5	3.23	137	137	-19	-200	-104	0.0	8.2	8.2
SENEGL 6.25% 30-JUL-2024	Ba3/	109.050	4.2	4.18	243	249	-20	-186	-92	-0.3	16.1	15.2
SENEGL 6.25% 23-MAY-2033	Ba3/	101.010	8.4	6.13	426	433	-20	-99	-14	-0.8	22.0	18.4
SENEGL 6.75% 13-MAR-2048	Ba3/	97.726	12.3	6.94	491	505	-20	-65	-8	-1.5	22.8	21.4
SEYCHE 3% 01-JAN-2026	/BB	103.928	2.8	6.61	485	489	-45	-28	35	0.6	8.0	9.2
SOAF 5.875% 30-MAY-2022	Baa3/BB+	107.125	2.5	3.11	135	137	-29	-82	-70	0.1	7.1	9.4
SOAF 4.665% 17-JAN-2024	Baa3/BB+	105.500	3.9	3.29	155	161	-21	-109	-97	-0.3	11.0	14.0
SOAF 5.875% 16-SEP-2025	Baa3/BB+	110.375	5.1	3.92	215	223	-16	-90	-70	-0.7	12.7	15.6
SOAF 4.875% 14-APR-2026	Baa3/BB+	104.193	5.5	4.14	236	245	-13	-68	-63	-0.9	12.5	16.3
SOAF 4.85% 27-SEP-2027	Baa3/BB+	103.752	6.5	4.29	249	258	-11	-72	-46	-1.1	14.6	16.9
SOAF 4.3% 12-OCT-2028	Baa3/BB+	98.830	7.3	4.46	263	272	-14	-46	-32	-1.1	14.0	17.1
SOAF 5.875% 22-JUN-2030	Baa3/BB+	109.188	8.0	4.77	290	300	-14	-55	-34	-1.2	15.9	18.2
SOAF 6.25% 08-MAR-2041	Baa3/BB+	111.732	12.2	5.34	332	345	-13	-38	-17	-2.2	18.7	21.5
SOAF 5.375% 24-JUL-2044	Baa3/BB+	101.250	13.6	5.28	319	338	-20	-35	-19	-1.6	19.2	22.3
SOAF 6.3% 22-JUN-2048	Baa3/BB+	111.375	13.8	5.51	340	361	-16	-48	-31	-2.1	21.8	24.0
SOAF 5.65% 27-SEP-2047	Baa3/BB+	103.000	13.8	5.44	333	354	-14	-34	-18	-2.3	19.6	22.0
SOAF 5% 12-OCT-2046	Baa3/BB+	96.631	14.2	5.23	309	333	-12	-22	-11	-2.6	18.0	21.0
BTUN 5.75% 30-JAN-2025	B2/B+	92.613	4.5	7.44	570	576	-21	-92	5	-0.3	14.3	13.8
BTUN 8.25% 19-SEP-2027	B2/WD	98.820	5.5	8.46	667	674	-28	38	233	0.1	8.7	1.0
ZAMBIN 5.375% 20-SEP-2022	/CCC	68.202	2.4	19.93	1,818	1,821	7	513	498	-0.4	0.1	6.8
ZAMBIN 8.5% 14-APR-2024	/CCC	69.629	3.2	18.65	1,690	1,696	3	385	295	-0.7	0.9	11.4
ZAMBIN 8.97% 30-JUL-2027	/CCC	69.439	4.4	16.62	1,488	1,491	-2	292	205	-0.9	1.3	12.2
SB Africa Eurobond (incl. SA)	B+		6.9	6.77	496	498	-16	-76	16	-0.9	16.6	15.1
SB Africa Eurobond (excl. SA)	B+		6.6	7.15	535	536	-17	-83	26	-0.8	16.8	14.6

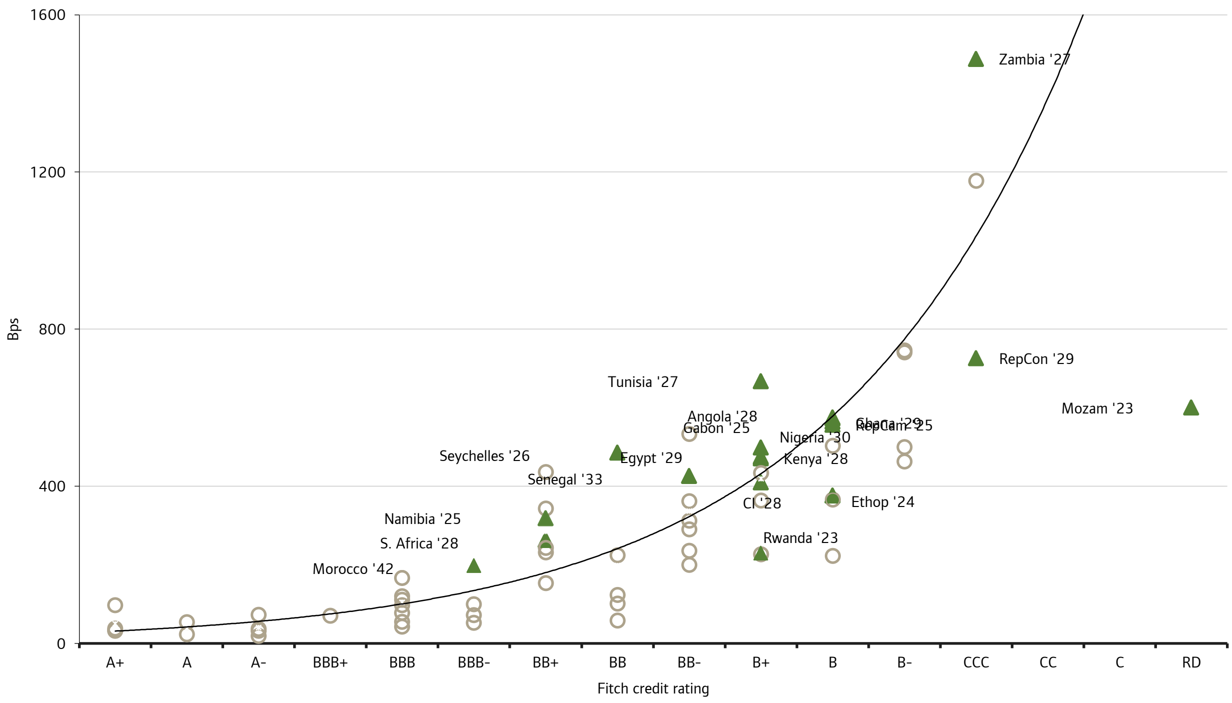
Source: Bloomberg; Standard Bank Research

Figure 10: African sovereign USD bonds (spread over US Treasuries versus modified duration)



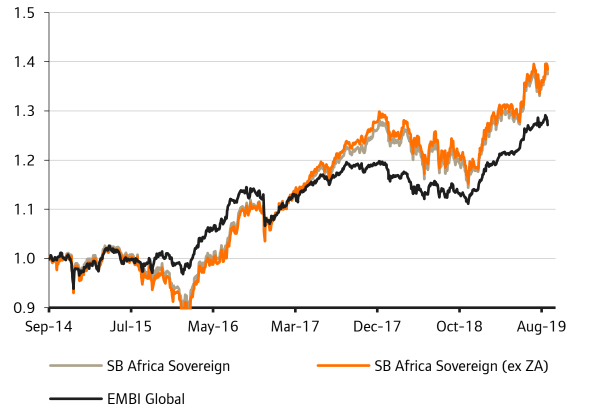
Source: Bloomberg; Standard Bank Research

Figure 11: African and broader EM bonds (spread over US Treasuries versus credit rating)



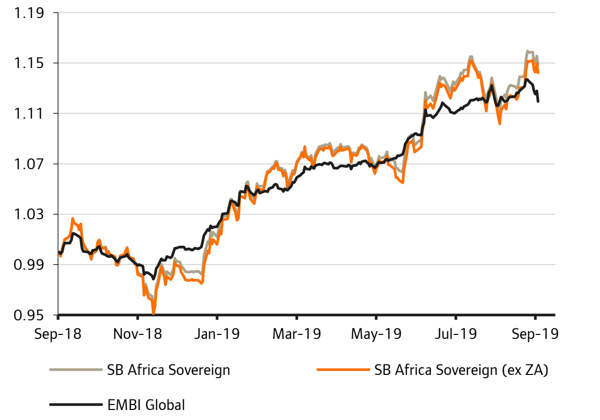
Source: Bloomberg; Standard Bank Research

Figure 12: African Eurobonds (5-y performance)



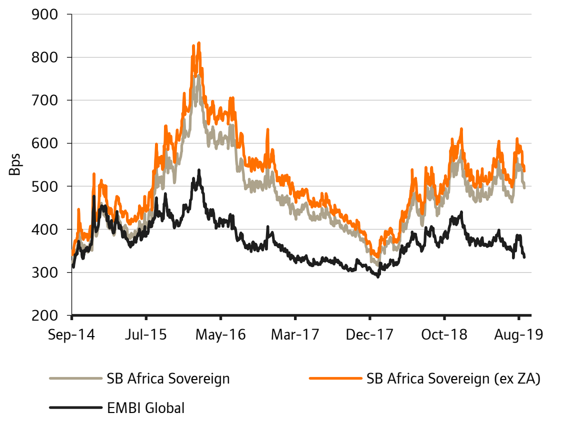
Source: Bloomberg; Standard Bank Research

Figure 13: African Eurobonds (1-y performance)



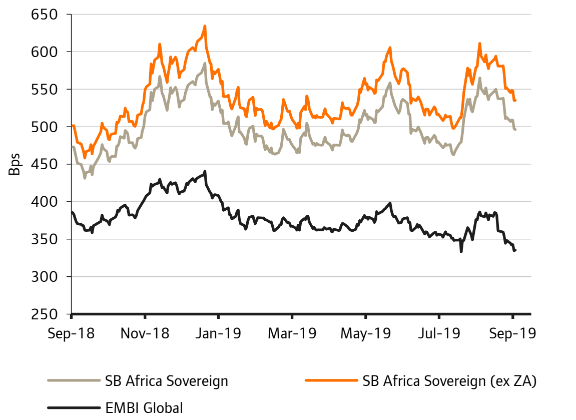
Source: Bloomberg; Standard Bank Research

Figure 14: African Eurobonds spread over UST (5-y)



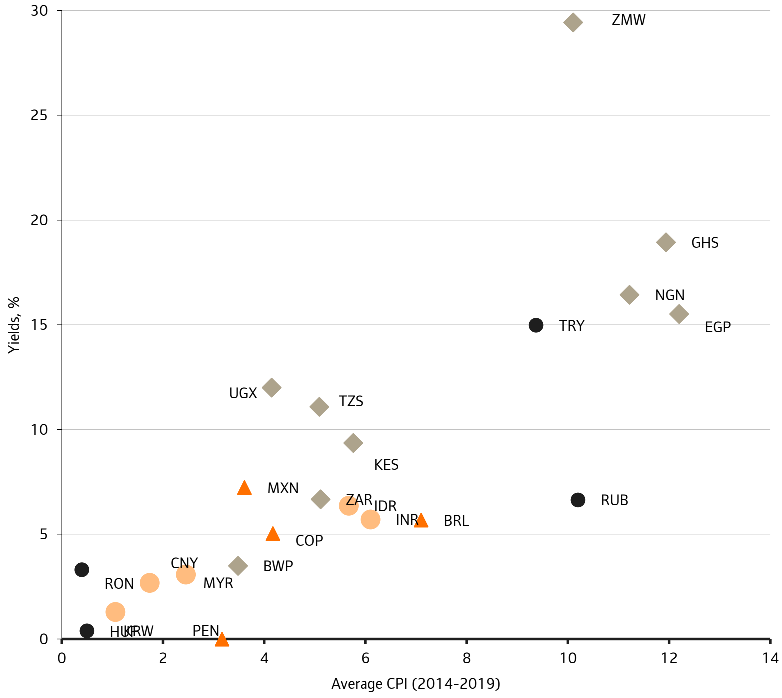
Source: Bloomberg; Standard Bank Research

Figure 15: African Eurobonds spread over UST (1-y)



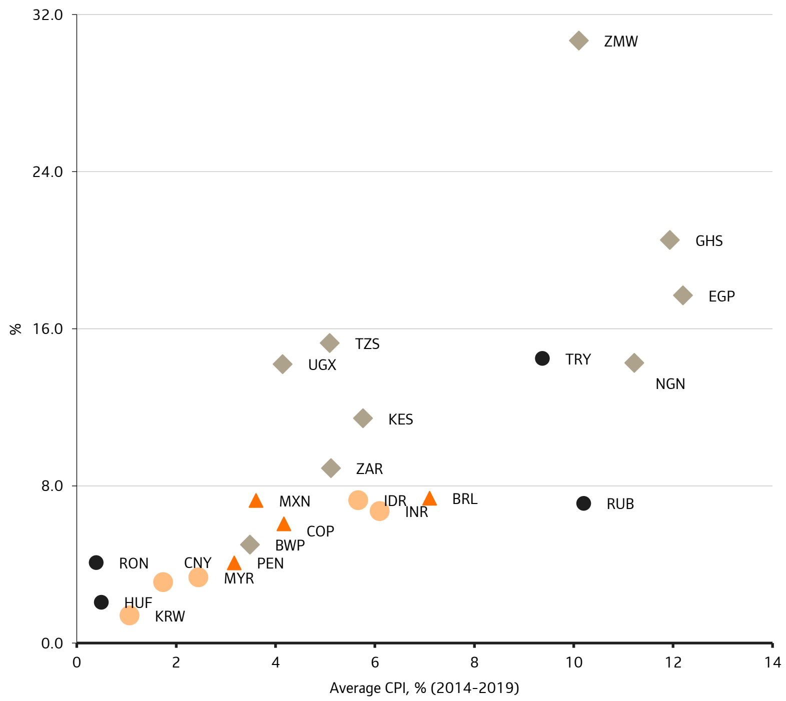
Source: Bloomberg; Standard Bank Research

Figure 16: Local 2-year bonds vs. past and forecast inflation



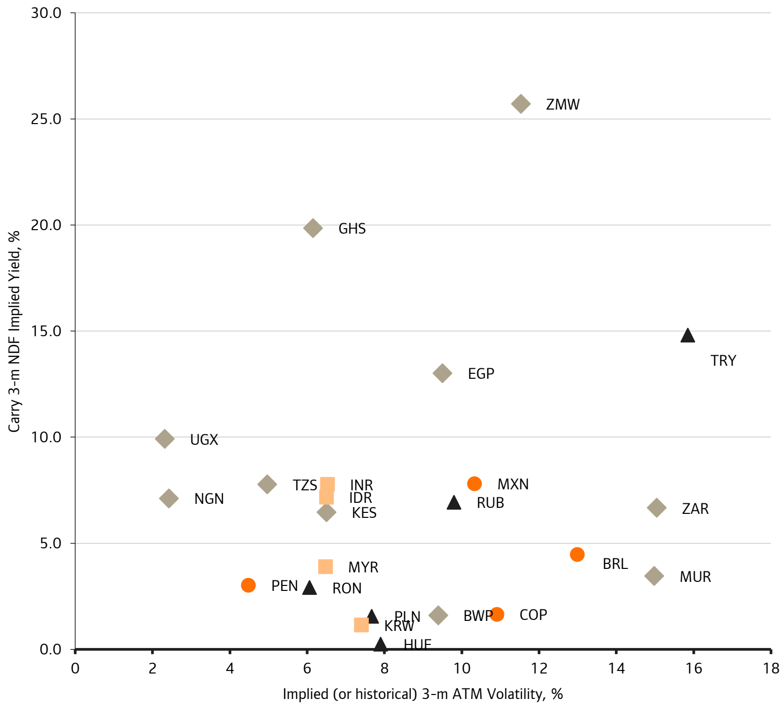
Source: Bloomberg; Standard Bank Research

Figure 17: Local 10-year bonds vs. past and forecast inflation



Source: Bloomberg; Standard Bank Research

Figure 18: NDF carry rates vs. implied vols



Source: Bloomberg; Standard Bank Research

Table of expected returns over the next 3 months

Country	Tenor	Yield, %				Total return, %		
		Current yield	Slide	Forward	SB forecast	Slide	Forward	SB forecast
Botswana	2Y	3.16	3.03	3.32	3.50	1.4	0.1	0.2
	5Y	4.19	4.13	4.32	4.00	1.5	0.1	1.9
	10Y	4.88	4.86	4.97	5.20	1.4	0.5	-1.3
Egypt	2Y	14.96	15.13	14.81	14.80	3.5	4.0	4.0
	5Y	14.35	14.39	14.24	14.25	3.5	4.0	3.9
	10Y	14.67	14.70	14.75	14.55	3.5	3.3	4.3
Ghana	2Y	18.02	17.85	18.65	18.70	4.8	3.6	3.5
	5Y	18.69	18.70	19.08	19.20	4.6	3.5	3.1
	10Y	18.91	18.93	19.19	19.60	4.6	3.5	1.8
Kenya	2Y	9.03	8.79	9.32	9.8	2.6	1.8	1.0
	5Y	10.72	10.63	10.97	10.4	3.0	1.7	3.8
	10Y	11.76	11.74	11.97	11.8	3.1	1.8	2.7
Nigeria	2Y	15.65	15.73	16.39	14.85	3.8	2.8	5.1
	5Y	14.67	14.73	14.95	14.52	3.5	2.7	4.2
	10Y	14.26	14.28	14.42	14.63	3.5	2.8	1.7
Tanzania	2Y	9.43	8.91	10.19	11.3	3.2	1.1	-0.7
	5Y	13.38	13.18	14.00	13	4.0	1.2	4.6
	10Y	15.50	15.45	16.03	15.4	4.1	1.3	4.4
Uganda	2Y	12.27	12.08	12.67	12.4	3.4	2.4	2.9
	5Y	13.55	13.51	13.82	14.4	3.5	2.5	0.5
	10Y	14.08	14.08	14.29	14.7	3.5	2.5	0.3
Zambia	2Y	30.81	30.31	33.51	31.20	8.3	4.2	7.2
	5Y	31.16	31.29	32.72	31.60	7.5	4.1	6.8
	10Y	30.51	30.58	31.69	30.80	7.4	4.2	6.8

Source: Bloomberg; Standard Bank Research

Notes: Yield curve scenarios: "Slide" = the bond yields slide along the unchanged yield curve, "Forward" = the yield curve evolves according to its embedded forward rates, "SB forecasts"= Standard Bank Research expectations

Asset class expected performance summary (3 months)

	FX	Rates	Credit
Angola	↑	↓	↓
Botswana	↑	↑	
Côte d'Ivoire	↑	→	→
Democratic Republic of the Congo	↓	↓	
Egypt	↑ ↑	↑ ↑	↑
Ethiopia	↓	→	→
Ghana	→	↑	↑
Kenya	↓	→	→
Malawi	→	↓	
Mauritius	↓	→	
Morocco	↑	→	↑
Mozambique	→	↓	↓
Namibia	↑	↑	↑
Nigeria	↑	↓	↑
Rwanda	→	↓	→
Senegal	↑	→	↑
Tanzania	→	↓	→
Tunisia	→	↑	↓
Uganda	↓	↓	
Zambia	↓	→	↓

Source: Bloomberg; Standard Bank Research

Recommended trades: performance

Open Trades

Positions	Entry date	Entry yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %	
						Since inception	1-month
Ghana: buy GHGB '20	31-Oct-16	20.00	3.99	18.15	5.46	18.9	0.4
Zambia: buy ZAMGB '26	18-Nov-16	24.50	9.81	30.50	13.15	21.4	1.8
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	14.66	16.35	44.9	6.5
BEAC: sell USD/XAF 2-y NDF	24-Nov-17	4.25	550.62	1.82	593.04	0.4	-0.8
Nigeria: buy NIGB '27	27-Feb-18	13.70	361.00	14.19	362.92	16.9	0.8
Nigeria: buy 12-m T-bill	01-Nov-18	16.82	363.00	12.32	362.92	13.3	1.0
Egypt: buy 12-m T-bill	06-Nov-18	19.78	17.92	16.61	16.35	26.6	3.0
Angola: sell USD/AOA 12-m NDF	09-Jan-19	18.77	311.62	15.68	369.37	-4.5	-1.3
Total portfolio internal rate of return since prev. AMR (15-May-2019)						5.2	

Source: Bloomberg; Standard Bank Research

Angola: still should exit recession in 2020

GDP growth: exiting recession as oil stabilizes

We still maintain that the Angolan economy should exit its four-year recession in 2020, should renewed investments in the oil sector help stabilize oil output at 1.4m bpd, even if temporarily, as a result of the improved regulatory environment and ongoing structural reforms.

We also maintain a marginally lower real GDP growth forecast for 2020 at 1.4% y/y, down by 0.1 ppts on the previous forecast, on expectations that the slow decline in inflation and the kwanza nominal depreciation will continue to strain overall aggregate demand.

Most likely, the economy will remain in recession this year, with GDP contracting by 1% y/y, as the expected positive contribution from net exports is insufficient to offset the negative impact of a further contraction in the components of the GDE (gross domestic expenditure). Both personal and government expenditure are likely to contract further, in real terms, with investment also not accelerating rapidly enough.

As per the National Statistics Institute, the latest GDP estimates show an easing in the recession to 0.7% y/y for the four quarters ending Q1:19, from an upwardly revised contraction of 1.2% y/y in the four quarters ending Q1:18, from 1.7% y/y initially. The Q1:19 performance shows the contraction in the oil economy stable at 9.4% y/y, the same as in the four quarters ending Q4:18, with growth in the non-oil economy accelerating from 3.4% y/y to 4.1% y/y.

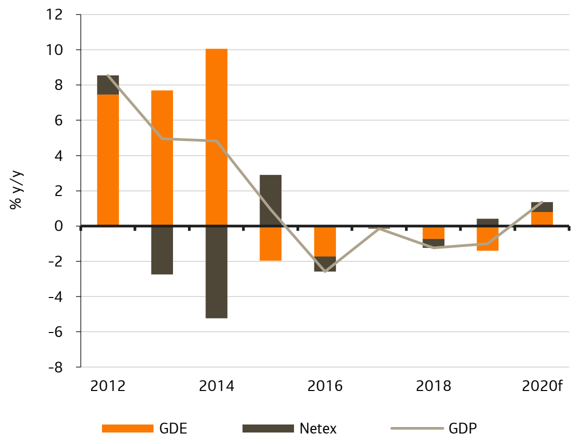
With regard to the oil economy, as per the Ministry of Finance data, oil output averaged 1.41m bpd in Q1:19 and 1.38m bpd in Q2:19, representing annual contractions of 6.9% y/y and 11.9% y/y respectively.

Growth in the non-oil economy for the four quarters ending Q1:19 reflects positive contributions from electricity and water generation which grew by 18.9% y/y, followed by 6.6% y/y in financial services, 4.5% y/y in construction, 3% y/y growth in both manufacturing and property, and 1.2% y/y in trade. There was growth of 0.3% y/y and 0.2% y/y respectively in telecoms and the public sectors, but with the rest of the sectors remaining in recession.

We see Angola committed to the IMF program, which goes a long way in supporting the structural reforms the country needs to undergo for a sustained return to macroeconomic stability. The second review of Angola's Extended Fund Facility will probably be finalized by the end of this month, allowing the release of the next tranche of SDR179m (roughly USD251m at current exchange rates) under the SDR2.67bn program.

Most likely, the privatization program will also contribute to the much needed increase in foreign direct investment (FDI).

Composition of GDP by demand



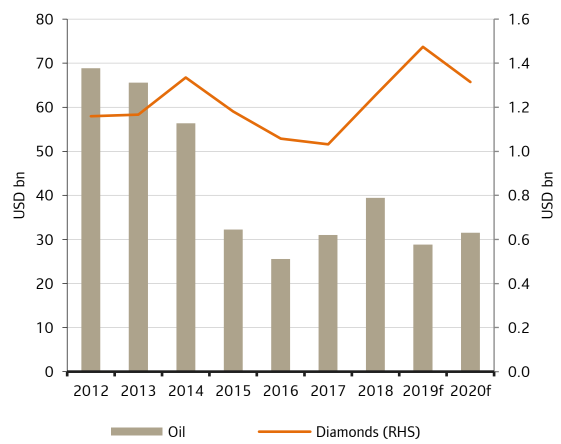
Source: Instituto Nacional de Estatística de Angola; Standard Bank Research

GDP by sector (% of total)

	2016	2017	2018
Agriculture & forestry	4.5	4.6	4.6
Fisheries	2.8	2.7	2.3
Extractive industries (oil)	38.0	36.0	33.2
Extractive industries (diamond and other)	1.9	1.9	1.9
Manufacturing (excluding oil refinery)	3.9	4.0	4.0
Electricity, gas water production/distribution	0.7	0.7	0.9
Construction	10.3	10.6	10.8
Trade	12.7	12.9	12.9
Transport & storage	2.4	2.4	2.4
Courier & communication	1.8	1.8	1.9
Financial activities & insurance	1.5	1.4	1.6
Real estate activities	5.0	5.1	5.4
Public admin, defence and social security	7.5	7.5	7.7
Other services	7.0	8.3	10.4
Total	100.0	100.0	100.0

Source: Instituto Nacional de Estatística de Angola, Standard Bank Research

Principal exports



Source: Banco Nacional de Angola; Standard Bank Research

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	-2.5	-3.8	-1.3	2.7	-0.4	-1.3	-1.3	-1.0	0.9	1.6	1.6	1.4
CPI (% y/y) pa - Luanda	23.6	20.7	19.2	17.8	17.7	17.4	17.0	15.7	15.4	15.5	14.9	14.5
M3 (% y/y) pa	11.5	15.2	20.3	20.4	14.3	11.8	14.4	16.9	17.1	16.8	14.0	12.5
CA/GDP (%) pa	1.2	3.2	6.7	7.3	4.8	4.1	1.1	-0.4	0.1	0.8	1.6	2.5
FX reserves (USD bn) pe	17.8	17.9	16.5	16.2	15.8	16.0	16.6	14.1	14.7	15.3	15.9	15.3
Import cover (mths) pe	8.2	8.3	7.6	7.5	7.9	8.0	8.3	7.1	7.5	7.8	8.1	7.8
Policy rate (%) pe	18.0	18.0	16.5	16.5	15.8	15.5	15.5	15.5	15.0	15.0	14.5	14.5
USD/AOA pe	214.6	248.3	296.4	308.6	318.1	340.3	372.9	405.3	430.1	456.4	470.2	484.5

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

Notes: pa – period average; pe – period end

Political risks: should stay stable

The political environment in Angola is likely to remain stable, with the current political leadership seen as reformist, allowing for freedom of speech and more dialogue with civil society.

João Lourenço's presidency remains marked by reforms which are likely to gain momentum as the IMF program advances and support from the World Bank increases. Among the reform priorities is improving governance, strengthening institutions, and updating the anti-money-laundering and combatting the financing of terrorism legal frameworks.

Since the inauguration of João Lourenço as president in 2017, Angola has experienced a remarkable improvement in freedom of speech. Civil society demonstrations have increased, reflecting the deterioration of living standards after the prolonged economic recession and frustration that the fight against corruption is not yielding the desired outcome.

Despite the increase in demonstrations, they have become more peaceful, reflecting the authorities' determination to break away from the repression of the previous presidency.

As Angola prepares for its first municipal elections, expected to occur before the 2022 legislative elections, we are likely to see the political agenda intensifying.

In the meantime, we see President João Lourenço entrenching his powers over the allies of the former president. This was evident in the MPLA extraordinary congress held last Jun.

Eduardo Dos Santos stepped down Sep last year as MPLA president, after leading the party for 39 years. His successor, João Lourenço, who was appointed Angola's president after the Aug 17 legislative elections, became the new leader of the party with a political agenda marked by reform ambitions that could help strengthen institutions and democracy in Angola.

Elections results

Legislative election (2017)	Seats	% of votes
MPLA	150	61.1
UNITA	51	26.7
CASE-CE	16	9.4
PRS	2	1.3
FNLA	1	0.9
APN	0	0.5
Total	220	100.0

Source: Comissão Naional Eleitoral (CNE)

Balance of payments: improvement suspended

We see the C/A swinging into a deficit this year of 0.6% of GDP, from a surplus of 7.2% of GDP last year. Oil exports, representing over 96% of total export revenues, will possibly decline to USD28.8bn this year from USD30.4bn last year as a result a combination of a decline in both volume and prices.

Oil export volumes averaged 1.5m bpd in 2018 at an average price of USD72.8/bbl, earning USD39.4bn for Angola. We see oil exports at 1.4m bpd this year and next year, with exports value forecast at USD28.8bn this year and USD31.5bn next year. This, combined with an expected decline in imports, should allow the C/A to record a surplus of 2.4% of GDP next year.

It is unlikely that Angola will return to the market for a Eurobond issue this year. As a result, given the fall in oil exports, we are likely to see the pressure on FX reserves continue.

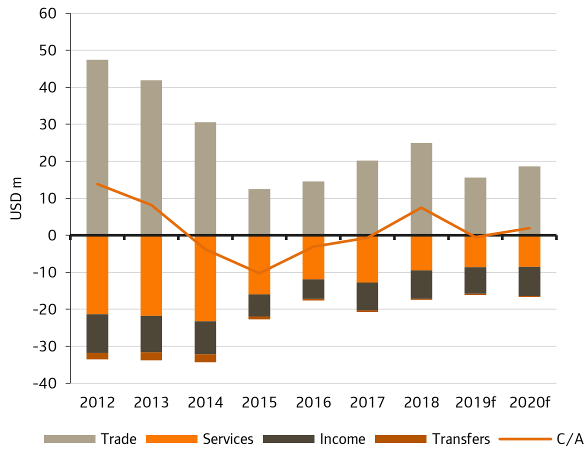
FX reserves data reported to Jun shows a gross balance of USD16bn, down 10.6% y/y, which represents 8-m of import cover, and a net balance of USD10.2bn, down by 23.5% y/y.

We expect gross FX reserves to close the year at USD14.1bn, which represents 7.1-m of import cover, improving to USD15.3bn next year, or 7.8-m of import cover, as exports' performance improves and Angola issues another Eurobond.

We are also likely to see the privatizations program possibly attracting some level of foreign direct investment, with the potential to support the BOP.

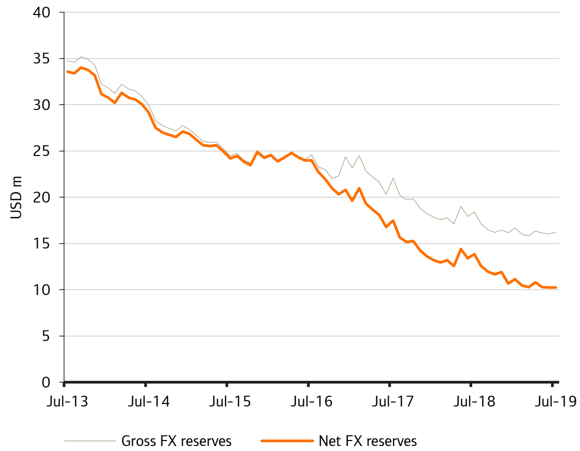
Most likely the BNA will open up of the capital account to allow foreign investment in government domestic debt next year. While there is a view that priority should be given to structural reforms that bring about economic diversification and import substitution, we see the opening up of the capital account helping to ease FX liquidity pressures and facilitating structural reforms.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves



Source: Banco Nacional de Angola; Standard Bank Research

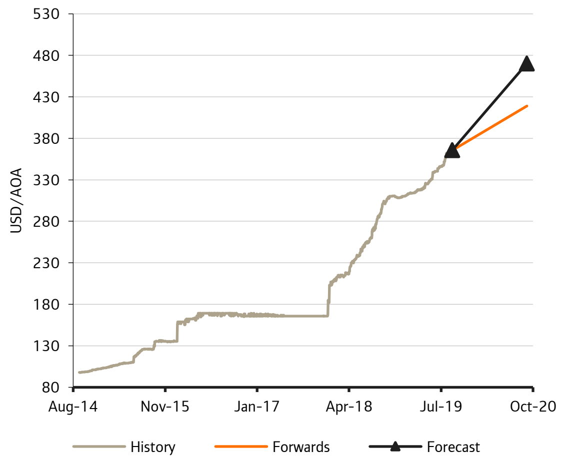
FX outlook: still a depreciating bias

The kwanza is likely to maintain a depreciating bias to reflect FX liquidity pressures and help protect FX reserves. From Jan to Aug, the BNA sold the equivalent of USD5.9bn, 37.9% less than the amount sold during the same period of 2018, to the market.

We noticed an acceleration in pace of increase of the USD/AOA pair, from a monthly average of 1.2% m/m between Jan and Apr, to 2.9% m/m between May and Aug. Trading at an official level of 362.0 at the end of Aug USD/AOA was 30.8% y/y higher, which is lower than the 66.8% increase during the same period of 2018, with the average year-to-date being 17.3% y/y higher.

At the time of writing anecdotal evidence indicated that USD/AOA was trading at 530 on the streets from 410 at the end of 2018. Thus, the spread between the official and the parallel market rate increased to 45% from 33% at the end of 2018.

USD/AOA: forecast vs forwards



Source: Bloomberg; Standard Bank Research

Monetary policy: rates to fall slowly

The BNA kept the BNA rate on hold at 15.5% at the last Monetary Policy Committee meeting in Jun, after the 75 bps cut in Jan. The required reserves coefficient was also unchanged at 17% for local currency deposits and 15% for foreign currency deposits. Given the slow decline in inflation, we may now see the BNA cut policy rates more prudently. We expect only a 100 bps cut in the BNA rate to 14.5% next year as inflation eases.

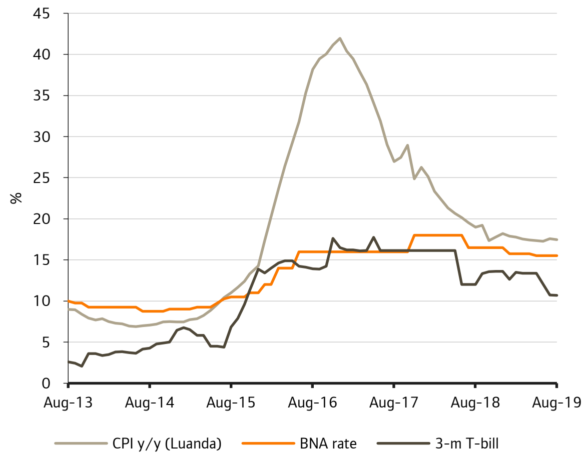
As per the National Statistics Institute CPI data reported to Jul, the headline CPI increased by 1.5% m/m both in Luanda and at national level, from a monthly average increase of 1.2% m/m during the first six months of the year. This still allowed for headline inflation to ease to 17.6% y/y in Jul from 18.2% y/y last Dec in Luanda, with a fall to 17.2% y/y from 18.6% y/y at the national level. The 12-m moving average headline inflation was 17.8% y/y in Luanda and 17.9% y/y at the national level.

We see inflation closing this year at 15.6% y/y in Luanda, with the annual average at 17.0% y/y. The national headline inflation rate will likely be at 15.5% y/y in Dec 18, with an annual average at 16.8% y/y. Both are likely converging to an annual average of 15% y/y next year.

So far, we have seen limited passthrough from AOA depreciation to inflation, but this may change due to administrative price increases and as subsidy reform takes shape. Inflation risks therefore remain elevated, tempering monetary policy easing.

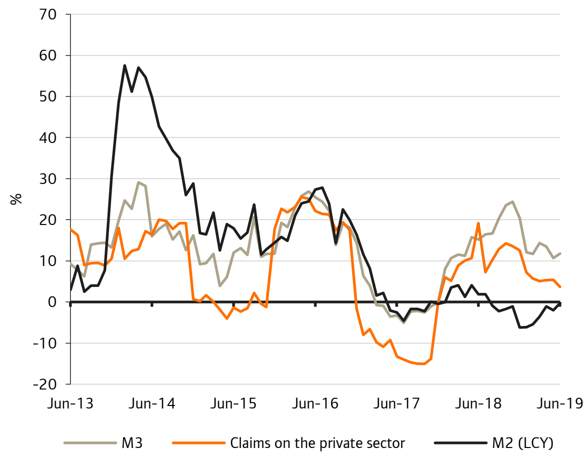
Monetary survey data reported to Jun shows that growth of monetary aggregates remains contained, which is seen as a tool to help limit kwanza depreciation. M2 money supply in local currency, which has been contracting since Aug 18, contracted by 0.3% y/y in Jun. Local currency private sector credit contracted 2.5% y/y.

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

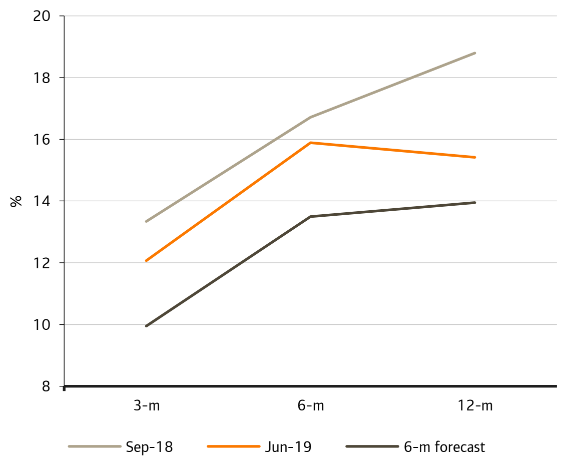
Yield curve outlook: a downward shift

Monetary survey data also shows a substantial deceleration in net lending to the government, down to growth of 0.7% y/y in Jun from growth of 43% y/y in Jun 18, as part of fiscal consolidation efforts. As a result, yields have fallen.

The government has stopped issuance of 91-d and 182-d T-bills as continues to switch its debt profile to longer-dated paper to honour the ceilings established under the national debt plan for 2019. The 364-d T-bill yield, currently at 14.7%, has fallen from 19.8% a year ago.

The overall T-bill stock reported to Aug declined 32.9% y/y to AOA349.8bn (USD1bn), with the stock of bonds increasing 42.4% y/y to AOA8,871.7bn (USD24.5bn). The latter increase also reflects the FX effect on USD-linked paper.

Changes in the yield curve



Source: Banco Nacional de Angola; Standard Bank Research

Fiscal policy: priority to fiscal consolidation

It is reasonable to believe that Angolan policymakers will continue with the reform agenda that is underpinned by the IMF-funded program, which may help contain elevated public debt levels that are currently well above 80% of GDP.

Front-loaded fiscal adjustment continues to characterise fiscal policy, as evident in the budget revision held in May when the oil price assumption was cut to USD55/bbl from USD68/bbl.

Over the past few years, there was a substantial decline in oil revenues as a percentage of total revenues, from 81.2% in 2012 to 59.6% this year, which leaves the government with limited options to stabilize fiscal deficit.

The budget revision sees revenues being cut by 19.4% to AOA5,986.0bn, with overall expenditure down by 13.6% to the level required to achieve an overall fiscal balance of AOA6bn, consistent with the need to progress with fiscal consolidation.

For this year, debt service pressures are still elevated, projected at 89.1% for 2019, from 102.3% of fiscal revenues in 2018.

Improved revenue mobilization while bringing more efficiency to government expenditure will likely characterise future fiscal policy. VAT implementation will likely proceed in Oct, most likely followed by measures to broaden the tax collection base and implement a subsidy reform. A large privatization program was recently launched with the potential to help mobilize revenues to the government, help restructure the role of the state in the economy and attract foreign direct investment.

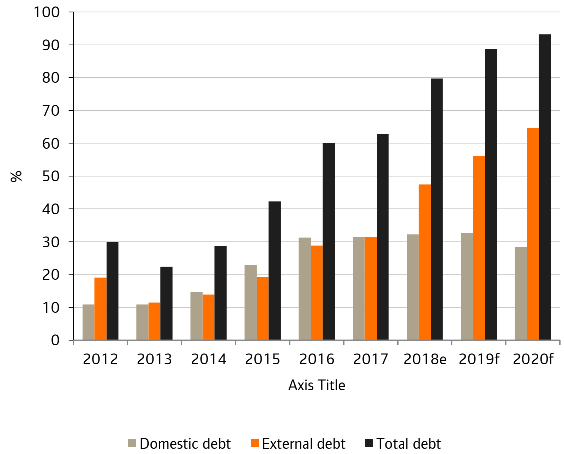
These measures could help Angola contain sovereign debt levels, with the debt ratio likely to exceed 90% of GDP next year as the nominal value of GDP declines with kwanza depreciation.

Central government budget

% of GDP	2015	2016	2017	2018	2019f
Total revenue	27.3	17.5	17.5	20.7	19.3
Oil	15.4	8.3	9.9	14.3	11.5
Total expenditure	30.6	21.4	23.8	20.1	19.3
- Interest	2.0	2.2	3.3	4.4	5.2
- Wages	11.3	8.4	7.4	6.2	5.8
- Capital expenditure	6.0	3.9	6.5	4.0	3.3
Overall balance	-3.3	-3.8	-6.3	0.6	0.0
Changes in balance	1.1	0.1	0.5	0.0	0.0
Overall balance, cash basis	-2.2	-3.7	-5.8	0.6	0.0
Net external borrowing	-2.4	-12.1	-2.7	-1.3	-1.6
Net domestic borrowing	0.2	8.4	-3.1	1.9	1.6

Source: Ministry of Finance; Standard Bank Research

Public debt as percentage of GDP



Source: Ministério das Finanças; Standard Bank Research

Eurobond outlook: sideways

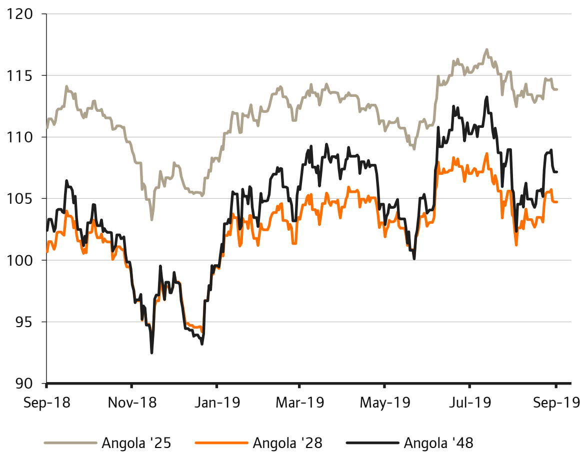
It seems reasonable to expect no material changes on Angolan Eurobonds as we do not expect that oil prices will improve materially from current levels.

While the IMF program helped improve investor sentiment, the poor performance of the oil sector and elevated debt levels are likely to limit upside for Angolan Eurobonds.

Most likely the government will only return to the market with a new Eurobond issue next year. Even when considering the current elevated sovereign debt ratio to GDP, we'd see scope for another issue after the successful placements held last year.

With an FX backlog still characterising the economy, we'd expect Angola to tap the market for a Eurobond issue next year.

Eurobond prices – mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	25.8	26.6	27.5	28.3	29.3	30.2	31.1
Nominal GDP (AOA bn)	14 323.90	13 950.30	16 549.60	20 262.30	27 257.10	30 945.20	36 082.00
Nominal GDP (USD bn)	145.2	115.2	100.9	122.1	104.9	88.3	79.5
GDP / capita (USD)	5 630.70	4 327.10	3 673.70	4 308.70	3 585.70	2 924.70	2 554.30
Real GDP growth (%)	4.8	0.9	-2.6	-0.1	-1.2	-1	1.4
Oil production ('000 barrels per day)	1 641	1 708	1 731	1 632	1 484	1 435	1 439
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.6	-3.3	-3.8	-6.3	0.6	0	0.4
General gov. debt / GDP, domestic (%)	14.7	23	31.3	31.5	32.2	32.6	28.4
General gov. debt / GDP, foreign (%)	13.9	19.3	28.8	31.4	47.5	56.1	64.7
Balance of Payments							
Exports of goods and services (USD bn)	60.9	34.4	28.3	35.6	41.4	30.9	33.8
Imports of goods and services (USD bn)	53.5	38	25.7	28.3	25.9	23.9	23.6
Trade balance (USD bn)	7.3	-3.5	2.6	7.3	15.5	7	10.1
Current account (USD bn)	-3.7	-10.3	-3.1	-0.6	7.5	-0.5	1.9
- % of GDP	-2.6	-8.9	-3.1	-0.5	7.2	-0.6	2.4
Capital & Financial account (USD bn)	3.7	8.4	5.3	-4.2	-6.2	-1.5	-0.7
- FDI (USD bn)	2.8	10.8	-0.5	-8.7	-5.7	-1.9	-0.9
Basic balance / GDP (%)	-0.1	-1.6	2.2	-3.9	1.2	-2.3	1.5
FX reserves (USD bn) pe	27.7	24.4	24.4	18.2	16.2	14.1	15.3
- Import cover (months) pe	6.2	7.7	11.4	7.7	7.5	7.1	7.8
Sovereign Credit Rating							
S&P	BB-	B+	B	B-	B-	B-	B-
Moody's	Ba2	Ba2	B1	B2	B3	B3	B3
Fitch	BB-	B+	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa - Luanda	7.3	10.2	31.9	32.2	20.3	17	15.1
Consumer inflation (%) pe - Luanda	7.5	14.3	41.9	26.3	18.2	15.6	15
M3 money supply (% y/y) pa	19.9	11	20.9	-1	16.2	14	15.2
M3 money supply (% y/y) pe	16.2	11.8	14.3	-0.1	20.4	16.9	11.9
Policy rate (%) pe	9	11	16	18	16.5	15.5	14.5
USD/AOA pa	98.6	121.1	164	165.9	258.9	350.6	453.6
USD/AOA pe	103.1	135.3	165.9	165.9	308.6	405.3	484.5

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

Notes: pa – period average; pe – period end

Botswana: spending in pre-election year to crimp growth

GDP growth: slower in 2019

Due to the unfavourable base effects from the high 2018 GDP outcome, we now forecast GDP growth of just 4.1% y/y in 2019, and with the risks to the downside; our previous forecast was 4.3% y/y. Also, drought conditions may have a significant impact on livestock and crop production in 2019, as well as an impact on electricity production in H2:19. Still, agriculture and water and electricity accounts for less than 2% each of Botswana's GDP, and is therefore unlikely to move the needle much.

Headwinds from sub-par global demand will continue to slow diamond production and sales, which will constrain the economy from revisiting the 15-y average growth rate of 4.3% y/y in a year or two. Moreover, in 2020, while the global economy is expected to grow the same as in 2019, we'd expect Botswana to slow to 3.8% y/y due to reduced post-election government spending by that time. Still, Q3:19 GDP is likely to accelerate on higher election spending (which usually picks significantly in the third quarter of an election year). This is also likely to pull through to Q4:19 on a lagged consumption impact.

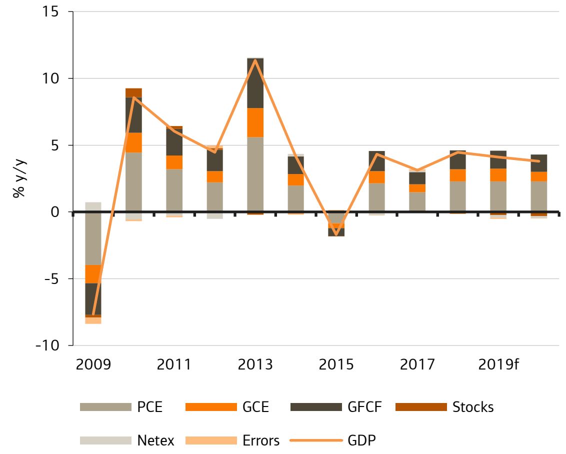
Accommodative monetary policy should support both retail activity and manufacturing, and manufacturing should also benefit from a weaker pula as rand weakness drags down the pula in 2019. However, the Botswana government should still continue targeting economic diversification away from diamonds.

Based on Statistics Botswana data, economic activity slowed in Q1:19 to 4.3% y/y (-1.5% q/q), from 4.1% y/y (3.0% q/q) in Q4:18. This undershoots 4.5% y/y in the same period in 2018. This performance was largely driven by performance in the transport and communications, trade, hotels and restaurants and finance and business services sectors which posted 5.9% y/y, 5.7% y/y and 5.4% y/y respectively.

Improvements in the mining sector in Q1:19 were lethargic; diamond production recorded just 3.3% y/y, compared to the 11.5% y/y increase in carats in Q1:18.

Consumption expenditure increased by 1.9% y/y in Q1:19, compared to 5.6% y/y same period last year. This is unlikely to continue in Q2, considering the minimum-wage increases and lower inflation.

Composition of GDP by demand



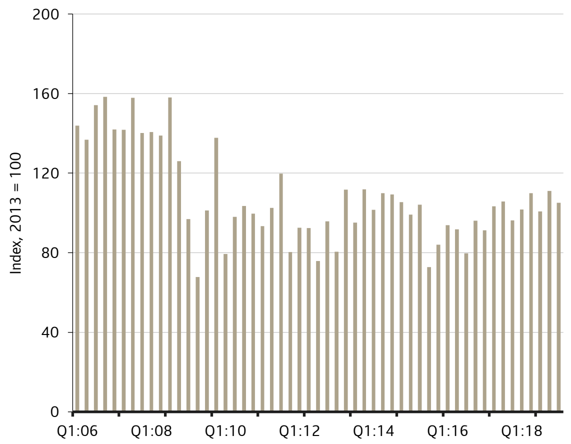
Source: Statistics Botswana; Standard Bank Research

GDP by sector (% of total)

	2016	2017	2018
Agriculture	1.6	1.6	1.6
Mining	11.9	10.3	10.6
Manufacturing	6.0	6.0	5.9
Water & Electricity	0.8	0.9	1.1
Construction	7.5	7.6	7.5
Trade, hotels, restaurants	20.6	21.8	21.5
Transport & Comm.	6.0	6.1	6.2
Finance & Bus Serv.	14.8	14.9	15.0
General Gov	13.0	12.9	12.7
Soc & Per. Serv.	7.0	7.0	6.9
VA	89.2	89.1	89.1
Taxes on Imports	5.7	5.8	5.7
Other Taxes	5.5	5.6	5.7
Subs	-0.5	-0.5	-0.5
Total GDP	100.0	100.0	100.0

Source: Statistics Botswana; Standard Bank Research

Diamond production



Source: Statistics Botswana

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	4.5	5.2	4.0	4.1	4.3	3.3	4.4	4.5	3.3	3.8	4.1	4.1
CPI (% y/y) pa	2.6	3.2	2.9	3.5	3.3	2.8	3.1	2.5	2.8	3.3	3.3	3.3
M3 (% y/y) pa	2.1	3.4	6.1	8.3	16.1	11.4	8.7	7.5	6.7	7.5	7.9	7.9
CA/GDP (%) pe	-0.7	10.5	-0.5	-2.0	-1.7	1.5	3.9	3.0	-1.3	2.1	2.7	3.4
FX reserves (USD bn) pe	7.4	7.1	7.1	6.7	6.8	6.8	7.1	6.4	7.1	6.4	6.7	6.2
Import cover (mths) pe	16.9	16.4	16.4	15.3	15.7	15.5	16.3	14.6	16.3	14.6	15.4	14.2
6-m rate (%) pe	1.2	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.6	1.6	1.7	1.8
5-y rate (%) pe	4.1	4.2	4.4	4.4	4.4	4.1	4.1	4.2	4.3	4.3	4.2	4.3
USD/BWP pe	9.51	10.07	10.53	10.72	10.54	10.7	10.9	10.7	10.7	10.6	10.6	10.5

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

Notes: pa – period average; pe – period end

Political risks: election nearing

Despite the dispute between Ian Khama and Mokgweetsi Masisi, which eventually led to Ian Khama leaving Botswana Democratic Party (BDP), we still expect BDP to win the general elections in Oct 19, though perhaps by a small margin. Chances of the UDC coalition strengthening before the 2019 general elections are still slim, not while tensions persist. This lack of cooperation between the main opposition parties may continue to provide an advantage to the ruling party.

But then again, the disagreement within the BDP, leading to an anti-Masisi group called "new Jerusalem", later leading to a fraction of the group forming a new party called Botswana Patriotic Front (BPF) led by Biggie Butale the former BDP MP and assistant minister of health, cannot not be overlooked. The BPF was formed on the fallout between Khama and Masisi and is contesting the 2019 legislative elections. The BPF is somewhat associated with the UDC, although they do not have much in common, other than having BDP as common adversary.

The UDC coalition, for now, consists of Botswana National Front (BNF), Botswana Congress Party (BCP), Botswana People's Party (BPP), and some members of the suspended Botswana Movement for Democracy (BMD) which was formed after a split from BDP in 2010 over differences with Khama. The remaining party, which is also contesting 2019 general elections, is a BMD breakaway called Alliance for Progressives (AP), led by Ndaba Gaolathe.

BPC only joined the UDC coalition in Feb 2017 and, based on the 2014 election, an alliance between the two could have succeeded. Combined, in 2014, the BPC and UDC held 50% of the votes. Can this turnout be a possibility again? Not after many breakaways and tensions. However, if that happens, it may not raise policy concerns compared to an instance where none of the parties secures a majority, which may be a risk to policymaking.

Election results (2014)

Legislative election	Seats	% of votes
Botswana Democratic Party (BDP)	37	46
Umbrella for Democratic Change (UDC)	17	30
Botswana Congress Party (BCP)	3	20
Independents	0	1
Indirectly-elected seats	-	6
Total	**57**	**100**

Source: Independent Electoral Commission

Balance of payments: stable enough

We expect a marginal deceleration in diamond exports to combine with a slightly stronger pick-up in imports as improvements in minimum wages and perhaps public servant salary might boost consumer goods demand. With the rebound in inward Southern African Customs Union flows from South Africa only expected from 2020, we forecast a narrowing C/A surplus of 1.5% of GDP for 2019.

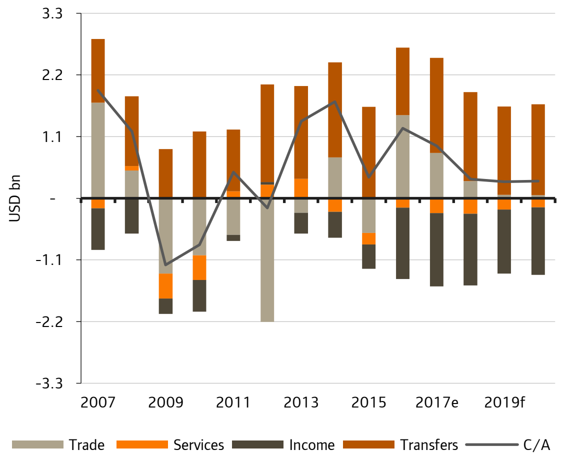
Botswana's C/A position decelerated to 1.8% of GDP in 2018, from a surplus of 5.3% of GDP in 2017, mainly attributable to a modest improvement in diamond exports at a time when import demand was quite high. For the year, exports rose to USD6.3bn in 2018, from USD6.0bn in 2017, while imports rose to USD6.0bn, from USD5.2bn. This decelerated trade balance to a surplus of USD0.3bn, from a surplus of USD0.8bn. However, Botswana continues to boast meaningful, visible trade and C/A surpluses.

Data published by the Bank of Botswana for Q1:19 shows that the trade balance improved to a USD12.0m trade surplus in Q1:19, from a USD94.7m trade deficit in Q1:18, thanks mainly to the weaker USD/BWP and consequently stronger trade services surplus. The services export increased to USD242.8m in Q1:19, from USD220.8m in Q1:18, and declining services imports complemented it at USD113.6bn in Q1:19, from USD272.4m in Q1:18.

At USD1.62bn, exports were lower than the USD1.66bn in Q1:18, but it was mostly a much sharper drop in imports to USD1.6bn in Q1:19, from USD1.76bn in Q1:18, that allowed a visible improvement on trade position. We do not see this as sustainable this year.

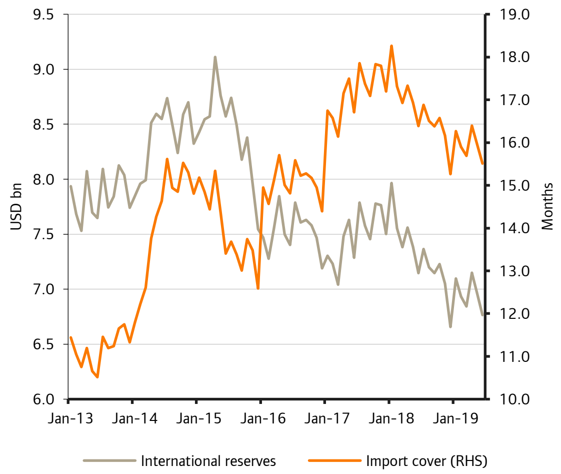
As the SACU transfer and the financial account did not show signs of improvement in Q1:19, the trade surplus may have played a pivotal role in increasing the FX reserves to USD7.2bn in Apr, later falling to USD6.9bn in May and 6.8bn Jun, from USD6.7bn in Dec 18.

Current account developments



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

FX reserves



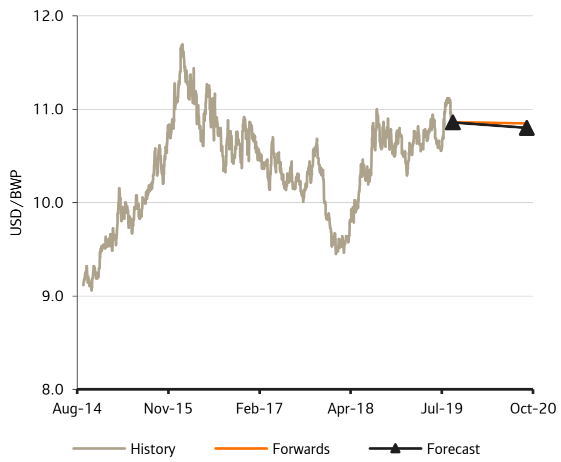
Source: Bank of Botswana; Statistics Botswana; Standard Bank Research

FX outlook: tracking the ZAR

Early this year, BWP strengthened over the USD. Not entirely surprising, given the strong performance of the South African rand which has a 45% weight in the nominal effective basket. However, that was short-lived, as the ZAR remains under pressure from global trade tensions, rising fiscal risks, and concerns about credit ratings.

Our South African FX Strategy team now sees a slight rand strength into year-end, with USD/ZAR likely to reach 14.50. Into the rest of the year, as the USD/ZAR is expected to decline from the high of 15.0 seen in Aug to 14.50, which should also support USDBWP which is expected to decline from the 11.0 levels to 10.73 by Dec this year.

USD/BWP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias

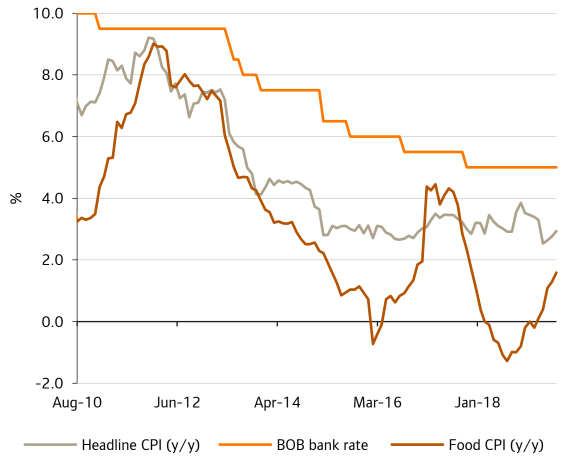
The Monetary Policy Committee of the Bank of Botswana (BOB) surprised with a rate cut of 25 bps in Aug, although they expect inflation to return to the 3.0% - 6.0% objective range in the medium term. This accommodative stance will likely be kept with a bias still towards cutting not hiking. There is a likelihood of the BOB's MPC lowering the bank rate again if economic activity is stagnant and inflation pressures remain muted; there is plenty of justification for the MPC to lower the policy rate.

Strictly speaking, inflation was 2.9% y/y in Jul, below the lower bound of the 3.0% - 6.0% y/y objective range. Indeed, it has been in the lower half since Sep 14, averaging 3.2% y/y in 2018. We believe that inflation rose by 3.1% y/y in Aug, and we look for a modest deceleration to an average of 2.8% y/y in H2, compared to a 3.1% y/y average in H1. Hence, inflation is not expected to accelerate in H2:19. To be sure, inflation is likely to average less than in 2018. We expect that it will remain below the 4.5% y/y mid-point of the objective range for the next 2-y. In fact, we expect it to be below 3.0% y/y in most of H2:19. We keep our inflation forecast at 2.9% y/y in 2019.

There are no indications of underlying inflation pressures. The trimmed mean measure of inflation fell below 3.0% y/y in May, averaging 3.2% y/y in 12-m to Jul 19. Although the index rose by 0.3% m/m in Jul, it will likely remain calm for quite some time.

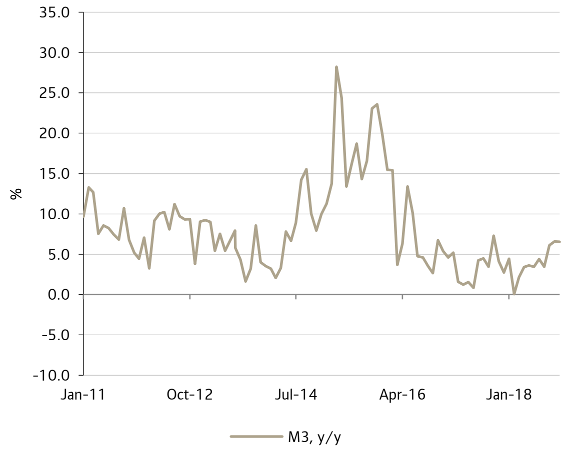
The inflation pressures, such as they were, that led to headline inflation rising to 3.8% y/y in Nov 18, the highest reading in since Dec 14, were not durable. Transport inflation, rising to a peak of 11.63% y/y in Nov 18, was one of the factors that underpinned the rising trajectory in headline inflation. However, the pressure has since dissipated, with transport inflation sliding to 6.10% y/y in Jul 19, and likely declining further to 2.68% y/y by Nov 19.

Inflation and interest rates



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

Money supply



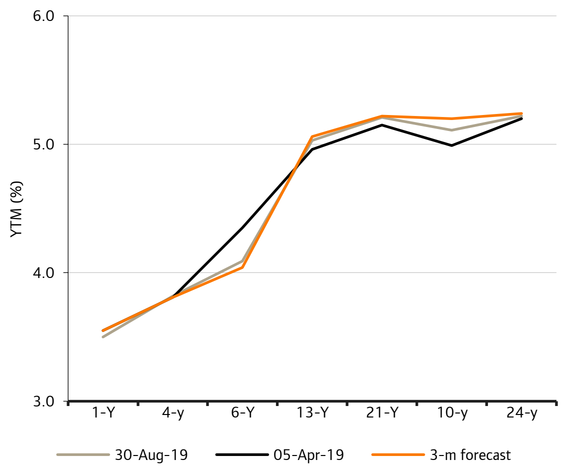
Source: Bank of Botswana; Standard Bank Research

Yield curve outlook: rising marginally

We expect yields to rise over the next 6-m regardless of strong demand for local currency assets from domestic institutional investors, the benign inflationary outlook, as well as accommodative monetary policy. Yields are likely to rise on fiscal pressure combined with the likelihood that the government may opt to fund it from the domestic market instead of solely relying on their balance at the BOB. The auction on 31 Aug yielded on average a 3 bps yield increase across the curve.

The stock of Bank of Botswana Certificates (BoBCs) increased to BWP9.6bn in May, from BWP9.0bn in Apr, and 14-d and 90-d BoBC yields have risen by 2 bps and 6 bps respectively since the beginning of the year. Considering that BOB fell short of raising funds at its last two auctions, we'd expect more considerable sums on offer at the next two auctions. Moreover, the BOB could seek to raise these across a broader range of instruments.

Change in yield curve



Source: Bloomberg; Bank of Botswana; Standard Bank Research

Fiscal policy: some fiscal pressure

When the government delivers the Budget Strategy Paper to parliament, we expect them to reduce the revenue estimate attributable to low mineral revenue and SACU transfers, thus increasing the budget deficit projections. In the previous financial year at the same sitting, the ministry of finance increased the budget deficit for FY2018/19. This time around, it may well be granted.

Based on the latest data including the second last month of FY2018/19, the fiscal balance provides some indications of mounting pressure. The data up to Jan indicated the likelihood that FY2018/19 deficit may have turned out significantly better than the budgeted BWP6.9 billion (3.5 % of GDP).

In the first 10-m of FY2018/19, revenues came in at 83% of the full-year target, while expenditure came in at 76% of the full-year target, providing a fiscal deficit in the first 10-m of BWP697.3m or 0.35% of GDP. Now that we have fiscal data up to the 11th month of the year; the fiscal deficit went up to BWP3.6bn, or 1.8% of GDP. In Feb alone, the fiscal deficit was BWP2.96bn, which is more than double the average fiscal deficit recorded in Feb in the past two fiscal years. Hence, the funds transferred from FY2018/19 to FY2019/20 are not as much as was expected.

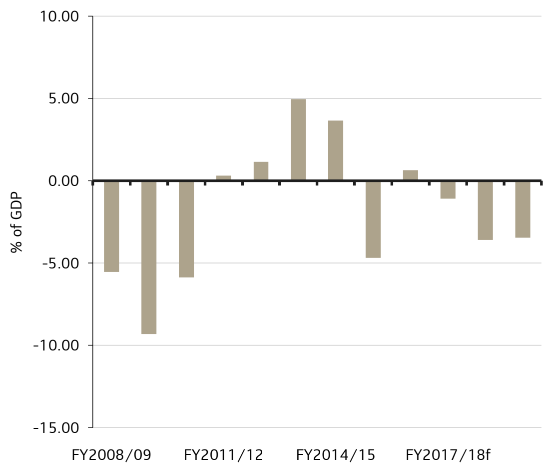
Considering though that this is a pre-elections year, the government is unlikely to contain spending. That, coupled with less mineral revenue, the SACU transfer will likely amount to higher fiscal deficit, more than the budgeted 3.5% of GDP. SACU transfers to Botswana are budgeted to decline to BWP14.0bn in FY2019/20, from BWP14.5bn in FY2018/19, which is likely to turn out much lower, considering that we expect the SA economy to grow at 0.3% point less than the previous year.

Central government budget

% of GDP	FY2017/18	FY2018/19	FY2019/20
Total revenue	29.3	28.2	27.3
Total expenditure	30.3	31.6	30.6
Recurrent	23.5	24.9	24.1
- development	8.6	8.1	7.7
Overall balance (+ grants)	-1.1	-3.5	-3.3
Overall balance (- grants)	-1.3	-3.7	-3.6
Net domestic borrowing	0.3	0.1	1.2
Donor support (grants)	0.2	0.1	0.1

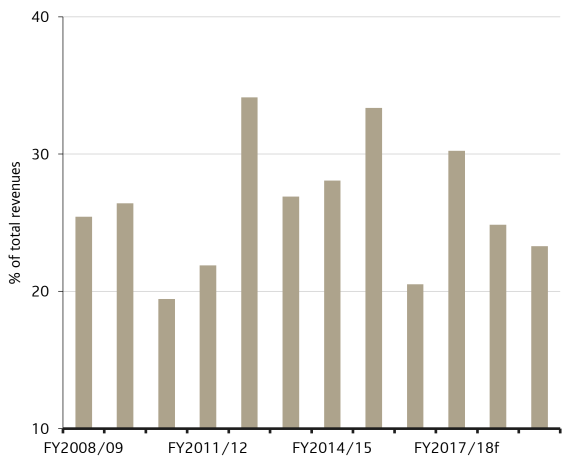
Source: Ministry of Finance, Statistics Botswana, Bank of Botswana, Standard Bank Research

Fiscal balance



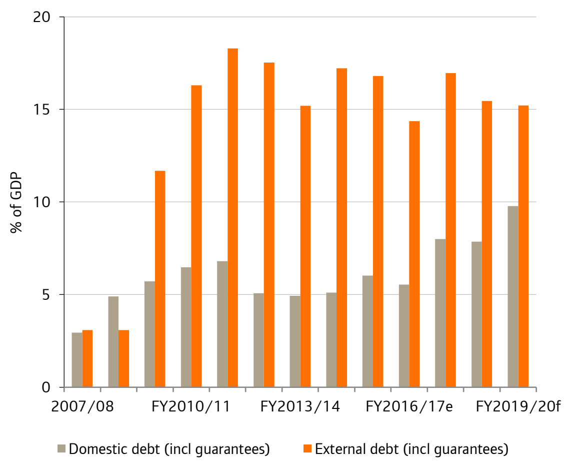
Source: Ministry of Finance; Standard Bank Research

SACU receipts



Source: Ministry of Finance; Standard Bank Research

Domestic and external debt



Source: Ministry of Finance; Standard Ban Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	2.1	2.1	2.1	2.2	2.3	2.4	2.4
Nominal GDP (BWP bn)	145.9	145.9	170.6	180.1	192.6	206.2	220.3
Nominal GDP (USD bn)	16.21	14.31	15.73	17.48	18.87	19.24	20.80
GDP / capita (USD)	7 846	6 892	7 539	7 944	8 087	8 095	8 689
Real GDP growth (%)	4.2	-1.6	4.3	2.9	4.5	4.1	3.8
Diamond ('000 carats)	24 658	20 824	20 892	22 724	24 724	24 798	24 873
Coal (thousand tons)	1 712	2 066	2 066	2 068	2 070	2 072	2 074
Central Government Operations							
Budget balance / GDP (%)	5.0	3.7	-4.1	0.6	-1.1	-3.5	-1.5
Domestic debt / GDP (%)	5.1	6.0	5.6	8.0	7.9	9.8	7.7
External / GDP (%)	17.2	16.8	14.4	17.0	15.5	15.3	13.4
Balance of Payments							
Exports of goods and services (USD bn)	8.4	6.2	7.5	6.0	6.3	6.3	6.5
Imports of goods and services (USD bn)	7.7	6.8	6.0	5.2	6.0	6.3	6.2
Trade balance (USD bn)	0.7	-0.6	1.5	0.8	0.3	0.1	0.2
Current account (USD bn)	1.72	0.37	1.25	0.93	0.34	0.29	0.31
- % of GDP	10.9	2.1	7.9	5.3	1.8	1.5	1.5
Capital & Financial account (USD bn)	-0.64	-0.90	-0.80	-1.09	0.01	-1.30	-1.32
- FDI (USD bn)	0.40	0.18	-0.05	0.18	0.11	0.09	0.05
Basic balance / GDP (%)	13.0	3.9	7.6	6.4	2.4	2.0	1.8
FX reserves (USD bn) pe	8.3	7.5	7.2	7.5	6.7	6.4	6.2
- Import cover (months) pe	14.8	12.6	14.4	17.2	15.3	14.6	14.2
Sovereign Credit Rating							
S&P	A-	A-	A-	A-	A-	A-	A-
Moody's	A2	A2	A2	A2	A2	A2	A2
Fitch	NR	NR	NR	NR	NR	NR	NR
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.4	3.1	2.8	3.3	3.2	2.9	3.1
Consumer inflation (%) pe	4.1	3.0	2.9	2.9	3.5	2.5	3.2
M3 money supply (% y/y) pa	7.8	18.6	7.7	3.4	4.4	10.5	6.7
M3 money supply (% y/y) pe	10.0	19.9	5.4	2.7	8.3	7.5	7.6
BOB Policy rate (%) pa	7.5	6.8	5.8	5.4	5.0	4.88	4.75
BOB Policy rate (%) pe	7.5	6.0	5.5	5.0	5.0	4.75	4.75
3-mnth rate (%) pe	3.3	1.2	1.0	1.3	1.6	1.8	1.7
5-yr rate (%) pe	5.0	5.5	4.3	4.1	4.4	4.2	4.5
USD/BWP pa	9.0	10.2	10.8	10.3	10.2	10.7	10.6
USD/BWP pe	9.3	10.9	10.7	10.2	10.7	10.7	10.5

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

Notes: pa – period average; pe – period end

Côte d'Ivoire: still strong growth, but some slowing likely

GDP growth: could ease off

We expect the economy to grow by 7.6% y/y this year and 7.4% y/y in 2020, marginally less than the 7.7% y/y of the past 2-y. As is the case in this region, economic growth is likely to be robust in the medium term. However, some signs are pointing to a modest deceleration near term.

Growth in the agricultural sector remains strong, which is also helping to keep food inflation low, with deflation in some recent months. Preliminary data indicates that production of export crops grew by over 9.0% y/y in H1:18. Similarly, growth in the value added by the agro-processing industries exceeded 10.0% y/y in H1:18.

Besides agro-processing industries, growth in other industries in the secondary sector was robust as well, carrying strong momentum from Q4:17. The secondary sector grew by over 7.0% y/y in H1:18.

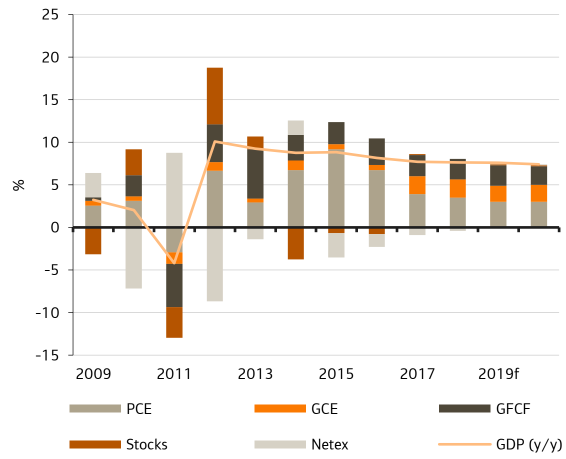
Value added by public administration also grew quite strongly in H1:18, at over 11.0% y/y. Government consumption spending therefore was likely robust, adding positively to overall economic growth. Of course, the government has been looking to keep the fiscal deficit in line with the regional goal of 3.0% of GDP. Hence, it is doubtful that government consumption expenditure will remain elevated. We anticipate that in 2019 and 2020 this contribution to overall GDP growth will subside.

It is a bit concerning that value added in retail and wholesale trade has not been growing strongly. While it grew strongly in 2017, in excess of 8.0% y/y, it decelerated to 5.2% y/y in Q1:18 and even contracted by 1.5% y/y in Q2:18. This suggests that household consumption spending decelerated in 2018.

2020 is an election year. There will likely be some uncertainty surrounding the outcome and the policy mix that will follow these elections. There is therefore a chance that investment spending will decelerate this year and next.

It is not quite clear how the price-setting mechanism for cocoa that the government together with the Ghanaian government agreed upon will work. But it seems highly probable that it will result in higher volatility of production volumes in the medium term. This might also cause greater volatility in overall GDP growth.

Composition of GDP by demand



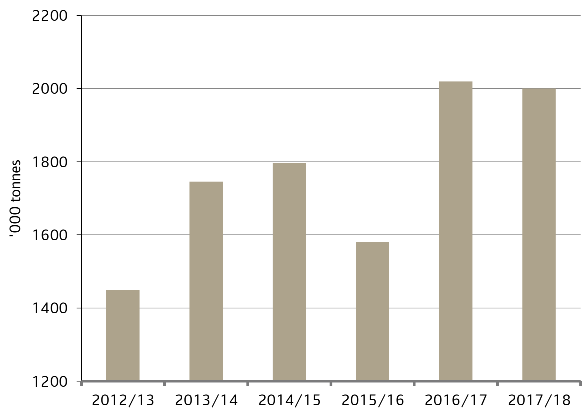
Source: Institut National de la Statistique; Standard Bank Research

Composition of GDP by sector

% of GDP	2012	2015	2017
Food crops	10.9	10.7	9.8
Export crops	9.4	11.2	10.8
Extractive Industries	6.8	4.9	6.0
Agroprocessing	7.2	5.6	5.0
Transport	3.4	2.6	2.0
Posts and Telecommunications	6.2	4.7	4.1
Wholesale and retail trade	9.9	9.2	8.7
Financial Activities	3.0	3.1	4.0

Source: Institut National de la Statistique

Cocoa production



Source: International Cocoa Organization

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	3.6	6.2	6.1	14.7	7.2	7.7	7.9	7.6	7.1	7.6	7.4	7.5
CPI (% y/y) pa	0.1	-0.2	0.6	1.3	-0.2	-0.8	-1.1	-1.6	0.3	1.5	1.7	2.1
M2 (% y/y) pe	9.3	10.9	11.6	13.4	9.4	7.9	6.8	8.7	9.8	10.4	11.4	12.2
CA/GDP (%) pe	-3.2	-3.1	-2.5	-2.9	-4.2	-3.8	-3.9	-2.7	-2.5	-2.3	-2.5	-2.6
FX reserves (USD bn) pe	6.2	7.0	6.0	5.7	5.1	5.1	5.2	6.5	6.8	7.1	7.3	7.6
Import cover (months) pe	8.4	9.4	8.1	7.6	6.8	6.8	7.0	8.7	8.0	8.4	8.6	8.9
Marginal lending facility (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
USD/XOF pe	554	571	586	580	601	585	596	586	575	570	561	556

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

Notes: pa – period average; pe – period end

Political risks: counting down to the 2020 polls

The next general elections are slated for the end of Oct 20. While there has been much movement on the political front, it is still not clear what the political landscape will look like closer to the polls.

Guillaume Soro, the former President of the National Assembly, seems to be positioning himself for a presidential run. He fell out with President Ouattarra, and quit from his position, and later announced his candidacy for the presidency.

Reform of the Independent Electoral Commission was a top priority, predominantly at the insistence of opposition parties. Most opposition parties believe that the commission is biased and favours the ruling coalition.

In Jul the National Assembly passed a bill to establish a new electoral body. It would have 15 commissioners, 5 of whom would be appointed by the state, 5 by civil society organisations and 5 by the opposition.

Henri Bedie, who pulled his PDCI from the ruling coalition, has not ruled out running for the presidency. The PDCI boycotted the final stages of the parliamentary debate on the bill establishing the new electoral body. This makes it all the more likely that the opposition will still question the independence of the new electoral body.

Election results (2016)

Presidential election	% of votes
Nana Akuffo Addo (NPP)	53.9
John Dramani Mahama (NDC)	44.4
Legislative election	Seats
New Patriotic Party (NPP)	171
National Democratic Congress (NDC)	100
People's National Convention (PNC)	1
Independent	3
Total	275
Registered voter turnout	68.60%

Source: Electoral Commission of Ghana

Côte d'Ivoire

Balance of payments: stabilising C/A deficit

We expect the C/A deficit to be less than 3.0% of GDP in 2019 and 2020. FX reserves will likely be in excess of 8-m of imports at the end of both years.

Perhaps the biggest source of uncertainty for the BOP is the manner in which the cocoa price floor agreed between the government and its Ghanaian counterpart will affect exports in the medium term. For its part, the cocoa price rose close to USD2,600/MT, the agreed upon price floor, in early Jul. However, at the time of writing it had fallen close to USD2,200/MT.

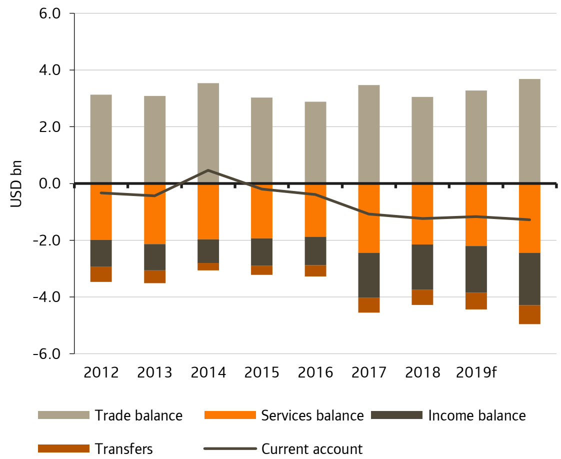
Conceptually, price floors work when producers can withhold supply from the market place when prices fall below the price floor. At face value, given that Ghana and Côte d'Ivoire account for about 60% of global supply, they have the potential to control international market prices.

However, the output of agricultural commodities is typically mostly determined by weather conditions. Additionally, while both countries are large suppliers in the international markets, the domestic supply comes from small farmers that might not have the capacity to play this strategic game. Hence, to be able to manage this price floor, both governments might need to commit significant fiscal resources to this endeavour.

Oil production is still modest, but exploration activity is likely to promote foreign direct investment inflows. In Jun the government agreed terms with ENI and Total for the exploration of 4 offshore oil blocks. The government identified some 22 oil blocks for sale in 2017.

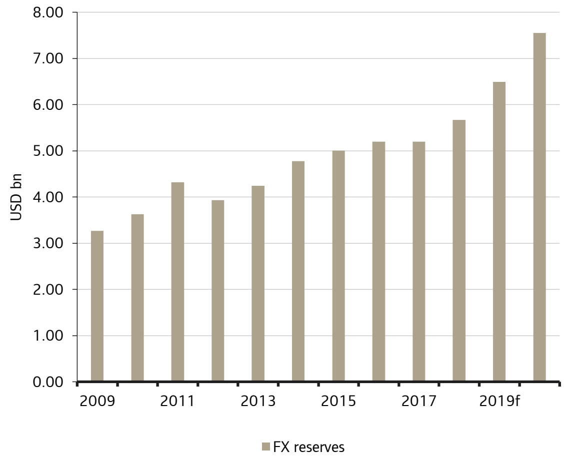
While we don't anticipate that the government will issue more Eurobonds in the next 18-m, government borrowing will likely still play a significant role in mobilising financial inflows. Project loans are likely to be the predominant source of financing for the government.

Current account developments



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

FX reserves



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

FX outlook: linked to the EUR

In all likelihood, the arrangement linking the XOF to the EUR will persist over the next 2-y. There are occasional bouts of frenzied speculation about the abandonment of the XOF by the countries in the WEAMU region using it or its devaluation. This arrangement is much stronger than just a peg, encompassing a monetary union as well. The arrangement is also complicated by the agreement that requires the French government, the European Council and the ECB to agree to any change in the arrangement. The latest source of excitement was an announcement by WEAMU that a regional currency, called the ECO, will be launched in 2020. We see an inconsequentially low probability that this announcement will have any practical relevance for consumers and businesses operating in the region. Our G10 Strategist Steve Barrow expects EUR/USD to head higher on a multi-year basis. Thus, the bias for USD/XOF is to the downside.

USD/XOF: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: on hold

There is no incentive for the BCEAO's MPC to change the monetary policy stance. Inflation is very subdued throughout the region, and the European Central Bank seems to be gearing up to provide more stimulus to the euro zone economy.

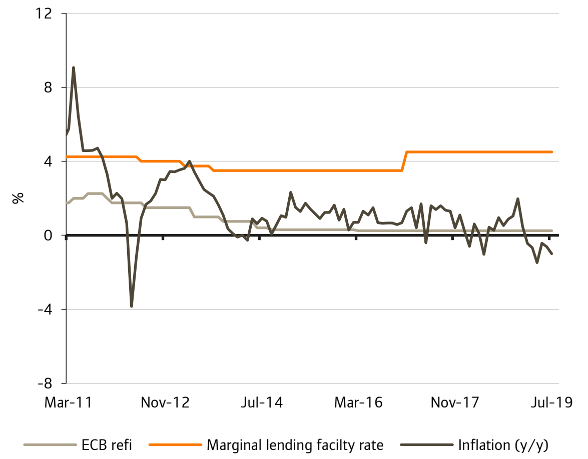
Following the 12 Jun policy meeting, the committee noted robust growth across the WAEMU region, expecting average growth of 6.7% y/y, from 6.5% y/y in 2018. It was also heartened by indications from the various governments that the regional fiscal deficit will likely be 2.9% of GDP this year, from 3.7% of GDP in 2018. Ongoing fiscal consolidation efforts to ensure compliance with the regional fiscal deficit target of 3.0% of GDP will make it easier for the BCEAO to conduct monetary policy.

The committee also expressed satisfaction with the trajectory of inflation across the region, averaging just 0.1% y/y in Q1:19, from 0.9% y/y in Q4:18. Falling food inflation, mainly due to prices of cereals, reflected an improvement in agricultural production. The committee's expectation remains that inflation will average 1.3% y/y in the region over the next 24-m.

Headline inflation was negative in the 6-m to Jul, averaging -0.8% y/y. Headline CPI fell by 1.4% m/m and 1.1% m/m in Jan and Feb, larger than normal m/m drops in those months. Similarly, headline CPI fell by 0.6% m/m and 0.4% m/m in Apr and Jul respectively, a much faster pace of decline than is usual for those months.

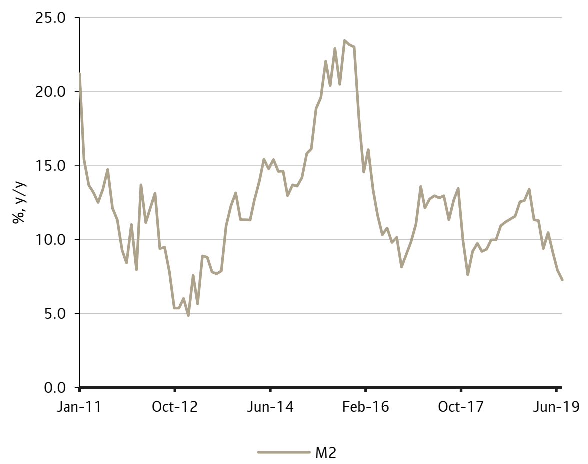
Headline inflation has been much lower than the regional target of 3.0% y/y. There is a strong likelihood that headline inflation will end the year below -2.0% y/y. During 2020 it is likely that it will rise above 0% y/y, ending the year closer to 2.1% y/y.

Inflation and interest rates



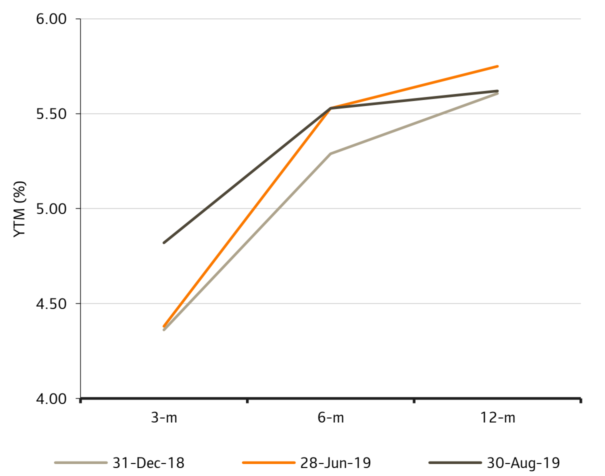
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Money supply growth



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

Yield curve changes



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

Capital market outlook

Source: BRVM; Bloomberg

Fiscal policy: aiming for 3.0% of GDP fiscal deficit

Ongoing fiscal consolidation efforts should see the fiscal deficit converging towards the regional convergence criteria of 3.0% of GDP this year and next, having been close to 4.0% of GDP in 2018.

The IMF supports the government's intention to increase revenues, not only to bring about the needed fiscal consolidation, but also to create the fiscal space needed to protect infrastructure and social spending. While the fund commends the government for embarking on revenue administration reforms to secure more tax revenue over the medium term, it still recommends broadening the tax base, insisting that this also offers currently untapped revenue potential.

In the report that the IMF issued at the conclusion of the fifth reviews of the Extended Credit Facility and the Extended Arrangement under the Extended Fund Facility, the fund also cautioned the government in its financing strategy. It indicated that prudent management of public debt needs to continue, including by limiting contingent liabilities. It urged the government to ensure that borrowing policy carefully assesses the costs and benefits of new loans in order to keep the debt on a sustainable path.

The government's medium-term plans indicate that it is committed to tapping various sources of funding. The bias will be towards external financing, satisfying 70% of total financing needs. Concessional and semi-concessional loans will account for half, with the other half made up of non-concessional loans.

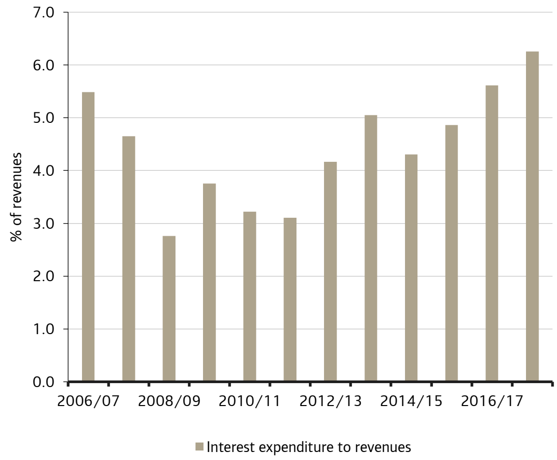
Expenditure restraint is also notable in the 2019 budget, with the government looking to lower salaries, reduce subsidies and other recurrent expenditure as a percentage of GDP.

Central government budget

% of GDP	2018	2019	2020
Tax revenue	16.3	17.1	18.8
Non-tax revenue	2.6	2.4	2.5
Grants	1.2	1.2	1.2
Total expenditure	24.0	23.7	25.7
Recurrent expenditure	14.3	13.8	14.5
- Of which: interest due	1.8	2.0	2.2
- Of which: wages	6.7	6.6	6.8
Capital expenditure	6.8	6.7	7.4
Budget deficit (incl. grants)	-3.9	-3.1	-3.1
Budget deficit (excl. grants)	-5.2	-4.2	-4.4
Domestic financing	-2.6	-1.2	0.3
External financing	5.6	3.4	2.9

Source: Ministère de l'Economie et des Finances

Interest expenditure

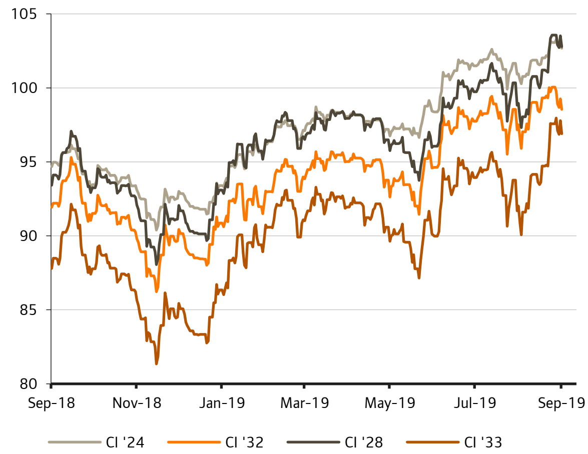


Source: Ministry of Finance and Economic Planning

Eurobond outlook: neutral

We have maintained market weight exposure to the credit. Admittedly, the bonds have outperformed in the past couple of months or so. Perhaps this was to catch up with similar credits like Kenya and Senegal. We suspect that earlier in the year the market got spooked by headlines that seemed to paint a complicated picture regarding the run-up to the 2020 elections. Among the issues was the release of former president Laurent Gbagbo by the ICC. But then the headlines vanished, and the market seems to have taken advantage of that lull. However, we doubt if much has changed substantively. There is still plenty of uncertainty regarding the composition of the various political coalition that must surely happen. Hence, we are wary. We believe that headlines that might spook the market might resurface. Indeed, the period leading up to the elections is likely to be characterised by significant volatility for the Eurobonds.

Eurobond prices - mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	23	24	24	25	25	26	26
Nominal GDP (XOF bn)	17 461	19 595	20 931	22 151	24 275	25 893	28 172
Nominal GDP (USD bn)	35.2	33.0	33.7	38.2	42.4	43.7	49.8
GDP / capita (USD)	1 531	1 374	1 403	1 529	1 696	1 682	1 916
Real GDP growth (%)	8.8	8.8	8.2	7.7	7.7	7.6	7.4
Oil production (m bbl)	6.8	8.5	10.0	11.0	11.0	13.0	15.0
Cocoa production (m tonnes)	1.7	1.8	1.6	1.8	1.8	2.0	2.4
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-3.9	-4.3	-5.6	-5.7	-5.2	-4.2	-4.4
Budget balance (incl. grants) / GDP (%)	-2.2	-3.4	-3.9	-4.5	-3.9	-3.1	-3.1
Domestic debt / GDP (%)	15.0	16.4	19.3	20.4	19.2	18.0	18.0
External debt / GDP (%)	15.8	21.4	23.8	27.6	35.9	41.1	45.6
Balance of Payments							
Exports of goods (USD bn)	11.8	11.2	10.2	12.2	12.0	12.3	13.9
Imports of goods (USD bn)	-8.3	-8.2	-7.4	-8.8	-8.9	-9.0	-10.2
Trade balances	3.5	3.0	2.9	3.5	3.1	3.3	3.7
Current account (USD bn)	0.5	-0.2	-0.4	-1.1	-1.2	-1.2	-1.3
- % of GDP	1.3	-0.6	-1.2	-2.8	-2.9	-2.7	-2.6
Capital & Financial account (USD bn)	0.1	0.4	0.3	1.1	1.7	2.0	2.4
- FDI (USD bn)	0.4	0.5	0.5	0.3	0.6	0.7	0.9
Basic balance / GDP (%)	2.4	0.8	0.4	-2.0	-1.5	-1.1	-0.9
FX reserves (USD bn) pe	4.8	5.0	5.2	5.2	5.7	6.5	7.6
- Import cover (months) pe	6.9	7.3	8.5	7.1	7.6	8.7	8.9
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	B1	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	B	B	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.5	1.2	0.8	0.7	0.4	-0.9	1.4
Consumer inflation (%) pe	1.0	1.4	0.7	1.1	2.0	-2.2	2.1
M2 money supply (% y/y) pa	13.9	20.3	11.2	11.8	11.0	8.8	10.5
M2 money supply (% y/y) pe	14.2	18.2	11.0	9.2	13.4	8.7	12.2
Marginal lending facility (%) pe	3.5	3.5	3.5	4.5	4.5	4.5	4.5
USD/XOF pa	496.0	594.2	621.8	579.3	572.7	591.9	565.5
USD/XOF pe	544.3	609.9	612.0	558.2	580.3	585.6	555.8

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

Notes: pa – period average; pe – period end

DRC: finally, a new cabinet

GDP growth: extractive sector could falter

We trim our GDP growth forecast to 4.2% y/y and 4.1% y/y for 2019 and 2020 respectively, from 4.5% y/y and 5.3% y/y, as we expect growth in the extractive sector to falter.

Sure, the extractive sector's growth has been striking over the last 7-y or so. In H1:19, copper and cobalt production rose by 13.0% y/y and 2.6% y/y, to 672.3k tons and 53.9k tons respectively. Should production continue at this rate, 2019 could well set new production records. Mining companies continue to engage the government in the hope of gaining some concessions in the implementation of the 2018 mining code, and these discussions are ongoing.

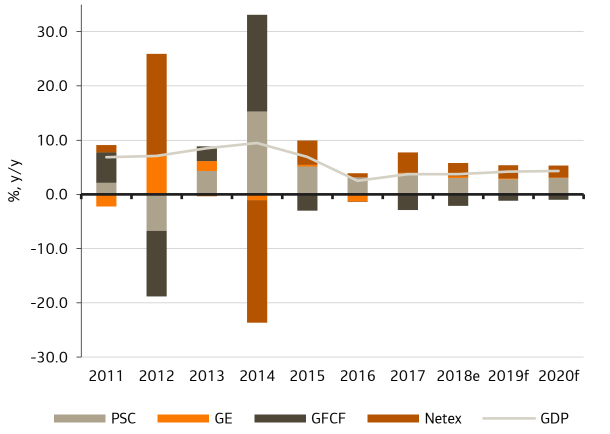
However, the extractive sector now seems likely to slow. A large copper and cobalt producer is set to place operations under care and maintenance for 2-y in Dec. In 2018, this mine produced 200k tons of copper and 27k tons of cobalt, which accounts for 16% and 25% of total production respectively.

In Q1:19, the extractive sector contributed 2.27ppts to overall growth, compared with 4.40ppts over the same period last year. Since overall production appears to have improved, this is probably a function of lower international copper prices. Regardless, the extractive sector, which contributes around 26% to GDP, is still expected to lead GDP growth this year. Official estimates see the sector expanding by 7.9% y/y, compared with 16.9% y/y in 2018.

Over the years, compared to the rest of the economy, the extractive sector has proved resilient to worsening security conditions, which has allowed it to consistently contribute to growth. For instance, while the agricultural sector only contributes around 16.0% to GDP, it also happens to be a major source of employment. As such, disruptions in the agricultural sector would reduce household income, limiting PSC's contribution to GDP growth.

Since the president was inaugurated in Jan, there has been a lull – but the new cabinet has now been formed and the government's policy agenda should now become clearer. More notably, the president met with the IMF, which is encouraging, since this could be a catalyst in repairing damaged relationships with the wider donor community. Potentially, this could see funding conditions improve, boosting the GFCF and GE contribution to GDP. Over the past few years, due to government's fiscal constraints, which forced the government into lower levels of spending, the GE contribution to GDP contracted.

Composition of GDP by demand



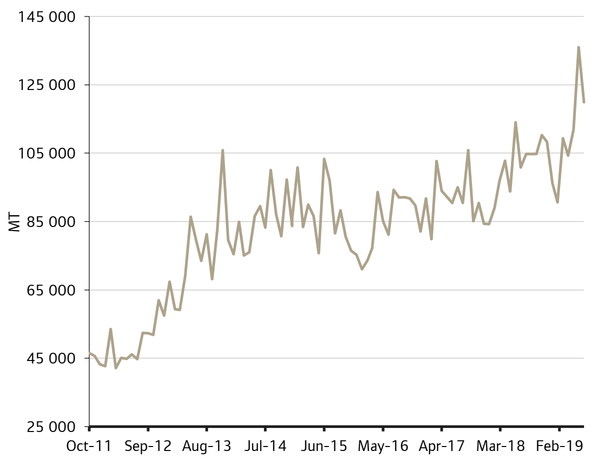
Source: Banque Centrale du Congo; Standard Bank Research

Contribution of GDP by sector (% of total)

	2011	2013	2015	2016	2017
Agriculture, forestry, fishing & hunting	47.7	39.4	27.9	17.1	16.6
Mining and quarrying	8.9	12.1	33.5	25.8	26.5
Manufacturing	5.2	5.5	5	12.4	12.2
Electricity, gas and water	3.2	3.3	3.5	0.7	0.7
Construction	5.2	6.1	4.5	3	3.5
Wholesale and retail trade, hotels and restaurants	16.6	17.2	10.5	9.6	9.3
Transport, storage and communication	4.2	5	6	12.9	12.7
Finance, real estate and business services	5.6	7.5	5	15.5	15.5
General government services	3.4	3.8	4	2.3	3.5
GDP	100	100	100	100	100

Source: Banque Centrale du Congo; Standard Bank Research

Copper production



Source: Banque Centrale du Congo

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	3.8	3.8	3.8	3.8	4.2	4.2	4.2	4.2	4.1	4.1	4.1	4.1
CPI (% y/y) pa	38.1	30.4	10.5	8.8	6.1	4.0	4.8	7.1	8.2	9.3	12.0	15.4
Policy interest rate (%) pe	14.0	14.0	14.0	14.0	14.0	9.0	9.0	9.0	9.0	7.0	7.0	7.0
M3 (% y/y) pa	25.3	14.5	13.4	13.5	13.2	14.8	16.2	16.5	17.0	15.3	15	13
CA/GDP (%) pe	-2.9	-2.6	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-4.1	-4.1	-4.1	-4.1
FX reserves (USD m) pe	972.5	1191.9	1066.4	879.5	901.2	1030.0	790.0	800.0	720	690	700	700.0
Import cover (mths) pe	0.9	1.1	1.0	0.8	0.8	0.8	0.6	0.6	0.5	0.5	0.5	0.6
7-d rate (%) pe	6.0	3.1	1.0	1.0	1.1	0.8	0.6	0.6	0.5	0.3	0.25	1.0
USD/CDF pe	1607.0	1620.0	1625.0	1625.0	1638.8	1644.9	1660.0	1710.0	1722.8	1740.1	1753.97	1768.0

Source: Banque Centrale du Congo; Ministry of Finance; Standard Bank Research

Notes: pe — period end; pa — period average

Political risks: FCC dominates new cabinet

It is worth noting that while President Tshisekedi secured 38.6% of the vote in the presidential election, the Common Front for Congo (FCC) coalition, which appears loyal to former President Kabila, holds close to 70% of the seats the national assembly. Following negotiations between the FCC coalition, and President Tshisekedi's Heading for Change (CACH) coalition, the new cabinet was finalised at the end of Aug. Of the 65 cabinet posts available, 23 posts were drawn from CACH, with the remaining 42 were filled from the FCC.

This cabinet will be key in providing some indication of the new administration’s policy direction over the next 5-y. Already, earlier this year the president met with the IMF on a visit to the USA, which was encouraging. Subsequently, government officials from DRC participated in the preparation of the IMF’s article IV report, which has been delayed for close to 2-y.

The release of the election results and the following legal challenge of the election’s outcome did not precipitate widespread violence, which bodes well for a de-escalation in security risks in the country. While outgoing President Joseph Kabila appears to have accepted the election results, it’s likely that his influence on the political environment has not entirely waned, given the FCC’s dominance in the new cabinet.

President Tshisekedi is now asserting himself. He has taken over the coordination of the DRC’s response to the ongoing Ebola virus outbreak. This decision was strategic in that it is likely to allow for more international support in containing the virus. Moreover, it appears that coordination across more ministries is required for the successful deployment of the treatment for the virus. Previously, attempts to contain the virus were fraught by unstable security conditions in the affected areas, which has seen the virus spread to more remote areas of the country.

Election results

Presidential election (2018)	Party	% of votes
Felix Tshisekedi	UPDS	38.6
Martin Fayulu	DO	34.8
Emmanuel Ramazani Shadary	PPRD	23.8
Other		2.8
National Assembly election (2018)	**Seats**	**% of seats**
Common Front for Congo (FCC)	341	68.2
Lamuka Coalition	112	22.4
Heading for Change (CACH)	42	8.4
Total	500	

Source: Independent Electoral Commission

Balance of payments: C/A deficit to widen

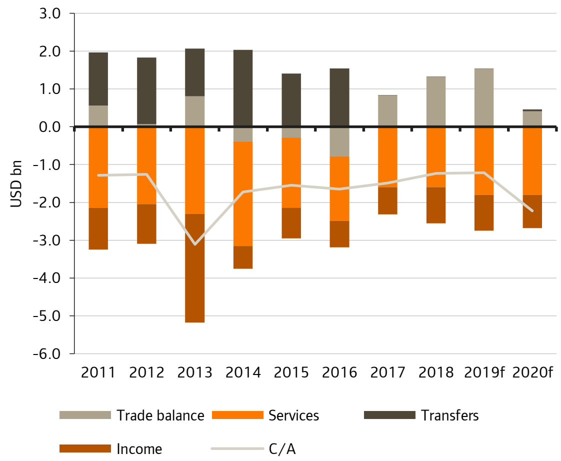
Notably, given the highly concentrated export base, FX reserves are still too low to buffer external shocks. We don't see imports moving too much higher than 1-m over the next 2-y. In the absence of a shock, FX reserves are forecast to end the year around USD800m. Over the near term, there is a chance that insufficient financial inflows could exert downward pressure on FX reserves. However, the government's precarious fiscal position is the most notable risk to FX reserves.

Typically, trade dynamics support the improvement in the C/A balance. However, it is likely that copper and cobalt volumes may decline over 2020 and 2021 as a large mine is set to mothball its operations at the end of this year for at least 2-y. Even though the growth of import demand has remained muted since the currency devaluation at the end of 2016, the trade surplus is set to shrink. Sure, there is still the chance that an improvement in cobalt prices, supported by lower levels of supply, could moderate the rate at which the trade surplus shrinks.

For copper exports, current market prices are well above mining companies' production; breakeven price levels, which are around USD 2,500/ton, should bode well for the mines that continue producing copper. There have been prolonged disputes between mining companies with the government over the implementation of the 2018 mining code, which could still disrupt production over the next 2-y. Talks between these parties are ongoing, and perhaps there would be more finality on the matter once the relevant minister, in the new cabinet, addresses it.

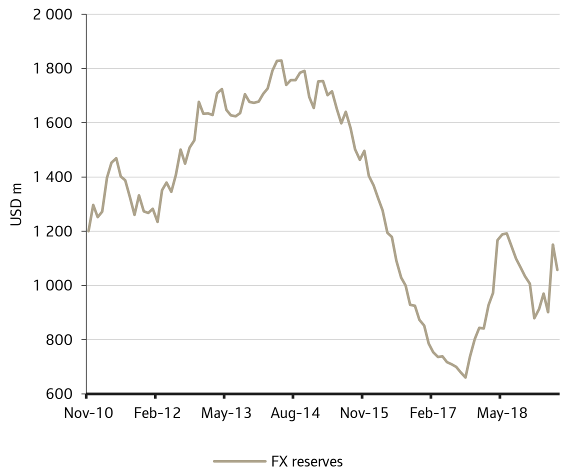
Official government aid stalled when elections were delayed in 2016. Now that the new cabinet is in place, it is likely that some gradually aid returns. Official transfers are forecast to remain flat over 2018, which is probably another factor limiting growth in import demand. The C/A balance is forecast at -2.2% of GDP at the end of 2019.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves



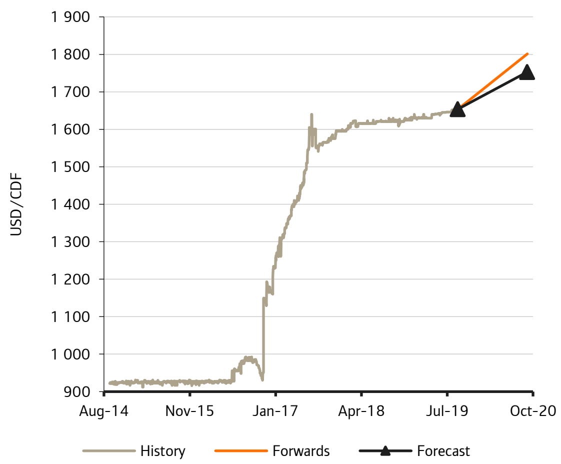
Source: Banque Centrale du Congo

FX outlook: upward bias

Bar a commodity price or mineral production shock, the USD/CDF won't depreciate materially over the next 4-m, ending the year around 1710. However, since trade flows are expected to taper off from next year, this should precipitate a more meaningful move higher.

Notably, there is scope though for the pair to rise meaningfully in the near term. Due to limited financing options, any deviation from executing the budget on a cash basis implies that that the government will probably have to rely on the BCC for financing. A resumption of extensive central bank financing of the government could precipitate a series of devaluations. Notwithstanding an improvement in security conditions, the deterioration of security conditions could see the USD/CDF head higher in the next 4-m.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative tilt

After the 500 bps rate cut at the MPC meeting in Apr, the BCC's MPC has paused, keeping the policy rate at 9.0%. In Apr, by the BCC's calculations, annual inflation fell below the target of 7.0%, and it has continued to ease in the interceding months.

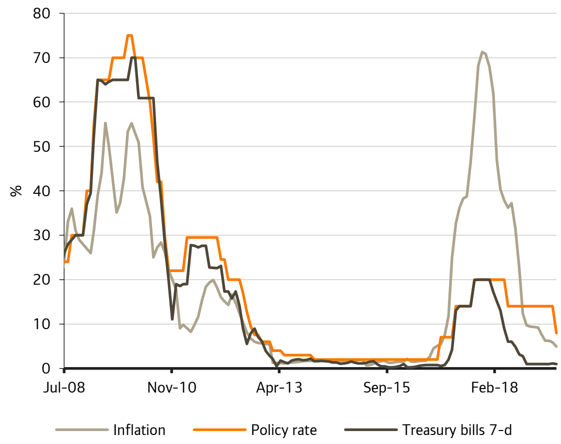
By year-end, the BCC forecasts annual inflation at 4.26%. Since inflation is expected to remain well below the BCC's medium-term target, it would not be surprising if the BCC continued easing over the next year. With that said, it's worth noting that the effectiveness of the credit channel of monetary policy is being undermined by the weak transmission mechanism.

Inflation has certainly benefitted from a more stable currency, with the pace of price increases slowing and even stabilizing at very low levels on a w/w basis, as reported by the BCC. This has seen annual inflation, by the BCC's estimates, fall to 3.40% y/y in Jun, which indicates that real interest rates have turned positive again. Real interest rates turned negative in mid-2016.

Sure, in the absence of disturbances, inflation is likely to continue moderating, possibly ending the year in single digits. We see it ending the year around 7.8% y/y. Notwithstanding the improvement in the inflation outlook over the past 18-m or so, material upside risks remain. Perhaps the most notable is the resumption of the depreciation of the CDF, most probably as a function of excessive money creation by the BCC. Perhaps once the new cabinet has provided some clarity on policy direction, government's access to finance may improve.

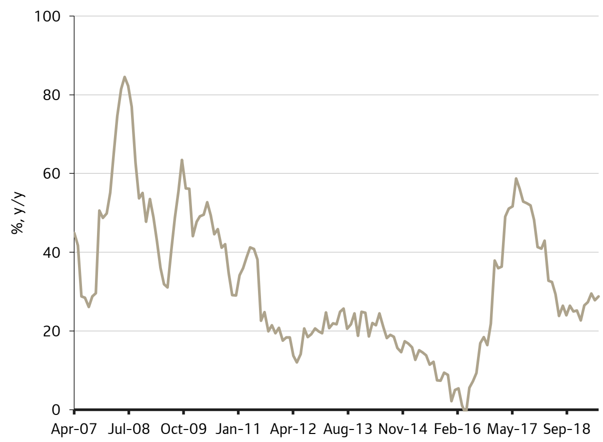
Any food supply disruptions, possibly caused by a deterioration of security conditions, could also drive inflation higher. However, in this scenario it would not be particularly surprising if the MPC held rates unchanged, since there is an argument to be made that monetary policy would not be effective in containing inflation.

Inflation and interest rates



Source: Banque Centrale du Congo; Standard Bank Research

Broad money supply growth



Source: Reuters; Standard Bank Research

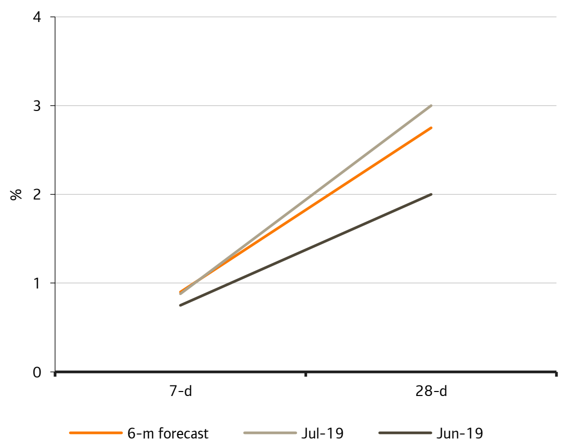
Yield curve outlook: still low

Improvements in the inflation outlook are likely to support the BCC's easing bias over the next 4-m. Interestingly, while the monetary policy transmission mechanism is weak, market yields appear to be more responsive to the official rate.

Consistent with looser monetary policy, the yield curve has shifted lower since the start of the year. In the 7-m to Jul, the 7-d and the 28-d yields fell by 120 bps (to 0.88%) and 300 bps (to 3.0%) respectively. Although 84-d bills appear to be issued less frequently, yields are at 5.0%, falling by around 500 bps since the start of the year. 7-d yields are likely to stay around this level, as further declines would be limited since that the rate is close to 0%.

Execution of the FY2019 appears to have been slow in the 7-m to Jul, so there is a chance that more debt actions will be held in the next few months.

Changes in the yield curve



Source: Banque Centrale du Congo; Standard Bank Research

Fiscal policy: limited financing options

Due to limited financing options, any deviation from executing the budget on a cash budget basis implies that the government would have to resort to the central bank for financing, or accumulate further arrears.

With that said, VAT arrears owed to mining companies could be as high as USD1.2bn. While there are no formal plans to clear these arrears, anecdotally, it appears that revenue authorities have stopped collecting VAT from mining companies, at least limiting the accumulation of further arrears.

Although FY2018's budget planned to keep expenditure in line with revenue, it appears the budget deficit reached CDF238bn. It is not entirely clear how this deficit was financed. Given the deterioration in funding conditions, it is not surprising that there seems to have been some challenges in the implementation of the USD10.35trn budget in the first 7-m of FY2019. Total expenditure and revenue reached CDF3,95trn and CDF3,683bn respectively. Execution of the capital budget has been exceptionally low, with only 4.2% of the budgeted CDF2,61bn disbursed. It appears salaries and wages payments are being prioritized. More concerningly, at this stage, it seems as if disbursements of interest payments could be lagging, with total debt payments reaching CDF134.03bn, 27% of the allocation for FY2019.

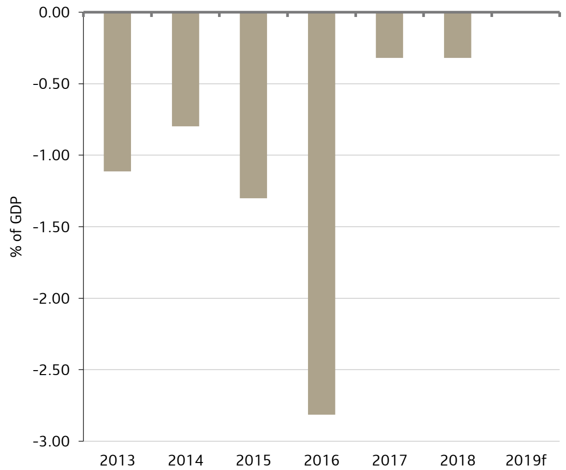
Sure, it's still possible that the government's funding options may expand once the new administration's fiscal policy direction has been clarified. Perhaps this would be factored in to the next budget. However, over FY2020 government revenue collected from the extractive sector, in the absence of sharp commodity price movements, should come under pressure given that production at a large mine is set to be suspended for about 2-y. This mine reportedly contributed USD625m in taxes in FY2018, which is roughly 14% of revenue realized over that period.

Central government finances

% of GDP	2016	2017	2018e	2019f
Total central govt. revenue	9.6	6.7	9.5	12.6
Total central govt. expenditure	10.9	9.5	9.8	12.6
- Recurrent	10.9	8.5	9.8	8.5
- Interest	0.4	0.4	0.4	0.8
- Wages	5.2	3.3	3.6	4.5
- Development/transfers	0.8	1.1	0.8	2.4
Central govt. bal. (ex. grants)	-1.3	-2.8	-0.3	n/a
Central govt. bal. (incl. grants)	-1.3	-2.1	0.3	n/a
Net domestic borrowing (saving)	-0.9	1.5	n/a	n/a
Net external borrowing (saving)	0.3	0.7	n/a	n/a
Grants (incl. HIPC)	0.0	0.7	n/a	n/a

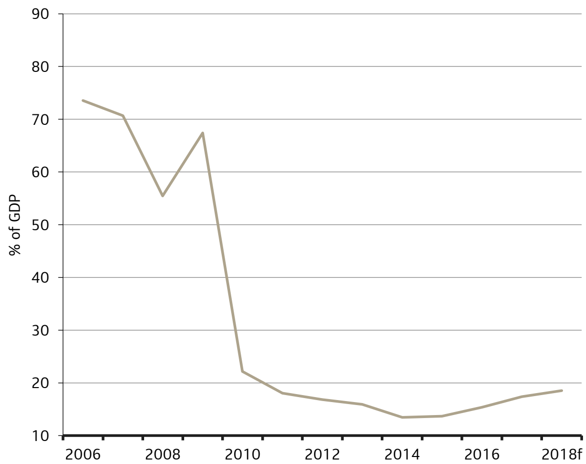
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Fiscal deficits



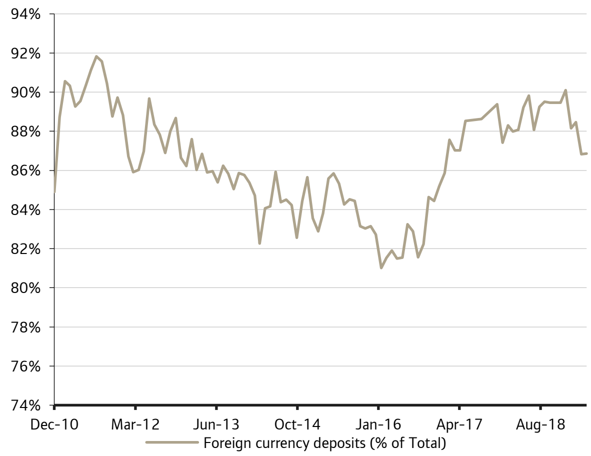
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

External debt to GDP



Source: Banque Centrale du Congo; Standard Bank Research

Foreign currency deposits



Source: Banque Centrale du Congo; Standard Bank Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	79.1	81.5	83.9	86.3	88.8	91.3	93.9
Nominal GDP (CDF bn)	33 224.0	35 111.2	37 936.0	59 446.6	74 750.9	83 688.3	100 541.5
Nominal GDP (USD bn)	36.0	38.1	39.3	40.8	46.2	50.3	57.6
GDP / capita (USD)	455.4	467.6	468.9	472.7	520.0	551.0	613.0
Real GDP growth (%)	9.5	6.9	2.5	3.7	3.8	4.2	4.1
Diamond production (m carats)	14.8	14.6	15.5	18.9	15.1	11.9	12.4
Crude oil ('000 barrels)	8 362.0	8 247.0	7 058.0	6 893.0	8 392.6	8 812.3	9 252.9
Copper ('000 tonnes)	1 030.0	1 039.0	1 024.0	1 090.0	1 225.2	1 344.0	918.9
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-1.1	0.0	-0.8	0.0	-1.3	0.0	-2.8
Domestic debt / GDP (%)	na	na	na	na	na	na	na
External debt / GDP (%)	13.4	13.6	15.3	14.7	20.5	20.5	21.5
Balance of Payments							
Exports (USD m)	12 321.2	10 284.8	8 199.0	10 780.0	12 970.0	15 930.0	14 310.0
Imports (USD m)	12 706.3	10 574.6	8 981.0	9 946.0	11 651.0	14 395.0	13 900.0
Trade balance (USD m)	-385.1	-289.8	-782.0	834.0	1 319.0	1 535.0	410.0
Current account (USD m)	-1 722.6	-1 545.6	-1 646.0	-1 485.8	-1 230.7	-1 214.7	-2 220.0
- % of GDP	-4.8	-4.1	-4.2	-3.6	-2.7	-2.4	-3.9
Financial account (USD m)	1 851.8	1 543.6	1 362.8	1 250.0	1 200.0	1 450.0	1 300.0
- FDI (USD m)	1 499.6	1 165.7	890.0	950.0	1 200.0	1 450.0	1 400.0
Basic balance / GDP (%)	-0.6	-1.0	-1.9	-1.3	-0.1	0.5	-1.4
FX reserves (USD m) pe	1 645.0	1 404.0	852.1	844.0	879.5	850.0	700.0
- Import cover (mths) pe	1.6	1.6	1.1	1.0	0.9	0.7	0.6
Sovereign Credit Rating							
S&P	B-	B-	B-	CCC+	CCC+	CCC+	CCC+
Moody's	B3	B3	B3	B3	B3	B3	B3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Headline inflation (%) pa	1.8	1.4	5.8	53.0	21.9	5.5	11.2
Headline inflation (%) pe	1.9	2.1	25.0	46.8	7.7	7.8	16.0
M3 money supply (% y/y) pa	19.7	12.1	9.0	43.4	16.7	15.2	15.1
Policy bank rate (%) pa	2.0	2.0	4.5	18.5	14.0	10.3	7.5
Policy bank rate (%) pe	2.0	2.0	7.0	20.0	14.0	9.0	7.0
7-d rate (%) pe	1.2	0.3	4.2	15.1	1.0	0.6	1.0
USD/CDF pa	922.4	921.4	964.4	1 457.2	1 619.3	1 663.4	1 746.2
USD/CDF pe	911.0	925.0	1 165.0	1 595.0	1 625.0	1 710.0	1 768.0

Source: Banque Centrale du Congo; Bloomberg; International Monetary Fund; Standard Bank Research

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

Egypt: growth of over 5% likely in the medium term

GDP growth: strength seems durable

There is a very strong likelihood that GDP growth will settle at a pace in excess of 5% y/y in the medium term. The reform effort encapsulated in the IMF-funded program that ran from 2016 to this year seems likely to have set the economy on a new growth trajectory.

Clearly, the immediate post-Arab Spring period was characterised by very sluggish economic growth. The unemployment rate, which was mostly under 9.0% before 2011, rose to as much as 13.2% in 2013, before subsiding to 13.0% in 2014. The government's estimate is that this dropped below 10% in 2018.

Interestingly, the labour force participation rate has been mostly declining over the past 6-y or so. It was as high as 49.3% in 2010, remained in a 48% - 48.5% range until 2014, before declining to reach an estimated 43.3% in 2018. Regardless, total employment has increased by an estimated 7.0% between 2014 and 2018, or an annual compound rate of 1.7%.

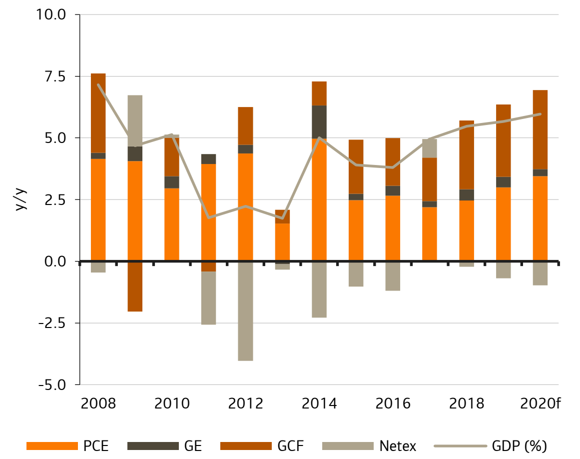
While employment might be increasing, thereby boosting incomes, it is not so clear that real incomes have grown much. If government expenditure on wages and salaries is any guide, then real household incomes have been under some strain, especially since FY2016/17. In that time government expenditure on wages and salaries has risen at a 6.4% y/y average pace, with a 7.0% y/y increase budgeted for FY2018/19. Headline inflation was nearly double that, implying considerable real income declines.

The subsidence of inflation, something that we expect to be sustained in the next 2 – 3 years, bodes well for real household income gains. This should lead to a rebound in consumer spending, helping to bolster domestic demand.

Naturally, such a turnaround would also potentially imply that net exports will become a larger drag on overall economic growth. Specifically, we see this transpiring via an increase in goods imports. To be sure, it still looks likely that the oil trade balance will swing into surplus, which is likely to grow on a multi-year basis, thereby supporting net exports.

Additionally, the robust growth in tourist visitor arrivals is likely to wane. Sure, there might be the odd security risk event that dampens tourist arrivals. But what we are referring to is the frenetic pace of growth in tourist arrivals in both 2017 and 2018. After dropping to 5.4m in 2016, tourist arrivals rose by 53.6% y/y and 36.8% y/y in 2017 and 2018 respectively. The 11.3m arrivals in 2018 is close to the 11.5m in 2012, still lower than the 14.7m arrivals in 2012.

Composition of GDP by demand



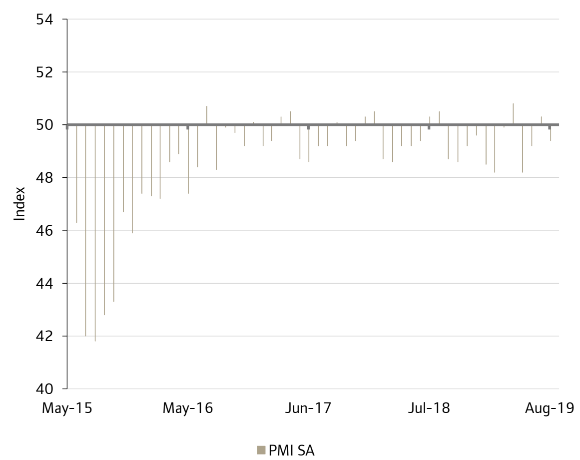
Source: Ministry of Planning; Standard Bank Research

Contribution to GDP by sector

% of GDP	FY2008/09	FY2010/11	FY2016/17
Agriculture	13.6	14.5	11.7
Extractive industries	14.9	14.9	9.6
- Petroleum	6.2	6.2	4.2
- Natural gas	8.3	8.3	4.1
Manufacturing	16.6	16.5	16.7
- Petroluem refinement	1.0	1.1	3.9
Construction	4.4	4.6	5.7
Transport	4.1	4.1	4.7
Wholesale and retail trade	11.4	11.5	13.9
Financial intermediation	3.6	3.4	3.9
Real estate	2.7	2.6	10.5
General government	9.9	10.2	8.9

Source: Ministry of Planning

Emirates NBD Egypt PMI



Source: Markit; Bloomberg

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (%, y/y) pa	5.4	5.4	6.0	5.2	5.7	6.0	5.4	5.7	5.8	6.1	6.3	5.7
CPI (%, y/y) pe	13.3	14.4	16.0	12.0	14.2	9.4	6.3	8.4	8.2	9.7	9.8	9.9
M2 (%, y/y) pe	22.0	19.1	17.2	14.7	12.8	14.3	13.8	12.7	12.9	12.7	12.8	13.1
CA/GDP (%) pe	-6.0	-5.6	-5.3	-2.7	-4.2	-3.9	-3.5	-3.0	-3.3	-3.2	-3.0	-3.1
FX reserves (USD bn) pe	42.6	44.3	44.5	42.6	44.1	44.4	45.1	45.2	45.5	45.7	45.6	45.4
Import cover (mths) pe	6.7	7.0	7.0	6.7	6.5	6.6	6.7	6.7	6.2	6.2	6.2	6.2
3-m rate (%) pe	18.0	18.8	19.3	19.5	17.3	17.7	16.5	16.2	15.7	15.4	14.8	14.3
5-y rate (%) pe	14.9	16.3	18.4	18.8	16.2	16.0	14.4	14.7	14.5	14.6	15.0	15.1
USD/EGP pe	17.65	17.92	17.92	17.92	17.33	16.69	16.50	16.40	16.55	16.60	16.75	17.25

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

Notes: pa - period average; pe - period end

Political risks: minimal

The constitutional referendum in Apr, which among other things lengthened the presidential term to 6 years, potentially allows President el-Sisi to rule until 2030. The change allows him to run for another term as president when the current term, which was due to expire in 2022, expires in 2024. He would then have to run in 2024.

In the interim we see limited political and policy risks. It is highly probable that the government will persist with the economic reforms that were financed by the IMF through the Extended Fund Facility. There is plenty of evidence to suggest that these reforms are working, helping to boost economic growth. The government's insistence, with the IMF's blessings, to craft targeted social programs to benefit the poor arguably helped to provide broad-based support for the economic reform program.

Parliamentary elections will be held next year, at the end of the 5-y term. Just like the 2015 elections, it is hard to see these as a potential source of disruption.

The constitutional amendments passed via the referendum also re-introduced the bi-cameral nature of parliament. A Senate will also be elected next year.

Security and regional risks remain germane. Even though there have been some security incidents, thus far it doesn't seem like any of these have affected the tourism sector, a revival of which has been a notable factor supporting economic growth and the BOP.

Election results

Presidential election (2018)	Party	% of votes
Abdel Fattah el-Sisi	Independent	97.1
Moussa Mostafa Moussa	El-Ghad Party	2.9

Parliamentary election (2015)	Seats	% of seats
Independents	448	75.2
For the Love of Egypt	120	20.1
Presidential appointees	28	4.7
Total	596	100.0

Source: National Elections Commission

Balance of payments: reasonably strong

FX reserves will likely rise to USD45.2bn at the end of this year, covering 6.7-m of goods and services imports, and USD45.4bn (6.2-m) at the end of 2020. FX reserves have barely changed since they reached USD44.0bn in Apr 18, with a temporary drop to USD42.6bn in Dec 18 and Jan 19 being the notable changes.

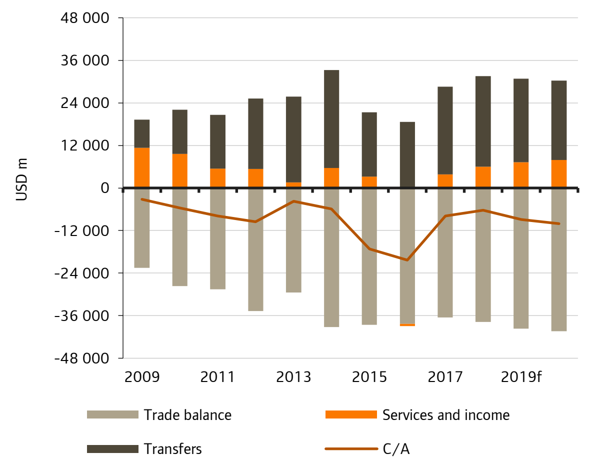
Goods imports grew quite strongly in Q1:19, by 7.0% y/y, a continuation of the trend that began in 2018 when they grew by 10.0% y/y. This is actually a function of non-oil imports that grew by 12.6% y/y in Q1:19, not too far off the 12.2% y/y growth registered in 2018. Meanwhile, oil imports contracted by 13.5% y/y in Q1:19, in contrast to the 3.0% y/y growth in 2018.

The steady acceleration of goods imports might be an indication that it is driven by strong economic growth. Notably, consumer and capital goods imports rose strongly in Q1:19, by 16.1% y/y and 23.8% y/y respectively. On the other hand, intermediate goods and raw material imports (like wheat and maize) were far more subdued, with the former rising by 9.9% y/y while the latter fell by 3.0% y/y. Strong growth in consumer goods imports might be an indication of strong consumer spending, while strong capital goods imports might indicate robust investment spending.

Due in large part to rising goods imports, we increase our forecast for the trade deficit this year. As a consequence, the C/A deficit will likely increase to 3.0% of GDP in 2019 and 3.1% of GDP in 2020, from 2.7% of GDP in 2018.

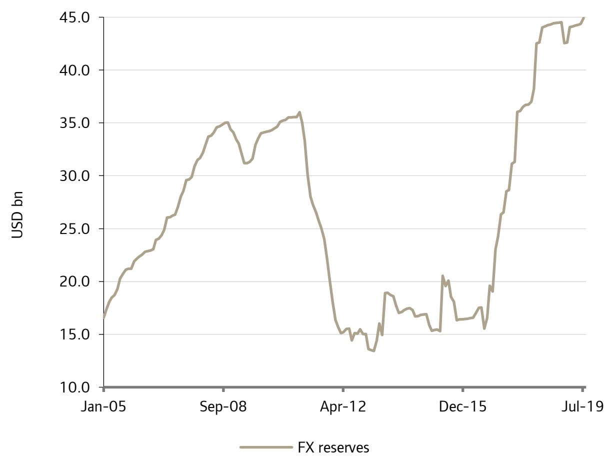
After cumulative outflows of USD8.7bn between Q2:18 and Q4:18, portfolio flows rebounded strongly in Q1:19 to record inflows of USD6.9bn. One can't rule out the possibility of outflows resuming over the remainder of the year given the probable decline in EGP yields. But financial inflows are likely to be bolstered by foreign direct investment, which will likely be in excess of USD5.0bn in both 2019 and 2020.

Current account developments



Source: Central Bank of Egypt; Standard Bank Research

FX reserves



Source: Central Bank of Egypt

FX outlook: possibly establishing a bottom

We still can't shake the feeling that if the EGP were a truly floating currency then USD/EGP would probably have declined below 16.00 by now. Even when there were large portfolio outflows last year, the pair hardly budged. With interest rates declining, there is probably not much impetus for the EGP to appreciate much from current levels. Additionally, given the notable pick-up in import demand in Q1:19, there is a chance that the pair might reverse course. Hence, our forecast envisages near-term strength persisting, but with the pair reversing course in 2020 to end the year at 17.25. To be sure, the BOP is in a strong position. Even if there were to be an increase in portfolio outflows over the remainder of the year, we're still see a small increase in FX reserves over the remainder of this year. But we must admit that there are significant risks associated with geopolitical events that might undermine USD/EGP.

USD/EGP: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias

The trajectory of inflation suggests that the CBE's MPC will retain an easing bias this year. We acknowledge that the last cut in the policy rate in Aug was larger than the market was anticipating. But that might temper the MPC's inclination to ease in the near term, say at the Sep policy meeting, but not in the medium term.

We have noted how unusually high the real policy rate has been over the past 18-m or so. It has averaged 3.9%. When last it was that high, between mid-2012 and mid-2013, headline inflation was around 6.5% y/y. So, the MPC has been quite hawkish in the recent past, understandable given the broader reform momentum under the IMF-financed program.

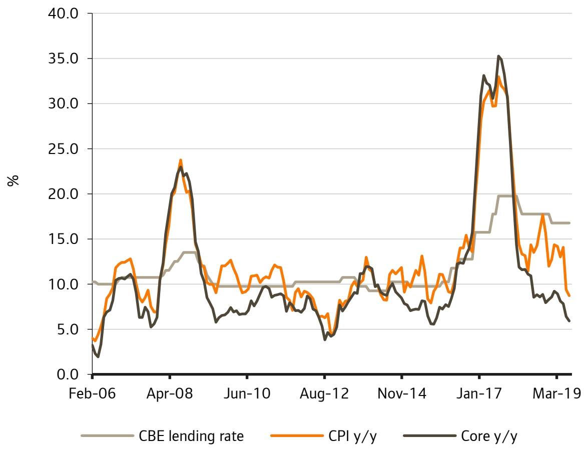
But most of the upward pressure on headline inflation, due to the subsidy reform process, is in the inflation numbers by now. The spurt in headline inflation in H2:18 was partly a manifestation of that subsidy reform process. But even at the time it looked like the spike would be transitory, something that the recent trajectory has confirmed.

Furthermore, core inflation seems to be subsiding further, reaching 5.9% y/y in Jul from 6.4% y/y in Jun and an average of 8.5% y/y in the 6-m to May. If anything, it illustrates that the upward pressure on headline inflation in H2:18 did not reflect an increase in underlying inflation pressures.

Food inflation, averaging 14.1% y/y in the 12-m to Jun, fell to 9.0% y/y in Jul. It has been a lot more volatile in recent months, largely driven by vegetable price changes. Fruit and vegetable prices rose at an average of 27.0% y/y in the 48-m to Dec 18. The spike from H2:18 kept it elevated in H1:19, averaging 29.9% y/y, before dropping to 18.9% y/y in Jul.

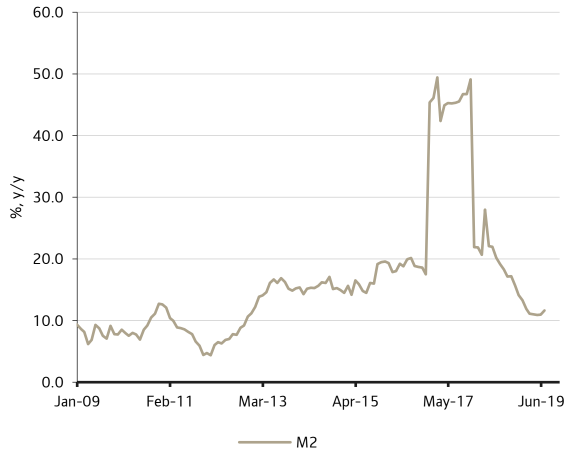
With evidence that domestic economic activity is not strong, real policy rates elevated and inflation subsiding, there is a strong case for the MPC to ease its policy rates further in the next 6-m.

Inflation and interest rates



Source: Central Bank of Egypt; Central Agency for Public Mobilisation and Statistics

Money supply growth

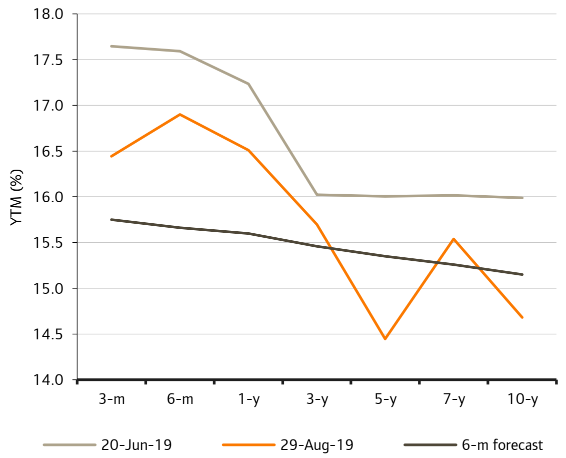


Source: Central Bank of Egypt

Yield curve outlook: edging towards dis-inversion

The last time the yield curve was normally sloped was in early 2017, just after the commencement of the IMF-funded program, and the EGP devaluation that it brought, but before the monetary policy tightening intensified. It is likely that over the coming 12-m the yield curve will become normally sloped again. This dis-inversion will probably come about via a substantial decline in T-bill yields, perhaps falling below mid-teens. Nevertheless, we suspect that this will only transpire sometime between Q2:20 and Q4:20. Over the next 4 – 6 months the curve is likely to remain inverted, but with T-bill yields falling much more than bond yields. The drop in T-bill yields that we expect will, in large part, be driven by monetary policy easing. While in the past 2 – 3 years a substantial drop in T-bill yields gave rise to portfolio outflows that ultimately prompted a reversal in T-bill yields, we suspect that the underlying strength of the BOP will prevent this from happening this time.

Changes in the yield curve



Source: Central Bank of Egypt; Standard Bank Research

Fiscal policy: speeding deficit reduction

At the conclusion of the fifth and final review under the Extended Fund Facility, the IMF indicated that the government met the primary fiscal deficit target of 2% of GDP in FY2018/19. Such primary surpluses will underpin a reduction of the debt level, ultimately reducing interest expenditure. This, in turn, will open the space for the government to ramp up capital expenditure, setting a solid foundation for supporting economic growth in the medium term.

The government has made significant progress in its subsidy reform program too. Most grades of petrol are cost reflective, with prices to change in line with gyrations in international prices. The IMF points out that the fiscal savings from eliminating subsidies creates the fiscal space for the government to support social expenditure.

While the pace of reducing the fiscal deficit has not been fast, there is a likelihood that it will pick up in coming years. Medium-term forecasts from the IMF have indicated that the fiscal deficit would be 4.0% of GDP in FY2022/23. Certainly, the reduction of energy subsidies from over 3.0% of GDP to what the IMF expects will be less than 0.5% of GDP from FY2020/21 onwards would help with that deficit reduction.

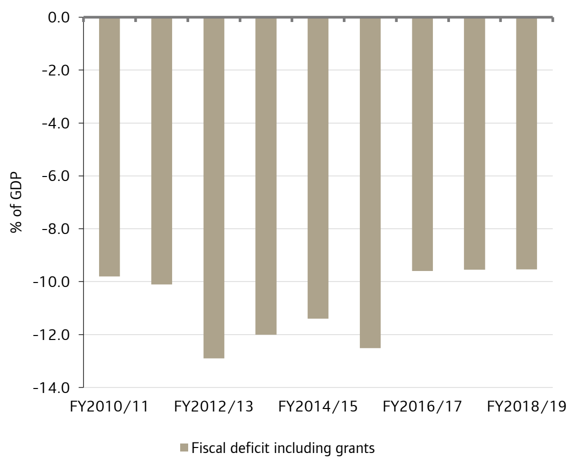
The acceleration of economic activity is likely to underpin VAT collection. Nonetheless, in the 11-m to May collection of taxes on goods and services was a bit sluggish. Taxes on goods and services rose by 19.7% y/y. This is slower than the budgeted 25.4% y/y growth in these taxes this year. Furthermore, collection of taxes on goods and services in the 11-m to May amounted to 84.0% of the budgeted annual number, while it amounted to 88.0% during the same period in FY2017/18.

Central government budget

% of GDP	FY2016/17	FY2017/18	FY2018/19
Total Revenue	21.2	21.5	21.6
Grants	0.1	0.0	0.0
Total Expenditure	30.9	31.0	30.8
Wages and salaries	7.2	6.2	5.9
Interest payments	9.3	9.8	6.0
Subsidies	6.5	8.6	7.3
Overall balance (- grants)	-9.7	-9.6	-9.2
Overall balance (+ grants)	-9.6	-9.5	-9.2

Source: Ministry of Finance

Fiscal deficits

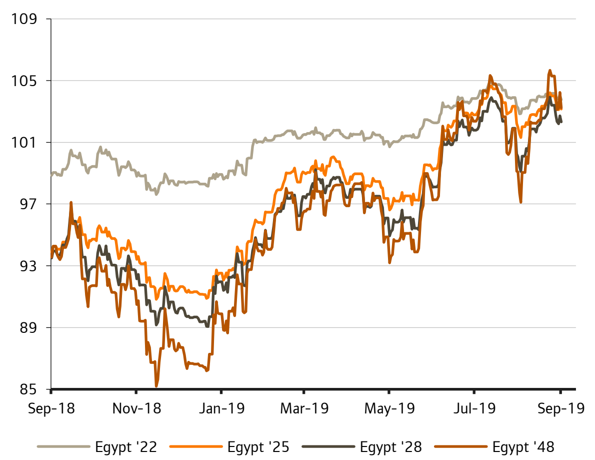


Source: Ministry of Finance

Eurobond outlook: overweight

We remain overweight Egyptian Eurobonds, unperturbed by the planned new issuance in FY2019/20. We still believe that the bonds will benefit from a strong and improving BOP position, and improvement in the fiscal position in coming years. FX reserves have risen considerably, with the upward bias still intact. It has helped that the disinflation process seems to be attracting foreign portfolio investors into the EGP duration trade. While the overall debt level is high, external debt is still very low, making debt service fairly easy for the government. The speed at which the government is reducing the fiscal deficit is quite slow. It seems likely that the government is looking for revenue growth to contribute to the fiscal consolidation effort. Of course, economic growth has picked up in recent years. Evidently, the government expects that economic strength to last, which would also boost revenue growth. It aims for GDP growth of over 6.0% y/y in the medium term.

Eurobond prices – mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	86.8	89.0	91.0	95.2	97.1	99.5	102.0
Nominal GDP (EGP bn)	2 058	2 351	2 763	3 530	4 232	4 867	5 597
Nominal GDP (USD bn)	287.8	300.2	152.3	198.2	236.2	296.8	324.5
GDP / capita (USD)	3 316	3 373	1 674	2 082	2 432	2 982	3 181
Real GDP growth (%)	5.0	3.8	3.8	4.9	5.5	5.7	6.0
Oil Production ('000 b/d)	587.9	603.0	597.1	600.0	600.0	650.0	650.0
Gas Production (bcm)	40.4	36.6	34.6	42.1	45.0	50.0	55.0
Central Government Operations							
Budget balance (incl grants) / GDP (%)	-8.29	-11.49	-12.51	-9.59	-9.68	-9.53	-8.90
Budget balance (excl grants) / GDP (%)	-13.00	-12.54	-12.64	-9.66	-9.71	-9.56	-8.90
Domestic debt / GDP (%)	89.51	96.75	102.81	94.64	93.14	93.14	91.12
External debt / GDP (%)	10.11	8.56	16.02	17.61	20.15	18.90	20.22
Balance of Payments							
Exports of goods and services (USD bn)	47.36	37.62	33.62	42.87	51.62	56.28	64.05
Imports of goods and services (USD bn)	-80.95	-69.46	-68.28	-70.22	-76.33	-81.22	-88.28
Trade balance (USD bn)	-33.58	-31.84	-34.65	-27.35	-24.71	-24.94	-24.23
Current account (USD bn)	-5.92	-17.21	-20.34	-7.92	-6.28	-8.87	-10.06
- % of GDP	-2.06	-5.73	-13.35	-4.00	-2.66	-2.99	-3.10
Capital & Financial account (USD bn)	2.75	23.32	32.72	23.84	13.36	10.99	10.25
- FDI (USD bn)	4.61	6.93	8.11	7.41	6.80	5.63	5.25
Basic balance / GDP (%)	-0.46	-3.43	-8.03	-0.26	0.22	-1.09	-1.48
FX reserves (USDbn) pe	15.30	16.45	24.27	37.00	42.55	45.19	45.38
- Import cover (mths) pe	2.27	2.84	4.26	6.32	6.69	6.68	6.17
Sovereign Credit Rating							
S&P	B-	B-	B-	B-	B	B	B+
Moody's	Caa1	B3	B3	B3	B3	B2	B2
Fitch	B	B	B	B	B	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%, y/y) pa	10.08	10.37	13.72	29.61	14.40	9.90	9.16
Consumer inflation (%, y/y) pe	10.13	11.05	23.30	21.87	11.98	8.38	9.92
M2 money supply (%, y/y) pa	16.49	17.36	26.00	39.70	18.27	13.40	12.88
M2 money supply (%, y/y) pe	14.47	19.31	46.07	21.86	14.73	12.69	13.12
CBE overnight lending rate (%) pa	9.75	9.79	12.58	18.08	18.00	15.38	11.42
CBE overnight lending rate (%) pe	10.25	10.25	15.75	19.75	17.75	12.25	11.25
3-m rate (%) pe	11.46	11.18	18.92	18.77	19.50	15.60	14.80
1-y rate (%) pe	12.00	11.35	19.32	18.50	19.80	16.30	15.60
5-y rate (%) pe	13.64	13.17	16.72	15.73	18.80	17.70	16.80
USD/EGP pa	7.08	7.70	10.06	17.98	17.87	16.86	16.74
USD/EGP pe	7.15	7.83	18.14	17.81	17.92	16.40	17.25

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

Notes: pa - period average; pe - period end

Ethiopia: GDP growth will likely subside

GDP growth: public sector still driving force

We still expect GDP growth easing to 8.0% y/y in FY2018/19 and 7.8% y/y in FY2019/20, primarily because of the drought in H1:19. Notably, food security has deteriorated, and agricultural productivity has subsided. However, the impact of the drought seems to be wearing off now in H2:19, as coffee export earnings have recovered somewhat.

Still, international coffee prices have now fallen to 8-y lows. If this weaker price trend continues into 2020, weather conditions would have to remain conducive in H1:20 in order for export receipts from the coffee sector to be underpinned, at least from a volume perspective.

On the other hand, however, non-coffee exports haven't really picked up despite government efforts to upscale the industrial base. Of course, the government has continued to argue and justify its investment in infrastructure as being a prerequisite for the manufacturing sector to thrive. This however still remains to be seen.

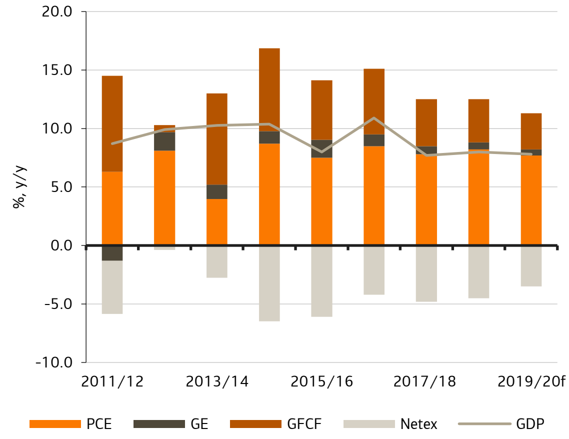
Public investment in infrastructure will still likely be the main driver of economic growth over the medium term as the government looks to complete ongoing power, road and industrial park projects.

However, rising external debt service costs and the IMF/World Bank having classified Ethiopia as an economy with high risk of debt distress could somewhat thwart government endeavours to continue boosting capital expenditure.

Moreover, the attempted coup in the Amhara region in Jun 19 has fanned the fears of further political unrest. To recall, the recent political unrest that resulted in a regime change had disrupted trade across the country and weighed down private investment. In fact, as elections approach in 2020, the political climate is likely to become more heated. Indeed, this is a notable downside risk to our economic growth forecast for 2020.

But, on a broader level, the government ought to continue with economic reforms to ensure that GDP growth becomes more inclusive, likely targeting the private sector as becoming a more dominant driver of growth. Hence, privatization efforts would have to be intensified and economic liberalization plans would also have to take precedent for issues such as currency shortages to be addressed.

GDP by expenditure

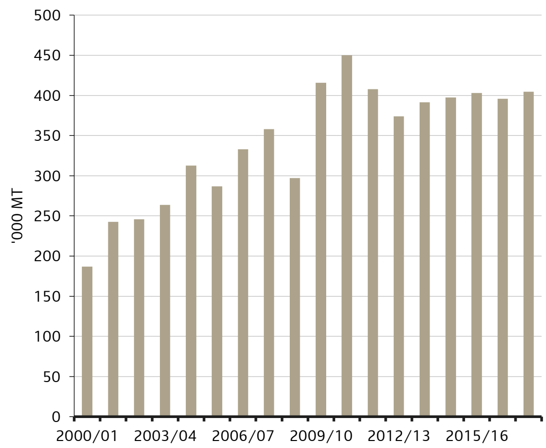


Source: National Bank of Ethiopia; Standard Bank Research

GDP by sector (% contribution)	2010/11	2015/16	2017/18
Agriculture, hinting, fishing and forestry	44.6	37.2	34.9
Mining and quarrying	1.4	0.4	0.3
Manufacturing	4.0	6.0	6.4
Electricity and Water	1.0	4.3	0.8
Construction	4.0	1.7	17.3
Wholesale and retail trade	14.5	0.8	1.3
Hotels and restaurants	3.6	16.5	2.1
Transport and communication	4.2	13.8	5
Financial Intermediation	2.5	2.1	3.4
Real Estate, Renting and Business activities	9.3	4.8	4
Public admin and defence	5.4	3.4	5.3
Education	2.3	4.5	3.4

Source: National Bank of Ethiopia

Coffee production (MT)



Source: National Bank of Ethiopia

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP growth (% y/y) pa	7.7	7.7	7.7	7.7	8.0	8.0	8.0	8.0	7.8	7.8	7.8	7.8
CPI (% y/y) pe	16.1	15.3	13.7	10.6	11.1	15.4	16.8	15.3	15.7	10.0	10.1	15.8
M2 (% y/y) PE	30.3	29.2	24.9	22.2	19.6	20.9	23.4	26.0	25.8	24.5	22.2	21.8
CA/GDP (%) pe	-8.9	-8.6	-8.2	-7.9	-7.7	-7.7	-7.4	-6.9	-7.2	-7.1	-7.2	-7.6
FX reserves (USD bn) pe	3.225	3.45	3.675	3.9	3.9	3.4	3.3	3.1	3.3	3.6	3.9	3.7
Import cover (months) pe	2.5	2.7	2.9	3.1	2.9	2.7	2.5	2.4	2.5	2.7	2.9	2.8
Policy rate (%) pe	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
USD/ETB pe	27.5	28.3	27.9	28.2	28.8	28.9	29.5	30.0	30.7	31.2	31.9	32.4

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

Notes: pa - period average; pe - period end

Political risks: some speed-bumps up ahead

Abiy Ahmed's tenure thus far has seen positive reforms ranging from the restoration of friendly relations with Eritrea to a generally expanded democratic space, garnering the approval of ordinary Ethiopians and the international community.

Ethiopia however remains a complex country best described as a collage of autonomous federal regions premised on ethnicity that, for the most part, has always been restive. Constant flare-ups of violence resulting in massive internal human displacement seem an intractable problem even as Abiy works to keep the situation under control. The grenade attack directed at Abiy and the assassination of top-ranking government officials in Amhara earlier this year show just how tenuous security is. Indeed, several incidents of mostly ethnic clashes have also been reported in the Ogaden region and Abiy's home-ground of Oromia.

The general elections slated to happen next year have been described as pivotal for Ethiopia's future and indeed the position of Abiy Ahmed and his ambitious agenda. It is thus vitally important for Abiy to manage the current fragile security situation, as a continuation of the sporadic violent incidents and internal human displacement may deal a blow to the general elections planned for next year. To that end, Abiy must mend relations with the four constituent components of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), leaders of the autonomous ethnic regions, and the military. Finally, parliament recently approved a new elections law of a raft of electoral ethics that hopefully political parties will abide by and ensure a peaceful electoral process.

Elections results (May 2015)

	% of votes	seats
The Ethiopian People's Revolutionary Democratic Front (EPRDF)	91.7	500
The Somali People's Democratic Party (SPDP)	4.4	24
The Benishangul Gumuz People's Democratic Party (BGPDP)	1.7	9
The Afar National Democratic Party (ANDP)	1.5	8

Source: National Electoral Board of Ethiopia

Balance of payments: exports remain subdued

We see the C/A deficit at 6.9% of GDP for 2019 and thereafter widening again to 7.6% by end 2020.

In the 9-m to Mar 19, imports of goods rose to USD11,683.4m, compared to USD11,567.7m in the same period the year before. Despite the drought earlier this year, the rise in imports has mainly been driven upwards by oil and aircraft related items. During this same period under review, oil imports increased to USD1,969.4m, from USD1,613.7m, while aircraft related imports rose to USD859.9m, from USD268.6m.

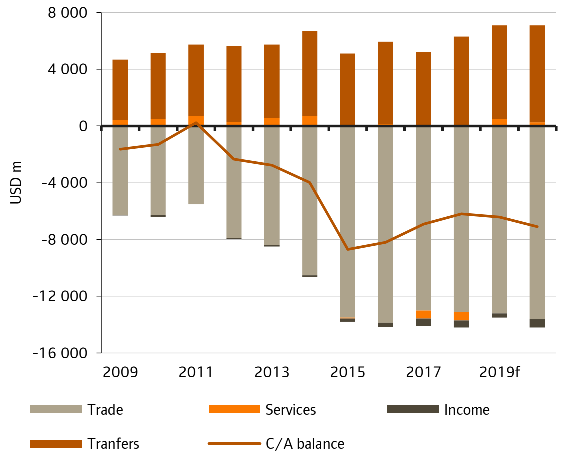
However, imports of goods are unlikely to subside materially in the near term at least owing to the government's plans to support its industrialization ambitions. However, the recent trend of imports seems to indicate that the increase is associated more with oil and aircraft related items rather than machinery. In fact, imports of goods excluding oil, cereals and aircraft, eased to USD8,355.20m in the 9-m to Mar 19, from USD9,139.90m in the same period the year before.

However, despite the government's heavy investment in infrastructure over the past 5-y or so, exports of goods remain weak. Granted, coffee exports were hampered by poor weather conditions earlier in the year, although industrial exports still haven't picked up meaningfully.

To be sure, if FX shortages are not mitigated through economic reforms, the industrial sector could continue to struggle over the coming year and the government would still be heavily reliant on traditional exports such as coffee.

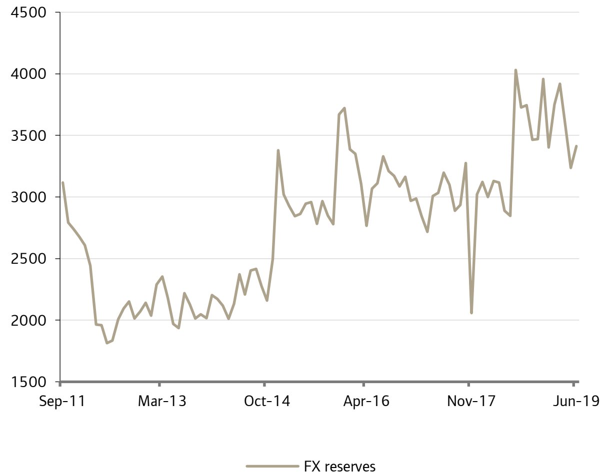
Furthermore, it seems like the government's strategy to boost diaspora remittances is bearing fruit, as remittances from abroad rose 14.0% y/y in the 9-m to Mar 19. This trend will probably continue over the coming year, which should then anchor net current transfers.

Current account developments



Source: National Bank of Ethiopia; Standard Bank Research

FX reserves (USD bn)

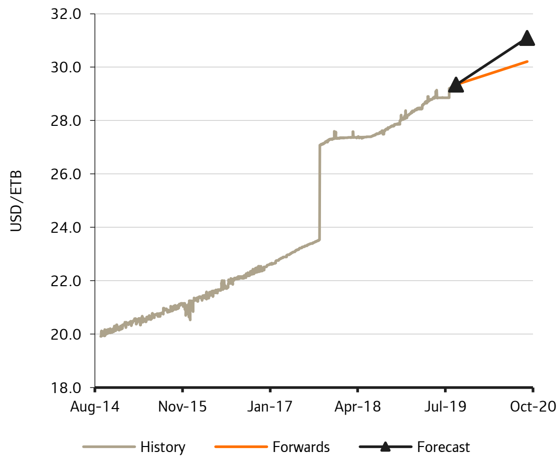


Source: Bloomberg

FX outlook: still moderate depreciation

We still expect USD/ETB to trade around 29.50-30.0 by end 2019. At the time of writing, the ETB had lost just under 5.0% in annualized terms against the USD. Interestingly, the NBE has typically preferred to allow the local unit to weaken approximately 5.0% more or less every year in order to address the overvaluation of the ETB. In fact, according to the NBE, the ETB Real Effective Exchange Rate (REER) appreciated by 23.3% y/y in Mar 19. However, we still don't expect the NBE to devalue the ETB to explicitly address this overvaluation as they did back in 2017. Indeed, there is a sense that this snap devaluation may not necessarily boost export earnings. Instead, policymakers believe that once flagship infrastructure projects have been completed, exports should rise thereafter. This is why we don't expect a devaluation by the NBE. Furthermore, the government's strategy to boost diaspora remittances may also encourage policymakers so that FX shortages can reduce over time.

USD/ETB: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: sticky inflation in H2:19

We still expect a neutral monetary policy stance to be maintained over the coming year.

However, headline inflation is likely to remain elevated in the mid-teen levels at least until Apr 20. Thereafter, unwinding base effects are likely to drive headline inflation down, although it's still likely to be in double digits in H2:20.

Granted, the drought earlier in the year led to higher food prices. The two major issues that are keeping inflation expectations elevated and sticky are the persistent foreign currency shortages and the monetizing of the deficit by the government.

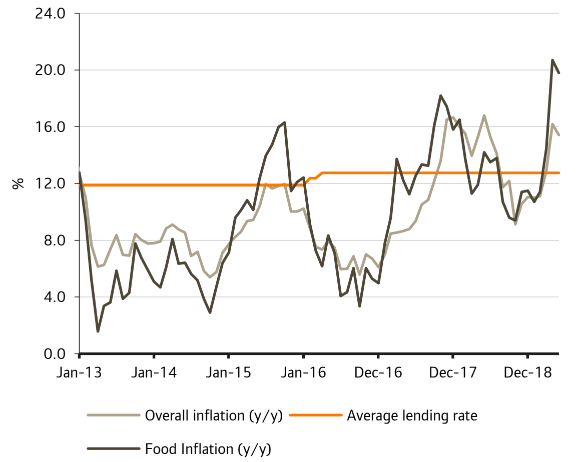
Direct advances made to the government by the NBE grew by 2.3% q/q in Mar 19, from 7.5% q/q in Dec 18. Nonetheless, advances made to the government grew by 15.1% y/y in Mar 19, and could continue to make it more difficult for the NBE to anchor inflation expectations.

M2 money supply growth moderated to 19.6% y/y in Mar 19, from an average of 26.6% y/y in 2018. Moreover, Private Sector Credit (PSC) growth increased to 27.6% y/y in Mar 19, from an average of 24.7% in the 3-m to Dec 18.

Furthermore, the Ministry of Trade has rejected claims that headline inflation is rising due to the shortage of foreign exchange. Although, due to the chronic shortages that have continued to persist, firms have been raising output prices for the most part of this year.

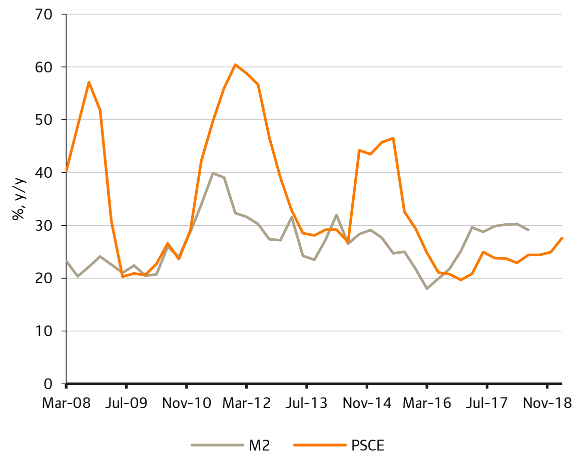
Still, should the government receive more foreign aid owing to the improving political goodwill of the current regime led by PM Abiy, they may need to rely less on the advances made by the NBE. This would bode well in helping to contain inflation expectations over the medium term.

Inflation and interest rates



Source: National Bank of Ethiopia

Monetary aggregates



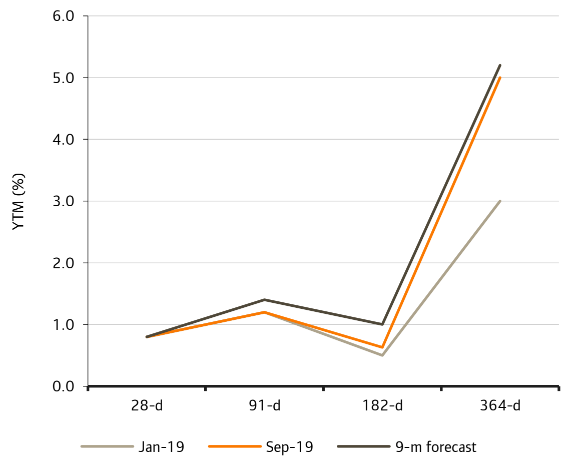
Source: National Bank of Ethiopia

Yield curve outlook: neutral

Except for the 364-d T-bill, the short end of the curve was stable over the past quarter. Yields on the 364-d T-bill have edged up by 20 bps since the beginning of 2019. Local market liquidity remains sufficient to ensure that ETB yields don't rise substantially over the next 6-m. Furthermore, the NBE is probably also not under much issuance pressure to accept expensive bids from the market. After all, commercial banks are required by law to invest a certain portion of their balance sheet towards government paper.

Additionally, the government probably remains keen to still source concessional loans to complete infrastructure projects. Thus, they will probably not look to borrow more from the domestic market than their current issuance plan.

Changes in the yield curve



Source: National Bank of Ethiopia; Standard Bank Research

Fiscal policy: ambitious tax revenue target

The fiscal deficit excluding grants is expected to widen to 3.2% of GDP in FY2019/20, from an estimated outturn of 3.0% in FY2018/19.

The government will likely continue to justify an expansionary fiscal policy stance as they look to complete construction of flagship infrastructure projects to, purportedly, boost manufacturing output and exports.

The government plans to increase total expenditure by 1.6%, from the previous fiscal year. Interestingly, according to the Ministry of Finance, majority of this capital expenditure will be channelled towards the completion of already existing projects. They plan to spend ETB130.7bn on development expenditure.

Moreover, the government expects to collect ETB289.8bn in tax revenue a target they believe is achievable due to the tax reforms conducted over the past year or so. These include introducing electronic tax registers and using third-party information on taxpayers to promote electronic tax filing and payment systems.

That said, foreign currency shortages could continue to keep private sector economic activity weak and thus create an uphill task for the government to achieve this ambitious tax revenue collection target.

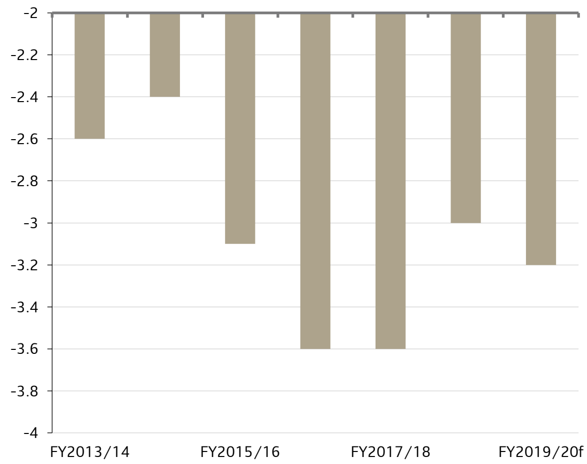
Furthermore, the government is looking to borrow ETB56.8bn from the domestic market and ETB40.3bn from external project funding. A preference is still being given to concessional debt over commercial loans, perhaps due to the IMF and World Bank viewing Ethiopia as being at high risk of debt distress.

Central government budget

% of GDP	FY2018/19	FY2019/20
total revenue	10.0%	10.7%
tax revenue	9.0%	9.5%
current expenditure	3.6%	3.7%
capital expenditure	4.5%	4.8%
regional transfers	5.4%	5.6%
total expenditure	13.5%	14.1%
Deficit excl grants	-3.0%	-3.2%
net external borrowing	0.9%	0.9%
net domestic borrowing	2.1%	2.3%

Source: Ministry of Finance

Fiscal deficit excl. grants (%) of GDP



Source: Ministry of Finance

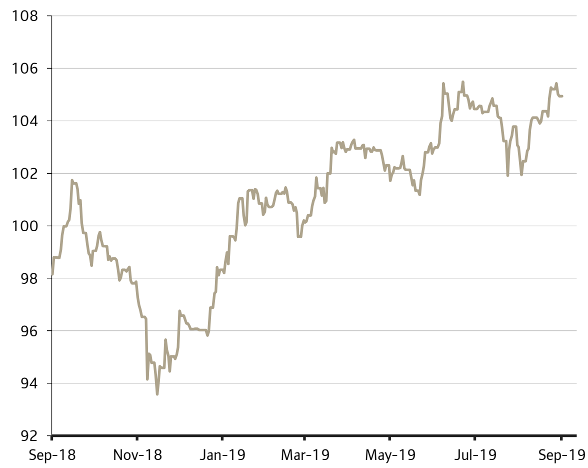
Eurobond outlook: still neutral

We retain our neutral view on the 24s over the next 6-m. Despite renewed political risks in Jun 19 with the attempted coup in the Amhara region, the price of the 24s increased in line with global risk appetite.

That said, considering where the 24s are trading at the time of writing (5.47%), it looks a tad bit rich in valuation in comparison to other similar rated credits with similar durations. We'd therefore still probably prefer to remain neutral on the credit over the next 6-m.

Furthermore, rising external debt service costs due to upcoming debt obligations combined with an expansionary fiscal policy stance and a fragile political environment could eventually prompt us to even consider an underweight position on the 24s.

Eurobonds 24s mid – price



Source: Bloomberg

Ethiopia

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	87	89.1	91.2	92.6	94.1	95.6	97.1
Nominal GDP (ETBbn)	1 061	1 298	1 528	1 807	2 202	2 702	2 955
Nominal GDP (USDbn)	53.8	62.7	69.1	74.4	78.6	92.2	93.5
GDP / capita (USD)	618.5	703.7	758.1	803	835.7	964.6	963.1
Real GDP growth (%)	10.3	10.4	8	10.9	7.7	8	7.8
Coffee production ('000 MT)	391.6	397.5	402.8	396	404.7	402.5	407.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.6	-2.4	-3.1	-3.6	-3.6	-3	-3.2
Budget balance (incl. Grants) / GDP (%)	-1.8	-2	-3.1	-3.4	-3.5	-2.8	-2.6
Domestic debt / GDP (%)	21.1	23.9	25.1	24.9	25.7	27	27.5
External debt / GDP (%)	26	30.4	31.2	30.9	32.6	33.4	33.6
Balance of Payments							
Exports (USDbn)	3.2	3	2.9	2.9	2.7	2.7	2.9
Imports (USDbn)	13.7	16.5	16.7	15.7	15.3	15.5	16
Trade balance (USDbn)	-10.5	-13.5	-13.9	-12.8	-12.6	-12.8	-13.1
Current account (USDbn)	-4	-8.7	-8.2	-6.9	-6.2	-6.4	-7.1
- % of GDP	-7.4	-13.9	-11.9	-9.3	-7.9	-6.9	-7.6
Financial and Capital account (USDbn)	3.9	6.8	5.3	0.7	6.6	6.1	6.3
- FDI (USDbn)	1.5	2.3	2.6	2.75	3.7	3.9	4.1
Basic balance / GDP (%)	-4.7	-10.2	-8.1	-5.6	-3.2	-2.7	-3.2
FX reserves (USDbn) pe	3.4	3.7	3	3	3.9	3.1	3.7
- Import cover (months) pe	3	2.7	2.2	2.3	3.1	2.4	2.8
Sovereign Credit Rating							
S&P	B	B	B	B	B	B	B
Moody's	B1	B1	B1	B1	B1	B1	B1
Fitch	B	B	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.4	10.1	7.3	9.9	13.9	14.7	12.9
Consumer inflation (%) pe	7.1	10	6.7	13.2	10.6	15.3	15.8
M2 money supply (% y/y) pa	29	24.8	21.2	29.6	26.6	22.5	23.6
M2 money supply (% y/y) pe	29.1	21.7	25.1	30.2	22.2	26	21.8
Policy rate (%) pa	5	5	5	5.9	7	7	7
Policy rate (%) pe	5	5	5	7	7	7	7
USD/ETB pa	19.7	20.7	22.1	24.3	28	29.3	31.6
USD/ETB pe	20.3	21.2	22.4	27.6	28.2	30	32.4

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

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

Ghana: transitioning to a period without IMF support

GDP growth: still robust

We still look to export-oriented sectors of the economy accelerating over the course of the next 2-3 years, keeping economic growth quite robust. We expect GDP growth of 6.8% y/y in 2019, accelerating to 7.2% y/y in 2020.

Growth registered 6.3% y/y in 2018, down from 8.2% y/y in 2017 but up from 3.4% y/y in 2016 and 2.2% y/y in 2015. Domestic demand was extremely subdued in 2015 and 2016, understandable given the elevated inflation figures at the time that would have constrained real household incomes, thereby depressing household consumption.

Of course, given the fiscal challenges at the time, it was inevitable that government consumption expenditure would be undermined as well. The fiscal consolidation effort that has brought the fiscal deficit down to less than 5% of GDP is complete. It is reasonable to expect that government consumption will pick up in the medium term. Of course, we still think that restraint will characterise the government's fiscal policy conduct in the medium term despite the 2020 elections. After all, the Fiscal Responsibility Law mandates a 5.0% of GDP ceiling for the fiscal deficit.

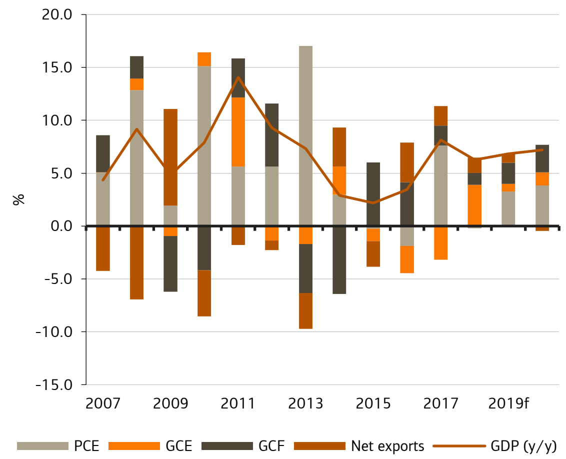
After growing at an average pace of 5.4% y/y in H1:18, GDP growth accelerated to an average of 6.9% y/y in H2:18. It grew by a comparable 6.7% y/y in Q1:19. A notable contributor to that acceleration was the services sector that grew at less than 2.0% y/y in H1:18, to 7.2% y/y in Q1:19. The financial sector went from contracting by an average of 12.5% y/y in H1:18, to growing by 2.1% y/y in Q1:19.

The agricultural sector slowed down quite a bit in Q1:19, growing by 2.2% y/y after growing by an average of 4.9% y/y per quarter in 2018. The Q1:19 growth rate is the lowest since the 0.4% y/y growth rate in Q1:16. Value added in crops and cocoa production contracted by 3.8% y/y, with value added in cocoa production contracting by 22.9% y/y, contributing the most to the slowdown in the agricultural sector.

Of course, the government and the Ivorian counterpart have agreed to fix the price of cocoa at no less than USD2,600/MT. In the medium term this price floor might come to affect the value added by cocoa production.

The contribution of net exports to economic growth is likely to subside this year and next. Indeed, after contributing positively to growth in the 4-y to 2018, we expect it to detract from overall growth in 2020. Nevertheless, there is a great deal of uncertainty in that forecast. While gold production is likely to pick up next year, growth in oil production is likely to decelerate. Furthermore, there is always a chance that government capital expenditure might accelerate, thereby boosting machinery and equipment imports.

Composition of GDP by demand



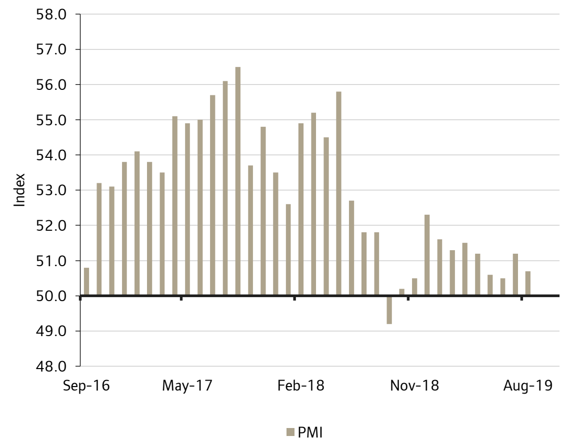
Source: Ghana Statistical Services; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2017	2018
Crops	14.6	15.4	14.5
- Cocoa	1.7	1.8	1.6
Livestock	3.7	3.0	2.7
Mining and Quarrying	13.6	10.9	13.6
- Oil and gas	5.8	3.5	3.8
Manufacturing	12.4	11.3	11.3
Construction	9.1	8.2	7.1
Trade	11.2	14.0	15.2
Hotels and Restaurants	3.9	3.9	3.8
Transport and Storage	6.0	7.2	7.5
Financial services	5.1	5.0	4.2
Public administration	3.7	3.3	3.3
Education	4.0	3.4	3.2

Source: Ghana Statistical Service

Purchasing Managers' Index



Source: Markit; Bloomberg

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	5.4	5.4	7.4	6.8	6.7	6.7	6.5	7.4	7.3	7.2	6.3	7.8
CPI (% y/y) pa	10.4	9.8	9.8	9.4	9.2	9.3	9.1	9.2	9.1	9.0	9.3	9.7
M2 (% y/y) pa	13.5	16.6	21.3	17.4	21.2	19.1	12.8	18.1	17.0	18.7	19.2	18.8
CA/GDP (%) pe	-3.4	-3.3	-3.2	-3.2	-3.2	-3.0	-3.1	-2.8	-2.9	-3.1	-3.2	-3.3
FX reserves (USD bn) pe	4.4	4.1	4.0	3.9	4.2	4.7	5.0	5.1	5.4	5.7	6.0	6.1
Import cover (mths) pe	4.0	3.8	3.6	3.6	3.8	4.2	4.5	4.6	4.4	4.7	5.0	5.0
3-m rate (%) pe	11.7	11.4	15.3	16.5	16.5	16.0	15.5	15.1	15.2	15.2	15.3	15.3
5-y rate (%) pe	17.5	16.0	18.0	21.5	18.5	17.5	17.0	19.0	19.1	19.3	19.2	19.2
USD/GHC pe	4.41	4.79	4.97	4.91	5.51	5.47	5.38	5.53	5.66	5.77	5.72	5.77

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

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

Political risks: fiscal policy implementation risks

Since the return to multi-party democracy in 1992, the Ghanaian electorate has always switched between the NPP and NDC, giving each party 2 terms in office. Will 2020 be any different?

At face value, the afore-mentioned empirical regularity should allow the ruling party not to worry about attempting to pursue populist policies in order to win the election. In any event, the NDC managed to stick with the fiscal consolidation campaign in 2016, facing a tough election that it would ultimately lose.

Over the next 4-m, perhaps the key policy risk to watch out for is whether the government will keep to the budgeted fiscal deficit target. In the past 3-y or so, the government had to cut spending, specifically capital expenditure, in order to meet the fiscal deficit target.

Another argument we have come across from investors concerned about the government maintaining fiscal prudence is that, arguably, the government was constrained by the IMF-funded program. Perhaps it had to sacrifice some of the programs and projects that would have allowed it to make some headway towards achieving its pre-election campaign promises. Now that the IMF does not need to closely monitor fiscal performance, there is a chance that the government would not feel the need to sacrifice capital expenditure.

Yet, notably, capital expenditure was nearly 45% below programmed levels in H1:19. Over the same period, expenditure on the use of goods and services was 30.1% above the programmed level for that period.

Election results (2016)

Presidential election	**% of votes**
Nana Akuffo Addo (NPP)	53.9
John Dramani Mahama (NDC)	44.4
Legislative election	Seats
New Patriotic Party (NPP)	171
National Democratic Congress (NDC)	100
People's National Convention (PNC)	1
Independent	3
Total	275
Registered voter turnout	68.60%

Source: Electoral Commission of Ghana

Balance of payments: stronger

It seems highly improbable that the C/A surplus recorded in H1:19 will persist for the rest of this year. The cumulative surplus year-to-date actually fell in Q2:19 despite the trade surplus remaining strong. The cumulative C/A surplus amounted to USD276.7m in Q1:19 but fell to just USD39.1m by the end of Jun. Meanwhile, the cumulative trade surplus rose to USD1.9bn from USD777.4m over the same period. Evidently, there was a normalisation of service and income flows during Q2:19.

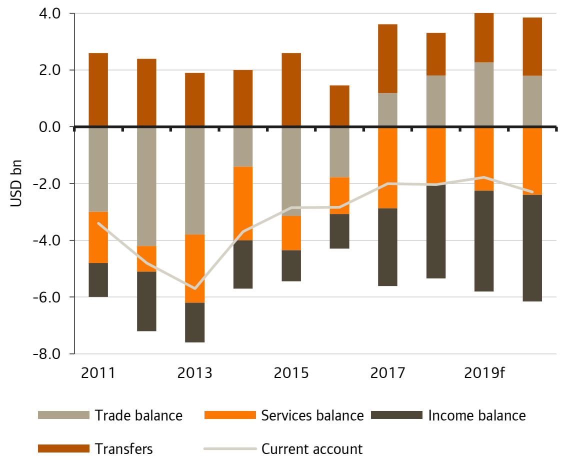
Even though we still expect the C/A balance to be in deficit for 2019, we have lowered our forecast to a deficit of 2.8% of GDP this year and 3.3% of GDP in 2020. It looks highly probable that import demand will pick up going to next year, resulting in a lower trade surplus than this year.

While we are cognisant of 2020 being an election year, we still hold that the impact on the BOP is likely to be minimal. Granted, there are some notable risks in this regard. The government noted that public employees working for entities that are not on the Single Spine Salary Structure (SSSS) have had salary increases that are faster than those working for entities that are on the structure. This has led to a widening of pre-existing salary discrepancies, which the government is committed to eliminate. In this regard it will ensure that the salaries of those on the SSSS will rise faster. Naturally, this might boost domestic spending and bolster imports.

Government external borrowing will remain a main source of capital inflows in the next 2-y. That is certainly the government will return to the Eurobond market during H2:19. That is certainly the indication from the Mid-year Budget Review. Additionally, it indicated that it is looking for USD500m from the World Bank.

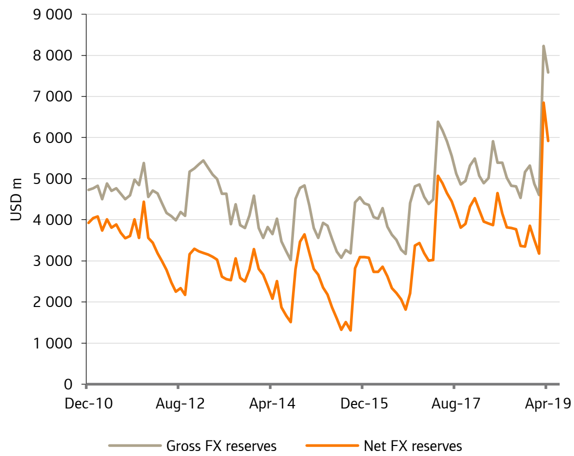
We expect gross FX reserves to end the year at USD5.1bn, covering 4.6-m of imports, rising to USD6.1bn (5.0-m of imports) in 2020. They were at USD8.6bn in Jun, bolstered by the issuance of Eurobonds by the government. To be sure, they are down from their USD10.0bn level in Mar.

Current account developments



Source: Bank of Ghana; Standard Bank Research

FX reserves

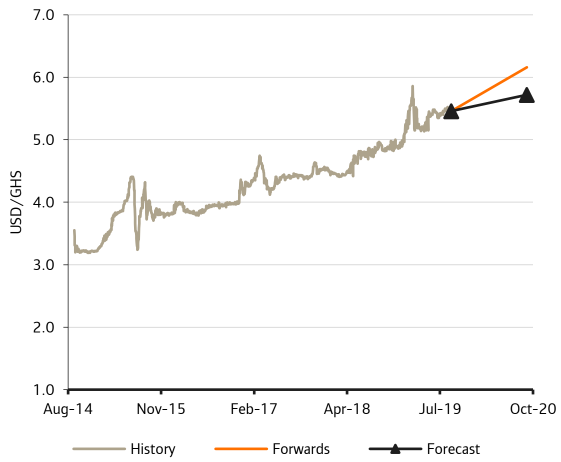


Source: Central Bank of Ghana

FX outlook: depreciation bias intact

USD/GHS is likely heading higher over the coming 12-m. We still see the pair rising at an annualised pace closer to 5%-8% in the medium term, instead of the more than 20% that was predominant between 2012 and 2015. That said, the completion of the IMF-funded program and the upcoming elections in 2020 raise the risk that the pair will be characterised by a great deal of volatility. It is highly probable that the BOG will be quite active in the market, intervening regularly to try to stabilise the pair. Arguably, given the strength of the BOP the BOG would be justified to intervene. Of course, there is also the need to ensure that GHS depreciation does not pass through to inflation. Although inflation has declined and stayed within the target range for more than 12-m, a depreciation of the GHS could jeopardise the inflation outlook.

USD/GHS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: on hold despite easing bias

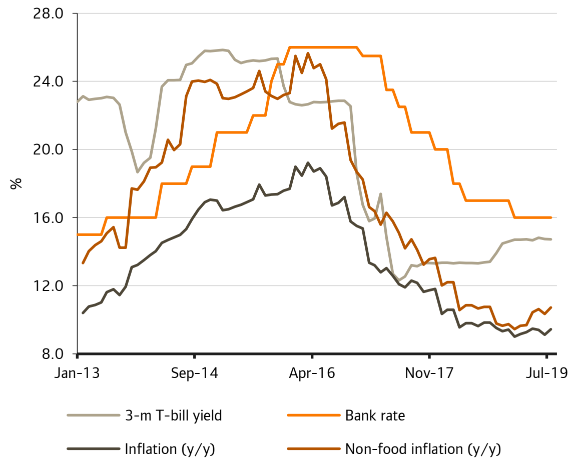
The BOG's MPC will likely leave the policy stance unchanged over the next 4-m. Given that headline inflation has been below the 10% y/y upper bound of the target range, the committee will probably have an easing bias.

Upon observing the long-term inflation trends, our remains the significant divergence between food and non-food inflation components of the headline CPI. While food inflation has been in single digits since the current CPI series was launched in 2012, non-food inflation has only recorded 6 single-digit readings in that time. But then, since Q2:19, non-food inflation has reverted to double digits.

Typically, one indication that inflation pressures are subdued, and will likely remain so in the medium term, is a clustering of low inflation readings among the headline CPI sub-indices. During Q418 and Q1:19, non-food inflation was in single digits, averaging 9.7% y/y and 9.6% y/y respectively. Yet in that time the clothing and footwear sub-index, household goods, operations and services sub-index, the transport sub-index and the recreation, entertainment and cultural services sub-index remained in double digits, ranging from 11.6% y/y to 13.3% y/y. To be fair, the miscellaneous goods and services sub-index was on the cusp, never definitively falling into single digits. These sub-indices account for 30.7% of the CPI basket, more than half of the non-food CPI.

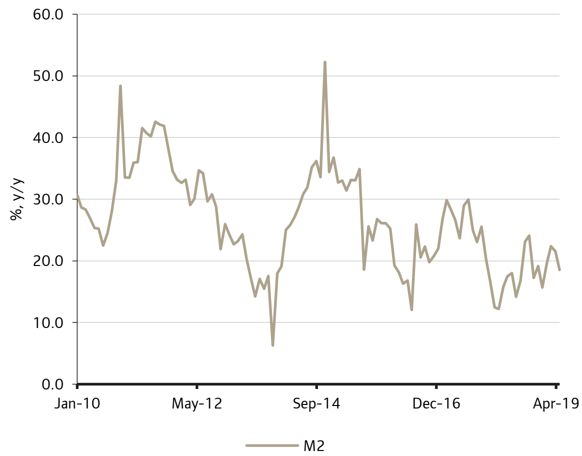
The rising trajectory of non-food inflation since Mar, taking it to an average of 10.5% y/y in the past 4-m, is concerning. It seems to have been instigated by rising utility costs. The housing and utilities sub-index grew at an average of 3.0% y/y in the 12-m to Mar but accelerated to 9.8% y/y in Jul. Of course, the Public Utilities Regulatory Commission approved an 11.17% average tariff increase effective from 1 Jul.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

Money supply growth

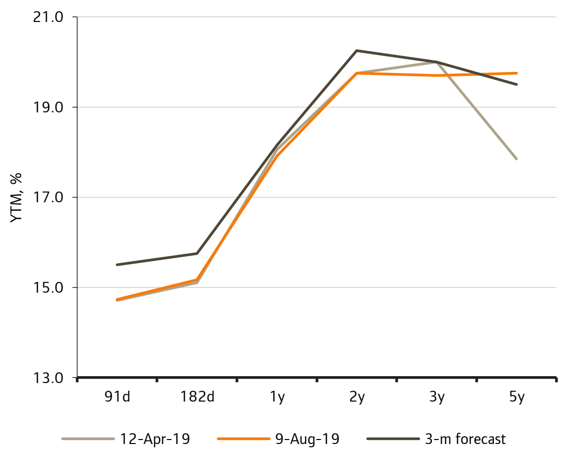


Source: Bank of Ghana

Yield curve outlook: upward pressure

We still believe that the balance of risks points to some upward pressure on yields across the curve. In part this will be due to increased supply of paper. The government has increased the budgeted deficit for this year slightly, while reducing net external issuance. Thus, increased domestic issuance is required both to accommodate a higher deficit and lower net external issuance. Thus far, the BOG has been unwilling to allow yields to rise. This might have discouraged demand from foreign investors. To be sure, data is not indicating that there are significant portfolio outflows, perhaps just repatriation of coupon payments that have not been re-invested. Local investors, who have been keen buyers of long-dated bonds in recent years, will be watching the inflation numbers closely. Certainly, if the rising trajectory of non-food inflation comes to characterise headline inflation, then these investors are likely to demand higher yields or reduce duration.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: higher gross financing requirements

A notable aspect of the Mid-Year Budget Review was the government's revelation of contingent liabilities related to take-or-pay contracts that the Electricity Company of Ghana (ECG) signed with independent power producers. In Sep 18, the Minister of Energy revealed that the ECG signed some 40 power purchase agreements (PPAs) with independent power producers that would result in installed generation capacity of about 11,000 MW, far in excess of peak demand of 2,400 MW. Following a review of 26 of these PPAs, 11 were terminated, 4 deferred to between 2018 and 2025, and 3 deferred beyond 2025.

The government will make an amortisation payment of GHS5.1bn with respect to the contingent liabilities arising from these PPAs, a payment that was not originally budgeted. Hence, this results in an increase in gross external financing requirements for this year. While net external financing is lower by GHS1.5bn, net domestic financing rises by GHS2.6bn, budgeted issuance of Eurobonds has increased by GHS4.0bn, or slightly under USD750m.

Overall, the government revised the fiscal deficit to 4.5% of GDP from the originally budgeted 4.2% of GDP. Even though revenue collection did not meet the government's expectations, it did not revise the target for the year much. In part, this shortfall was due to lower oil shipments than the government expected in H1:19. So, this will likely correct in H2:19. But the government is also banking on increases in several levies such as the Road Fund Levy and the Energy Debt Recovery Levy, and a higher Communication Service Tax rate. In addition, the government expects revenue to be boosted by proceeds from the sale of electromagnetic spectrum and telecommunication companies' licence renewals.

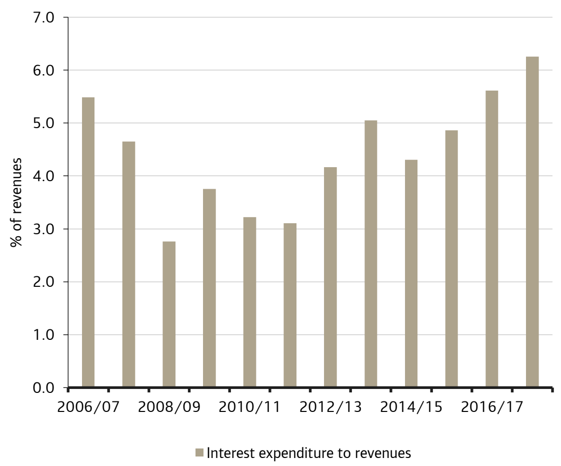
A weaker exchange rate and higher domestic borrowing necessitated an upward adjustment to budgeted interest expenditure. Security expenses have also increased. Also notable is a commitment by the government to increase salaries of employees on the Single Spine Salary Structure at a faster pace than those not on it, in order to eliminate disparities.

Central government budget

	2018	2019	
% of GDP	Estimate	Budget	Revised
Revenues	15.6	16.8	16.7
Expenditure	19.5	21.1	21.4
- Wages	6.6	6.6	6.6
- Interest	5.3	5.4	5.7
- Capital	1.6	2.5	2.2
- Arrears clearance	0.3	0.2	0.2
Budget deficit (- grants)	-4.2	-4.5	-4.9
Budget deficit (+ grants)	-3.8	-4.2	-4.5
Net domestic financing	3.3	1.3	2.0
Net external financing	0.9	2.8	2.4
Other financing	0.0	0.4	0.4
Petroleum funds	0.1	-0.1	-0.1
Sinking fund	-0.3	-0.2	-0.2
Contingency fund	0.0	0.0	0.0
Grants	0.4	0.3	0.3

Source: Ministry of Finance

Interest expenditure

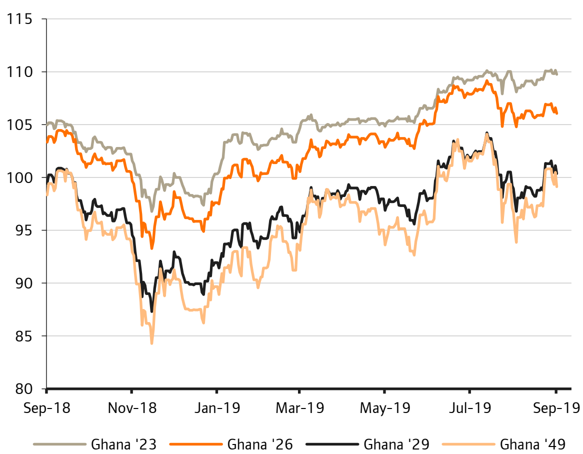


Source: Ministry of Finance and Economic Planning

Eurobond outlook: still underperforming

Ghanaian Eurobonds have underperformed in the past 4-m. The completion of the IMF-funded program is a factor that might have dampened investor appetite. There has always been a pervasive feeling that the government would not be able to restrain spending and the fiscal deficit in the period leading up to the 2020 elections, especially so in the absence of an IMF-funded program. The mid-year budget statement for this year will do nothing to dispel these fears. The amortisation of GHS5.1bn with respect to contingent liabilities for the energy sector, giving rise to additional gross external financing requirements, is notable. Additionally, the market may regard the undertaking by the government to increase the salaries of public employees that are on the Single Spine Salary Structure faster than those that are not as a populist measure. Anyway, it leaves doubts as to whether restraint on salary expenditure will materialise. Given this, it is hard to see the bonds outperforming in the next 4-m.

Eurobond prices - mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	26	27	28	29	29	30	31
Nominal GDP (GHC bn)	155	180	215	257	298	346	402
Nominal GDP (USD bn)	56	47	55	58	64	64	70
GDP / capita (USD)	2 133	1 770	1 947	2 035	2 174	2 140	2 288
Real GDP growth (%)	2.9	2.2	3.5	8.2	6.3	6.8	7.2
Gold Production ('000 FO)	3 344	3 200	3 300	3 795	4 175	4 383	4 602
Cocoa bean production ('000 MT)	880	875	870	870	887	910	930
Oil production (k bpd)	102.7	101.4	97.0	149.0	168.0	185.0	215.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-8.0	-6.5	-7.8	-5.4	-4.2	-4.9	-4.9
Budget balance (incl. grants) / GDP (%)	-7.4	-5.4	-7.3	-4.8	-3.8	-4.5	-4.7
Domestic debt / GDP (%)	22.5	22.4	24.8	26.0	28.3	29.2	29.5
External debt / GDP (%)	28.7	33.2	32.0	29.6	29.2	30.2	30.6
Balance of payments							
Exports of goods (USD bn)	13.2	10.3	11.1	13.8	14.9	15.6	16.4
Imports of goods (USD bn)	-14.6	-13.5	-12.9	-12.6	-13.1	-13.3	-14.6
Trade Balance	-1.4	-3.1	-1.8	1.2	1.8	2.3	1.8
Current account (USD bn)	-3.7	-2.8	-2.8	-2.0	-2.0	-1.8	-2.3
- % of GDP	-6.6	-6.0	-5.2	-3.4	-3.2	-2.8	-3.3
Capital & Financial account (USD bn)	3.9	3.1	2.6	3.0	1.8	3.0	3.3
- FDI (USD bn)	3.4	3.0	3.5	3.2	2.5	2.6	2.4
Basic balance / GDP (%)	-0.5	0.3	1.2	2.1	0.7	1.3	0.1
Net FX reserves (USD bn) pe	3.2	2.9	3.4	4.5	3.9	5.1	6.1
- Import cover (months) pe	2.6	2.6	3.2	4.3	3.6	4.6	5.0
Sovereign Credit Rating							
S&P	BB-	BB-	BB-	B-	B-	B-	B-
Moody's	B2	B3	B3	B3	B3	B3	B3
Fitch	BB	BB	BB	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	15.8	17.1	17.5	12.4	9.8	9.2	9.2
Consumer inflation (%) pe	17.0	17.7	15.4	11.8	9.4	9.1	9.1
M2 money supply (% y/y) pa	33.1	28.7	19.9	25.4	17.2	17.8	18.4
M2 money supply (% y/y) pe	34.4	26.1	20.8	20.3	19.2	16.6	18.8
BOG prime rate (%) pa	18.5	23.6	25.9	22.7	17.7	16.0	16.0
BOG prime rate (%) pe	21.0	26.0	25.5	21.0	17.0	16.0	16.0
3-m rate (%) pe	25.0	22.8	19.0	11.5	16.5	15.1	15.3
1-y rate (%) pe	25.0	22.5	20.5	14.8	19.5	15.5	15.6
2-y rate (%) pe	23.0	22.0	20.9	18.0	21.3	19.3	19.0
5-y rate (%) pe	22.0	22.0	19.0	17.9	21.5	19.0	19.2
USD/GHC pa	2.78	3.81	3.93	4.40	4.69	5.40	5.72
USD/GHC pe	3.20	3.81	4.22	4.52	4.91	5.53	5.77

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

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

Kenya: private sector reforms required

GDP growth: not as weak as thought

We trim our 2019 GDP forecast to 5.8% y/y, from 5.6% y/y, and we retain our 2020 estimate at 6.2% y/y.

Due to poor weather in Q1:19, we were concerned about the outlook for the agricultural sub-sector, not just for Q1:19 but for 2019, given this sector's large contribution to GDP.

However, the agricultural sub-sector grew by 5.3% y/y in Q1:19, from 3.9% y/y in the 3-m to Dec 18. Strong output from horticulture supported economic activity in the agrarian sector even as tea production suffered as a result of the long rains.

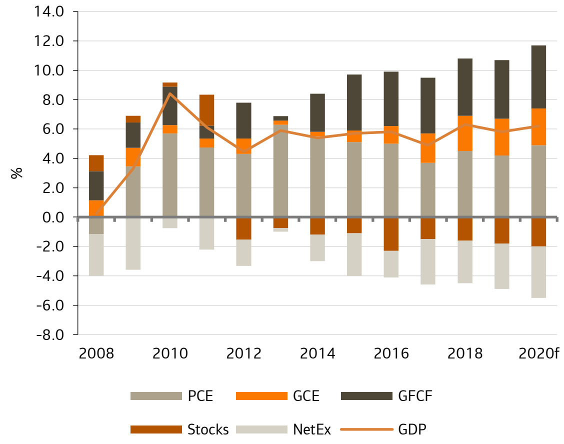
While tea production has somewhat recovered from Q2:19 after the onset of the long rains, notable demand risks remain from key source markets such as Pakistan and Iran, which could hamper net exports. Of course, in the event of a no-deal Brexit, growth in floriculture and horticulture could also abate over the coming year as these sectors rely on the GBP and the EUR as a receivable currency. Furthermore, the detrimental effects of delayed long rains could still negatively affect the planting season for farmers in upcoming harvests. Therefore, agricultural productivity could still be weaker in H2:19.

On a more positive note, the government has begun paying arrears owed to the private sector, specifically from Jun 19. But, it's unclear how much of these funds were released by the Ministry of Finance to settle VAT refunds and other general payments owed to contractors and suppliers. The total stock of private sector arrears stood at 1.5% of GDP as at Jun 19. If the recent trend of clearing these arrears persists, the cashflow constraints that the private sector previously faced are likely to reduce and subsequently support PCE.

Additionally, if the interest rate capping law is successfully repealed as proposed in the Finance Bill (2019) or favourably amended, private consumption would probably rise. In our base case, we still expect an amendment to the interest rate cap rather than a total repeal.

Of course, the nature of the potential amendment to the law will have a bearing on how quickly access to credit to the private sector will improve. We suspect that the new cap, in the event of a revision, would have to be at least set at 17.0%-18.0% in order to embolden commercial banks to price credit risk, especially for the Small and Medium Enterprises (SMEs). Conversely, if the interest rate cap is not repealed or amended, PCE could remain depressed for longer, especially if this happens to coincide with the government not releasing payments to the private sector in a timely fashion.

GDP by expenditure



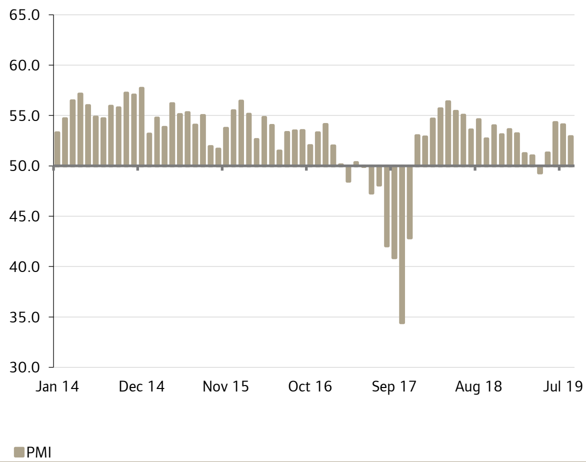
Source: Kenya National Bureau of Statistics; Standard Bank Research

GDP contribution (% of total)

	2005	2011	2014	2016	2018
Agriculture	25.5	22.8	22.0	21.80	21.3
Mining & quarrying	0.45	0.86	0.92	1.07	1.03
Manufacturing	9.87	11.65	10.87	10.30	9.64
Electricity & water supply	2.38	2.26	2.40	2.49	2.61
Construction	3.02	4.22	4.83	5.37	5.60
Wholesale & retail trade	9.04	7.21	7.69	7.53	7.58
Accommodation & restaurant	1.33	1.62	1.13	1.14	1.36
Transport & storage	10.4	7.02	6.59	6.93	7.12
Information & communication		3.21	3.59	3.83	4.25
Financial & insurance	3.74	5.62	6.00	6.25	6.09
Public administration	3.96	4.03	3.92	3.86	3.93
Real Estate	5.62	8.26	8.12	8.44	8.36
Education	6.22	6.40	6.97	6.94	6.87

Source: Kenya National Bureau of Statistics

Stanbic Bank Kenya PMI



Source: IHS Markit

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	6.5	6.4	6.3	6.0	5.6	5.5	5.9	6.1	5.7	6.4	6.4	6.2
CPI (% y/y) pe	4.2	4.3	5.7	5.7	4.4	5.7	4.7	5.8	6.5	4.8	6.2	6.7
M3 (% y/y) pe	5.9	10.4	8.5	10.1	12.5	9.2	10.1	10.9	11.4	11.6	12.5	13.1
FX reserves (USD bn) pe	8.8	8.7	8.4	8.0	8.3	9.1	9.3	8.5	8.7	10.0	9.4	8.9
Import cover (months) pe	5.9	5.7	5.6	5.2	5.3	5.8	5.8	5.3	5.3	5.9	5.5	5.0
3-m rate (%) pe	8.0	7.7	7.6	7.3	7.5	6.8	6.3	6.4	6.6	7.0	7.3	7.8
5-y rate (%) pe	12.4	12.2	11.7	11.6	11.3	10.5	10.2	10.8	11.4	11.8	12.1	12.2
USD/KES pe	101.3	100.9	101.0	102.0	100.8	102.3	104.0	103.5	102.8	104.2	105.9	106.5

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

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

Political risks: shifting tectonic plates?

Kenyans have seen dramatic and indeed unprecedented arrests of prominent public officials, with the arrest of the immediate former Treasury Cabinet Secretary, Henry Rotich and his Principal Secretary, Kamau Thugge on allegations of having had a hand in awarding fictitious contracts. Additionally, the governor of Kiambu County Ferdinand Waititu and his wife were also arrested and charged with corruption-related offences, resulting in the loss of millions from county coffers. To be sure, these arrests have elicited positive reactions from the population.

However, the broad spectrum of Kenyans have expressed their dissatisfaction with the seeming lack of commitment by government to bring those accused to book, as there's been no convictions. Also, the fact that all charged officials invariably get bail has only served to reinforce Kenyans' lack of confidence in the government's so-called war on corruption.

Politically, it nevertheless seems that alignments are afoot. The most prominent development has been the rise of former Prime Minister Raila Odinga as the incumbent's most trusted lieutenant and the corresponding alleged fall-out between the president and his deputy. While the incumbent has attempted to allay the fears of Jubilee insiders alarmed at Raila's rising stock by citing the Building Bridges Initiative(BBI) as a peacebuilding initiative necessary for the achievement of the country's development targets, members allied to the deputy president have accused the BBI as nothing more than a trojan horse intended to attenuate the deputy president's presidential ambitions. In fact, the deputy president's followers have also charged that the broached referendum process only served to corroborate their fears as the said referendum merely intended to accommodate Raila Odinga.

Election results (2017)

Presidential election		
Uhuru Muigai Kenyatta	Jubilee	98.26
Raila Amolo Odinga	NASA	0.96
Ekuru Aukot	TAK	0.28
Others		0.5

Parliamentary election	Seats
Jubilee Coalition	138
Orange Democratic Movement	63
Wiper	17
Others	72
Total	290

Source: Independent Electoral and Boundaries Commission

Balance of payments: solid service receipts

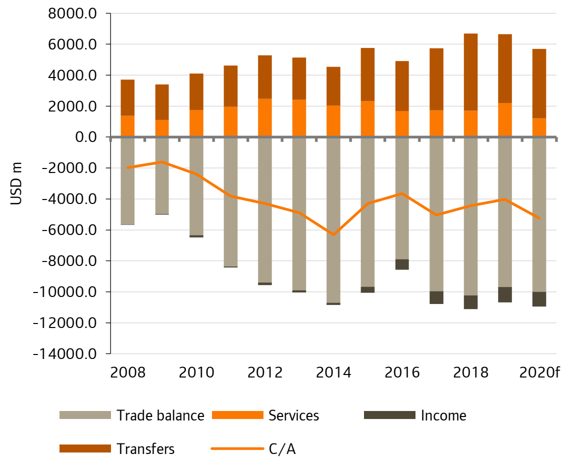
We revise our 2019C/A deficit forecast to 4.3% of GDP, from 5.3%. Imports of goods haven't been increasing as quickly as we hoped. Whereas, export receipts from tourism have been impressive despite the terror attack at the beginning of the year.

Mainly due to the delayed long rains season, tea production only recovered from Q2:19. However, while weather-related risks have eased for the tea sector, concerns have now shifted to the demand side where high quality tea buyers such as Pakistan continue to face economic and political headwinds. Furthermore, floriculture and horticulture export earnings could also subside over the coming year if a no-deal Brexit transpired in Q4:19. In any case, we would expect separate bilateral trade agreements between the UK and Kenya to be negotiated. Although, agreeing structures for these trade deals could prove to be a lengthy process and hence result in a scenario where horticulture and floriculture receipts subside before picking up.

A combination of the tax amnesty and a new functionality that enabled Kenyans working in the diaspora to send money back home using M-PESA (mobile money) largely underpinned net current transfers over the past year. However, with the tax amnesty expiring in Jun 19 and global growth likely to weaken, diaspora remittances may not be as robust as in previous years.

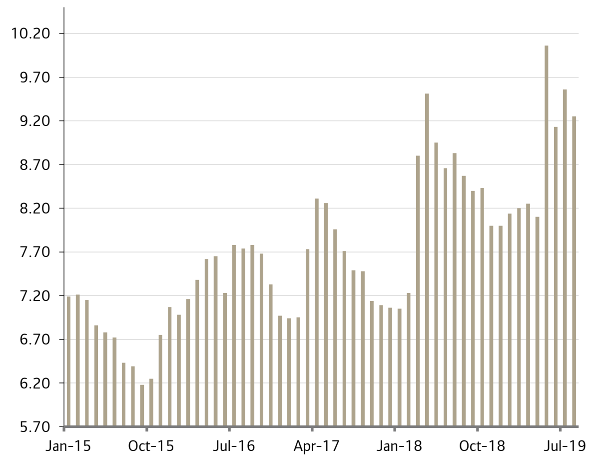
Moreover, with the government still unsure as to whether they will secure financing for the third phase of the Standard Gauge Railway (SGR) project, imports of goods could continue to remain steady over the coming year. However, the government will perhaps still be looking to increase infrastructure investment on other projects that would supplement their Big 4 growth agenda. We therefore see the C/A deficit widening to 5.0% of GDP in 2020.

Current account developments



Source: Central Bank of Kenya; Standard Bank Research

FX reserves (USD bn)

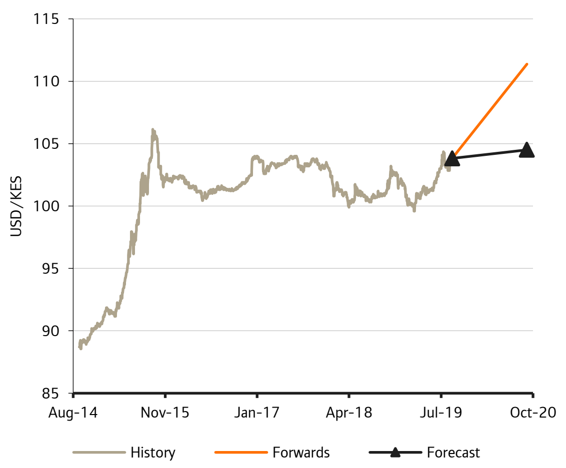


Source: Central Bank of Kenya

FX outlook: exporters should hedge in Q4:19

We still expect USD/KES to trade at around 103.50 levels by the end of 2019. The pair is likely to rise in Q4:19 primarily due to seasonal dividend payments which increase USD demand. However, thereafter as we approach Q1:20, the KES is likely to benefit from increased floriculture export earnings. Thus, we would recommend that exporters hedge their exposure and sell USD forward as USD/KES rises between Sep and Nov 19 during the dividend buying period. Moreover, despite concerns around the KES outlook following the end of the tax amnesty in Jun 19, we doubt this would have a notable impact on the local unit because anecdotally we understand that most of the tax amnesty funds that came back to the country were not converted into KES in the first place. Nevertheless, import demand for consumer goods remains subdued but could rise materially in 2020 if the interest rate cap is repealed or amended and if private sector arrears are cleared consistently.

USD/KES: forwards versus forecasts



Source: Bloomberg

Monetary policy: neutral, with a dovish H1:20 bias

We expect the MPC to retain its policy rate at 9.0% this year. However, the MPC could be tempted to deliver a token CBR cut after Q1:20.

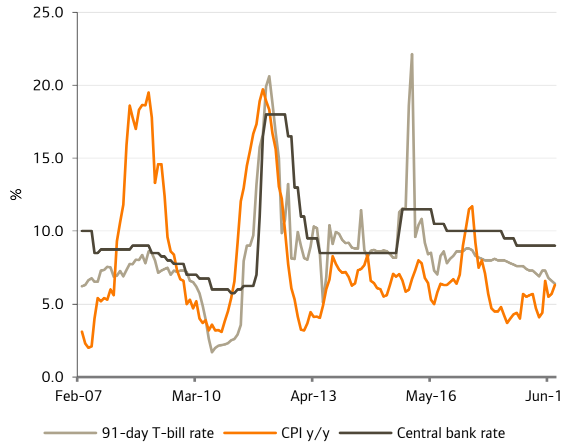
Owing to the delay in long rains, food prices only began falling from Q2:19 onwards, and thus headline inflation could continue to decline to around 4.5%-5.0% y/y by Sep 19. However, thereafter as base effects unwind and seasonal dividend demand weighs down the KES, headline inflation will probably rise back closer to the 6.0% y/y levels by Dec 19.

Furthermore, headline inflation is likely to rise further to an average of 6.8% y/y in Q1:20 mainly due to the seasonal dry spell that usually occurs prior to the long rains season in Mar/Apr. Although, this would usually depend on how good or bad the short rains season is in Q4. In any case, m/m headline inflation rose by an average of 1.0% in Q1 over the past 5-y or so. But headline inflation will probably begin to ease and stabilize in a 4.0%-5.0% y/y range between Apr and Jul, a period during which we'd expect the MPC to cut the CBR by around 50 bps.

Our view of an easing of monetary policy is largely contingent on what happens with the interest rate capping law. If a repeal or amendment is made to the cap in H2:19, the MPC will probably be emboldened to cut rates.

However, on the other hand, if a revision to the cap is still a function of the CBR, the MPC may be hesitant to cut rates if that move would supposedly slow down the recovery in Private Sector Credit (PSC) growth. Surprisingly however, for the last 6-m or so, the MPC has highlighted that the economy is operating close to its potential, a view we don't share at this time.

Inflation and interest rates



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

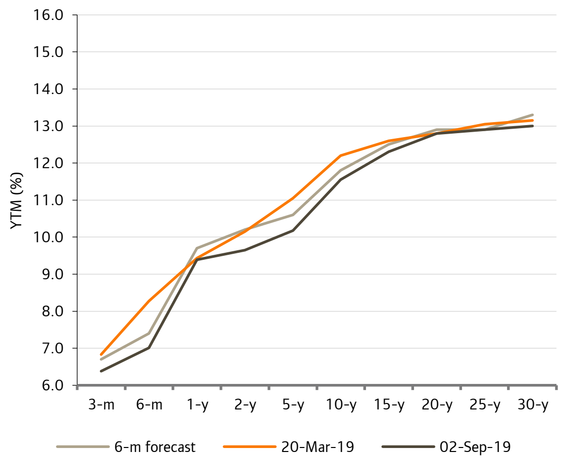
Monetary aggregates

Source: Central Bank of Kenya

Yield curve outlook: depends on rate cap

Over the next 6 to 12-m, the movement of the yield curve will predominantly depend on the outcome of the interest rate capping law. If there is a revision as we have priced into our base case, then yields should edge higher, but of course this will hinge on the quantum of how much the spread will be raised above the current 13.0% cap. A total repeal will also probably result in higher yields. However, while the tax-free Infrastructure Bonds (IFBs) could be marked higher quite swiftly, other local bonds and the short end of the yield curve could take time to adjust higher as the CBK would probably reject expensive bids shortly after a potential revision or repeal. Moreover, should the status quo prevail, and the interest rate cap be retained, yields could remain steady in Q4:19 due to the likelihood of KES weakness during this period which would probably prompt the CBK to mop up KES liquidity. Thereafter, a bullish bias for KES rates could continue to persist in H1:20 if the rate cap remains in place.

Changes in the yield curve



Source: Standard Bank Research; Central Bank of Kenya

Fiscal policy: more external commercial funding?

The FY2019/20 budget deficit is seen declining to 5.6% of GDP, from an estimated outturn of 6.3% in FY2018/19.

Total expenditure is expected to rise to KES2.8trn, from KES2.5trn in FY2018/19, while total revenue is budgeted to increase to KES2.1trn, from KES1.8trn during this period.

Furthermore, the FY2019/20 budget will be funded via net external borrowing of KES324.3bn and domestic financing of KES283.5bn. This implies that the government is likely to continue issuing external commercial debt such as Eurobonds and other syndicated loans to finance its budget, as in the past 5-y.

Also, given the dramatic rise in arrears owed to the private sector over the past couple of years, the government has outlined some measures in the FY2019/20 budget to address this problem. In addition to already releasing some funds at the start of FY2019/20 for validated claims of impending bills, the government has also proposed to lower VAT Withholding Tax to 2%, from 6%. They expect this to reduce the amount of funds tied up with the Kenya Revenue Authority while it processes VAT claims. This will be a huge sigh of relief for private sector firms that have faced cashflow challenges due to delayed payments.

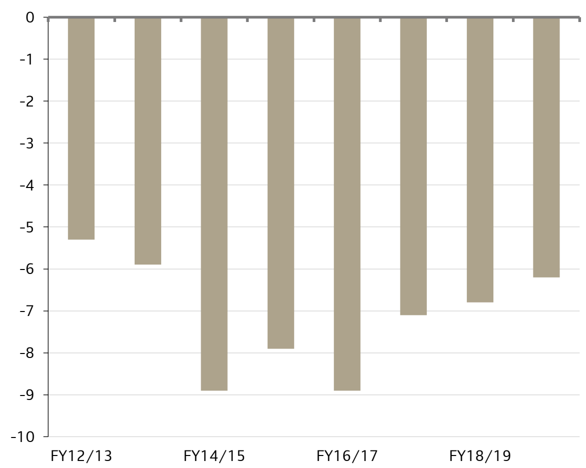
The government is further looking to reduce inefficiencies arising from increased red tape and bureaucracy at the Mombasa Port and Inland Container Depot (ICD) in Nairobi. It will be essential to conduct reforms to address the plight of the private sector, especially as tax revenues continue to remain low due to the headwinds these firms face.

Central government budget

% of GDP	FY2018/19	FY2019/20
Total revenue	18.3	18.6
Total expenditure	25.1	24.8
- wages	4.2	4.4
- interest	3.8	4.3
- development	6.3	6.4
Overall balance (+ grants)	-6.3	-5.6
Overall balance (- grants)	-6.8	-6.2
Net external borrowing	3.1	3.5
Net domestic borrowing	3.7	2.7
Donor support	0.5	0.6

Source: Ministry of Finance

Fiscal deficit (% of GDP) incl. grants

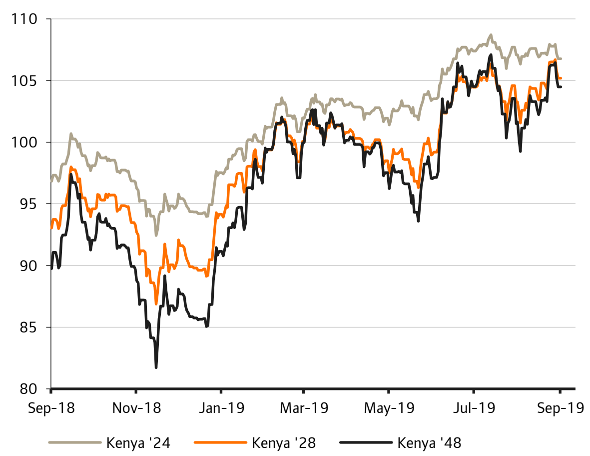


Source: Ministry of Finance

Eurobond outlook: how much will the IMF matter?

As trade tensions escalate between the US and China, risk appetite for Kenya's and other African sovereign Eurobonds inevitably worsens. Indeed, this counterbalances the increase in appetite from the growing likelihood that the US Federal Reserve and other advanced economies central banks are likely to have more accommodative monetary policy. Yet, we suspect that Kenya will have to perhaps secure the precautionary IMF facility which expired last year, before going back to the market, because promises were made to the market during the H1:19 Eurobond issuances that a conclusion to the IMF negotiations for an insurance facility was imminent. Granted, for the better part of H1:19, risk appetite was sufficient for most African hard currency credits as the US Fed tilted towards a more dovish stance. Nevertheless, perhaps investors may overlook the fact that Kenya won't have secured an IMF facility by the time they come to the market due to the lack of balance of payment of pressures.

Eurobond prices – mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	43	44.2	45.45	46.7	48	49.4	50.7
Nominal GDP (KESbn)	5 402	6 284	7022	8144	8904	9950	11345
Nominal GDP (USDbn)	61.4	63.5	69.1	78.8	87.9	96.9	108.3
GDP / capita (USD)	1 428	1 436	1521	1688	1831	1961	2135
Real GDP growth (%)	5.4	5.7	5.9	4.9	6.3	5.8	6.2
Coffee production ('000 tons)	40.2	32.2	39.6	33.2	35.5	36.2	40.2
Tea production ('000 tons)	445.1	399.2	471.2	439.8	485.5	445	475.6
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-9.5	-8.4	-8.4	-9.2	-7.1	-6.8	-5.6
Budget balance (incl. Grants) / GDP (%)	-7	-7.9	-7.9	-8.9	-6.8	-6.3	-5.1
Domestic debt / GDP (%)	23	26.1	27.5	28.4	28.8	28.9	29.2
External debt / GDP (%)	27.6	25.5	27.3	29.5	30.5	31	31.7
Balance Of Payments							
Exports of goods (USDbn)	5.8	5.9	5.7	5.8	6.1	6.3	6.4
Imports of goods (USDbn)	15.9	15.6	13.6	15.9	16.5	16	16.4
Trade balance (USDbn)	-10.1	-9.7	-7.9	-10.1	-10.4	-9.7	-10
Current account (USDbn)	-6	-4.3	-3.6	-5.1	-4.4	-4	-5.2
- % of GDP	-9.7	-6.8	-5.2	-6.5	-5	-4.3	-5
Financial account (USDbn)	5.4	5.1	4.1	4.6	5.3	6.1	6.3
- FDI (USDbn)	0.65	0.52	0.39	0.55	0.75	0.92	0.95
Basic balance / GDP (%)	-8.63	-5.96	-4.64	-5.77	-4.15	-3.18	-3.93
FX reserves (USDbn) pe	7.4	7.1	7	7.1	8	8.5	8.9
- Import cover (mths) pe	5.6	4.5	4.5	4.7	5.2	5.3	5
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	B1	B1	B1	B1	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	6.9	6.6	6.3	7.8	5	5.2	6.1
Consumer inflation (%) pe	6	7.4	6.4	4.5	5.7	5.8	6.7
M3 money supply (% y/y) pa	15.6	15.4	7.7	7.4	8.7	10.7	12.2
M3 money supply (% y/y) pe	19.1	13.7	3.6	9.5	10.1	10.9	13.1
Policy interest rate (%) pa	8.5	10.1	11	10	9.1	9	8.6
Policy interest rate (%) pe	8.5	11.5	10	10	9	9	8.5
3-m rate (%) pe	8.6	10.4	8.6	8.1	7.3	6.4	7.8
1-y rate (%) pe	10.6	12.8	11	11.1	10	9.6	10.4
2-y rate (%) pe	10.8	12.3	12.6	11.7	10.8	10.3	11.4
5-y rate (%) pe	11.9	13.8	14.4	12.5	11.6	10.8	12.2
USD/KES pa	88	99	101.6	103.3	101.3	102.7	104.9
USD/KES pe	90.4	102.3	102.5	103.3	102	103.5	106.5

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

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

Malawi: poised for stronger growth

GDP growth: improved agricultural production

We expect GDP growth of 4.5% y/y for 2019, but there is a chance that elections-related unrest may still weigh on the growth outlook this year.

Higher growth over the next 2-y is predicated on the strong performance of the agricultural sector which contributes around 28% to GDP. Over 2019, official projections see the agricultural sector expanding by 3.9% y/y, compared with 0.9% y/y in 2018. This is predicated on more favourable rainfall conditions, which bodes well for improved crop and livestock production. The Ministry of Agriculture forecasts maize production at 3.4m tons over the 2019 harvest season, which is 25.7% y/y higher. This represents a surplus of 300k tons, also boding well for restocking national grain reserves.

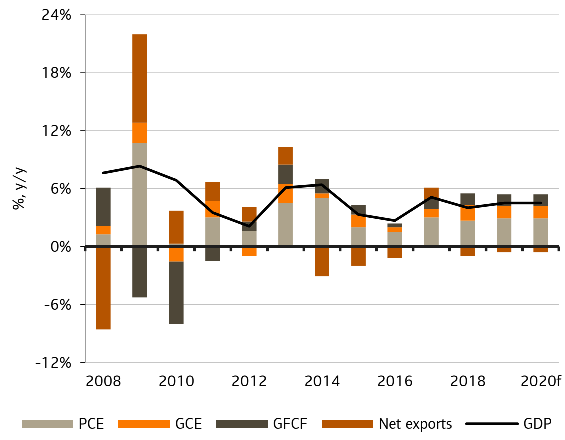
It is likely that stronger growth in the in the agricultural sector will spill over into the wider economy. The manufacturing sector is expected to benefit from higher agricultural production boosting the availability of raw materials. Official estimates put growth of the manufacturing sector at 4.6% y/y this year, compared with 3.6% y/y last year. Domestic electricity supply improvements would also support more growth in this sector.

A better agricultural season is also consistent with higher disposable incomes, which should see wholesale and retail trade expand by 4.5% y/y this year, higher than 4.1% y/y last year, but lower than 5.0% y/y in 2017. Over the last 3-y, real incomes have also benefitted from lower and stable inflation. After averaging 21.8% in 2016, inflation averaged 12.3% y/y and 9.2% y/y in 2017 and 2018 respectively.

Ahead of the elections in May, the transportation and storage sector appeared to have received a boost. Growth for this sector is projected at 5.5% y/y, higher than 4.9% y/y in 2018. Growth projections were upgraded due to increased travel across the country during the campaign period.

The FY2018/19 budget, which had a definite developmental focus, supported growth of the construction sector. Over 2018 the construction sector grew by 4.5% y/y, and official forecasts see it rising to 5.0% y/y in 2019. Higher growth this year is expected due to a carryover of construction projects in both the public and private sector. Ongoing projects include the dual carriage way in Lilongwe and Blantyre, the Kamuzu International Airport expansion, and a number of secondary schools across the country. A large portion of the developmental budget is funded by foreign grants. As relations with the wider donor community normalised over the past few years, this has allowed the government to increase recurrent and capital expenditure, which has seen GCE contribute positively to GDP growth.

Composition of GDP by demand



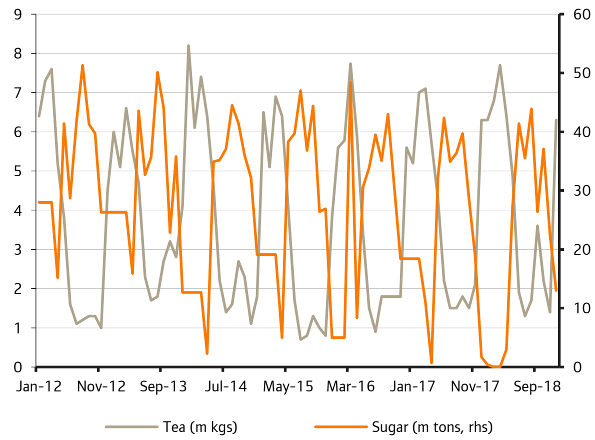
Source: Reserve Bank of Malawi; National Statistical Office; Standard Bank Research

GDP composition by sector

	2015	2016	2017f	2018f	2019f
Agriculture, forestry & fishing	28.6	27.9	28.1	27.7	27.2
Mining & quarrying	0.9	0.9	0.9	0.8	0.8
Manufacturing	9.6	9.4	9.3	9.4	9.0
Electricity gas &water supply	1.3	1.2	1.2	1.2	1.2
Construction	2.8	2.8	2.8	2.8	2.9
Wholesale and retail trade	16.0	15.9	16.0	15.8	16.2
Transport and storage	2.7	2.7	2.7	2.8	2.8
Accommodation and food	1.9	2.0	2.0	1.9	2.0
Information and communication	4.3	4.4	4.3	4.3	4.6
Financial and insurance services	5.2	5.2	5.5	5.4	5.4
Real estate activities	7.7	7.7	7.5	7.3	7.4
Professional & support services	0.3	0.3	0.3	0.3	0.3
Public administration & defence	2.0	2.1	2.0	2.1	2.2
Education	2.6	2.7	2.7	2.8	3.0
Health and social work activities	2.6	2.7	2.8	2.7	2.9
Other services	4.9	5.1	5.0	5.0	5.0
Plus: Taxes less Subsidies on products	6.7	6.7	6.7	6.8	6.8
GDP	100.1	100.0	100.0	100.0	100.0

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

Tea and sugar production



Source: Reserve Bank of Malawi

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
CPI (% y/y) pa	8.6	9.1	9.3	9.9	8.7	9.0	9.4	9.5	9.5	8.9	7.6	7.4
M2 (% y/y) pa	19.6	19.0	12.5	12.7	14.2	14.9	15.2	15.5	15.8	16.1	16.4	16.8
CA/GDP (%) pa	-14.0	-14.0	-14.0	-14.0	-12.5	-12.5	-12.5	-12.5	-11.3	-11.3	-11.3	-11.3
FX reserves (USD bn) pe	0.67	0.73	0.75	0.73	0.68	0.70	0.72	0.70	0.66	0.78	0.77	0.69
Import cover (months) pe	3.2	3.5	3.6	3.5	3.3	3.4	3.5	3.4	3.2	3.8	3.7	3.3
3-m rate (%) pe	14.0	14.5	14.5	11.5	11.5	11.3	11.1	10.9	10.9	10.9	10.7	10.0
1-y rate (%) pe	15.0	15.5	15.5	15.0	15.0	14.8	13.8	13.4	13.3	13.3	13.1	12.4
USD/MWK pe	726	726	721	735	731	768	730	739	747	754	763	772

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

Political risks: election results contested

Tripartite elections were held in May. The presidential elections were closely contested. Election results revealed that less than 159,000 votes separated the winner, President Peter Mutharika, from runner-up Lazarus Chakwera who is leader of the MCP. Mutharika secured 38.57% of the vote, while Chakwera secured 35.41%.

Subsequently, opposition parties have mounted a number of legal challenges to the election results. Both the MCP and the United Transformation Movement, led by former vice president, Saulos Chilima, also formally petitioned the High Court, challenging the results of the presidential elections. Depending on the court's ruling, a fresh set of elections could be held in Malawi. Some estimate that the court may take up to 4-m to rule on this matter. Separately, a large number of petitions have been filed with the High Court challenging the results of the parliamentary and local government elections.

The protracted legal challenge sustains downside risk to GDP growth outlook this year. Since the election results were released at the end of May, the opposition managed to mobilise its support base and stage protests in parts of the country. Some businesses even closed in anticipation of these protests. With demonstrations becoming increasingly violent, election-related protests were banned temporarily.

Despite the ongoing legal dispute of the election results, President Mutharika has been inaugurated and has formed his cabinet.

Election results (2019)

Presidential elections	Party	% of votes
Peter Mutharika	DPP	38.57
Lazarus Chakwera	MCP	35.41
Saulos Chilima	UTM	20.24
Atupele Muluzi	UDF	4.68

Parliamentary elections	Seats
Democratic Progressive Party (DPP)	62
Malawi Congress Party (MCP)	55
United Democratic Front (UDF)	10
People's Party (PP)	5
Others - mainly independents	61
Total	193

Source: Malawi Electoral Commission

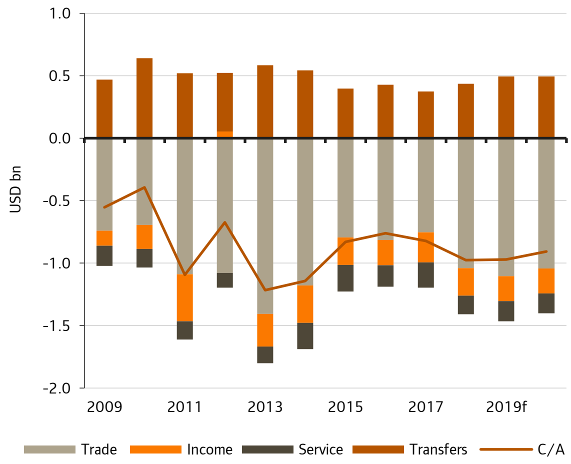
Balance of payments: pressure on trade inflows

The C/A deficit should remain elevated above 10% of GDP. By 2020, we see the C/A deficit moderating to around 11% of GDP. Malawi's Extended Credit Facility (ECF) with the IMF should underpin further external rebalancing. Over this period, FX reserves are expected to remain around USD700m, which corresponds with import cover above 3-m. FX reserves have not fallen below USD696 in the 6-m to Jun.

There is a chance that lower levels of trade inflows could widen the trade account balance over this year, which sustains an upside risk to our current account forecast. Although tobacco production is forecast to rise by 2.0% y/y, reaching 205.5m kg over the 2018/19 marketing season, seasonal trade flows from tobacco sales are likely to fall due to lower tobacco prices at auctions. According to the RBM, the tobacco crop is expected to generate USD303.5m, compared with USD337.5m over the 2017/18 marketing season. The tobacco marketing season usually runs between Apr and Sep. During the last quarter of the year, seasonal trade flows from other key exports such as sugar and tea sales also tend to taper off. In Q1:19, tea production rose almost 2.0% y/y to reach 21.2m kg, which generated USD4.8m. Again, lower soft commodity prices reduced trade inflows from this cash crop.

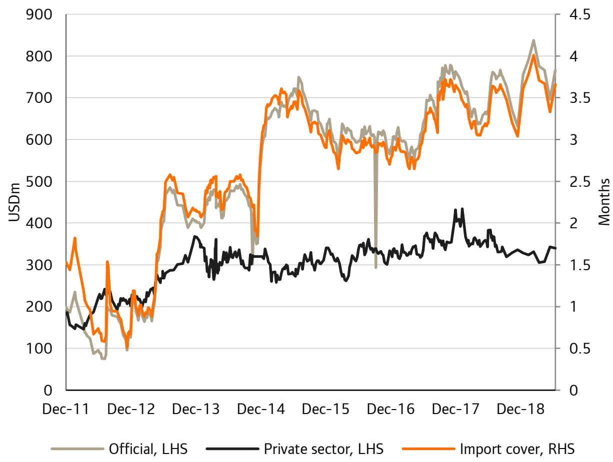
FDI, combined with government borrowing, is forecast to account for the bulk of capital flows over the medium term. Malawi's good performance on the existing IMF programme bodes well for maintaining good relations between the government and development partners. Previously, this relationship was badly damaged by fiscal mismanagement scandals. Improved oversight and controls in the disbursement of funds in place mitigate the risk of a reoccurrence.

Current account developments



Source: Reserve Bank of Malawi; Standard Bank Research

FX reserves



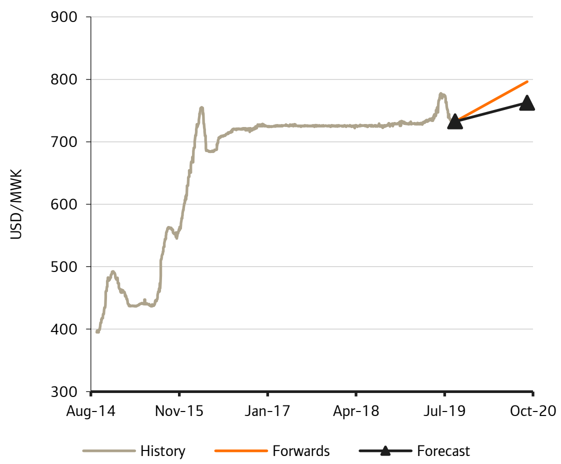
Source: Reserve Bank of Malawi; Standard Bank Research

FX outlook: steadier, with an upward bias

After having traded between 720 – 735 for close to 3-y, between May and Jul, the USD/MWK moved higher peaking at close to 780. But we see the MWK recovering over the remainder of the year, ending this year around 740 against the US dollar.

From mid-Jul the currency began to recover as the demand for US dollars eased, allowing the MWK to stage a recovery back to the 720-735 band. Trade inflows from tobacco sales, which begin late-Apr, typically stabilize the currency, but it appears that higher levels of imports due election-related anxiety may have exacerbated market imbalances over this period. The timing of the RBM's second rate cut in May was interesting, as it coincided with the elections later that month. Heightened political tensions, after the election results were released, could have sustained higher levels of demand for USD, which would have added to overall FX market imbalances.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still further easing

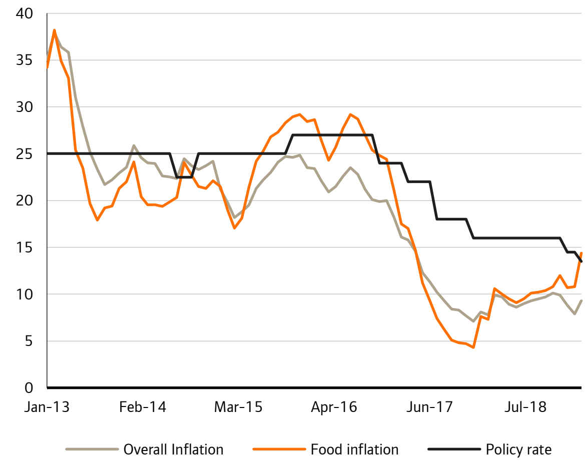
The RBM is likely to ease rates further, possibly even reducing the policy rate by another 100 bps. Although the MPC opted to hold rates unchanged at the Jul MPC, since the start of this year the MPC has reduced the policy rate by 250 bps to 13.5%. The MPC also reduced the liquidity reserve requirement on foreign and local currency deposits by 375 bps and 250 bps to 3.75% and 5.0% respectively. The Lombard rate is set at 40 bps above the policy rate.

Notwithstanding some reversal in recent weeks, since May the trajectory of the exchange rate has not been consistent with the RBM's expectations. Sure, MWK weakness was probably transitory, having a limited impact on the overall trajectory of inflation in the medium term. However, over the near term it is likely to pass through to inflation. Following the Jul MPC meeting, the RBM revised the forecast for annual inflation for 2019 to 9.0%, from 8.0%.

So far, the passthrough has been limited, which differs from previous episodes of exchange rate weakness. Then again, the passthrough to inflation usually occurs with a lag, so inflation could trend higher over Q3:19. We see inflation averaging 9.0% y/y in 2019. Inflation hovered around 9.0% y/y over Q2:19, with non-food inflation averaging 5.5% y/y. Since the inception of this inflation series in Jan 18, non-food inflation has benefitted from a stable exchange rate, falling to 5.4% y/y in Jun, after peaking at 9.7% y/y in Mar 18. In the 7-m to Jul, fuel prices had not changed since the fuel price reduction in Jan. It is not surprising then that in Jun the transport sub-index, which carries a weight of 8.4% in the CPI basket, moderated further to 6.35% y/y. Over the past few months, it appears that a price stabilization fund cushioned the impact of a weaker exchange rate.

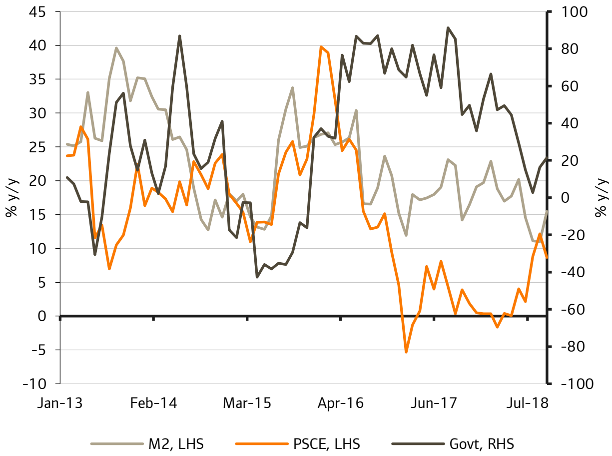
Food inflation remains usually high; it averaged 13.0% y/y over H1:19, compared with 9.0% y/y over the same period last year. Maize prices have remained both unusually high and sticky despite improved production in this season.

Inflation and interest rates



Source: Reserve Bank of Malawi; Standard Bank Research

Monetary statistics

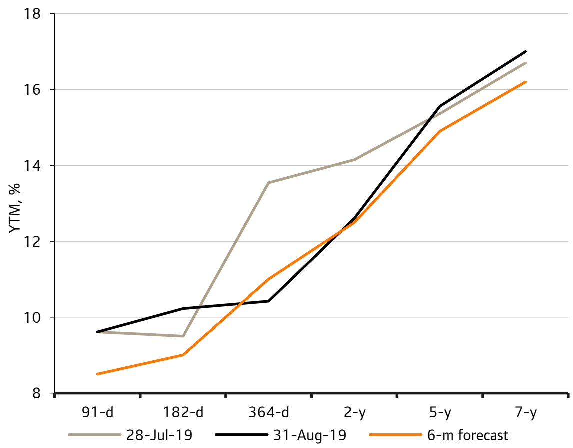


Source: Reserve Bank of Malawi, Standard Bank Research

Yield curve outlook: higher inflation expectations prevent a move lower

Over the next 6-m, there is scope for yields to move lower as the RBM eases monetary policy further. But, there is a chance over the next few months that higher inflation expectations pull yields slightly higher from current levels. Between Jun and Jul, T-bill yields moved higher. It's likely that expectations of a food shortage, caused by adverse weather conditions in Q1:19, may have kept inflation expectations elevated in Q2:19 too. However, it does not seem that inflation expectations have eased, since it appears that large grain traders, still expecting a domestic food shortage, are stockpiling maize, which is likely to have kept maize prices elevated. The yield curve bull steepened, with yields on the short end declining at a faster rate. Still, real T-bill rates are positive, with inflation at 9.0% y/y in Jun. In the 8-m to Aug, yields on 91-d, 182-d and 364-d T-bills fell by 181 bps, 277 bps and 358 bps respectively.

Changes in the yield curve



Source: Reserve Bank of Malawi, Standard Bank Research

Fiscal policy: FY2019/20, a lower budget deficit

Following the elections in May, the new cabinet was formed in late Jun, which did not allow enough time for preparation of the full budget by Jul. Typically, in Malawi, a fiscal year runs between Jul and Jun in the following year. Instead, this year, the full FY2019/20 budget is was presented in Sep. Budget deficits are expected to moderate in the medium term. Fiscal targets set by the IMF under the ECF programme should underpin further fiscal rebalancing.

With that said, the provisional budget for the 4-m between Jul and Oct forms part of the FY2019/20 budget. The FY2019/20 forecasts total expenditure at MWK1.73trn, with a combination of revenue and grants set at MWK1.57trn. The bulk of recurrent expenditure covers salaries and wages of MWK443m, and debt service payments of MWK244bn. MWK437bn is set aside for development spending, which seems ambitious, as it is forecast 35% y/y higher than the FY2018/19 budget outturn.

Compared with a smaller budget deficit including grants of 2.4% of GDP projected over FY2019/20, the budget deficit climbed to 5.5% of GDP over FY2018/19. This was a function of some revenue underperformance and expenditure overruns on interest payments and disaster relief initiatives after Cyclone Idai.

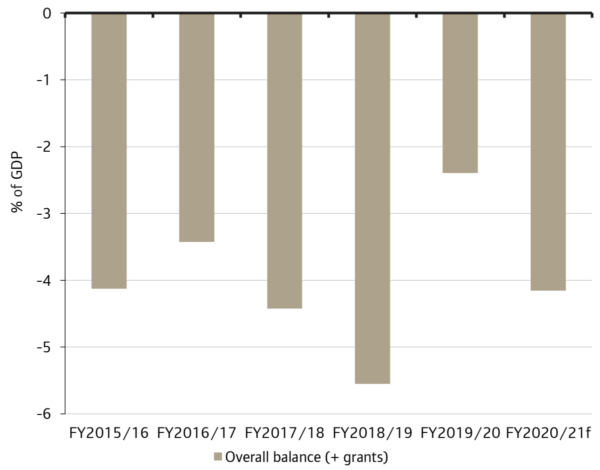
In Mar at the mid-year budget review (MYBR), revenue and grants were revised lower by 29% to MWK1.430trn. It appears that revenue and grants reached MWK1.12trn at the end of FY2018/19, 21% below the revised target. Slower GDP growth of 4% y/y over 2018 could have also been a factor that contributed to domestic revenue underperformance. Another factor is that grants reached MWK115bn, 41% lower than forecast at MYBR. This was largely a function of MKW60bn in budget support not being disbursed. Spending over FY2018/19 reached MWK1.441trn. We suspect that operational challenges may have limited the execution of the capital budget, reducing the absorption rate.

Central government budget

% of GDP	FY2017/18	FY2018/19	FY2019/20
Total revenue	21.6	19.4	24.2
Total expenditure	26.0	25.0	26.6
- Recurrent	19.7	20.1	19.9
- Development	5.7	4.9	6.7
Overall balance (+ grants)	-6.7	-7.5	-4.7
Overall balance (- grants)	-4.4	-5.5	-2.4
Net domestic borrowing	3.0	1.1	1.7
Net foreign borrowing	1.4	4.5	0.7

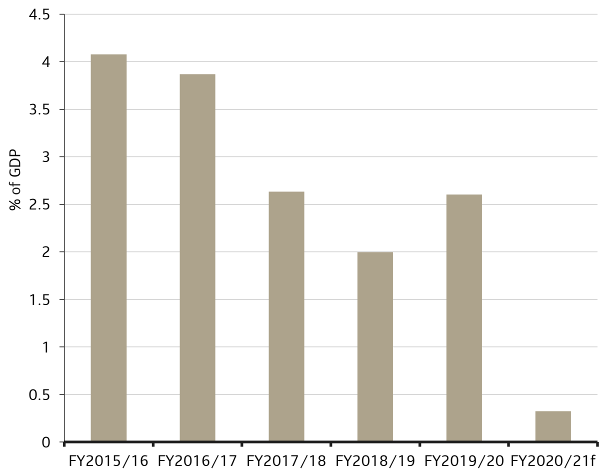
Source: Ministry of Finance

Fiscal deficits



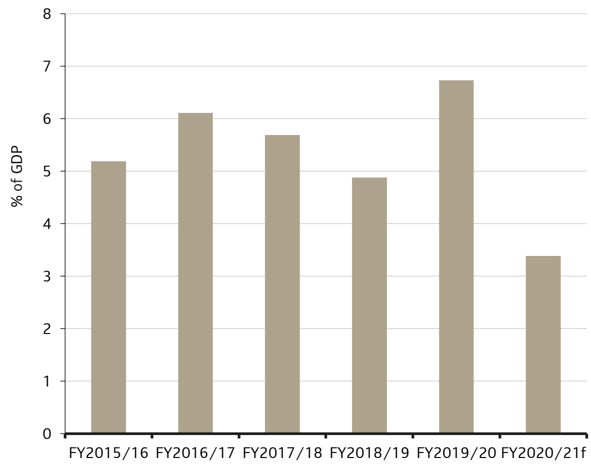
Source: Ministry of Finance; Standard Bank Research

Budget grants



Source: Ministry of Finance; Standard Bank Research

Developmental spending



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	15.9	16.3	16.7	17.0	17.3	17.5	17.9
Nominal GDP (MWK bn)	2 534.7	3 212.7	3 818.5	4 482.5	5 074.8	5 766.6	6 506.7
Nominal GDP (USD bn)	6.0	6.1	5.4	6.2	7.0	7.8	8.6
GDP / capita (USD)	379.6	375.1	322.4	363.6	403.5	447.0	481.9
Real GDP growth (%)	6.4	3.3	2.7	5.1	4.0	4.5	4.5
Tobacco auction sales (million kgs)	185.0	193.0	194.0	158.0	202.0	205.5	203.0
Tea production (million kgs)	45.8	38.4	28.0	32.0	32.0	33.0	34.5
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.6	-8.5	-7.0	-5.9	-7.5	-4.7	-4.5
Budget balance (incl. Grants) / GDP (%)	-5.4	-4.7	-4.4	-3.0	-5.5	-2.4	-4.2
Domestic debt / GDP (%)	14.9	16.8	18.9	19.5	20.0	21.6	23.1
External debt / GDP (%)	33.1	37.0	33.2	33.5	35.0	34.8	36.0
Balance of Payments							
Exports (USD m)	1 509.8	1 417.0	1 468.6	1 569.0	1 450.0	1 470.0	1 620.0
Imports (USD m)	-2 687.6	-2 211.9	-2 282.8	-2 321.6	-2 490.0	-2 575.0	-2 662.6
Trade balance (USD m)	-1 177.8	-794.9	-814.2	-752.6	-1 040.0	-1 105.0	-1 042.6
Current account (USD m)	-1 143.7	-829.7	-761.3	-822.3	-975.0	-970.0	-900.0
- % of GDP	-19.0	-13.6	-14.2	-13.3	-14.0	-12.4	-10.5
Financial account (USD m)	590.7	773.2	685.1	900.0	885.0	840.0	890.0
- FDI (USD bn)	603.5	292.9	329.9	367.1	450.0	460.0	490.0
Basic balance / GDP (%)	-9.0	-8.8	-8.0	-7.4	-7.5	-6.5	-4.8
FX reserves (USD m) pe	589.0	638.9	606.9	759.0	730.0	700.0	690.0
- Import cover (months) pe	3.1	3.1	2.9	3.4	3.5	3.4	3.2
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	24.7	21.8	21.8	12.3	9.2	9.1	8.3
Consumer inflation (%) pe	23.7	24.7	20.0	7.1	9.9	9.2	7.9
M2 money supply (% y/y) pa	21.6	21.4	22.8	18.0	15.9	14.9	15.3
M2 money supply (% y/y) pe	16.6	25.5	19.9	18.4	12.0	12.7	16.8
Policy interest rate (%) pa	25.0	26.0	25.5	20.0	14.8	14.0	11.5
Policy interest rate (%) pe	25.0	27.0	24.0	16.0	16.0	12.0	11.0
3-m rate (%) pe	26.9	23.6	24.0	14.5	11.5	8.0	8.0
USD/MWK pa	420.0	525.4	711.3	725.1	727.1	737.2	755.6
USD/MWK pe	464.8	667.8	728.0	725.5	735.0	739.5	771.8

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: fiscal policy expansionary, ahead of elections

GDP growth: slack in accommodation and food services sector

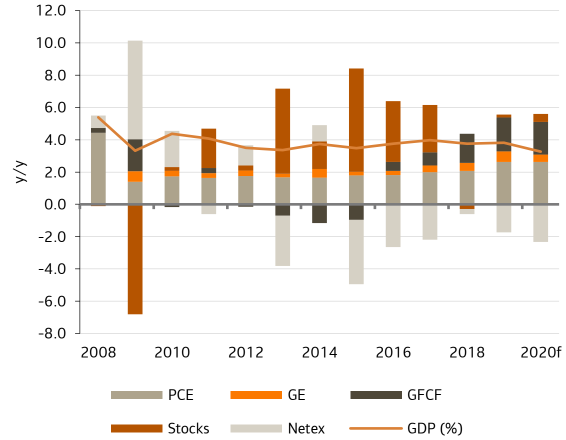
The economy grew by 3.8% y/y in 2018; we keep our forecast at 3.8% y/y for 2019 and 3.2% y/y for 2020. In Q1:19, the economy grew by 3.3% y/y, driven by financial & insurance activities, construction and the information and communication sectors which grew by 5.0% y/y, 5.7% y/y and 8.7% y/y respectively. A downward revision may be prompted by the worsening accommodation and food services sector, as both tourism arrivals and earnings have declined this year. Statistics Mauritius has kept their GDP estimate at 3.9% y/y for 2019.

The accommodation and food services sector decelerated by 1.1% y/y in Q1:19, from 4.2% y/y growth in Q4:18, compared to 4.8% y/y same time last year. The sector improved on average 6.5% y/y in 5-y, of which each first quarter improved on average 5.9% y/y. Statistics Mauritius cut its forecast for tourist arrivals this year to 1.435m, from 1.450m, and revenue to MUR66.0bn, from MUR67.5bn. In the past 6-y, the first four months of the year accounted for 33% - 34% of total annual arrivals. In the 4-m to Apr, arrivals amounted to 460.8k, which is about 33% of the 1.39m total arrivals in 2018 and slightly lower than 461.3k same time in 2018. Granted, the strategies to mitigate seasonality in tourist arrivals through marketing could support the sector.

The rebound from recession in the agriculture sector from Q3:18, growing by 2.6% y/y in Q1:19, should mitigate downside from the accommodation and food services sector. Although most of the rebound comes from the other sub-sector, the sugarcane sector rebound from recession also added support. We believe that the FY2018/19 budget measures to support sugarcane production, such as the government grant, efforts to meet the loss from the suspension of subsidy, and the introduction of the land data bank should continue to boost the sector. However, we continue to flag downside risks from sugar prices and the abolished sugar quota in the EU which will likely restrain the sector's performance.

The fiscal budget indicated that the capital expenditure will increase by 27.8% y/y in FY2019/20. This will continue to boost the construction sector, which has recovered from a prolonged recession in 2017, and in turn, has boosted growth in 2018. We expect this sector to continue to support growth in the medium- to long term with major projects introduced in the budget FY2019/20. We still see growth in 2019, driven by domestic demand. Private expenditure will likely continue to find a boost from the increased tax exemption threshold ranging from MUR5,000 to MUR45,000, depending on the number of dependents and other tax exemption and credit introduced by the budget F2019/20.

Composition of GDP by demand



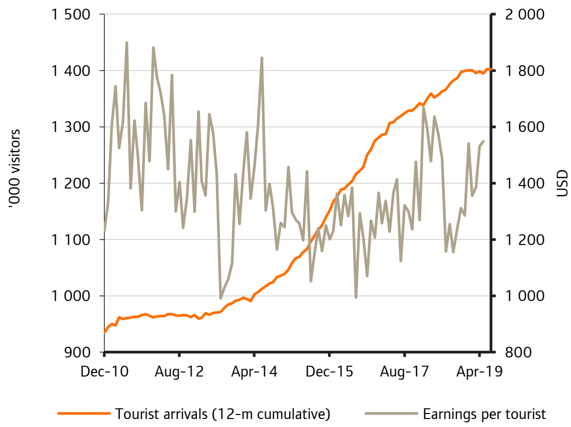
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector (% of total)

	2014	2015	2016	2017	2018
Agriculture	3.3	3.2	3.2	3.1	2.8
- Sugarcane	0.8	0.8	0.8	0.5	0.4
Manufacturing	13.6	13	12.4	11.8	11.3
- Food excl. sugar	4.8	4.5	4.4	4.2	4.1
- Textiles	4.1	4.1	3.7	3.4	3.2
Construction	4.2	3.9	3.7	3.8	4.1
Wholesale and retail trade	10.6	10.7	10.6	10.7	10.8
Transport and storage	5.4	5.5	5.6	5.6	5.7
Accommodation and food services	5.5	5.7	6.1	6.3	6.4
Financial and insurance services	10.5	10.6	10.7	10.5	10.3
Real estate services	5.4	5.3	5.2	5.2	5.2
Public administration	5.5	5.5	5.7	5.5	5.5
ICT	3.8	3.9	3.8	3.7	3.7
Education	4.2	4.3	4.4	4.3	4.3

Source: Statistics Mauritius

Tourism trends



Source: Statistics Mauritius; Standard Bank Research

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	4.1	3.6	3.3	4.1	3.3	3.8	3.9	4.0	3.4	2.9	3.2	3.2
CPI (% y/y) pe	6.7	1.0	1.9	1.8	-1.4	0.6	1.7	1.8	2.6	3.0	2.9	3.0
M2 (% y/y) pe	9.1	9.4	4.4	6.3	6.4	6.4	7.3	8.1	8.1	8.3	8.3	8.3
CA/GDP (%) pe	-1.6	-6.5	-8.1	-6.8	-3.7	-5.7	-9.5	-5.9	-5.4	-3.4	-10.3	-6.0
FX reserves (USD bn) pe	6.2	6.7	6.4	6.4	6.2	7.2	6.8	6.7	6.9	7.6	7.2	7.1
Import cover (mths) pe	10.0	11.1	10.6	10.5	10.6	11.8	11.2	11.1	11.5	12.5	11.9	11.8
3-m rate (%) pe	3.7	3.6	3.5	3.4	3.5	3.5	3.5	3.0	3.5	3.5	3.5	3.5
5-y rate (%) pe	4.9	4.3	4.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
USD/MUR pe	33.45	34.56	34.37	34.30	34.93	35.65	36.57	36.88	35.57	35.64	34.64	34.51

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

Notes: pa – period average; pe – period end

Political risks: stable ahead of elections

Mauritian politics is characterised by the dominance of coalitions amongst the various parties, dominated by a core of political leaders. The main parties have rotated amongst themselves in forming coalitions with considerable ease, the only consideration seemingly being whether party leaders can get along. However, the current ruling coalition was formed purely based on political necessity, not ideological ties.

In the 2014 elections, the ruling coalition comprised of the Mouvement socialiste militant (MSM), Parti mauricien social-démocrate (PMSD) and Muvman Liberater (ML). In 2016, the PMSD led by Xavier‐Luc Duval pulled out of the Alliance Lepep. Between MSM and ML, Alliance Lepep still holds 39 out of 69 seats but no longer has the outright majority to change the constitution, thus slowing policymaking progress. It has thus been difficult to pass the Electoral Reforms Bill. There has been some disagreement about some proposals on the electoral reforms bill. Amongst some, increasing the number of parliamentarians and the proposal for the party list of candidates to be picked by a party leader is not supported.

As it stands, it is difficult to tell how alliances will be formed for the 2019 elections. It seems like the parties are considering only engaging in forming coalition post-election if need be. Granted, it is possible that some parties are already having informal discussions around the possibilities of forming coalitions. But still, it is also a tough call to identify which party will win the elections, as voters are likely to be wary about corruption within the ruling coalition. Firstly, Pravind Jugnauth, although the supreme court overturned the verdict, was charged and found guilty of a conflict of interest in Jun 16. The formerly sacked president was accused of misusing an NGO credit card.

Political realignments will occur ahead of these elections, as always, but they do not seem ever to lead to any significant change in macroeconomic policy.

Election results (2014)

Legislative election	Seats	% of votes
Alliance Lepep (MSM-PMSD-ML)	51	49.8
PTR-MMM Alliance	16	38.5
Rodrigues People's Organisation	2	1.1
Total	69	89.4

Source: Mauritius Electoral Commission

Balance of payments: stable

The strength of capital and financial inflows can be inferred from the rising trajectory in FX reserves. They reached USD7.2bn in Jul, covering what the BOM estimates was 12.1-m of goods and services import from USD6.8 in May and USD6.3 in Dec 18. The improvement in Jul is equivalent to 10.9 % y/y increase, compared to 22.9% y/y in Jul 18. In the 12-m to Jul 19, improvements averaged 9.6% y/y compared to 20.8% y/y same time last year. We do not anticipate a continuously rising trend; FX reserves will likely be sitting at USD6.7bn covering 11.1 of good and service imports by year-end.

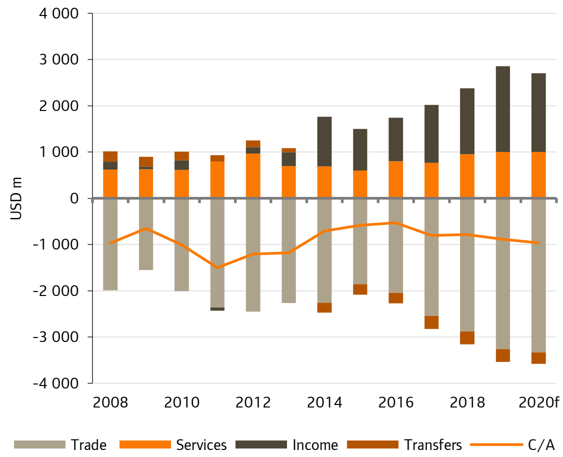
Interestingly, portfolio investment income flows have been overshadowed by direct investment, and other investment flows for some time now. Portfolio investment recorded a net outflow of USD3.0bn, while other investment and direct investment posted USD1.7bn and USD1.1bn respectively.

To be sure, the C/A deficit is likely to widen this year and in 2020. We forecast the deficit reaching 5.9% of GDP in 2019 and 6.0% of GDP in 2020, from 5.5% of GDP in 2017. The trade deficit is likely to widen further, with import growth continuing to grow into year-end and next year.

Goods exports recovered after consistently declining since Sep 2015, falling at an average 8.7% y/y pace per quarter in the seven quarters to Mar 17, thereafter falling on average 2.6% y/y pace per quarter in six quarters to Sep 18, before improving on average 6.3% y/y in Q4:18 and Q1:19.

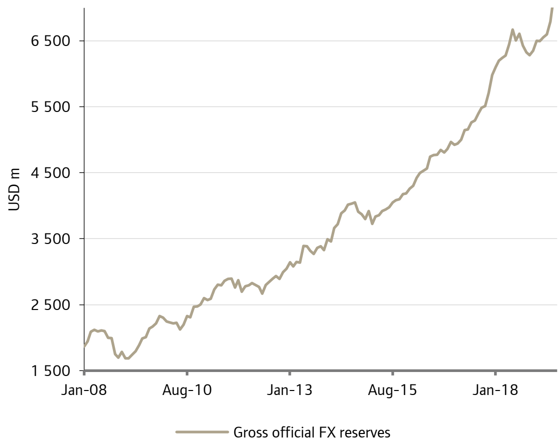
Also, tourist arrivals are unlikely to rebound meaningfully. Tourist arrivals grew by a cumulative 0.7% y/y in the 7-m to Jul, while earnings were down 8.3% y/y in the 5-m to May. Moreover, Q2:19 BOP figures are yet to be released, but these trends were a factor that supported service exports in Q1:18. For 2019, we expect net services exports to be broadly unchanged from 2018.

Current account developments



Source: Bank of Mauritius; Standard Bank Research

FX reserves

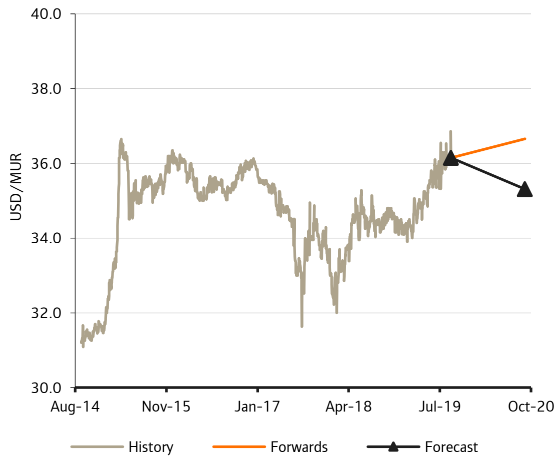


Source: Bank of Mauritius

FX outlook: USD/MUR still tracking EUR/USD

BOP developments would provide sufficient reasons for the MUR to strengthen. Despite a widening C/A deficit, financial inflows are more than enough to ensure that FX reserves rise. However, policy management matters a lot too for the trajectory of USD/MUR. As it happens, the BOM manages the MUR, looking to stabilise its nominal trade-weighted value. Given this policy steer, the direction of USD/MUR depends on the trajectory of EUR/USD. The outlook for the latter, perhaps rising above 1.11 in the next year, points to USD/MUR declining in the medium term. However, there is a chance that in the near term, EUR/USD will decline somewhat (perhaps below 1.10), leading to further weakness in USD/MUR. Of course, all this depends on whether the BOM chooses to keep the MUR stable in trade-weighted terms. However, both trade-weighted indices that the BOM calculates show that the MUR has depreciated by about 3.4% since the beginning of the year.

USD/MUR: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: unchanged, with a cutting bias

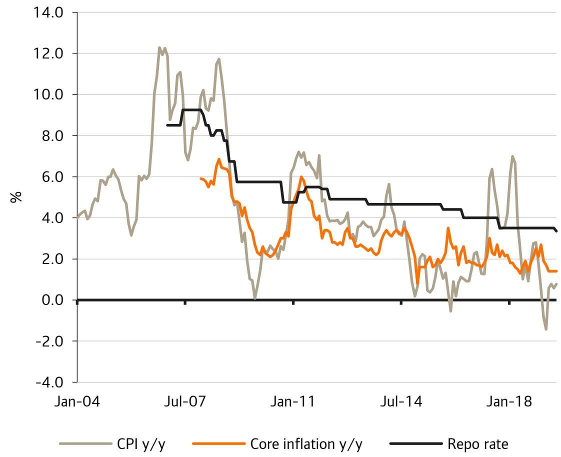
The next BOM MPC meeting is scheduled for 20 Nov after the MPC decided to cut the rate by 15 bps in Aug. Seven out of eight MPC members had voted for the cut, with just one voting for a 25 bps cut. The MPC in cutting the rate considered the subdued global economic environment, lower domestic economic growth in Q1:19, and benign inflation.

Although we doubt that the committee will find anything that may have changed considerably domestically to prompt a change in its assessment, further external weakness may be a predominant factor. The BOM will not hesitate to lower the rate if the economic activity weakens, but for now, we believe that the BOM will likely conduct its monetary policy through liquidity management rather than changing monetary policy stance this year.

We change our inflation forecast to 0.7% y/y, from 1.5% y/y in 2019, compared to 3.2% y/y in 2018. Needless to say, the low inflation in 2019 is mainly due to a high base effect. Inflation increased by 0.8% y/y in Jul, from 0.6% y/y in Jun and -1.4% y/y in Mar. Since peaking at 6.7% y/y in May 18, headline inflation has declined consistently, reaching the lowest levels since 2016. Headline inflation (12-m moving average) was 0.9% y/y in July 19.

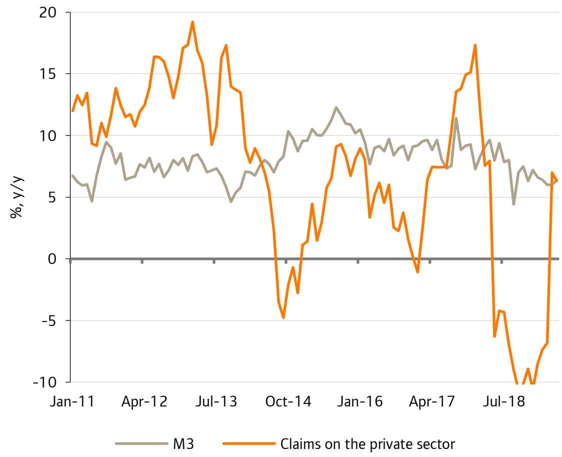
Evidently, also from the core inflation figures, there aren't any underlying inflation pressures in the economy. Core inflation has remained muted. It reached 1.4% y/y in Apr and remained there up to Jul from the high of 2.7% y/y in Jan and a benign average 1.8% y/y in 2018. The 12-m moving average of core inflation has hardly budged from 2.0% y/y over the past 4-y. Money supply increased by 7.7% y/y in Jul, from 6.4% y/y in Jun, attributable more to foreign currency deposits. In the 7-m to Jul, money supply averaged 6.6% y/y, compared to 8.5% y/y growth in 7-m to Jul 18 and 8.7% in 7-m to Jul 17.

Inflation and interest rates



Source: Bank of Mauritius; Statistics Mauritius

Monetary statistics



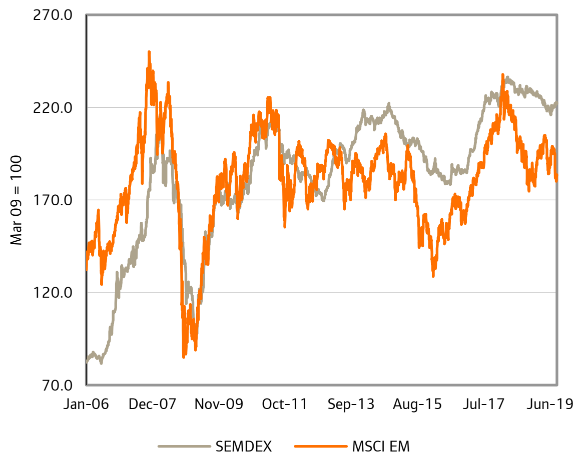
Source: Bank of Mauritius

Equity market outlook: keeping pace with EM

The SEMDEX Index has underperformed EM equities this year, but in 3-m to 02 Sep the SEMDEX outperformed EM equities. In 2019, the SEMDEX index has not kept pace with EM equities, and the correlation has turned negative. However, we doubt that the historical correlation of approximately 90% between these two indexes will fall apart anytime soon.

Foreign investor sales likely drove the market's underperformance. Foreign investors were net sellers of an average of USD12.0m in Q1:19, which is much higher than the net sales by non-residents in Q1:18 of USD3.0m. Macroeconomic fundamentals and expected strong domestic demand relative to external demand should in future be mirrored in listed equities. We also don't see this correlation falling apart over the medium term.

Mauritius equity market



Source: Bloomberg; Standard Bank Research

Fiscal policy: focus on infrastructure and human development

The Mauritius government's emphasis on the FY2019/20 budget to spend on infrastructure and human development will likely prove growth-supportive. The government's fiscal stance is moderately expansionary, with the fiscal deficit excluding grants budgeted at 4.3% of GDP, up from a deficit of 3.9% of GDP in 2018. After total revenue increased by an average of 10.0% y/y in the past 4-y, the government has budgeted for a 10.0% y/y increase from MUR110.7bn in FY2018/19.

Total expenditure is expected to increase by 9.5% y/y, from a projected outturn of MUR126.5bn in FY2018/19, much of which is accounted for by a 27.8% y/y increase in capital expenditure. This will continue to boost the construction sector, which has recovered from a prolonged recession in 2017.

The government is budgeting for a domestic borrowing requirement of MUR35.7bn in Fy2019/20, compared to MUR26.7bn in FY2018/19 and net repayment of MUR16.57bn for external debt in FY2019/20, compared to a net external debt repayment of MUR3.5bn in FY2018/19. The fiscal deficit, including grants, is expected at MUR16.9bn, or 3.2% of GDP, from a deficit of MUR15.9bn in 2018, also 3.2% of GDP. The FY2019/20 budget, titled "Embracing a brighter future together as a nation", outlined several initiatives meant to foster higher job-creating growth, invest in the infrastructure of the future and improve the quality of life. However, the government still looks to achieve all that while maintaining overall macroeconomic balance. Hence, the budget deficit remains low.

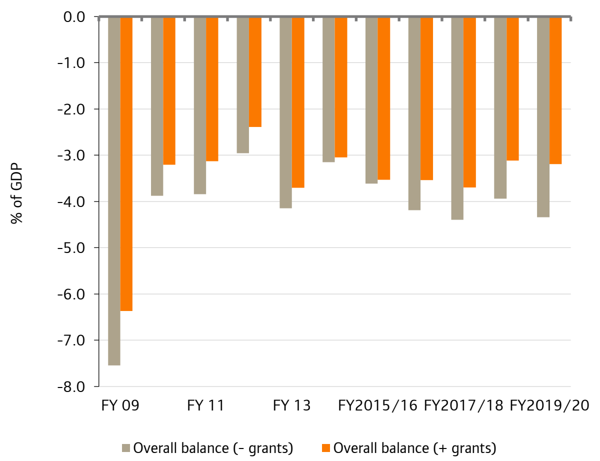
The government continues to rely on domestic borrowing to finance the deficit. Of course, interest rates are low, partly reflecting subdued economic activity. However, some financing for this ambitious infrastructure drive is obtained externally. The increase in grants to MUR6.3bn from MUR4.2bn is mainly attributable to a MUR4.7bn grant from the Indian government.

Central government budget

	FY2018/19	FY2019/20
Total revenue	21.7	22.1
Total expenditure	24.8	25.3
- Interest	2.6	2.7
- Wages	6.2	5.9
- Capital expenditure	2.6	3.2
Net lending	1.8	0.5
Overall balance (- grants)	-3.9	-4.3
Overall balance (+ grants)	-3.2	-3.2
Net lending to parastatals	0.2	0.2
Net external borrowing	-0.5	-0.4
Net domestic borrowing	5.4	3.7
Donor support (grants)	0.8	1.2

Source: Ministry of Finance and Economic Development

Fiscal deficit

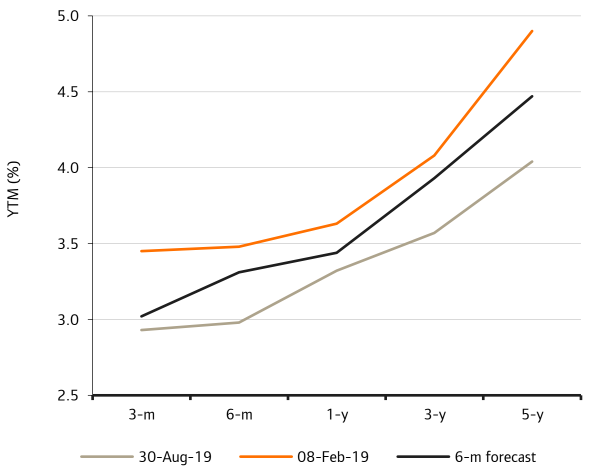


Source: Ministry of Finance and Economic Development

Yields outlook: rangebound

We expect yields to be rangebound over the next 4-6 months. That said, it is worth emphasising that we are likely to see small movements in yields. Over the past 1-y, the 91-d T-bill yield has hardly ventured below 3.0% amid fewer issuances. 5-y bond yields have generally declined over that period, remaining mostly below 4.5%. Furthermore, demand for paper is likely to remain robust partly on account of the persistence of excess liquidity in the money market. While the BOM is continuing to drain liquidity from the market, it still looks reasonable to believe that it will not ultimately tighten liquidity conditions sufficiently to exert upward pressure on yields significantly. In any event, after the 15 bps cut in Aug, it will likely maintain a firm policy stance over the coming 4-6 months. This suggests that yields will be rangebound, as has been the case over the past few months. Nonetheless, yields are near the bottom end of the range of the past year.

Change in yield curve



Source: Bank of Mauritius; Standard Bank Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	1.26	1.26	1.26	1.26	1.27	1.27	1.27
Nominal GDP (TND bn)	392.1	409.9	434.8	457.5	485.2	534.3	566.0
Nominal GDP (USD bn)	12.8	11.6	12.2	13.3	14.3	15.0	16.0
GDP / capita (USD)	10 137	9 223	9 657	10 509	11 266	11 810	12 653
Real GDP growth (%)	3.7	3.5	3.7	3.8	3.8	3.8	3.2
Sugar production ('000 Tonnes)	400.2	366.1	386.3	386.3	362.3	362.3	372.4
Tourism arrivals ('000)	1 038	1 152	1 275	1 342	1 399	1 391	1 383
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.2	-3.7	-3.6	-4.2	-4.4	-3.9	-4.3
Budget balance (incl. Grants) / GDP (%)	-3.0	-3.1	-3.5	-3.5	-3.7	-3.2	-3.2
Domestic debt/GDP (%)	42.2	44.3	49.7	51.7	50.2	50.4	48.9
External debt/GDP (%)	16.0	13.3	14.7	12.9	12.1	10.0	8.5
Balance of Payments							
Exports of goods and services (USD bn)	6.27	5.48	5.21	5.21	5.29	5.77	3.28
Imports of goods and services (USD bn)	7.84	6.74	6.46	6.98	7.22	8.23	8.13
Trade balance (USD bn)	-1.57	-1.26	-1.24	-1.77	-1.93	-2.46	-4.85
Current account (USD bn)	-0.71	-0.58	-0.53	-0.80	-0.78	-0.89	-0.97
- % of GDP	-5.57	-4.99	-4.34	-6.05	-5.49	-5.92	-6.02
Capital & Financial account (USD bn)	1.46	1.15	1.27	2.23	2.05	2.21	2.14
- FDI (USD bn)	0.55	0.33	12.97	9.93	6.99	6.52	6.48
Basic balance / GDP (%)	-1.27	-2.14	101.91	68.62	43.55	37.67	34.41
FX reserves (USD bn) pe	3.92	4.26	4.97	5.98	6.35	6.73	7.14
- Import cover (months) pe	5.9	7.1	8.7	9.5	10.5	11.1	11.8
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.2	1.3	1.0	3.7	3.2	0.7	2.7
Consumer inflation (%) pe	0.2	1.3	2.3	4.2	1.8	1.8	3.0
M2 money supply (% y/y) pa	8.01	10.62	8.79	9.04	7.73	6.92	8.14
M2 money supply (% y/y) pe	8.74	10.17	9.08	9.27	6.31	8.13	8.31
BOM Policy rate (%) pa	4.65	4.61	4.20	3.83	3.50	3.43	3.35
BOM Policy rate (%) pe	4.65	4.40	4.00	3.50	3.50	3.35	3.35
3-m rate (%) pe	2.50	2.90	2.80	2.40	3.37	3.01	3.45
5-y rate (%) pe	4.70	4.85	3.93	4.25	5.20	5.20	5.20
USD/MUR pa	30.70	35.19	35.63	34.41	34.03	35.72	35.29
USD/MUR pe	31.75	35.85	35.97	33.57	34.30	36.88	34.51

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

Notes: pa – period average; pe – period end

Morocco: still stable – but growth may slow

GDP growth: still resilient despite deteriorating global conditions

We revise our 2019 GDP forecast to 2.8% y/y, from 2.6% y/y, and we leave our forecast for 2020 unchanged at 3.4% y/y.

GDP grew 2.8% y/y in Q1:19 as the decline in agricultural production (-3.2% y/y) turned out less severe than the Ministry of Agriculture had forecast few months ago. The non-agricultural sector managed to expand by 3.6% y/y, slightly better than in Q1:18, even though growth in the euro zone, Morocco's main trading partner, has slowed this year.

Government efforts to attract investment are now yielding long-awaited results. In particular, the electricity sector's output jumped by a whopping 23.5% y/y in Q1:19 as several renewable power generation projects, such as the Safi thermal power plant and solar energy stations, began production. The Safi plant alone can satisfy 25% of local demand for electricity. Granted, other sectors of the economy showed much less spectacular growth but their performance is still tighter than a year ago, leading to a more balanced expansion of the economy, and providing a solid basis for future performance and a lesser reliance on agriculture.

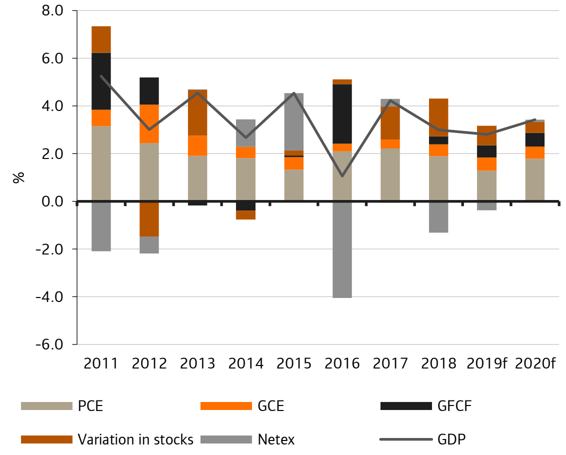
But, a negative effect on public consumption will likely come from the slowdown in the agricultural the sector which employs near 40% of the workforce and a deceleration in remittances from the workers abroad. This may be somewhat offset by the expected increases in wages and in family allowances. We therefore expect PCE to remain the largest contributor to GDP growth, adding 1.3 ppts. With a likely recovery in agricultural production in 2020, PCE contribution should increase to 1.8 ppts. Government consumption should continue to grow at 2.5% y/y in real terms in 2019/20, contributing around 0.5 ppts to GDP as the state will accelerate the pace of operating expenses.

Judging by the 1% y/y contraction in equipment loans in H1:19, growth in private investments is likely to moderate this year. That said, GFCF should be well supported by ongoing government efforts in sticking to long-term investment programs. We expect overall GFCF to grow of 2% in 2019/20.

Variation in stocks will continue to rise as manufacturers will resort to stockpiling, waiting for better demand from local and overseas customers.

Net exports should remain a negative contributor to GDP in 2019, albeit to a lesser degree due to a moderation in growth of capital goods imports and fuel purchases and a continued recovery in tourist arrivals. A tighter deficit in goods and services will probably transpire in 2020 when we expect net exports to start contributing a small positive amount to GDP growth.

Composition of GDP growth by demand



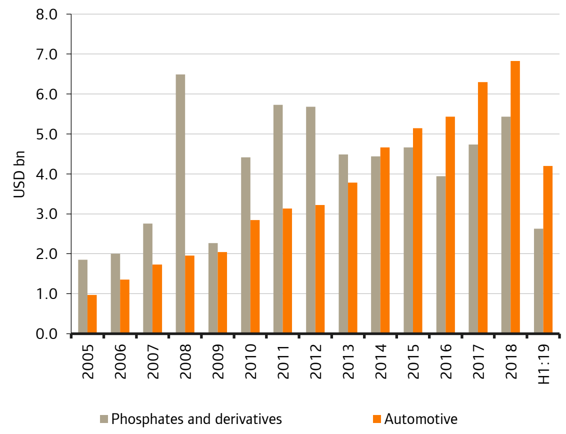
Source: Haut-Commissariat au plan; Bank Al-Maghrib; Standard Bank Research

Contribution to GDP by sector (% of total)

	2014	2015	2016	2017	2018	Q1:19
Primary sector	11.7	12.6	12.0	12.4	12.3	11.6
- Agriculture	10.7	11.6	10.9	11.3	11.2	10.4
- Fishing	0.9	1.0	1.1	1.1	1.0	1.3
Secondary sector	26.5	26.1	26.0	26.2	25.9	26.2
- Extraction industry	2.5	2.3	2.0	2.3	2.3	2.5
- Processing industry	16.5	16.1	15.8	15.7	15.7	15.5
- Electricity and water	1.8	2.1	2.5	2.5	2.5	3.0
- Construction industry	5.8	5.5	5.7	5.6	5.4	5.3
Service sector	51.6	49.7	50.3	50.0	50.0	50.4
- Trade	8.3	7.8	8.1	7.9	7.9	8.0
- Hotels & restaurants	2.3	2.1	2.2	2.5	2.6	2.5
- Transport	3.5	3.7	3.7	3.8	3.9	3.8
- Post and telecom	2.4	2.2	2.1	2.0	2.0	2.0
- General gov't	9.5	9.2	9.2	9.2	9.2	9.2
- Other nonfinancial activit.	25.6	24.8	25.0	24.6	24.5	24.9
Taxes	10.2	11.5	11.7	11.5	11.8	11.7
GDP	100.0	100.0	100.0	100.0	100.0	100.0

Source: Haut-Commissariat au plan

Phosphates and automotive exports



Source: Office des Changes

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	3.6	2.4	3.0	2.9	2.8	2.8	2.8	2.8	3.1	3.3	3.4	3.6
CPI (% y/y) pa	2.1	2.6	1.6	0.8	-0.2	0.2	0.4	0.5	1.3	0.5	1.3	1.5
M3 (% y/y) pa	5.2	4.8	4.1	4.2	4.2	4.1	4.4	4.0	5.0	5.4	4.8	4.6
CA/GDP (%) pa	-5.5	-7.0	-3.6	-7.3	-2.9	-9.0	-2.9	-6.7	-1.6	-7.6	-1.8	-5.4
FX reserves (USD bn) pe	24.6	23.4	23.3	23.6	22.9	23.8	23.9	24.0	24.2	24.4	24.6	24.8
Import cover (mths) pe	5.3	5.1	5.1	5.1	5.0	5.2	5.2	5.3	5.0	5.1	5.1	5.2
BCT policy rate (%) pa	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
USD/MAD pe	9.21	9.48	9.43	9.53	9.67	9.58	9.77	9.90	9.73	9.51	9.34	9.22

Source: Bank Al-Maghrib; Haut-Commissariat au plan; Office des Changes; Standard Bank Research
Note: pa – period average; pe – period end

Political risks: ever present, but under control

At the annual Throne Day at the end of July, King Mohammed VI called for a government reshuffle and announced a new committee charged with devising a development plan that would cover areas from agriculture and taxation to health and investment. Worrying about the destabilising effect of the social unrest fuelled by rising inequality, the King made it clear that the country's impressive achievements in infrastructure developments and renewable energy should be enjoyed by the broader population. Hence, the need for "new blood", as the King put it, in the government to improve such transmission mechanism. The King's speech reflects his stance as a "guarantor of reforms and a protector of people", a ruler who knows and sympathises with problems of his subjects.

Prime Minister Saad-Eddine El Othmani is likely to come with a list of new appointees for the royal approval after the end of summer holiday. We don't expect this to have a material impact on either the government composition or the course of its work. In Moroccan tradition, the governing coalition tries to reflect the party representations in the parliament. Granted, this often results in a fragmented managerial team suffering endless disputes, which does not bode well for maintaining the pace of reforms. Still, it largely maintains a delicate political balance in a very volatile region that faces a substantial threat from terrorism.

We are still two years away from the next general elections scheduled for Oct-21. Despite rising popular discontent and a tendency of the Moroccan population to blame the ruling party for the rising cost of living, corruption and unemployment, we still expect the moderate Islamist PJD party to garner most of the seats. Perhaps the gap with the main opposition group, a palace-linked PAM party, will be smaller, but it's unlikely to be reversed given the strength of the PJD representatives at grassroots level.

Election results

Parliamentary elections (7 Oct 16)	Seats	% of seats
Justice and Development Party (PJD)	125	31.6
Authenticity and Modernity Party (PAM)	102	25.8
Istiqlal Party	46	11.6
National Rally of Independents (RNI)	37	9.4
Popular Movement (PP)	27	6.8
Socialist Union of Popular Forces (USFP)	20	5.1
Constitutional Union (UC)	19	4.8
Party of Progress and Socialism (PPS)	12	3.0
Others	7	1.8
Total	395	100

Regional and Municipal elections (4 Sep 15)	Regional seats, %	Municipal seats, %
Justice and Development Party (PJD)	26	16
Istiqlal Party	18	16
National Rally of Independents (RNI)	13	14
Authenticity and Modernity Party (PAM)	19	21
Socialist Union of Popular Forces (USFP)	7	8
Popular Movement (PP)	9	10
Constitutional Union (UC)	4	
Party of Progress and Socialism (PPS)	3	
Others	1	15

Source: Moroccan government

Balance of payments: main tightening is postponed to the next year

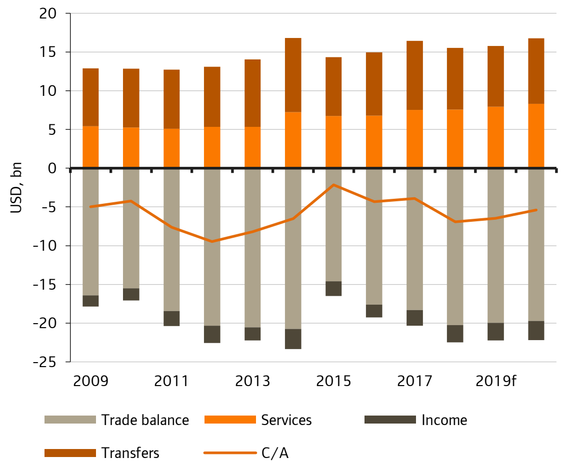
We revise our forecast for a C/A deficit to 5.4% and 4.1% of GDP in 2019 and 2020 respectively, from 5.0% and 4.4%. Sluggish European demand will constrain Moroccan exports this year, while rising higher-value exports and tourism earnings should reduce the deficit in 2020.

The trade deficit in H1:19 widened by 4.2% y/y, propelled by increases in imports of capital goods and semi-finished goods, by 9.9% y/y and 5.7% y/y respectively. The share of these two groups in total imports is fast approaching 50%, likely the future driving force of imports growth. Conversely, of the two largest export groups – agricultural goods and automobile – the first grew by 6.7% y/y in H1:19, while the second by only 1.7% y/y. Still, with a 13% y/y increase in net services receipts, the trade deficit in goods and services in H1:19 tightened by 1.5% y/y.

Significantly slower EU economic growth this year will likely result in a stickier Moroccan trade deficit. Lacklustre growth in export-oriented industries such as phosphates and textiles in H1:19 was the direct result of weaker European demand. Remittances from Moroccans working overseas will also likely drop. Granted, some respite for BoP should come from cheaper energy imports. We'd therefore expect the C/A deficit to tighten this year.

In 2020, some of these negatives should subside. We'd expect tourism receipts to remain stable, purchases of capital goods to decelerate, and exports of goods to increase as the Peugeot plan should double capacity in 2020. Hence, the C/A deficit should ease to USD5.4bn in 2020. The deficit should also be easily financed by stable FDI flows and external loans. FX reserves therefore should remain above 5-m of imports this year and next.

Current account developments



Source: Haut-Commissariat au plan; Office des Changes; Standard Bank Research

Gross international reserves

Source : Haut-Commissariat au plan

FX outlook: a stable currency basket

The bank's currency basket (60% EUR + 40% USD) remains largely stable at 10.25-10.35. We see the BAM keeping the dirham tightly managed over our forecast period. In fact, if anything, after the central bank had widened the basket fluctuation band to 2.5% daily back in H2:18, currency volatility decreased. The BAM will likely ignore a marginal appreciation of the real effective dirham (which should come because inflation in Morocco is projected to be lower than in both the US and euro zone) for the sake of financial stability and in order to prevent a run on FX reserves.

Assuming that the basket value will remain at its latest value of 10.25, and taking into account our forecast for EUR/USD, we project the dirham to strengthen to 9.2 against the dollar and to weaken to 10.95 against the euro by YE:19.

USD/MAD: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: no change, with a bias to cut

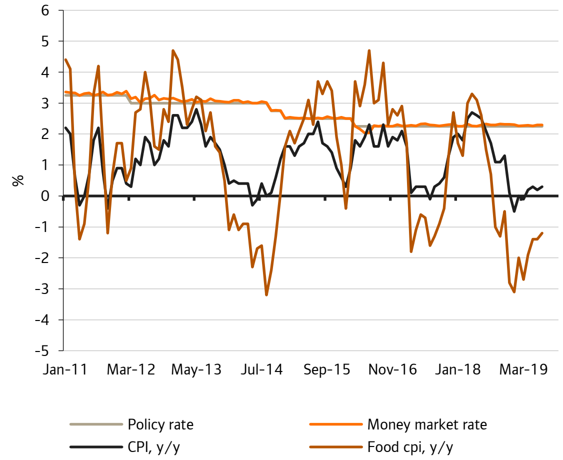
We expect the BAM to keep the base interest rate at 2.25%. We trim our forecast for CPI in 2019 and 2020 to an average of 0.2% y/y and 1.2% y/y respectively, from 0.7% y/y and 1.4% y/y.

CPI in Q2:19 managed to exit the negative territory of the previous quarter, as the pace at which the prices of fresh food price moderated. But, headline inflation remains around zero. With less impact from food price decreases, headline CPI will be guided by core inflation, the cost of fuel, and the prices of regulated goods. Of these, only the last one is likely to grow ‘robustly’, by Moroccan standards, at 1.5% y/y. This rate should be maintained the rest of the year due to VAT hikes on tobacco, before effects wear off in 2020. The cost of fuels and lubricants is likely to remain subdued given the current trend in oil prices. That leaves us with core inflation which dropped to 0.4% y/y in Jun, from 0.8% y/y in April. Given both subdued economic growth in Morocco and weaker demand from Europe, core inflation growth should probably remain unchanged in 2019. CPI would be unlikely to grow faster than 0.2% y/y in 2019.

Next year, we expect some acceleration in CPI growth as commodity and food prices recover and core inflation accelerates somewhat on credit growth. That said, it probably will still be close to 1.2% y/y for 2020.

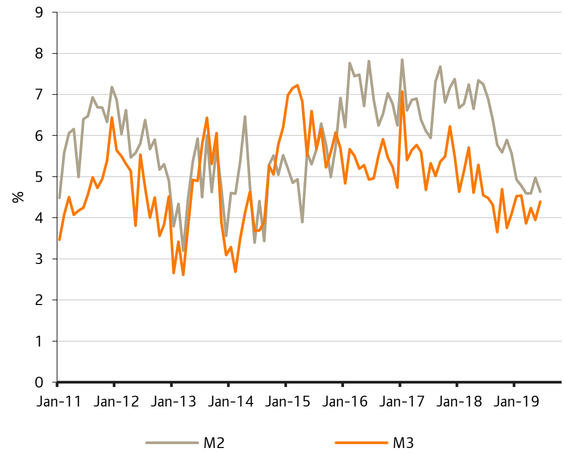
Given such a lacklustre inflation, wouldn’t the BAM cut rates? We don’t think so. For one, the BAM seems to track ECB decisions; the bank last cut the interest rates in Mar-16 when the ECB did. Our main scenario is that the ECB will keep its main base rate on hold. More importantly, the BAM is mindful of maintaining attractive local rates for foreign investors.

Inflation and interest rates



Source: Bank Al-Maghrib; Haut-Commissariat au plan

Money supply



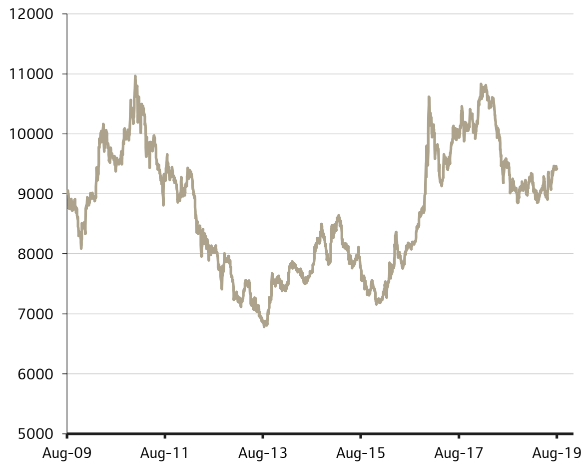
Source: Bank Al-Maghrib; Haut-Commissariat au plan

Equity market outlook: likely to remain flat

The Moroccan equity index MOSEMDX has moved sideways this year, returning just 2% YTD, which is quite close to the performance of the MSCI Emerging Markets index. It will probably remain flat for the rest of 2019/20. We don’t expect much upside as Moroccan growth will remain subdued during that time and the local bourse with its P/E of 20 already looks expensive (for comparison, MSCI EM has a P/E of 13).

The state’s continued privatisation program will maintain investor interest in the stock exchange and limit potential downside. This year’s best performances thus far are the forestry, distributors and insurance sectors, but engineering and industrial equipment, real estate and mining sector have underperformed, probably a correction after last year’s surge. In the long run, the industrial sectors are expected to drive the bourse’s performance.

Casablanca Stock Exchange: MOSEMDX index



Source: Bloomberg

Fiscal policy: widening underlying deficit

We revise our forecast for a budget deficit (ex. privatisation but including grants) to 4.1% and 3.8% of GDP in 2019 and 2020 respectively, from 3.8% and 3.6%.

During H1:19, growth in current revenues outpaced that of current expenditures, at 4.1% y/y vs. 3.6% y/y. However, tax revenues reveal the impact of a decelerating economy. The gains were mostly due to the special Social Solidarity Contribution (new tax on corporate profits to run for 2019/20), raised consumption taxes on tobacco and fuel, and higher income tax receipts due to state wages increases. However, corporate taxes, VAT and custom duties declined. Had it not been for increases in non-tax transfers from monopolies such as Morocco Telecom, OCP and the central bank, revenues would have been much less. Still, current expenditures were driven by increases in the wage bill, payments into the Moroccan Pension Fund and a 8.7% y/y increase in the public debt interest account. We estimate that the state deficit amounted to 4.0% of GDP during H1:19, and should widen in 2019.

Next year is likely to be as challenging. Revenues aren't likely to increase as much as the government hopes a growing economy to deliver (the central bank's forecast for GDP in 2020 is 4.6% y/y vs. our 3.4% y/y). The social dialogue agreement has paved the way for further increases in the wage bill. Government still pencils in USD200m of Gulf state donations. This is very optimistic given Morocco's tenser relationship with Gulf allies and likely lower oil prices than in 2018.

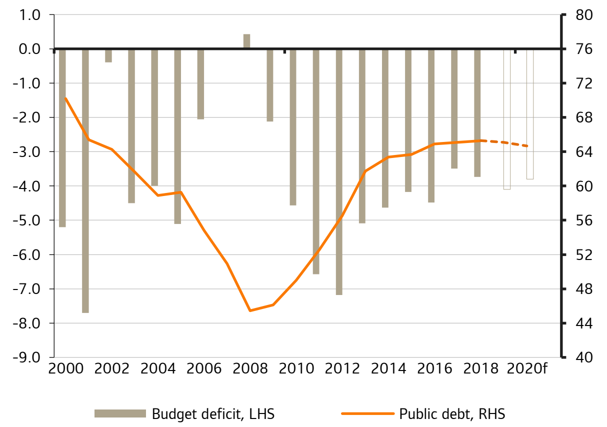
In 2019 the growing fiscal gap will be closed with the help of the Moroccan government's sale of an 8% stake in Maroc Telecom. The state is determined to continue with a massive privatisation program for a few years, hoping to raise as much as 0.4% of GDP per year. The remaining deficit will continue to be financed primarily through local borrowing given the low level of domestic rates.

Central government budget, % of GDP

	2015	2016	2017	2018	2019 (Act)
Current Revenue	23.6	23.7	24.0	23.5	23.1
- Tax revenue	20.7	20.9	21.2	21.2	21.1
- Non-tax revenue	2.9	2.9	2.8	2.2	2.0
Expenditure	28.5	28.5	28.0	27.5	27.2
Current expenditure	22.6	22.3	21.7	21.6	22.3
- Wages and salaries	10.4	10.3	9.9	9.6	9.6
- Subsidies	1.4	1.4	1.4	1.6	1.5
- Interest on public debt	2.8	2.7	2.5	2.5	2.4
Capital expenditure	5.9	6.3	6.3	5.9	4.9
Special Treasury accounts balance	0.7	0.3	0.5	0.3	0.5
Budget deficit (excl. grants)	-4.5	-5.2	-4.4	-4.0	-3.8
Grants	0.4	0.7	0.9	0.3	0.2
Overall balance (+grants)	-4.2	-4.5	-3.5	-3.7	-3.6
Change in arrears	-0.5	0.5	-0.1	0.3	0.0
Domestic financing	4.6	3.5	3.2	3.6	1.3
External financing	0.0	0.3	0.3	-0.2	1.9

Source: Ministère de l'Economie et des Finances

Budget deficit and public debt (actual/projected), % of GDP

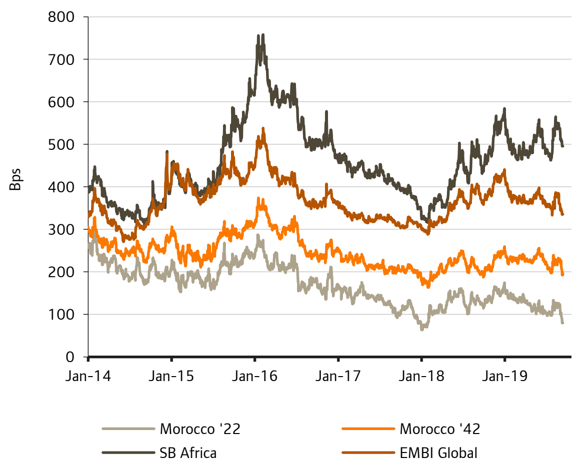


Source: Bank Al-Maghrib; Haut-Commissariat au plan
Note : budget deficit excludes privatisation

Eurobond outlook: shortage of bonds will keep spreads tight

A sticky underlying budget deficit hasn't dented Morocco's Eurobonds. The long 42s were the second-best performers amongst African Eurobonds, after the Kenya 48s, returning a massive 22% YTD. With Morocco's reliance on financing its deficit domestically and through concessional loans, and now with extra help from the privatisation program, there is no need for tapping the market. This makes Morocco (Africa's only investment grade with Eurobonds) very attractive to investors. For the most part, the existing Eurobonds track underlying Treasuries. Granted, the authorities have long promised coming to market with USD1bn in issuance "in a matter of weeks" but nothing has yet materialised. Even if so, such issuance would not create undue supply pressure given that Morocco's external debt to GDP ratio is below 13%.

Eurobonds: spread over Treasuries



Source: Bloomberg; Standard Bank Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	33.8	34.1	34.5	34.9	35.2	35.6	36.0
Nominal GDP (MAD bn)	925	988	1,013	1,063	1,107	1,167	1,233
Nominal GDP (USD bn)	110.0	101.4	103.3	109.5	117.9	120.0	130.5
GDP / capita (USD)	3,256	2,970	2,996	3,143	3,348	3,372	3,630
Real GDP growth (%)	2.7	4.5	1.1	4.2	3.0	2.8	3.4
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.1	-4.5	-5.2	-4.4	-4.0	-4.3	-3.9
Budget balance (incl. Grants) / GDP (%)	-4.6	-4.2	-4.5	-3.5	-3.7	-4.1	-3.8
General gov. debt / GDP, domestic (%)	48.1	49.4	50.8	50.7	51.9	52.2	51.9
General gov. debt / GDP, foreign (%)	15.2	14.3	14.1	14.4	13.4	12.9	12.8
Balance of Payments							
Exports of goods and services (USD bn)	35.6	33.1	34.2	39.1	42.7	42.8	46.4
Imports of goods and services (USD bn)	49.1	41.0	45.0	49.9	55.4	54.9	57.9
Trade balance, goods and services (USD bn)	-13.5	-7.9	-10.8	-10.8	-12.7	-12.0	-11.4
Current account (USD bn)	-6.5	-2.1	-4.3	-3.9	-6.9	-6.5	-5.4
- % of GDP	-5.9	-2.1	-4.2	-3.6	-5.9	-5.4	-4.1
Capital & Financial account (USD bn)	8.8	6.0	6.2	1.8	4.3	5.8	6.2
FDI (USD bn)	3.0	2.7	1.5	1.7	2.8	2.9	3.1
Basic balance / GDP (%)	-3.2	0.5	-2.7	-2.0	-3.5	-3.0	-1.8
FX reserves (USD bn) pe	19.4	22.0	24.3	25.3	23.6	24.0	24.8
- Import cover (months) pe	4.7	6.4	6.5	6.1	5.1	5.3	5.2
Sovereign Credit Rating							
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Moody's	Ba1	Ba1	Ba1	Ba1	Ba1	Ba1	Ba1
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.4	1.6	1.6	0.8	1.8	0.2	1.2
Consumer inflation (%) pe	1.6	0.6	1.8	1.9	0.1	0.8	1.6
M3 money supply (% y/y) pa	4.3	6.2	5.3	5.6	4.6	4.2	4.9
M3 money supply (% y/y) pe	6.2	5.7	4.7	5.5	4.1	3.4	4.6
Policy rate (%) pa	2.90	2.50	2.29	2.25	2.25	2.25	2.25
Policy rate (%) pe	2.50	2.50	2.25	2.25	2.25	2.25	2.25
USD/MAD pa	8.42	9.75	9.81	9.71	9.39	9.73	9.45
USD/MAD pe	9.08	9.92	10.19	9.33	9.53	9.90	9.22

Source: Bank Al-Maghrib; Haut-Commissariat au plan; Office des Changes; Ministère de l'Economie et des Finances; Standard Bank Research

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

Mozambique: peace and LNG projects improve the outlook

GDP growth: perhaps bottoming out this year

Mozambique's medium- to long-term growth outlook has improved materially, supported by the final investment decisions of the Rovuma basin liquefied natural gas (LNG) projects. This contrasts with subdued aggregate demand that has been negatively affected by the legacy issues of the previously hidden loans saga and the destruction by two cyclones in Q2:19.

We have changed our GDP growth forecasts for 2019 and 2020 with the first lowered by 0.2 ppts to 2.5% y/y and the second lifted by 0.2 ppts 3.7% y/y, on a more prudent than expected monetary policy easing and fiscal challenges that leaves the overall aggregate demand subdued this year. Real GDP growth rate eased to 2.3% y/y during Q2:19, from 2.5% y/y during Q1:19 mainly due to annual contractions in agriculture, mining and electricity sectors.

We see GDP growth accelerating to levels beyond 10% y/y from 2024 onwards, before settling towards an expected long-term growth rate of 4% y/y. This reflects expectations that by 2024, at least 3 LNG projects would have reached full production in excess of 30mtpa (million tonnes per annum).

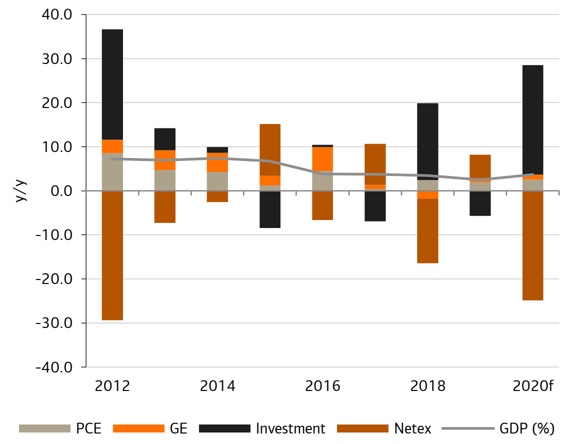
The Coral Floating LNG project, with a capacity of 3.4mtpa and an investment estimated in USD8bn, is targeted to reach 60% construction completion by end 2019, and should commence production by 2022. The Mozambique LNG (MLNG) project, which took final investment decision (FID) last Jun for a USD25bn investment and an output of 12.9mtpa, is expected to come online by 2023. We are likely to see another FID before year-end for a 15.2mtpa (Rovuma LNG - RLNG) project worth around USD30bn, with production expected by 2024.

As the LNG trains construction takes shape from next year, we are likely to see foreign direct investment inflows supporting the economy from both a gross capital formation and a foreign exchange liquidity point of view. This should allow interest rates to fall further.

Limited institutional capacity, shortfalls in the ease of doing business, limited skilled labour and the lack of a vibrant private sector might limit local participation in the LNG projects and reduce the potential benefits for the domestic economy. Security concerns also present an important risk that would need to be addressed.

The integration between the LNG and the rest of the economy could make economic growth more inclusive and sustainable – but this would require at least two major developments. The first is progress on structural reforms and governance matters. The second is uplifting nearly half of the population living in poverty and integrating around 70% of the population currently subsistence-farming with the rest of the formal economy.

Composition of GDP by demand



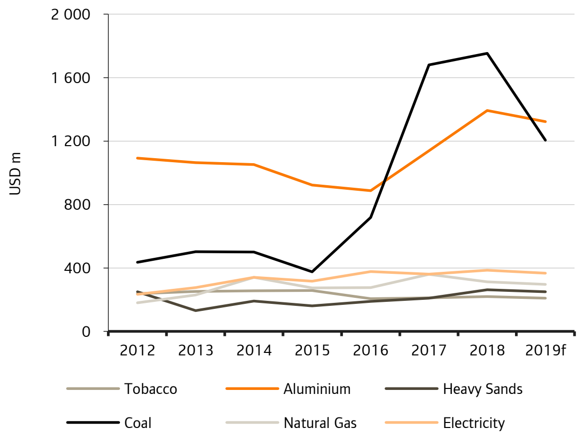
Source: Instituto Nacional de Estatística; Standard Bank Research

GDP by sector (% of total)

	2016	2017	2018
Agriculture, livestock, hunting, forestry & fisheries	23.1	23.2	23.2
Extractive industries	4.9	6.9	7.3
Manufacturing	8.1	8.0	7.8
Electricity and gas production/distribution	2.9	2.7	2.5
Water	0.2	0.2	0.2
Construction	1.9	1.8	1.7
Trade, repair of motor vehicles	10.9	9.7	9.5
Transport and storage	7.0	6.9	7.0
Lodging, restaurants and similar	2.0	1.8	1.8
Information and communication	3.3	3.2	3.3
Financial activities	4.8	5.1	5.2
Real estate activities	5.3	4.8	4.9
Public admin, defence and social security	6.4	6.5	6.4
Education	6.3	6.1	5.9
Health and social work	1.4	1.5	1.5
Other services	11.4	11.4	11.6
Total	100.0	100.0	100.0

Source: Instituto Nacional de Estatística, Standard Bank Research

Principal exports



Source: Banco de Moçambique; Standard Bank Research

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	3.7	4.6	2.4	3.0	2.5	2.3	2.6	2.5	2.9	3.8	4.4	3.7
CPI (% y/y) pa	3.3	3.3	4.9	4.2	3.6	2.7	2.2	3.2	3.8	4.1	5.3	5.6
M3 (% y/y) pa	8.5	9.8	8.5	8.0	8.5	11.4	11.5	12.0	13.6	13.3	17.3	18.2
CA/GDP (%) pa	-18.7	-20.7	-23.5	-30.6	-28.3	-31.1	-33.3	-27.3	-29.8	-33.4	-36.6	-39.7
FX reserves (USD bn) pe	3.2	3.2	3.1	3.0	3.0	3.1	3.3	3.1	4.0	3.8	4.2	4.3
Import cover (mths) pe	4.7	4.6	4.5	3.5	3.9	4.0	4.2	4.0	3.7	3.5	3.8	3.9
Policy rate (%) pe	18.00	15.75	15.00	14.25	14.25	13.25	12.75	12.25	12.00	11.50	11.25	10.75
USD/MZN pe	61.6	59.3	60.6	61.5	63.9	62.1	61.5	60.4	60.2	60.1	59.3	59.8

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

Notes: pa – period average; pe – period end

Political risks: decentralization eases tensions

It is less than 1-m to go to the Mozambican presidential and legislative elections. This time with progress on peace process and decentralization bringing more excitement and possibly paving the way to a more peaceful environment.

For the first time, provincial governors will be indirectly elected by vote, a matter that was a major dispute since the 2014 election results which favoured Renamo in a number of provinces. This dispute successfully culminated with a peace deal signed by the government and RENAMO.

However, there is group claiming to represent a splinter of RENAMO, threatening a return to war if the leader of RENAMO won't resign.

While the elections might turn out to be peaceful, one can't rule out the possibility that the opposition will refuse to accept election results in parts of the country. After all, that is exactly what happened in last year's local government elections, with the opposition alleging that election results were altered in parts of the country.

Regardless, we remain confident that elections will be peaceful and that political stability will be strengthened.

Having said that, we remain wary of the armed attacks of a terrorist nature, closer to the sites where the LNG projects will be developed.

First reported in Oct 17, the attacks initially targeted police stations and government institutions. Rapidly, they evolved to target the rural populations and more recently civilians travelling by road to the LNG projects site. The police and the army have been deployed to help restore security, with some reports indicating the presence of cross-border terror groups.

Elections results

Presidential election (2014)	**Party**	**% of votes**
Filipe Nyussi	Frelimo	57.0
Afonso Dhlakama	Remano	36.6
Daviz Simango	MDM	6.4

Parliamentary election (2014)	Seats	% of votes
Frente de Libertação de Moçambique	144	57.6
Resistência Nacional Moçambicana	89	35.6
Movimento Democrático de Moçambique	17	6.8
Total	250	100.0

Source: Comissão Naional de Eleições (CNE)

Balance of payments: still volatile

Over the past few years, the large projects' activity added increased volatility to the BOP, which is likely to persist at least until 2024 when the LNG projects reaches full production and the C/A returns to a surplus.

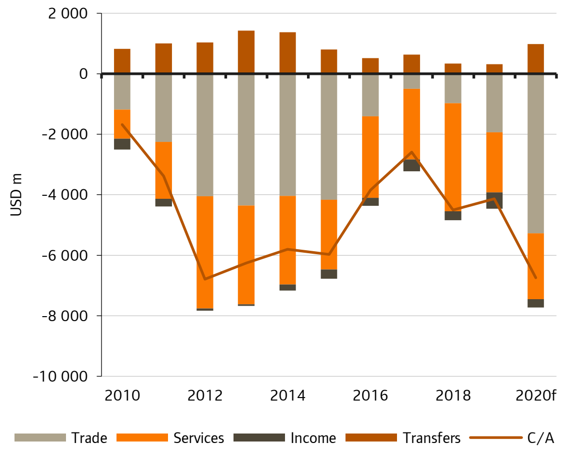
Notwithstanding the impressive improvement over the past two years, the BOP remains fragile and subject to shocks. Commodity price shocks and any potential delays on LNG projects investment bring substantial risks to the BOP.

Export performance is likely to remain subdued this year, negatively affected by a decline in commodity prices and export volumes, including lower coal prices and subdued coal output. We forecast an 11.3% y/y decline in goods export revenues to USD4.6bn, from 10% y/y growth in 2018 and a 42% y/y increase in 2017 when Vale doubled coal exports.

Goods imports growth is expected to grow by 6.1% y/y to USD6.5bn 2019, easing from an acceleration of 18.1% y/y last year and 10.4% y/y growth in 2017 that followed the 37.5% y/y contraction in 2016. This was necessary to help deal with BOP shock in the year of the revelations of the previously hidden loans.

This year, a possible easing in large projects service imports will likely help reduce the C/A deficit to USD4.1bn, from USD4.5bn, supporting the relative stability of FX reserves. The widening of the C/A next year as the LNG construction phase takes shape will likely be funded by corresponding FDI inflows, which should allow FX reserves to grow and keep the metical relatively stable. FX gross reserves have been relatively stable since the beginning of the year, closing Jul at USD3.2bn, representing 4.1-m of import cover or a higher ratio of 6.2-m excluding the large projects imports. We expect a 35.9% y/y increase in FX reserves next year to USD4.3bn, supported by FDI inflows and capital gains on the recent Total purchase of Anadarko's stake in the Area1 natural gas assets and its stake in MLNG project.

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX gross reserves

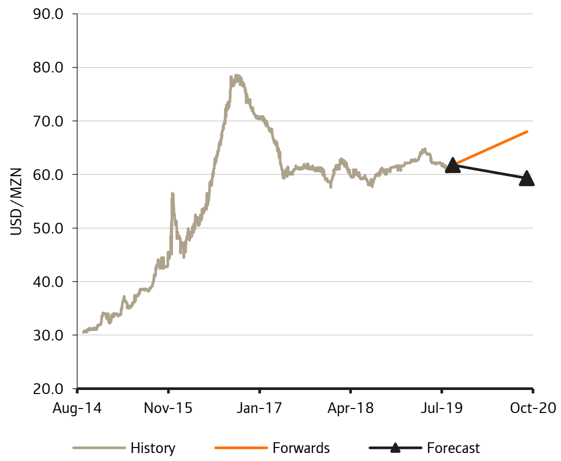
Source: Banco de Moçambique; Standard Bank Research

FX outlook: hovering at current levels

Intense regulatory changes, combined with inflows related to the relief assistance following the cyclones, coupled with an improvement on export performance outside the large projects and subdued import demand, contributed to an improvement of FX liquidity in the market. LNG FID and progress on the peace process also helped to lift sentiment materially.

As a result, the USD/MZN receded from the Apr peak around 65 to the current levels closer to the 60 mark. Most likely the pair will hover around this mark this year and beyond. Over the past few weeks, the marketed experienced some level of FX liquidity pressure, which pushed the USD/MZN above the 62 mark. We still regard this as temporarily volatility. However, in the event of material delays on natural gas projects FDI inflows, BOP pressures would characterise the economy and monetary policy would also have to be re-tightened.

USD/MZN: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: rates likely to be eased further

Mozambique's inflation and currency outlook has improved. However, we are not yet convinced that BOM will decide to cut policy rates more aggressively, hence a prudent stance is likely to be maintained. At the Aug MPC meeting, the MIMO rate was cut by 50 bps to 12.75%, lowering the banking sector prime lending rate to 18.3%. We see policy rates being cut by a total of 200 bps this year, closing at 12.25%, then easing further by 150 bps next year to 10.75%, lowering the prime lending rate to 16%.

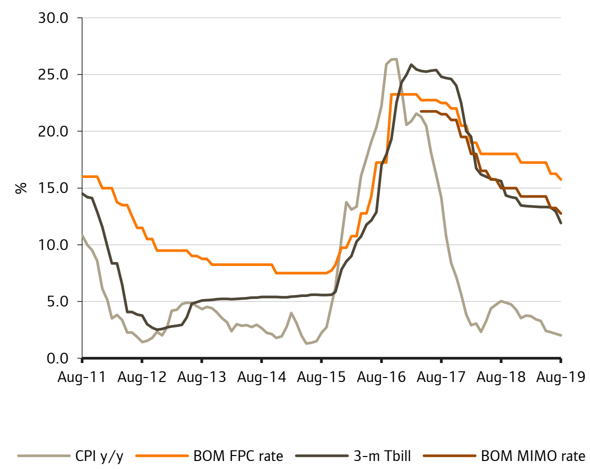
Latest CPI data published by INE reported to Aug shows further ease on inflation to a 49-m low of 2% y/y, with the annual average CPI easing from 3.6% y/y in Jul to 3.4% y/y in Aug.

Inflation is expected to remain benign at 3.4% y/y by year-end, accelerating to 5.8% y/y by the end of 2020. We see 12-m average inflation easing to 2.9% y/y this year, from 3.9% y/y last year, but accelerating to 4.7% y/y next year as overall demand starts to raise.

Most likely, BOM prudency in cutting policy rates will keep real interest rates elevated enough to help manage the fragile BOP position and fiscal pressures.

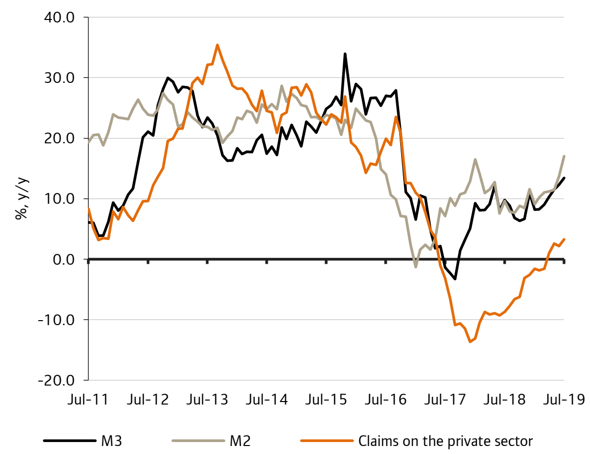
Falling nominal interest rates started to stimulate private sector credit demand, which largely remains subdued. Monetary survey data reported to Jul shows that growth in lending to the private sector denominated in local currency grew by 10% y/y, from a contraction of 8.2% y/y in Jul 18. However, credit denominated in foreign currency remained in negative territory with a contraction of 26% y/y, aligned with the subdued performance of the export sector and aligned with central Bank efforts to ease the economy dollarization. As per Jul data, foreign currency deposits represent 26.2% of total deposits.

Inflation and interest rates



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

Monetary statistics



Source: Banco de Moçambique; Standard Bank Research

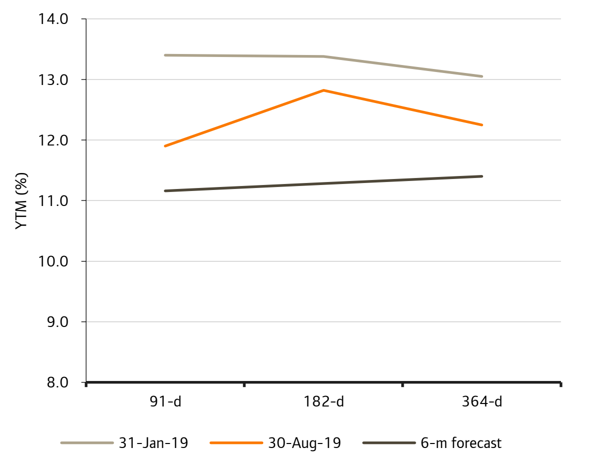
Yield curve outlook: a downward shift

Cyclone assistance expenditure and the Oct 19 elections possible cost overruns are likely to limit fiscal consolidation this year. Despite the increase in government borrowings, the low inflationary environment and the excess in local currency, liquidity keeps pushing the yield curve downwards, a trend likely to continue.

Government domestic borrowings will likely continue to rise. As per Jul monetary survey data, net lending to the government grew sharply by 124.8% y/y to a balance of MZN67.9bn. During the same month of 2018, it contracted by 17.8% y/y to MZN30.2bn.

Still, T-bill interest rates are likely to continue to fall in line with policy rates, with the 91-d T-bill currently at 11.9%, from 15.7% a year ago and the 364-d rate currently at12.25%.

Changes in the yield curve



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: a pause on fiscal consolidation

Half-year performance on the 2019 government budget shows fiscal revenues at MZN104.6bn, 4.4% y/y higher that the amount collected during the same period of 2018, but representing less than half or the annual budget, at 41% execution rate, which denotes some underperformance.

Overall expenditure excluding loan principal repayments but including interest charges grew by 8% y/y to MZN119.9bn, which represents 36% of the annual budget. Current expenditure came at 43.7% of the annual budget, with investment expenditure at 22.3% of the annual target.

So, the overall balance before grants increased by 41.7% y/y to a deficit of MZN15.2bn, or 16.8% of the annual target. The deficit was funded by net external borrowings of MZN6.3bn, grants of MZN4.8bn and net domestic borrowings of MZN11.7bn, with the difference of MZN7.6bn recorded as changes in balances representing the portion of the previous year capital gains taxation in use this year.

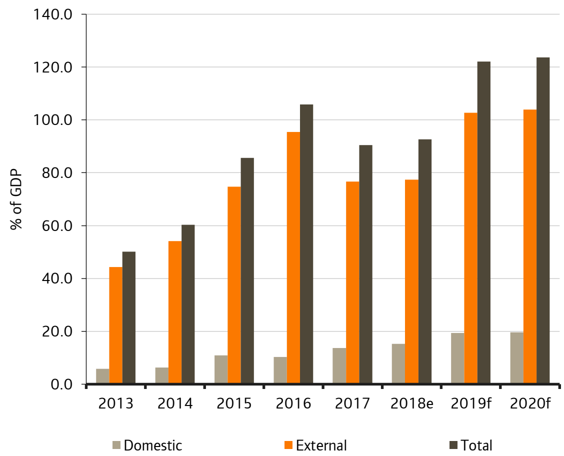
At half-year, the stock of domestic debt stood at MZN168.4bn, representing a 20.8% year-to-date increase. The domestic debt stock comprises MZN48.5bn owed to Central Bank, an increase of 26.6% over the course of this year, of which MZN4bn was utilized in Apr to accommodate cyclone relief assistance. The T-bill usage came at MZN25.7bn, which represents 23.6% of the overall T-bill stock, denoting that most of the T-bill issuances are for monetary policy purposes. The stock of government bonds came at MZN60.7bn, a 30% YTD increase, from which MZN3.6bn was used to clear arrears to various suppliers to the government, a process that started last year. The stock of government bond represents 78.5% of the annual limit. The balance of MZN33.5bn, which grew 0.4% YTD, represents government other debt in the form of long-term leasing and oil syndicate debt. External debt will likely continue to grow fast, reflecting the participation of state-owned entity Empresa Nacional de Hidrocarbonetos (ENH) in the LNG projects.

Central government budget

% of GDP	2015	2016	2017	2018	2019f
Total revenue	24.4	22.1	25.4	23.9	26.19
Total expenditure	29.1	27.2	27.2	28.3	32.9
- Interest	1.2	2.2	2.1	2.9	3.7
- Wages	10.1	10.3	10.1	10.9	11.2
- Capital expenditure	10.0	6.7	6.5	6.8	10.9
Net lending to SOEs	0.6	1.8	3.0	1.4	1.0
Overall balance (- grants)	-4.7	-5.1	-1.8	-4.4	-6.9
Overall balance (+ grants)	-1.7	-3.1	0.1	-2.8	-3.9
Net external borrowing	-2.8	3.4	4.2	1.6	3.2
Net domestic borrowing	0.2	0.6	1.2	0.4	0.2
Changes in balances	4.4	-0.9	-5.6	0.8	0.6
Donor support (grants)	2.9	2.0	1.9	1.6	3.0

Source: Ministry of Economy and Finance; Standard Bank Research

Public and publically guaranteed debt



Source: Ministry of Finance; Standard Bank Research

Eurobond outlook: supported by restructuring

The Mozam23 started to trade above the pair, reflecting progress in restructuring negotiations. The government seems committed to a restructuring of the 2023s still this year.

An exchange offer has been accepted by the bondholders on the 6 Sep. Most likely the exchange will result in the extension of the maturity profile of the Eurobond to match it with expected revenues from the LNG projects in exchange for the sweetening of conditions of the deal to bondholders.

We suspect that some investors accumulated significant holdings in the paper in order to consolidate their positions when negotiations for the debt restructuring commenced in 2016. Civil society will likely continue to voice against the bond restructuring on the grounds of the Constitutional Court ruling that declared unconstitutional the previously hidden loans.

Mozam '23 Eurobond prices

Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	25	25.7	26.4	27.9	28.7	29.5	30.3
Nominal GDP (MZN bn)	555.4	637.8	752.7	840.5	887.8	936.5	1 016.90
Nominal GDP (USD bn)	18.1	16.4	11.9	13.3	14.7	15.1	17
GDP / capita (USD)	721	638	449	447	512	513	560
Real GDP growth (%)	7.4	6.7	3.8	3.7	3.4	2.5	3.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-11.8	-4.7	-5.1	-1.8	-4.4	-6.9	-6.5
Budget balance (incl. Grants) / GDP (%)	-7.5	-1.7	-3.1	0.1	-2.8	-3.9	-4
General gov. debt / GDP, domestic (%)	6.3	10.9	24.7	20	19.3	19.4	19.6
General gov. debt / GDP, foreign (%)	52.7	64.6	101.8	96.8	93	102.6	104
Balance of Payments							
Exports of goods and services (USD bn)	4.6	4.1	3.8	5.4	6	5.4	5.5
Imports of goods and services (USD bn)	11.6	10.6	7.9	8.2	10.5	9.3	13
Trade balance (USD bn)	-7	-6.5	-4.1	-2.8	-4.5	-3.9	-7.5
Current account (USD bn)	-5.8	-6	-3.8	-2.6	-4.5	-4.1	-6.7
- % of GDP	-32.1	-36.4	-32.4	-19.4	-30.6	-27.3	-39.7
Capital & Financial account (USD bn)	5.8	5.9	3.9	2.5	4.5	4.1	6.7
- FDI (USD bn)	4.9	3.9	3.1	2.3	2.7	2.3	7.9
Basic balance / GDP (%)	-5	-12.8	-6.3	-2.2	-12.3	-12.3	6.6
FX reserves (USD bn) pe	3.1	2.5	2	3.3	3	3.1	4.3
- Import cover (months) pe	3.2	2.8	3	4.8	3.5	4	3.9
- Import cover m pe (excl. large projects)	4.1	3.7	4.7	7.3	7.1	6.1	7.3
Sovereign Credit Rating							
S&P	B	B-	CC	SD	SD	SD	SD
Moody's	B1	B2	Caa3	Caa3	Caa3	Caa3	Caa3
Fitch	B+	B	CC	RD	RD	RD	RD
Monetary & Financial Indicators							
Consumer inflation (%) pa	2.6	3.6	19.9	15.1	3.9	2.9	4.7
Consumer inflation (%) pe	1.9	10.6	23.7	5.6	3.5	3.4	5.8
M3 money supply (% y/y) pa	19	24.2	23.6	3.2	8.7	10.9	15.6
M3 money supply (% y/y) pe	22.2	26.1	10.1	5.1	10.9	12.4	18
Policy rate (%) pe	7.5	9.75	23.25	19.5	14.25	12.25	10.75
USD/MZN pa	30.8	38.9	63.4	63.2	60.4	61.9	59.9
USD/MZN pe	31.6	45	71.2	59	61.5	60.4	59.8

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

Notes: pa – period average; pe – period end

Namibia: drought delays economic recovery

GDP growth: a downbeat assessment

We lower our expectations for GDP growth for this year and next. We had anticipated that the economic contraction would end in 2019 but now foresee it persisting. After contracting by 0.1% y/y in 2018 and 0.9% y/y in 2017, we expect the economy to contract 0.9% y/y in 2019 but expand 0.5% y/y in 2020.

If so, then 2019 would be a third year of economic contraction. Even the BON expects the economic contraction to extend to this year, predicting that the economy would contract 1.7% y/y this year.

There is little to drive domestic demand. After household consumption spending grew by 2.5% y/y in 2018, having contracted by 3.3% y/y in 2017, we expect it to contract again this year, perhaps by 0.4% y/y.

One reason for believing that household consumption spending will not sustain the momentum of last year is that retail and wholesale trade remained in contraction in Q1:19. It contracted by 6.7% y/y, after contracting by 7.2% y/y in 2018. This pace of contraction was not much different from the 7.9% y/y pace of contraction in 2017. But, if anything, the momentum of the sector suggests that the recovery in household consumption spending in 2018 was something of an outlier, with pressure still evident in retail and wholesale sales.

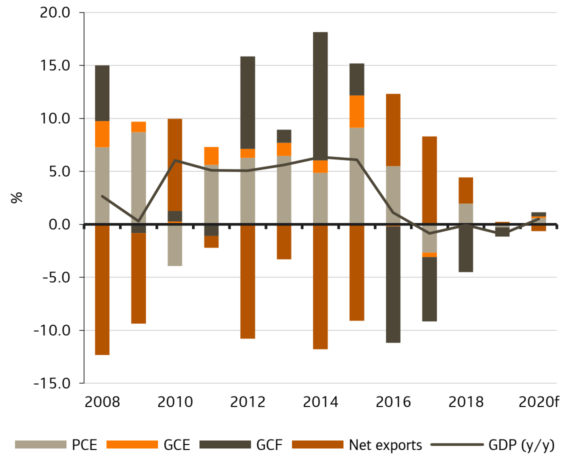
The 2018 Labour Force Survey showed that total employment grew by 7.2% between 2016 and 2018 despite the recession in 2017 and 2018. This trend in the labour data hints at an imminent end to the recession, perhaps by boosting household consumption.

That said, the BON's survey of a sample of large companies in the manufacturing and the retail and wholesale trade sectors indicates that the growth in average wages in these 2 sectors is not particularly strong. Average wages in the retail and wholesale trade sector grew by 4.7% y/y in Q1:19, better than the 0.7% y/y growth of average wages in the manufacturing sector.

In lowering its forecast, the BON cited drought conditions that might undermine agricultural activity. Activity data, especially the volume exports of small livestock like sheep, showed a sharp increase in Q1:19. This seems to have been a response to drought-driven agricultural marketing. The agricultural sector contracted by 6.7% y/y in Q1:19.

Other sectoral data indicates persistent weakness in economic activity. Recession in the construction sector, which has contracted by an average of 23.8% y/y in the last 3-y, contracted by 27.8% y/y in Q1:19.

Composition of GDP by demand



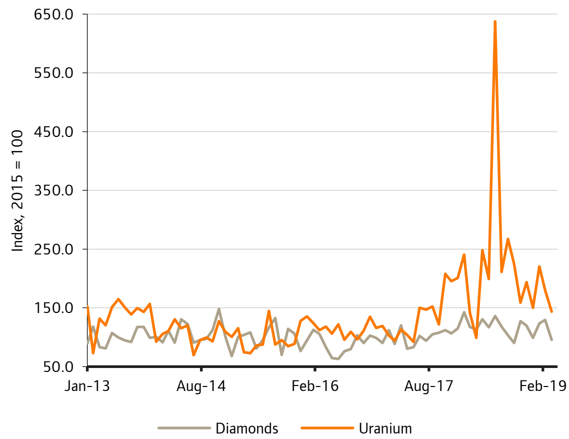
Source: Namibia Statistics Agency; Standard Bank Research

Contribution to GDP by sector (% of GDP)

	2012	2014	2018
Agriculture	5.0	3.2	3.9
Mining and quarrying	11.2	9.5	11.4
Manufacturing	11.1	10.3	10.0
Construction	3.6	5.8	3.1
Wholesale and retail trade	11.2	13.1	11.6
Financial intermediation	5.7	6.6	7.2
Real estate activities and business services	8.6	8.3	8.3
Public administration	10.8	10.1	11.4
Education	7.9	8.0	8.1

Source: Namibia Statistics Agency

Mining production indices



Source: National Statistics Agency

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	-0.5	2.4	-0.2	-1.9	-2.0	-0.6	-1.2	0.3	0.2	0.4	0.6	0.8
CPI (% y/y) pa	3.5	3.8	4.6	5.3	4.5	4.2	3.7	3.2	4.0	4.9	5.3	5.4
M2 (% y/y) pa	8.1	4.8	8.4	12.3	12.6	13.7	14.1	14.3	13.2	13.5	14.1	15.2
CA/GDP (%) pa	-2.1	-1.1	-1.8	-1.8	2.3	-2.4	-3.7	-2.0	-2.6	-1.8	-3.7	-3.2
FX reserves (USD bn) pe	2.3	2.2	2.3	2.1	2.3	2.5	2.9	2.4	2.4	2.5	2.6	2.6
Import cover (months) pe	5.4	5.4	5.6	4.6	5.5	6.0	7.0	5.7	4.5	4.7	4.8	4.9
3-m rate (%) pe	7.7	7.6	7.7	7.9	7.8	7.7	7.6	7.7	7.8	7.9	8.0	8.1
5-y rate (%) pe	9.3	9.2	9.3	9.4	9.5	9.3	9.1	8.9	9.0	9.1	9.3	9.4
USD/NAD pa	11.8	13.7	14.1	14.3	14.5	14.1	14.8	14.5	14.4	14.3	14.1	14.0

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

Notes: pe — period end; pa — period average

Political risks: limited risks; insular ruling party

The next general elections are scheduled for 27 Nov. Given SWAPO's political dominance, it's hard to see a significant change in policy after the elections. The party won 77 of the 96 seats in parliament in 2014.

Perhaps the confidence in the party holding on to power is reflected in the intense jockeying for positions within the party. The party held its electoral college on 7 Sep during which nominees for parliamentary elections would be chosen. Media reports indicate that the process leading up to this was fractious, with allegations that tribal camps were forming and that the party's secretary general was interfering with the process in demanding that several regional structures re-elect their respective delegates to the electoral college or face the prospect of being excluded from the party list of nominees. Some leaders of the party's regional structures threatened to sue the party to stop the process if they were stopped from participating.

There are also some indications that some party members have their eyes set on the next elective party congress in 2022. They want to use this party nomination process to position leaders that can be advanced to the party's leadership structure. Of course, one of those leadership positions that will be contested in 2022 is that of the president of the party. Notably, the last elective congress of the party in 2017 led to some stalwarts being thrown out.

The electoral commission completed voters' registration on 27 Jul, and should publish the voters' roll by 25 Oct. The nomination of presidential candidates and submission of party lists for parliamentary nominees will run 1 to 18 Oct.

Election results (2014)

Presidential election	Party	% of votes
Hage Geingob	SWAPO	86.73
McHenry Venaani	DTA	4.97
Hidipo Hamutenya	RDP	3.39
Asser Mbai	NUDO	1.88
Henk Mudge	RP	0.97

Legislative election	Seats	% of votes
South West African People's Organization (SWAPO)	77	80
Democratic Turnhalle Alliance (DTA)	5	4.8
Rally for Democracy and Progress (RDP)	3	3.51
All People's Party (APP)	2	2.29
United Democratic Front (UDF)	2	2.12
National Unity Democratic Organization (NUDO)	2	2.01
Communist Party of Namibia (CPN)	2	1.49
South West Africa National Union (SWANU)	1	0.71
United Peoples Movement (UPM)	1	0.71
Republican Party (RP)	1	0.68
Total	96	

Source: Electoral Commission of Namibia

Balance of payments: relatively strong

The C/A deficit, spurred by the trade balance, seems set to increase slightly this year. We expect it at 2.0% of GDP, from 1.8% of GDP in 2018 which was probably the bottom, with the C/A deficit then probably rising to 3.1% of GDP in 2020.

Perhaps weakness in economic activity is a factor that has also reduced import demand. bar last year, goods imports have declined every year since 2014. Even last year, imports were boosted by a 35% y/y increase in oil-related imports. Otherwise, goods imports would likely have declined again.

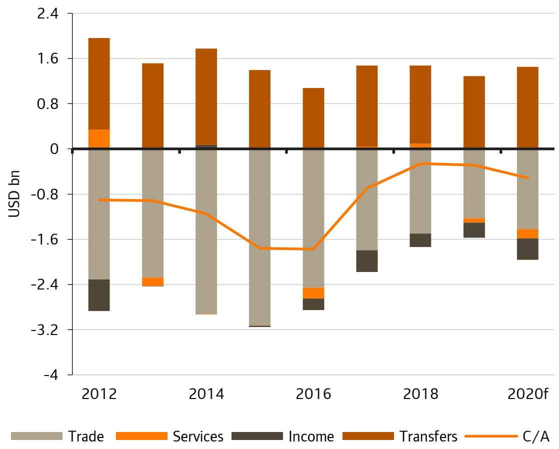
But then, oil and petroleum products imports fell by more than 40% y/y in Q1:19. Overall goods imports fell by about 27% y/y, perhaps setting the stage for 2019. Goods exports, while much lower in absolute terms, have grown faster than imports, leading to a smaller trade deficit.

The trajectory of transfers perhaps presents the most significant risk to the C/A deficit. Of course, these are dominated by SACU revenues, with private transfers being very small. SACU receipts peaked at USD1.59bn in 2014, fell to USD1.0bn by 2016. In 2017 and 2018 they amounted to about USD1.37bn and USD1.35bn respectively.

SACU receipts fell by 28% y/y in Q1:19. We see them declining in 2019, before picking up in 2020.

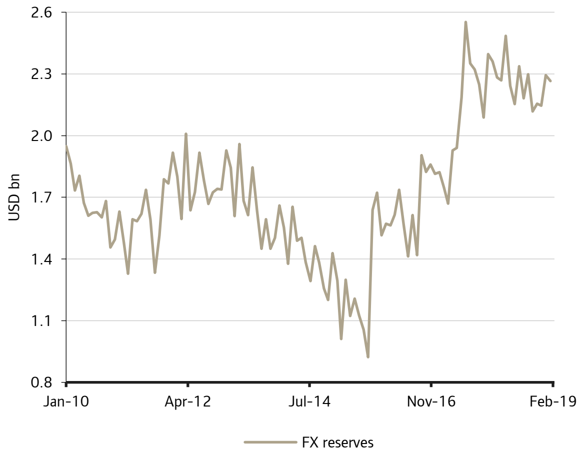
There were small portfolio inflows in Q1:19, amounting to just about USD20.5m. However, we anticipate that for the year as a whole, outflows will predominate. Indeed, in each of the last 2-y net portfolio inflows in the first quarter were overwhelmed by outflows over the remainder of the year. Financial inflows will likely be boosted by government external borrowing to finance the fiscal deficit. We believe that net FDI inflows in the next 2-y will recover from the low levels of 2018.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves



Source: Bank of Namibia

FX outlook: wary of overly negative expectations

The 1-to-1 relation between the NAD and ZAR will likely be maintained in the next 18-m. The BON keeps reiterating the influence that this relation has on its monetary policy decisions. Given this then, it looks highly probable that USD/NAD will end this year at 14.40 and end 2020 at 14.00. Model-based estimates suggest that the ZAR is undervalued. This seems to indicate that the market is discounting a material deterioration of South African economic fundamentals. To be sure, there are plenty of factors that pose a challenging backdrop for the ZAR. Global economic activity seems to be slowing, something that is undermining commodity prices. There are also global risk events – among them Brexit and the US-China trade war – that could dent risk sentiment. Furthermore, policy reform in South Africa does not seem to be gaining traction, something that is being exacerbated by ongoing fiscal slippage that might further harm the country's credit rating profile.

USD/NAD: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: linked to the SARB

The BON will most likely follow the policy changes made by the SARB. Sure, the BON diverges from the SARB at times, as was the case last year when the SARB lowered its repo rate by 25 bps in Mar and the BON didn't. However, such divergence typically does not last very long.

The BON's MPC cut the repo rate following the policy meeting in Aug. The committee specifically stated that it took the decision in order to support domestic economic activity and maintain the link between the NAD and the ZAR. Continued weakness of the economy, against a backdrop of slowing global economic growth, evidently concerned the MPC.

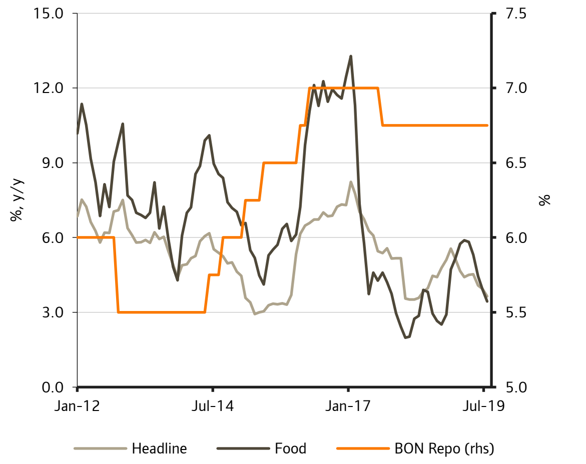
To give further impetus to economic growth, the BON adjusted the macroprudential regulation that was implemented in 2017 to prevent banks from taking risks that could threaten the entire financial system. At the time the BON, concerned about a potential overheating of the housing market, set maximum loan to value on mortgage loans that ranged from 50% to 80%. Following a correction in the housing market, and the current economic slowdown, the BON set new loan to value ratios ranging from 80% to 90%.

The trajectory of headline inflation also warrants an easier policy stance. Since early 2018 headline inflation has been mostly below the 4.5% y/y mid-point of the target range. The drop in early 2018 was mostly due to unwinding base effects, especially due to food and utilities.

In recent months the only significant upside pressure on headline inflation emanated from the transport sub-index, largely due to fuel price increases. The sub-index contributed 1.0 ppts to the 3.6% y/y inflation rate of Jul.

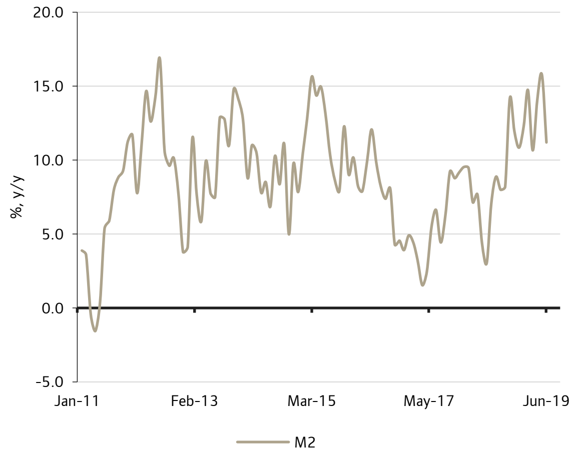
We expect headline inflation ending the year at 3.2% y/y, before rising marginally to an average of 4.9% y/y in 2020. The MPC will likely leave the policy stance unchanged for the rest of the year.

Inflation and interest rates



Source: Bank of Namibia; National Statistics Agency

Money supply growth

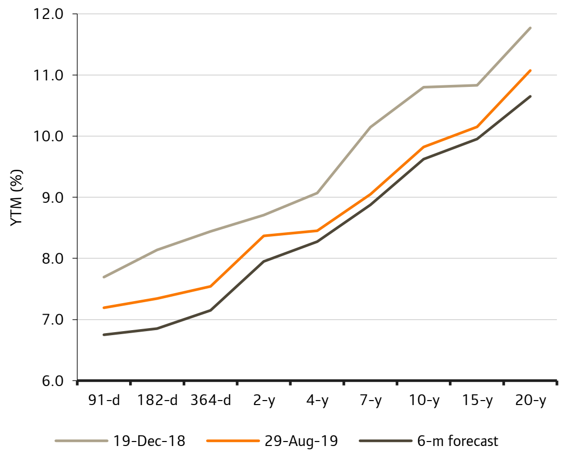


Source: Bank of Namibia

Yield curve outlook: bull steepening

We anticipate some bull steepening of the yield curve over the coming 6-m partly driven by the BON's policy stance. Sure, we don't anticipate the MPC changing the policy stance over this period. However, there is a clear pro-growth bias that the committee has adopted. Nonetheless, we are cognisant of the fact that the government intends to promote domestic financial market development. In this regard, 75% of this year's financing needs will be sourced from the domestic market. Yet, even with that issuance, we have seen yields declining across the curve. This suggests that weak growth in economic activity, dampening underlying inflation pressures in the economy, has trumped any upside pressures due to issuance of paper for financing the budget deficit. These dynamics are likely to persist over the coming 6-m.

Yield curve changes



Source: Bank of Namibia; Standard Bank Research

Fiscal policy: drought-induced adjustment

Drought conditions experienced across the country will probably necessitate some adjustments to this year's budget. The government declared a state of emergency due to the drought. For example, the Finance Ministry announced tax relief for farmers. The importation of some animal feed, like energy and protein concentrate, by farmers for own use, as opposed to imports by retailers, will be exempt from import VAT.

Admittedly, there is a strong likelihood that the revenue loss for the government as a result of this exemption will not be large. Nonetheless, the drought adds to the prevailing weakness of the economy as a factor that may necessitate a lowering of revenue forecasts. In preparation for the budget, the Finance Ministry forecast that the economy would swing from contraction in 2018 to growth this year.

Notably, the BON has revised its economic forecasts, now expecting the economy to contract by 1.7% y/y in 2019. Of course, the Finance Ministry's forecast will probably differ from that of the BON.

But, undoubtedly, the direction of change will be to the downside. Among the sectors that showed persistence of weakness in economic activity were the retail and wholesale trade that continued to contract at more than 5% y/y in Q1:19. This will most likely dampen VAT collection. Hence our belief that the government might need to lower its revenue forecasts too.

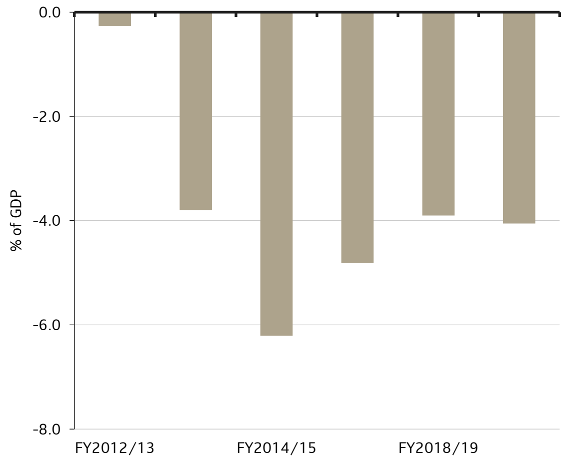
Continuing weakness in economic activity presents the government with something of a conundrum. On the one hand the resultant revenue pressures would suggest that the government must reduce spending to restrain the fiscal deficit. Yet, such weakness probably also would convince the government to press ahead with its pro-growth infrastructure spending programme.

Central government budget

	FY2017/18	FY2018/19	FY2019/20
% of GDP	Actual	Estimated	Budgeted
Total revenue and grants	31.9	29.0	28.2
Total expenditure	36.7	32.9	32.1
- Operational	30.6	27.1	25.2
- Interest	3.0	3.0	3.1
- Development	3.2	2.8	3.8
Budget deficit (excl grants)	-4.8	-3.9	-3.9
Budget deficit (incl grants)	-4.8	-3.9	-3.9
Domestic debt	26.4	28.1	29.7
Foreign debt	14.0	16.5	16.8
Total debt	40.5	44.6	46.5

Source: Ministry of Finance

Fiscal deficit



Source: Ministry of Finance

Eurobond outlook: maintaining market weight exposure

We will retain market weight exposure to the Namibian Eurobonds. Year-to-date the '25s have matched the performance of our SBFSO Index. We do not see impetus for the bonds to outperform the index. Even taking into account the arguments in the previous section, we do not believe that any fiscal adjustments would involve increased external issuance of Eurobonds. The government's preference has been to tap available concessional sources of external financing. The mid-year budget review is a significant risk event. In addition to potentially amending the FY2019/20 budget, the review might indicate if that will be any changes to the government's financing strategy, especially as it relates to external financing. The government has not said much since broaching the subject of buying back Eurobonds. Perhaps it might return to this issue when the review is announced.

Eurobond prices - mid

Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Nominal GDP (NAD bn)	138.8	150.1	166.0	180.6	192.1	197.8	208.6
Nominal GDP (USD bn)	12.8	11.7	11.3	13.6	14.5	13.7	14.6
GDP / capita (USD)	6 090	5 338	5 137	6 168	6 305	5 978	6 368
Real GDP growth (%)	6.4	6.1	1.1	-0.9	-0.1	-0.9	0.5
Diamonds ('000 carats)	1 950	1 765	1 601	1 650	1 600	1 600	1 800
Uranium (MT)	4 000	3 713	4 132	6 000	6 500	7 650	8 775
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.8	-6.2	-8.0	-5.9	-4.8	-3.9	-4.1
Budget balance (incl. Grants) / GDP (%)	-3.8	-6.2	-8.0	-5.9	-4.8	-3.9	-4.1
Domestic debt / GDP (%)	15.4	16.9	20.3	24.4	26.4	28.3	30.5
External debt / GDP (%)	8.8	8.5	18.3	16.6	14.0	16.6	17.3
Balance of Payments							
Exports (USD bn)	3.8	3.2	3.3	3.8	4.1	3.7	5.1
Imports (USD bn)	-6.7	-6.3	-5.7	-5.6	-5.6	-5.0	-6.5
Trade balance (USD bn)	-2.9	-3.1	-2.5	-1.8	-1.5	-1.2	-1.4
Current account (USD bn)	-1.2	-1.8	-1.8	-0.7	-0.3	-0.3	-0.5
- % of GDP	-9.0	-15.0	-15.7	-5.2	-1.8	-2.0	-3.5
Financial account (USD bn)	1.0	2.2	1.8	1.1	1.4	0.5	0.8
- FDI (USD bn)	0.5	0.4	0.3	0.6	0.8	1.0	0.9
Basic balance / GDP (%)	-5.2	-11.8	-12.9	-1.0	3.7	5.0	2.5
FX reserves (USD bn) pe	1.2	1.5	1.8	2.4	2.1	2.4	2.6
- Import cover (months) pe	2.1	2.9	3.8	5.1	4.6	5.7	4.9
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa3	Baa3	Baa3	Ba1	Ba1	Ba1	Ba1
Fitch	BBB-	BBB-	BBB-	BB+	BB+	BB+	BB+
Monetary & Financial Indicators							
Consumer inflation (%) pa	5.4	3.4	6.7	6.2	4.3	3.9	4.9
Consumer inflation (%) pe	4.6	3.5	7.3	5.2	5.1	3.2	5.4
M2 money supply (% y/y) pa	9.9	12.5	7.4	6.0	8.4	13.7	9.5
M2 money supply (% y/y) pe	9.4	10.5	4.5	9.2	12.3	14.3	9.9
BON bank rate (%) pa	5.7	6.4	6.9	6.9	6.8	6.8	6.8
BON bank rate (%) pe	6.0	6.5	7.0	6.8	6.8	6.8	6.8
3-m rate (%) pe	5.9	7.5	8.9	7.8	7.9	7.7	8.1
5-y rate (%) pe	7.6	10.7	10.2	9.4	9.4	8.9	9.5
USD/NAD pa	10.9	12.8	14.7	13.3	13.3	14.4	14.2
USD/NAD pe	11.6	15.5	13.7	12.4	14.3	14.5	14.0

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

Notes: pe — period end; pa — period average

Nigeria: a long, long road

GDP growth: only sub-optimal seems sure

We are not optimistic about an optimal level of economic growth in Nigeria over the next 3-y. Critical reforms are needed, particularly in the petroleum and power sectors, to set Nigeria on a path of sustainable growth and development. There is nothing to suggest right now however that such reforms will transpire. We therefore cut our economic growth forecasts to 2% y/y in 2019 (from 2.4%) and 2.3% y/y in 2020 (from 3.3% y/y).

The National Bureau of Statistics has released disappointing Q2:19 growth of 1.94% y/y, against our forecast of 2.5% y/y. The oil sector has swung back into positive growth; up 5% y/y in Q2:19, from a contraction of 2% y/y in Q1:19. Oil production numbers were flat q/q, at 1.98m bpd, but y/y growth came off a low base of 1.84m bpd recorded in Q2:18 due to pipeline repairs and maintenance. Incidences of shut-ins and shut-downs along with oil theft will continue to hamper oil production, likely staying around 2m bpd, below the budget benchmark of 2.3m bpd.

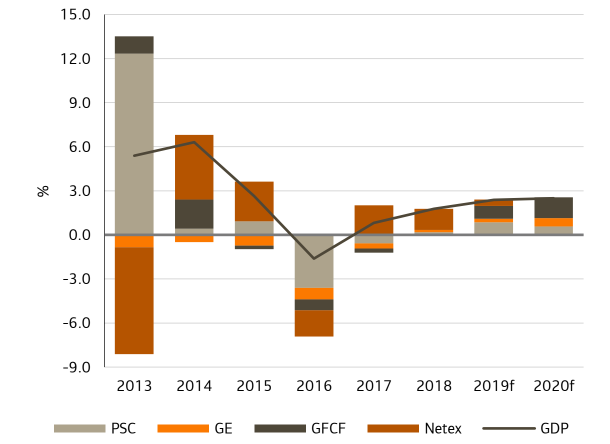
During Q2, the agricultural sector grew just 1.8% y/y, from 3.2% y/y in Q1:19. There was flooding in some parts of the agrarian communities coinciding with the planting season, thereby slowing output, as evidenced by the uptick in food inflation which averaged 13.7% y/y in Q2:19, after 13.5% y/y in Q1:19. We expect the pace of growth in this sector to improve in Q3 after the harvests. Notably, there have been fewer incidences of farmers-herdsmen clashes as had happened last year. However, sector growth rate is still far from the yearly average of 4% during 2011 to 2016.

After 3 consecutive quarters of marginally positive growth, the trade sector (the second-largest contributor to the GDP), contracted by 0.2% y/y in Q2:19. Infrastructure bottlenecks amid the depressed consumer environment continue to have a negative impact.

Of course, capital expenditure from the fiscal authorities has been next to nothing this year, as the first half of the year was mostly about the 2019 elections and, as such, the construction sector only grew marginally by 0.7% y/y in Q2, while the real estate sector contracted by 3.8% y/y. The ICT sector continued a strong pace of growth; 9% y/y in Q2:19, as the telecoms industry maintained its pace of expansion.

Nigeria's economic growth will likely remain sub-optimal as it continues to lag population growth which is forecast to grow above 3% y/y.

Composition of GDP by demand



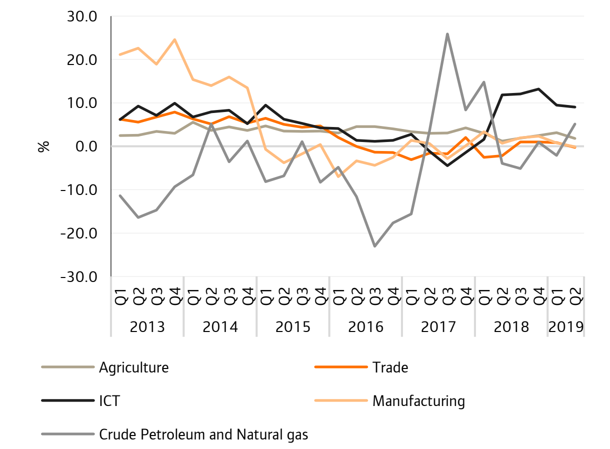
Source: National bureau of statistics; Standard bank Research

GDP by sector (%) contribution

	2010	2015	2016	2017	2018	Q2:19
Agriculture	40.87	17.9	18	25.08	25.13	22.82
Mining and Quarrying (Oil)	15.88	7.8	7.7	8.8	8.74	8.97
Manufacturing	4.16	9.3	9	9.18	9.2	9.1
Construction	1.99	4.2	4	3.72	3.73	4.45
Trade	18.69	18.8	18.9	16.86	16.44	16.1
Accommodation	0.5	0.7	0.5	0.89	0.89	0.64
Transportation and Storage		1.5	1.5	1.23	1.37	1.38
Information and Communication	4.55	14.6	14.7	11.35	12.22	14.57
Financial and Insurance	3.56	3.7	3.8	3	3	3.18
Real Estate	1.74	8.7	8.8	6.85	6.41	6.44
Professional and Scientific Services		4.1	4	3.69	3.64	3.56
Public Administration		2.8	2.9	2.28	2.19	2.17
Education		1.8	1.8	2.2	2.16	1.78
Other Services	6.82	2.6	2.6	3.37	3.38	3.18

Source: National Bureau of Statistics; Standard Bank Research

Sector growth rates (y/y)



Source: National Bureau of Statistics; Standard Bank Research

Quarterly Indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	2.0	1.5	2.2	1.8	2.0	1.9	2.1	1.9	2.2	2.5	2.5	2.2
CPI (% y/y) pa	14.3	12.0	11.2	11.2	11.3	11.2	11.0	11.1	11.3	11.3	11.3	11.1
M2 (% y/y) pa	6.3	13.2	13.8	15.1	15.5	19.7	21.4	16.8	21.5	16.1	16.7	17.3
CA/GDP (%) pe	1.8	5.1	-1.7	1.1	-1.2	4.0	1.5	1.5	-1.3	3.0	1.0	1.0
FX reserves (USD bn) pe	46.2	47.8	44.3	43.0	44.3	45.0	44.0	43.5	41.8	42.5	44.2	46.5
Import cover (months) pe	13.6	14.1	13.0	12.7	12.3	12.5	12.2	12.1	12.5	12.8	13.3	14.0
3-m rate (%) pe	14.0	13.0	13.3	14.0	11.5	11.3	11.1	12.0	12.0	11.0	11.2	11.5
5-y rate (%) pe	13.5	13.5	15.5	15.0	14.5	14.7	14.8	15.3	15.0	14.5	14.6	14.8
USD/NGN pa	361.3	360.6	362.2	364.0	361.8	362.0	363.2	365.0	363.5	362.0	364.0	365.0

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; na – not available

Political risks: elections over now

President Muhammadu Buhari was re-elected at the Feb 19 elections for a second tenure of 4-y, with 55.6% of the total eligible votes. The major opposition candidate, Atiku Abubakar, garnered 41.2%. Of course, there have been several petitions challenging the results of the 2019 presidential elections, but with no meaningful results. More recently, the Supreme Court struck out an appeal filed by the People's democratic party (PDP) challenging the elections. The verdict was that the appeal was statute-barred.

President Buhari's new 4-y tenure will therefore likely go unhindered, as we see very little risk of the president's victory at the 2019 elections being upturned. With the executive arm and the legislative arm of government now very much aligned from a political party perspective, we'd expect an easier execution of the president's reform agenda.

The intermittent but frequent incidences of banditry and kidnapping are a major concern. However, conflicts between farmers and herdsmen, which had affected security situation and economic output over the past 3-y, have abated. However, the risks are still to the downside from a security perspective; government and security forces should therefore have this at the top of their agenda.

Over the next 4-y, we expect political alignments as the major political parties, APC and PDP will be gearing up for succession or otherwise. President Buhari's performance as regards security, economic growth, infrastructural investments, major economic reforms amongst other will go a long way in determining whether the current ruling party will have a chance of regaining power in 2023.

Election results

Presidential election 2019	Party	% of votes
Muhammadu Buhari	APC	55.6
Atiku Abubakar	PDP	41.22
Felix Nicolas	PCP	0.4
Others		2.78
Legislative election 2019	House of Reps	Senate
APC	217	65
PDP	115	39
Others	18	1
Total	350	105
State Governors 2019		No of Governors
APC		16
PDP		13

Source: Independent National Electoral Commission

Balance of payments: oil price/ higher import bills exerts pressure

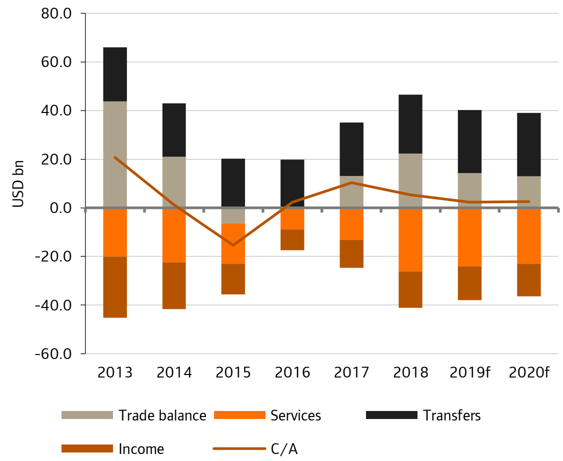
We cut our C/A surplus forecast to USD2.3bn (0.6% of GDP) and USD2.6bn (0.6% of GDP) for FY2019 and FY2020 respectively, due to current oil prices and expected volatility, alongside glitches in Nigeria's oil production which also don't bode well for the BOP. Furthermore, improved dollar liquidity would mean a further rise in Nigeria's import bill.

Nigeria's BOP still deteriorated in Q2:19 with a current account deficit of 2.9% of GDP, from a deficit (revised) of 3.2% of GDP in Q1:19 and a surplus of 5.1% of GDP in Q2:18. Total imports rose by 64% y/y in Q2, with non-oil imports rising by 86% y/y during the same period. Data from the National bureau of statistics (NBS) showed an astronomical rise of c.500% in the value of imported used vehicles into the country. According to the NBS, the value of imports for the first half of 2019 rose by 43.6% over the corresponding period in 2018.

We estimate Nigeria's break-even oil price for the current account to balance at USD66/bbl for 2018. However, the significant rise in the import bill in Q1 and Q2 puts the current break-even over USD70/bbl. Our outlook on oil prices for 2019 and through H1:20 fails to see oil prices closer to USD70/bbl. Hence, a sustained pace in oil production could mitigate the price shortfall for the current account to remain in surplus amid the rise in imports.

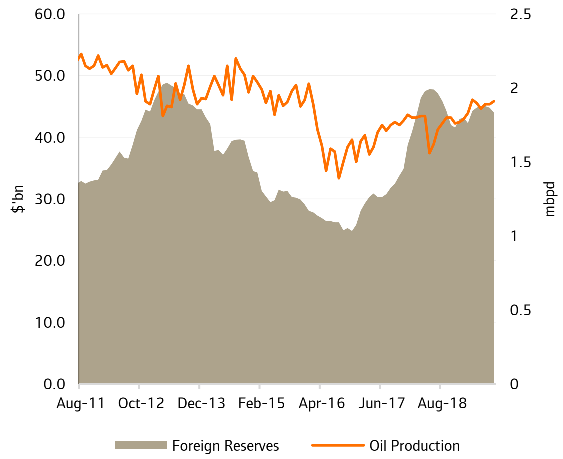
The financial account is set to maintain a negative balance this year despite the significant increase in portfolio investments in Q1:19. FPIs rose by 417% q/q and 39% y/y in Q1:19 as investors rushed into higher-yielding fixed income instruments after the 2019 elections. The pace of FPIs however slowed in Q2:19 amid oil price volatilities and a drop in yields. Portfolio investments dipped 38% q/q. FDIs however could remain a drag on inflows into the financial account. Total FDI into Nigeria stood at USD1.29bn in 2018 and only USD243.36bn in Q1:19. Average FDI in the past 4-y is USD1.15bn.

Current account developments



Source: Central Bank of Nigeria; National Bureau of Statistics; International Monetary Fund; Standard Bank Research

FX reserves and oil production



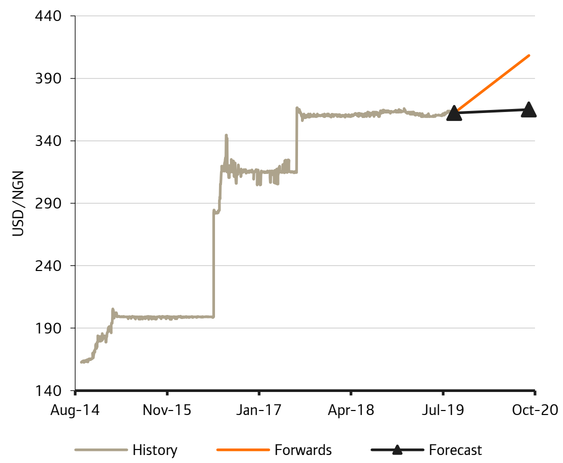
Source: Central Bank of Nigeria; Bloomberg; Standard Bank Research

FX outlook: pressures mounting but CBN should maintain stability

We still expect the USD/NGN pair at 365 by FY19 but not without pressures from possible portfolio outflows. It is very likely that the global economic environment and markets remain murky into 2020 on slowing global growth and US-China trade tensions. Hence, investors could well cherry-pick financial instruments across EM and frontier markets.

Ultimately, the trajectory of oil prices and its effect on Nigeria's external reserves will be one to watch over the next 12-m. While our base case thesis remains for oil prices to be supported around USD60/bbl over the next 6-m, further trade wars, and oil production dynamics, could make oil more volatile than we expect.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: likely hawkish into Q1:20

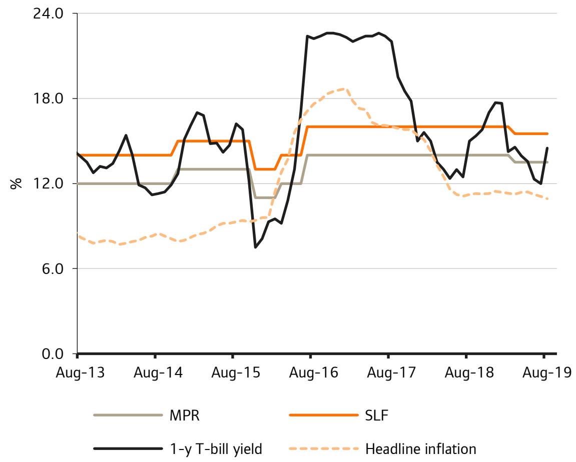
Our base case now assumes no change to the benchmark monetary policy rate (MPR) this year. Headline inflation will still trend downwards over the next 2-m but base effects should see it inch up again in the last 2-m of 2019. The downtrend in the CPI expected would however still not be within the range of the CBN's target band of 6-9%. Hence, a further drop in the MPR at this time may be premature.

The CBN is expected to step up the liquidity mop-up over the next 6-m. With its sights still firmly on FX stability, the CBN will look to manage liquidity more actively by conducting frequent OMO auctions. There is an average of NGN2tr (USD5.5bn) in Treasury bill maturities over the next 6-m, of which we estimate offshore holdings at 30-40%.

A dovish global outlook with increased protectionist policies could allow some liquidity flow to emerging and frontier markets. Hence, investor demand could remain fairly strong and at slightly higher yields. We expect yields to the inch up to average on 200-300 bps across the curve over the next 6-m. The CBN's recent regulation, stipulating a 60% minimum threshold for banks' loan-to-deposit ratio, with a Sep 19 deadline for compliance, after which non-compliance will attract a 50% CRR levy on the shortfall, could also sterilize liquidity in the system.

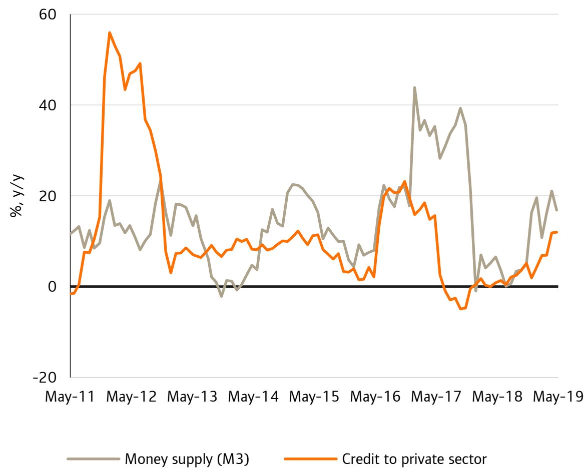
Headline inflation should moderate to an average of 11.1% y/y in 2019 from 12.2% y/y in 2018. Frankly, food inflation has kept headline inflation elevated and sticky in the past 12-m, averaging 13.41% y/y over the period. We expect a moderation in the food inflation levels in the next 6-m, thanks to the harvests. However, if the government keeps the country's borders with Benin and Niger closed for a prolonged period, then food supply shortfalls could exert upward pressure on inflation. There could even be an upward adjustment to power tariffs in 2020 due to the proposed reforms in that sector. This could yet put some upward pressure on our inflation projections.

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

Equity market outlook: still no love for local assets

The Nigeria All Share Index has clocked -13% in 2019 thus far, now one of the 3 worst-performing equity bourses in the world. Despite the Nigeria listing of telecommunications giants MTN and Airtel Africa this year, investment flows into Nigeria equity assets have been muted. Although oil prices have been favourable, equity investors are clearly uncomfortable with the weak underlying macroeconomic environment.

Equity valuations seem quite cheap now for most stocks on the Nigerian bourse; but the question is if growth can speed up. With population growth still exceeding that of economic, it is hard to make a sustainable investment case for Nigerian equities at this time.

Nigerian stock market vs MSCI indices

Source: Bloomberg; Standard bank Research

Fiscal policy: revenue still a problem

Fiscal authorities will have their work cut out over the coming months to mobilise revenue to narrow the expanding fiscal deficit. As at Q3:18 (most recent budget implementation reports available), the government had a 50% revenue shortfall, as per the 2019 budget revenues.

The 2019 budget has revenue expectations of NGN6.9trn, with a spending plan of NGN8.9trn. Oil revenues are expected to account for c53% of revenues. However, with oil production glitches in Q1:19 and incessant oil price volatility (below the budget benchmark of USD60/bbl), oil revenues will likely lag 2019 budget expectations. In any case, the gyrations in oil prices and production are beyond the government's control.

The government wants to drive non-oil revenues significantly over the next 4-y. The Nigerian Federal Executive Council (FEC) at its first cabinet meeting since the 2019 elections, approved the commencement of the process for an increase in VAT from 5% to 7.2%. Implementation is expected in 2020 following the review of the current VAT act. Also, the government has started collecting VAT on online transactions to drive revenue growth. Although the federal government only gets 15% of total VAT collected in the year, these increases should buffer the state governments, after the minimum wage increase. We believe that non-oil revenue reforms targeted at widening the tax bracket will prove more sustainable in the medium- to long term.

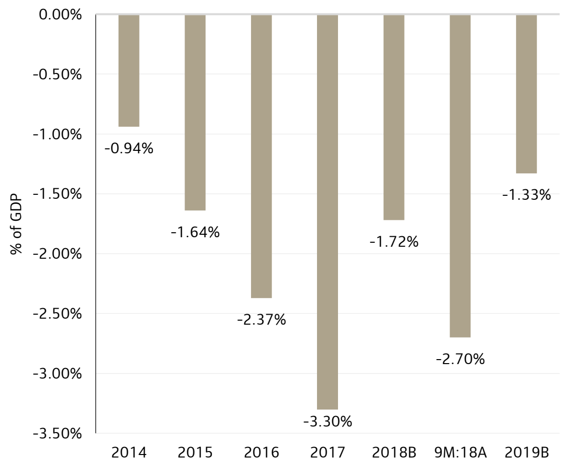
The 2019 budget has been barely implemented from a CAPEX perspective. The government now has only 3-m to deal with CAPEX this year after 2019 general elections and the delay in appointing ministers. It is now likely that a bulk of the CAPEX will be moved to the 2020 budget as the government tries to move back to a calendar year budgeting cycle as opposed to the current Jun-to-Jun cycle.

Central government finances

	2017	2018	2019
% of GDP			
Revenue	4.1	2.3	5
Capital expenditure	1.7	2.8	2
Recurrent expenditure	2.5	4.9	4.9
Statutory transfers	0.5	0.5	0.4
Service debt	1.4	1.8	1.5
Supplementary budget	0	0	0
Total expenditure	6.1	8.1	6.3
Oil price assumption (US$/bbl)	42.5	51	60
Oil production assumption (m bbl)	2.2	2.3	2.3
Exchange rate assumption	305	305	305
External Financing	1	0.6	0.6
Domestic Financing	1	0.6	0.6
Fiscal deficit	-3.3	-1.73	-1.33

Source: Federal Ministry of Finance; Standard Bank Research

Fiscal deficit



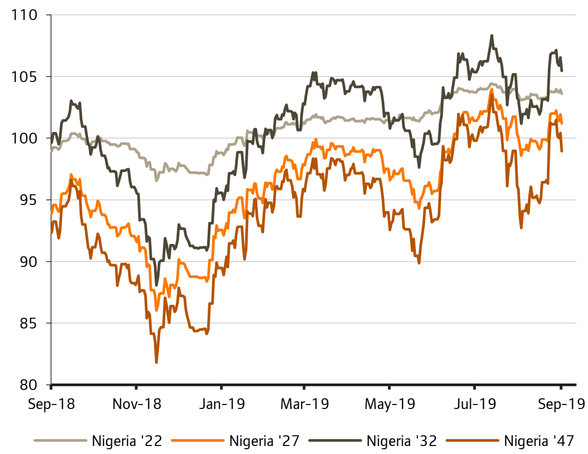
Source: Ministry of Finance and Economic Planning

Fixed income outlook: government likely to float Eurobond before year-end

Given the current downtrend in global yields, the Eurobond market could become an attractive financing option for the government later this year. Admittedly, the DMO has raised a total of NGN912bn this year from the domestic market although it had only planned to raise NGN800bn, as per the budget. That said, the proposed domestic issuance calendar suggests that the DMO is looking to raise more from the domestic market, perhaps dispelling any thoughts of another Eurobond issuance.

We expect fixed income yields to inch up the rest of the year as the CBN tries to defend the currency using interest rates. The yield curve is poised to remain inverted as the CBN tries to keep OMO rates high enough to maintain foreign investor interest.

Eurobond prices - mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	175.1	178.6	181.3	182.7	187.5	192.3	197.3
Nominal GDP (NGNbn)	90137	95177.7	102575	113712	127762	144498.8	164208.5
Nominal GDP (USDbn)	545.6	481.2	397.9	325	352.9	395.9	451.1
GDP / capita (USD)	3116.2	2694.3	2195	1778.5	1882.5	2058.2	2285.9
Real GDP growth (%)	6.2	2.8	-1.5	0.8	1.8	2	2.3
Crude oil production (mbpd) pa	2	1.9	1.7	1.8	1.8	2	2
Central Government Operations							
Budget balance / GDP (%)	-1.1	-1.1	-2.2	-3.3	-3.4	-3.7	-3.1
Domestic debt / GDP (%)	8.2	8.3	11.1	11.1	12.9	14	13
External debt / GDP (%)	1.8	2	2.9	5.8	7.1	8	8.2
Excess crude account/SWF (USD bn)	1.5	0	0	2.3	2	1.9	2.2
Balance of Payments							
Exports (USDbn)	82.6	45.9	34.7	45.8	63.1	65.1	64
Imports (USDbn)	61.6	52.3	35.2	32.7	40.8	50.8	51
Trade balance (USDbn)	21	-6.4	-0.5	13.1	22.3	14.3	13
Current account (USDbn)	1.2	-15.4	2.3	10.4	5.3	2.3	2.6
- % of GDP	0.2	-3.2	0.6	3.2	1.5	0.6	0.6
Financial account (USDbn)	13.1	9.4	-5	-4.3	3.5	-1.8	0.4
FDI (USDbn)	2.3	1.4	1	1	1.3	0.9	1.1
Basic balance / GDP (%)	0.8	-2.9	1.4	4.1	4.6	0.8	0.8
FX reserves (USDbn) pe	34.5	28.5	25.8	38.8	43	43.5	46.5
Import cover (mths) pe	6.7	6.5	8.8	14.3	12.7	10.3	10.9
Sovereign Credit Rating							
S&P	BB-	B+	B	B	B	B	B
Moody's	Ba3	Ba3	B1	B1	B2	B2	B2
Fitch	BB-	BB-	BB-	B+	B+	B+	B+
Monetary and financial Indicators							
Headline inflation pa	8.1	9	15.6	16.6	12.2	11.1	11.4
All items less farm produce CPI pa	6.9	8.2	15.2	13.6	10.6	9.4	9
Food CPI pa	9.5	9.9	14.9	19.5	14.5	13.4	12.8
M2 money supply (% y/y) pa	6.5	17.3	14	4.2	4.6	18.4	17.9
M2 money supply (% y/y) pe	13.3	19	18.4	1.2	16.4	14.4	16.1
Policy interest rate (%) pa	12.2	12.8	13.2	14	14	13.6	13.1
Policy interest rate (%) pe	13	11	14	14	14	13.5	13
3-mth rate (%) pe	14	3.5	14.5	12.5	12.3	12	11.5
1-yr rate (%) pe	16.5	7.7	17	14	17	16	14.5
3-yr rate (%) pe	15.2	8.6	15.5	14	15.2	15	14
5-yr rate (%) pe	15.3	10.9	15.6	14.4	15	15.3	14.8
USD/NGN pa	165.2	197.8	257.8	349.9	362	365	364
USD/NGN pe	183.5	199.3	315	362	365	365	365

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: robust growth momentum

GDP growth: expected to breach 7.5%

Most likely, the strong growth momentum of 2018 will continue in 2019. GDP growth is forecast above 7.5% y/y over the next 2-y, predicated on the expansion of total final consumption and gross capital formation. Public sector projects are expected to lift gross capital formation's contribution to GDP growth.

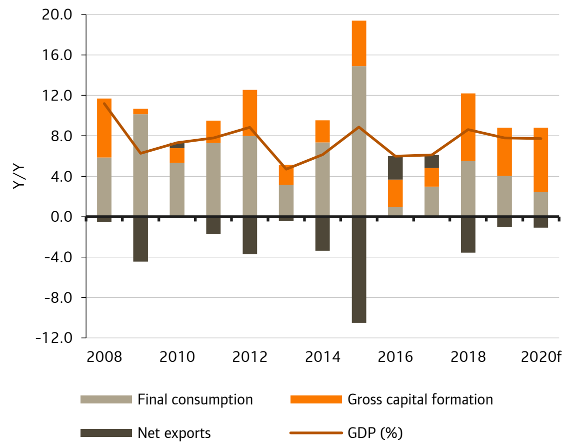
Real GDP growth reached 8.6% y/y in 2018, with most sectors recording growth last year. After expanding 9.5% y/y in Q4:18, GDP growth reached 8.4% y/y in Q1:19, with the industrial sector in the lead, expanding by 18.0% y/y. Growth in the industrial sector tends to be driven by the manufacturing and construction sub-sectors.

The construction sector grew by 30.0% y/y in Q1:19, probably supported by the government's ongoing infrastructure projects. Consistent with this, over the same period, gross capital formation grew by 12.0% y/y. Again, over FY2019/20, expansionary fiscal policy should support the growth outlook. A larger capital import requirement is likely to underline a higher pace of import growth through in 2019. This, combined with traditional exports underperforming, as largely a function of lower international prices, should keep net exports elevated.

Total final consumption expenditure increased by 9.0% y/y in the first 4-m of this year. Household and NGO consumption accounts for 82% of total final consumption, with government consumption accounting for the remaining 18%. Government consumption increased by 17.11% y/y, while household and NGO consumption increased by 6.23% y/y, less than the 17.53% y/y in Q1:18. So far, this level of growth is well below the average of 18.18% y/y in 2019. Perhaps the NBR's interest rate cut in May will support a recovery of household disposable income, resulting in more robust growth of household consumption this year.

Agricultural production grew at 4.0% y/y in Q1:19, not far off the average 6.0% y/y growth reached in 2018. It is worth highlighting in Q1:19, export crop production was particularly weak, contracting by 9.0% y/y, probably as a function of unfavourable weather conditions in the agricultural season A (which runs Sep to Feb). While cereal crops look to have been more resilient to uneven rainfall patterns over this time, vegetable production fell by 9.0% y/y. However, according to the National Statistics of Rwanda, rainfall for agricultural season B, which runs Mar to Jun, is expected to be normal, which bodes well for an improvement in agricultural production the rest of this year.

GDP growth by demand



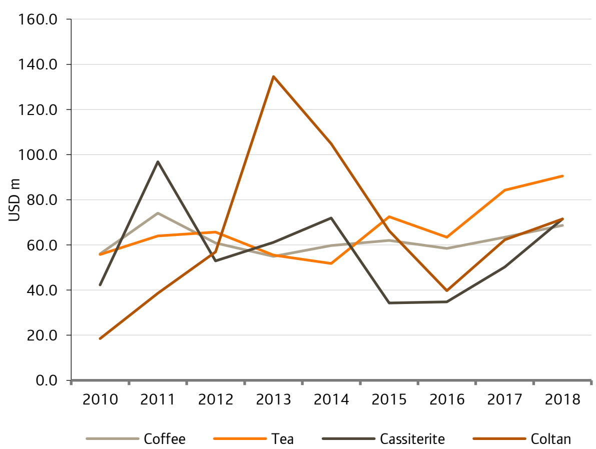
Source: National Institute of Statistics of Rwanda; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010	2015	2017	2018
Agriculture	31	27.7	27.3	29
- Food crops	17.8	16.3	15.8	16
- Forestry	7.2	5.9	5.7	6
Industry	14.7	17.2	17.3	16
- Manufacturing	6	5.9	5.9	6
- Construction	5.5	7.6	7.5	6
Services	45.9	47.8	48.4	48
- Wholesale and retail trade	7	7.8	7.8	7
-ICT	1.3	1.6	1.6	1.3
- Financial services	2.5	3	2.9	2.9
- Real estate services	10.3	7.9	8	8.2
- Public administration	3.8	4.6	4.9	4.8
- Education	2.7	2.6	2.6	2.2
Taxes less subsidies	8.4	7.2	7.1	7

Source: National Institute of Statistics of Rwanda

Principal exports



Source: National Bank of Rwanda; Standard Bank Research

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	10.6	6.7	7.7	9.5	8.4	7.8	7.5	7.3	8.0	7.7	7.6	7.7
Urban CPI (%) pa	0.9	2.5	1.7	0.2	0.9	0.5	2.3	3.6	3.00	2.23	2.17	3.01
M3 (% y/y) pe	14.4	7.1	11.3	16.5	11.1	12.8	15.0	18.3	17.2	23.8	21.44	20.63
CA/GDP (%) pe	-9.6	-9.7	-9.8	-8.8	-12.1	-12.0	-12.0	-10.6	-11.2	-11.7	-12.2	-12.9
FX reserves (USD m) pe	745.8	728.2	599.2	806.1	745.8	740.0	750.0	730.0	710.0	708.0	715.0	700.0
Import cover (months) pe	2.9	2.8	2.3	3.1	2.7	2.7	2.7	2.6	2.6	2.6	2.5	2.4
3-m rate (%) pe	5.0	5.5	5.0	5.8	6.9	5.2	5.4	5.2	5.1	4.9	4.4	4.2
USD/RWF pe	855.0	859.8	867.8	894.2	888.7	898.0	911.7	930.2	947.0	962.3	976.8	976.7

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

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

Political risks: limited

Political risks are low. The ruling party – the Rwanda Patriotic Front, led by President Kagame – has a strong mandate, after having dominated both presidential and parliamentary elections.

After the parliamentary elections in 2017, two opposition candidates from the Democratic Green Party now hold seats in parliament. Admittedly, they will be vastly outnumbered but it is still significant because this will be the first time opposition lawmakers have representation in parliament.

It's worth keeping an eye on regional politics, given the potential contagion to Rwanda. Any deterioration in security conditions in the eastern region of the DRC could draw the Rwandan army into the conflict. Rebel groups are active in this region, which makes it particularly unstable. Even Rwanda's relations with Uganda are more strained; there have been instances of the Rwandan Army closing a crossing between the countries for days, preventing the movement of goods and people.

Rwanda finalized a 3-y IMF policy coordination instrument, which bodes well for donor relations. The program is designed to support implementation of the National Strategy for Transformation while maintaining macroeconomic stability. This programme focuses on fiscal policy and improving domestic revenue mobilisation in the medium term. This programme also supports the new monetary policy framework and wider financial sector development.

Election results (2017)

Presidential election	% of votes
Paul Kagame	98.8
Philippe Mpayimana	0.7
Frank Habineza	0.5

Legislative election (2018)	Seats
Rwanda Patriotic Front	40
Social Democratic Party	5
Liberal Party	4
Democratic Green Party	2
Social Party Imberakuri	2
Indirectly elected	27
Total	80

Source: National Electoral Commission

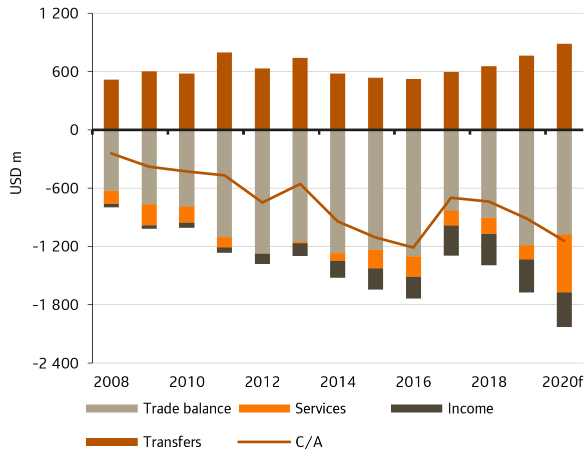
Balance of payments: capital imports to surge

We expect the CAD to widen over this period, as capital imports are expected to surge as the government executes the developmental component of the budget. In H1:19, capital goods rose by 40% y/y, to USD433m. The current account deficit is forecast at over 10% of GDP over the next 2-y.

Traditional exports, which account for 22% of total exports, fell by 16.7% y/y, to USD126m at the end of H1:19. Export earnings from tea and coffee are down 13.5% y/y and 4.1%y/y, as a function of international prices. Traditional mineral exports wolfram cassiterite, coltan and wolfram fell by 13.6% y/y, to USD56.0m, due to declining international demand. It appears that non-traditional exports, which includes other minerals, products of the milling industry, and manufactured products, reached USD196m, rising by 25% y/y. Higher levels of manufacturing exports are a result of the "Made in Rwanda" programme's reforms.

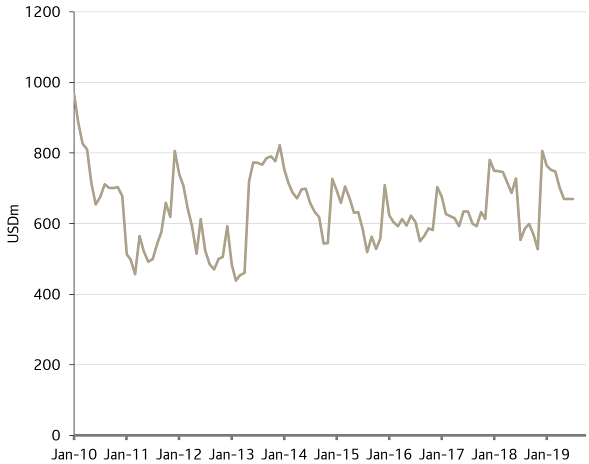
FDI and government borrowing should be the main source of capital flows. It is worth highlighting that the IMF programme in place is not a funded programme, rather a policy support instrument. In keeping with the trends in Rwanda's debt stock, the bulk of Rwanda's external financing is expected to be on concessional terms. Over FY2019/20, only 17.3% of the budget, around RWF489bn, is expected to be funded by external loans. Combined with expected budget support, around 70% of the budget is expected be funded domestically. The government's expansive developmental agenda outlined in FY2019/20 budget, carries an import requirement, could pressure FX reserves. FX reserves stood at USD674m in May, falling from USD803m in Dec 18. FX reserves could hover around these levels over the next 2-y, but might deteriorate.

Current account developments



Source: National Bank of Rwanda; Standard Bank Research

FX reserves



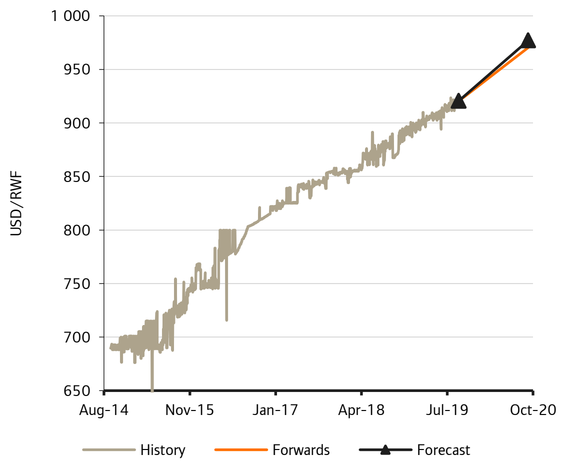
Source: Bloomberg; International Monetary Fund

FX outlook: still an upward bias

We see the RWF ending the year closer to 930 against the US dollar. The pair tends to be immune to changes in global emerging market risk appetite, since portfolio inflows are limited. Perhaps transfers still play the most meaningful role in the trajectory of USD/RWF. Disruptions of foreign aid inflows in the past correlate with episodes of currency weakness. Implementation of the IMF's policy support instrument to some extent mitigates the risk that foreign aid will be disrupted.

Over the near term, the influence of current transfers on the trajectory of the currency could wane, since trade dynamics, more specifically high levels of capital import growth, could become a more significant factor influencing the RWF/USD's direction. Execution of the FY2019/20's budget, which is largely domestically funded, implies upside risks to our forecasts.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: perhaps some further easing

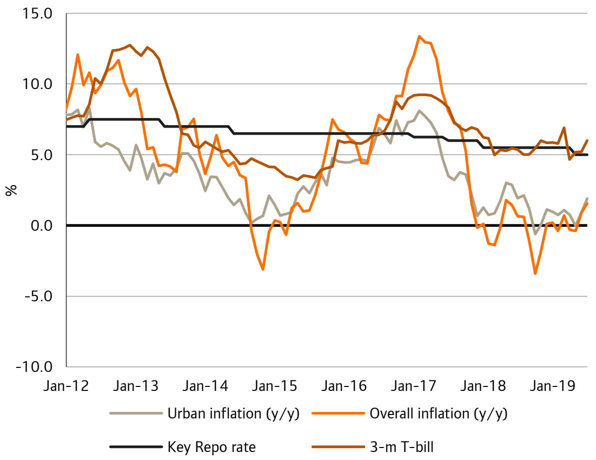
Admittedly, the low inflation environment may tempt the NBR's MPC to ease rates further when it meets in Nov, after having held the central bank rate unchanged at 5.0% at the Aug's meeting. At the May meeting, the MPC cut the central bank rate by 50 bps, after having held the policy rate unchanged since Jan 18.

Inflation remains towards the lower end of the NBR's target band of 2% - 8% y/y. The NBR forecasts overall inflation to average 2.0% y/y this year, compared with an average of -0.37% y/y over last year. In H1:19, overall inflation and core inflation averaged 0.12% y/y and 1.6% y/y. For H2:19, we expect overall inflation to tick up slightly as food deflation moderates. We see urban inflation averaging 1.83% this year.

Food inflation has a meaningful impact on the overall price level, since it carries a weight of 39% in the CPI basket. Food inflation has pulled overall inflation for about 2-y now, supported by strong agricultural production. The food and non-alcoholic beverages sub-index turned negative in Nov 17, but Oct 18 marked an inflection point when the sub-index reached -14.17% y/y. The rate at which the food and non-alcoholic beverage sub-index contracts appears to have slowed, reaching 0.6% y/y in Jul. Vegetable prices have risen slightly, as uneven rainfall in parts of the country may have disrupted production in the first agricultural season of 2019. Normal levels of rainfall were expected over the second agricultural season, which should bode well for agricultural production. But Jul marks the start of the dry season, which could inflate food inflation expectations.

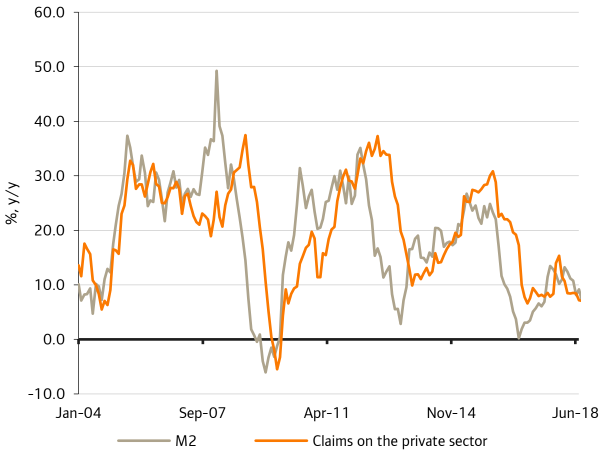
Consistent with the NBR's accommodative stance, credit extended to the private sector rose by 8.2% y/y in H1:19, compared with 1.8% y/y in H1:18. Bank lending had begun to accelerate in Q3:18.

Inflation and interest rates



Source: National Bank of Rwanda; Standard Bank Research

Money supply and credit growth



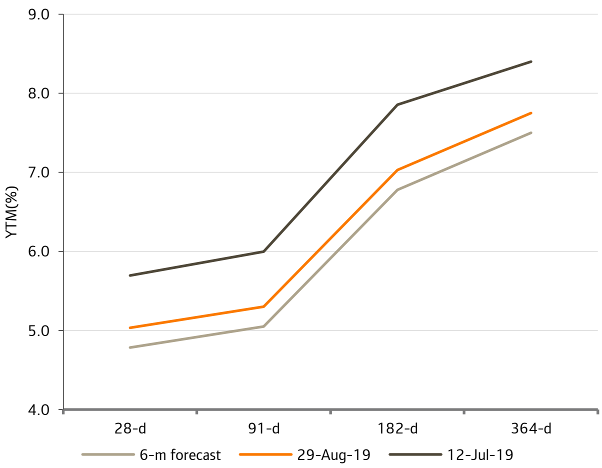
Source: National Bank of Rwanda

Yield curve outlook: a move lower

The yield curve's downward shift is consistent with the NBR's accommodative monetary policy stance over this period. Looking at yields over the last year, the results are more mixed. In the 12-m to Aug, yields on 28-d, 91-d, 182-d and 364-d T-bills are lower by 20.4 bps, 28 bps, 54 bps and 100 bps respectively. Perhaps higher inflation expectations caused yields to move higher between Mar and Jul. Yields should hover around current levels, maybe even moving lower still over the next 6-m.

Food inflation has been negative for close to 2-y, but from Q2:19 food prices are expected to increase slightly, as a function of lower levels of fresh fruit and vegetables available. This has underlined an uptick in food inflation expectations. And now, at the onset of the dry season, to some extent food inflation expectations could move higher before easing again.

Yield curve



Source: Standard Bank Research; National Bank of Rwanda

Fiscal policy: a developmental focus

The FY2019/20 budget has a distinct focus on development spending. The FY2019/20 budget in many ways resembled the revised FY2018/19 budget presented in Mar this year. With that said, a budget surplus of RWF57bn is expected. Only 14.2% of the total budget is expected to be funded through external budget support. The bulk of this budgeted is expected to be funded domestically, as external loans are forecast to fund around 17.3% of the total budget.

The resource envelope for FY2019/20 is set at RWF2,876.9bn, an increase of 11.26% from the revised FY2018/19 budget. This is predicated on both higher levels of domestic resource mobilisation and budget support expected over this period. The revised FY2018/19 budget increased revenue and grant projections to RWF2,061.2bn, RWF 91.9bn higher than initially expected. The Rwanda Revenue Authority confirmed that domestic revenue collection for FY2018/19 reached RWF1,420bn, 2.2% above the revised target. It would not be too surprising if domestic revenue exceeds targets again over FY2019/20, given the robust economic outlook.

Over FY2019/20, overall expenditure and net lending is budgeted at RWF2,820bn, 10.97% higher than the revised FY2018/19 budget. Net lending is budgeted to rise by 28.42%, to RWF244bn. Of this, RWF30.6bn is allocated to clearing arrears. Recurrent spending is up by 8.70%, to RWF1,425bn. This increase generally covers increases in education and healthcare spending. Wages and salaries account for 15.3% of total expenditure in the FY18/19 budget. With that said, this budget has a distinctive developmental focus.

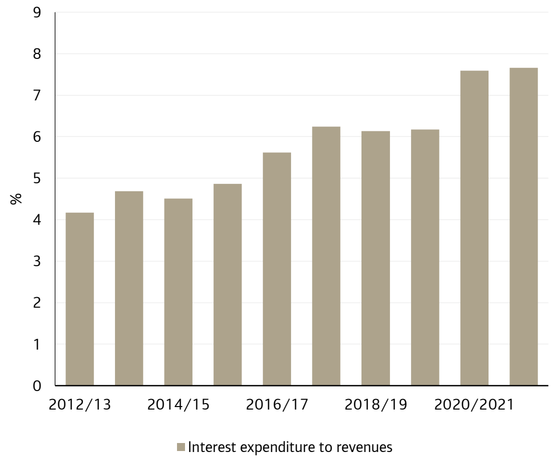
Planned developmental spending of RWF1,152.1bn, is 10.66% higher than the revised FY2018/19 budget and represents 40% of total expenditure. Around two-thirds of this expenditure is expected to be funded domestically. It's worth highlighting that the execution of the capital budget implies an import requirement, which may even exert some upward pressure on the currency.

Central government budget

% of GDP	FY2017/18	FY2018/19e	FY2019/20f
Total revenue	21.11	24.21	33.73
Total expenditure	27.21	30.08	33.06
- Wages	4.11	4.29	4.31
- Interest	1.15	1.20	1.21
- Capital expenditure	10.28	12.03	13.51
Overall fiscal deficit	- 4.18	- 5.87	0.67
Net domestic borrowing	0.46	0.50	1.90
Net foreign borrowing	4.04	4.72	5.35
Donor support (grants)	2.68	3.07	3.50

Source: Ministry of Finance and Economic Planning

Interest expenditure



Source: Ministry of Finance and Economic Planning

Eurobond outlook: some downside risk

Over the course of this year, Rwanda '23s bonds have delivered a return of 12.9%, slightly lower than our benchmark SBAFSO (incl. SA) index which delivered a return of almost 15.7%. These bonds' spread over USTs compressed to 284 bps in early Sep. Of course, they could widen again, given that global developments are not likely to see risk appetite increase. Still, spreads moved as high as 430 bps above USTs at the start of 2019.

Although fiscal policy is expansionary, the budget tends to be conservative as authorities are committed to containing the fiscal deficit. The large concentration of concessional external debt in the sovereign's debt stock enhances Rwanda's debt sustainability profile. Rwanda secured a 3-y, IMF policy coordination instrument in Jul, which should be seen as credit-positive.

Eurobond '23 price – mid

Source: Bloomberg; Standard Bank Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	11.6	11.8	12.1	12.3	12.6	12.8	13.1
Nominal GDP (RWF bn)	5 466.0	5 951.0	6 307.0	6 692.0	7 269.0	7 835.0	8 440.0
Nominal GDP (USD bn)	8.0	8.3	8.1	8.0	8.4	8.6	8.9
GDP / capita (USD)	685.0	701.8	666.5	650.3	664.7	672.8	676.0
Real GDP growth (%)	6.2	8.9	6.0	6.1	7.8	7.8	7.7
Coffee production ('000 tons)	16.4	18.8	18.9	19.1	19.3	19.8	19.5
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-7.7	-7.1	-9	-9.3	-8.7	-10.5	0.7
Budget balance (incl. Grants) / GDP (%)	-4.2	-5.2	-3.1	-4.6	-4.2	-4.9	0.7
Domestic debt / GDP (%)	7.1	8.3	8.8	9.8	10.1	10.5	10.9
External debt / GDP (%)	26.2	28.5	29.7	30.3	31.9	33.2	34.5
Balance Of Payments							
Exports of goods and services (USD m)	1 315.3	1 521.7	1 595.5	1979.9	2039.1	1 995.0	1 854.2
Imports of goods and services (USD m)	-2 661.3	-2 949.2	-3 106.8	-2966.2	-3108.3	-3 329.7	-3 526.9
Trade balance (USD m)	-1 346.0	-1 427.5	-1 511.3	-986.3	-1069.2	-1 334.7	-1 672.8
Current account (USD m)	-943.5	-1 106.3	-1 211.1	-699.1	-736.6	-912.2	-1 144.7
- % of GDP	-11.9	-13.3	-15.0	-8.7	-8.8	-10.6	-12.9
Financial account (USD m)	853.0	1 077.9	1 153.7	776.0	949.0	-433.2	-676.5
- FDI (USD m)	311.0	219.9	218.5	-255.0	-287.0	-294.2	-301.5
Basic balance / GDP (%)	-7.9	-10.7	-12.3	-11.9	-12.2	-14.0	-16.3
FX reserves (USD m) pe	727.2	708.8	703.5	780.3	806.1	730.0	700.0
- Import cover (mths) pe	3.3	2.9	2.7	3.2	3.1	2.6	2.4
Sovereign Credit Rating							
S&P	B	B+	B	B	B	B+	B+
Moody's	nr	nr	B2	B2	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Urban consumer inflation (%) pa	1.8	2.5	5.7	4.9	1.4	1.8	2.6
Urban consumer inflation (%) pe	2.1	4.5	7.3	0.7	1.1	3.1	3.7
M3 money supply (% y/y) pa	22.8	18.9	9.9	12.2	12.3	14.3	19.6
M3 money supply (% y/y) pe	19.0	21.1	7.5	9.7	16.5	18.3	20.6
Policy interest rate (%) pa	6.7	6.5	6.5	6.1	5.5	5.2	4.8
Policy interest rate (%) pe	6.5	6.5	6.5	6.0	5.5	5.0	4.5
3-m rate (%) pe	4.1	6.0	9.0	6.8	5.8	4.0	4.2
1-y rate (%) pe	6.0	7.6	9.2	7.9	4.6	5.2	4.8
USD/RWF pa	686.8	715.6	783.0	834.3	869.2	907.2	953.4
USD/RWF pe	689.8	745.0	822.0	845.0	894.2	930.2	976.7

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

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

Senegal: set to stage solid growth again

GDP growth: humming along nicely

We still forecast GDP at 7.0% y/y in 2019 and 7.2% y/y in 2020, as it seems highly probable that economic growth will remain robust in the medium term as the government shifts to implementing phase 2 of the *Plan Senegal Emergent*.

Growth in household consumption spending has remained quite strong, which should persist in the medium term. Preliminary figures indicate 8.6% y/y for Q1:19. We anticipate it being the second-most important contributor to overall economic growth in both 2019 and 2020.

Investment spending may well be the major driver of economic activity over the next 3 – 5 years. Both government and private sector investment spending is likely to be elevated. Infrastructure spending is likely to be elevated as the government continues with development plans.

Hydrocarbon exploration is continuing, likely to attract significant investment in the oil and the gas sectors. The Greater Tortue Ahmeyim LNG development, a cross-border project off the coast of Mauritania and Senegal, with estimated gas reserves in excess of 15tr cubic feet, is expected to commence producing gas in 2022. Senegal is set to announce another licensing round in Oct.

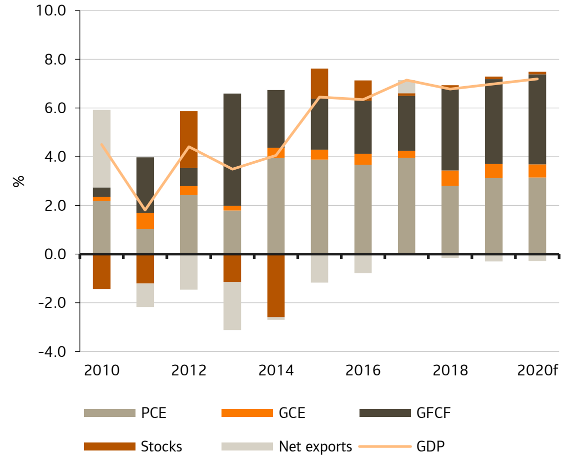
These developments dovetail nicely with *Plan Senegal Emergent*. Lowering electricity tariffs through increasing access to cheaper fuel sources and increasing reliability of energy supply is a key component of the plan.

Agriculture remains a large contributor to GDP. It has continued to grow strongly, posting 9.9% y/y growth for Q1:19.

We doubt that the deceleration of retail and wholesale sector will prove durable, especially as household consumer spending has been quite robust. Value added by the sector grew by just 4.2% y/y, probably restraining GDP growth in Q1:19.

Similarly, it is doubtful that the contraction of value added by the construction sector prove durable. Value added by the sector contracted by 4.6% y/y, or 12.8% q/q. As public investment spending will most likely remain elevated, the sector should recover. Perhaps elections had dampened activity in the sector in Q1:19.

Composition of GDP by demand



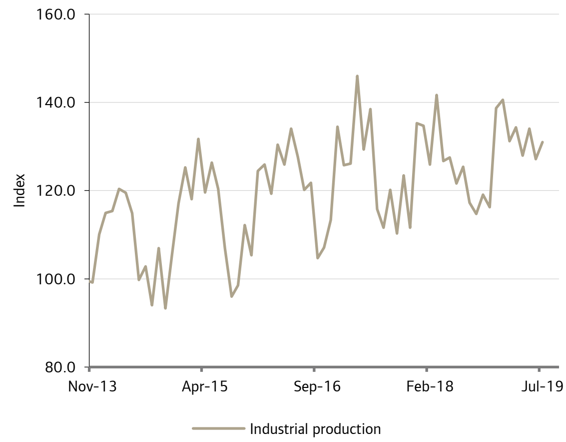
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

GDP by sector (%) contribution

	2013	2015	2017
Agriculture	15.5	15.0	15.5
Livestock and hunting	4.9	4.8	4.0
Forestry	1.0	0.9	1.1
Fishing	2.0	2.0	2.3
Mining	2.2	1.8	1.6
Energy/oil products	2.4	2.4	2.3
Utilities	1.0	1.6	1.5
Construction	4.5	5.1	5.0
Manufacturing	8.1	8.5	8.2
Commerce	16.9	16.5	16.1
Transport & communications	12.3	12.4	12.7
Education	4.7	4.5	4.7
Health	1.5	1.6	2.0
Other Services	15.7	15.8	15.4
Public administration	7.3	7.1	7.2
GDP	100.0	100.0	100.0

Source : Agence Nationale de la Statistique et de la Demographie; Banque Centrale des Etats de l'Afrique de l'Ouest; Standard Bank Research

Industrial production



Source: Agence Nationale de la Statistique et de la Demographie

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	6.7	6.5	6.7	7.2	7.1	6.8	7.0	7.1	7.1	7.3	7.0	7.4
CPI (% y/y) pe	0.1	-0.9	0.9	1.3	0.9	1.9	0.7	0.9	0.6	1.2	1.1	1.1
M2 (% y/y) pa	11.7	12.5	11.4	12.4	11.2	10.6	9.3	8.6	9.9	10.4	11.0	11.1
CA/GDP (%) pe	-7.6	-7.7	-7.8	-7.8	-7.4	-6.7	-6.2	-6.0	-5.9	-5.3	-5.4	-5.5
FX reserves (USD bn) pe	2.4	2.8	3.0	3.1	3.3	3.7	4.0	4.0	4.4	4.8	5.2	5.3
Import cover (months) pe	4.3	4.9	5.3	5.5	5.9	6.5	7.0	7.1	6.9	7.6	8.2	8.4
Marginal lending facility (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
USD/XOF pe	554	571	586	580	601	585	596	586	575	570	561	556

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

Notes: pa denotes period average; pe denotes period end

Political risks: president's second term starts

Winning with 58.3% of the vote, President Macky Sall has been re-elected in the first round of the elections for another 7-y term.

Of course, parliament had passed a law that made it slightly tougher to register for the elections. Candidates needed to collect signatures from 0.8% of the electorate, 2,000 signatures from 7 of the 14 regions. Additionally, candidates needed to post an XOF30m bond.

These requirements reduced the number of candidates dramatically. Whereas more than 80 expressed a desire to register, only 20 ultimately registered. The Constitutional Council then whittled that down to just 5.

Prior to the amendments to the electoral law, large numbers of candidates made it hard for anyone to get more than 50% of the vote in the first round. These requirements essentially achieved the result they were meant to.

Shortly after being inaugurated, a news report alleging corruption in the country's nascent gas sector ensnared the president's brother. He resigned from his post as the head of Caisse des Dépôts et Consignations du Sénégal.

The government's focus is likely to be on implementing Phase 2 of the *Plan Senegal Emergent*. The plan is broadly credited with boosting economic growth to over 7% y/y since about 2014, after the commencement of President Sall's first term in office.

Undoubtedly, developments in the oil and gas sectors will become material in the next few years. Exploration activity is ongoing, with the companies involved having announced major discoveries. Oil and gas production should start in 2022 or 2023.

Election results (2019)

Presidential election (24 Feb 19)	Party	% of votes
Macky Sall	APR	58.3
Idrissa Seck	REWMI	20.5
Ousmane Sonko	PASTEF	15.7
Parliamentary election (30 Jul 17)	Seats	% of votes
Benno Bokk Yakaar coalition	125	75.8
Mankoo Wattu Senegal	19	11.5
Mankoo Taxawu Senegal	7	4.2
Citizen Movement for National Reform	14	8.5
Total	165	100

Source: Senegalese Electoral Commission

Balance of payments: narrower C/A deficit

The acceleration in oil imports that sparked the near doubling of the C/A deficit to an average of 7.7% of GDP over the past 2-y has probably dissipated. Hence, we see the C/A deficit declining to 6.0% of GDP in 2019 and below that in 2020.

In fact, the magnitude of the compression of the C/A deficit could turn out to exceed our forecasts. Our expectation for the C/A deficit compression is mainly driven by our expectation for the compression of the trade deficit. We expect the trade deficit narrowing to USD2.8bn this year, from USD3.1bn in 2018, and roughly the same as it was in 2017.

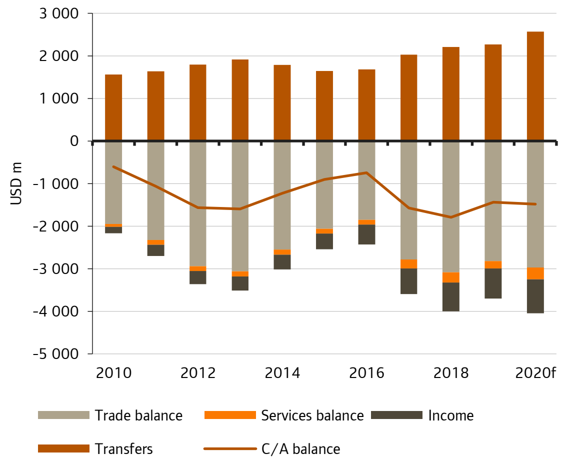
Yet goods exports outpaced goods imports significantly in H1:19. Goods exports grew by 26.4% y/y, while imports grew by just 4.5% y/y. Hence, the trade deficit narrowed to USD1.6bn in H1:19, compared with USD1.9bn in H1:18. Particularly noteworthy is that oil-related imports rose by just 7.0% y/y, while food and beverage imports fell by 6.0% y/y. Meanwhile, exports of gold grew by 21.8% y/y.

While growth in machinery and equipment imports was quite restrained, less than 2% y/y, we still believe that these will grow more strongly on a multi-year basis. The government is likely to continue with an infrastructure-heavy development plan.

Official transfers are likely to have a dominant influence on overall current transfers. This year the government seems to be on course to receive higher budget support than it originally budgeted for.

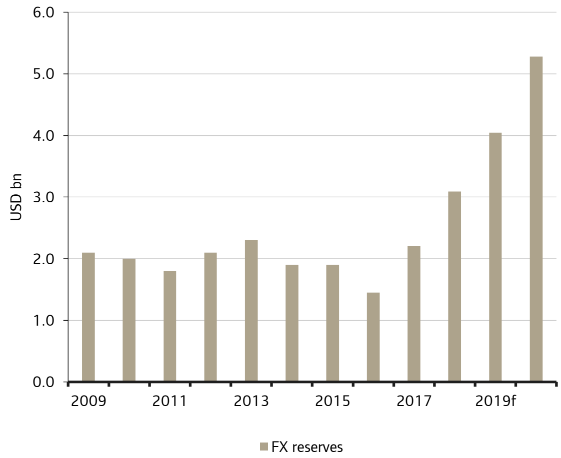
Similarly, official financial inflows are likely to be a predominant source of financial inflows. The government still relies more heavily on external financing for the budget deficit. Of course, most of this financing is concessional. But the government will probably come to the Eurobond market at some point, perhaps before the 2021 Eurobond matures.

Current account developments



Source: Agence Nationale de la Statistique et de la Demographie; Banque Centrale des Etats de l'Afrique de l'Ouest; Standard Bank Research

FX reserves



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

FX outlook: linked to the EUR

In all likelihood, the arrangement linking the XOF to the EUR will persist over the next 2-y. There are occasional bouts of frenzied speculation about the abandonment of the XOF by the countries in the WEAMU region using it or its devaluation. This arrangement is much stronger than just a peg, as it encompasses a monetary union as well. The arrangement is also complicated by the agreement that requires the French government, the European Council and the ECB to agree to any change in the arrangement. The latest source of excitement was an announcement by WEAMU that a regional currency, called the ECO, will be launched in 2020. We see an inconsequentially low probability that this announcement will have any practical relevance for consumers and businesses operating in the region. Our G10 Strategist, Steve Barrow, expects EUR/USD to head higher on a multi-year basis. Thus, the bias for USD/XOF is to the downside.

USD/XOF: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: on hold

There is no incentive for the BCEAO's MPC to change the monetary policy stance. Inflation is very subdued throughout the region, and the European Central Bank has eased its monetary policy stance.

Following the 12 Jun policy meeting, the committee noted robust growth across the WAEMU region, expecting average growth of 6.7% y/y, from 6.5% y/y in 2018. It was also heartened by indications from the various governments that the regional fiscal deficit will likely be 2.9% of GDP this year, from 3.7% of GDP in 2018. Ongoing fiscal consolidation efforts to ensure compliance with the regional fiscal deficit target of 3.0% of GDP will make it easier for the BCEAO to conduct monetary policy.

The committee also expressed satisfaction with the trajectory of inflation across the region, averaging just 0.1% y/y in Q1:19, from 0.9% y/y in Q4:18. Falling food inflation, mainly due to prices of cereals, reflected an improvement in agricultural production. The committee's expectation remains that inflation will average 1.3% y/y in the region over the next 24-m.

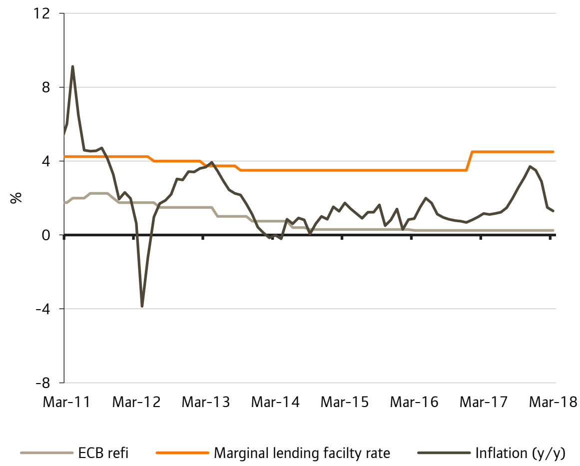
The ANSD rebased the CPI to 2014 from 2008. The current CPI is not comparable to the previous one. For one thing, the previous CPI covered Dakar, while the new one covers the whole country.

Regardless, the new CPI still indicates that inflation is very subdued. It amounted to 1.1% y/y in Jul, down from 2.1% y/y in Jun and 1.5% y/y in May. The inflation rate of alcohol, tobacco and narcotics was 10.6% y/y, the highest rate of all the components of the CPI. Admittedly, the weight of this sub-index is extremely low, at just 0.49%.

Food inflation amounted to 1.3% y/y in Jul, down from 3.3% y/y in Jun and 2.1% y/y in May.

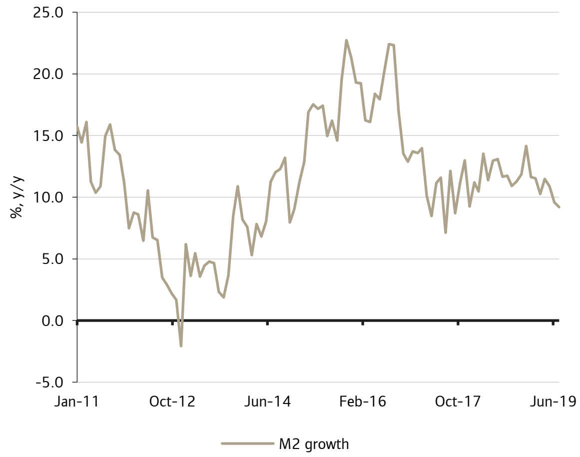
We expect headline inflation averaging 1.0% y/y in 2019 and 0.9% y/y in 2020.

Inflation and interest rates



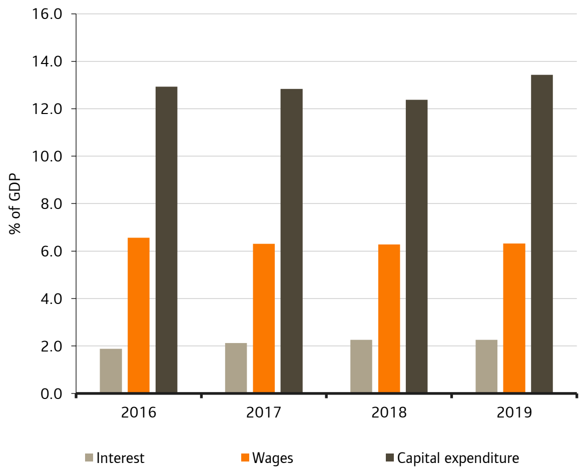
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

Money supply growth



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

Components of spending



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

Capital market outlook

Source: BRVM; Bloomberg

Fiscal policy: still conservative

Budget execution in Q1:19 shows that the government collected 19.4% of the budgeted annual revenue, while expenditure amounted to 29.3% of the budgeted annual expenditure. Domestic revenues rose by 7.2% y/y, with VAT collection up by 9.9% y/y.

Given the persistence of relatively high oil prices, the government has come to realise that energy subsidies are not sustainable. It has noted that in 2018 fuel subsidies amounted to XOF105.3bn, likely to rise to XOF120.6bn in 2019 if the status quo is allowed to persist. Additionally, SENELEC, the electric utility, would need about XOF150bn in subsidies. Consequently, the government is likely to increase these prices closer to cost.

Budget support appears to be on track to exceed what was originally budgeted. Specifically, the government expect this to rise to XOF294.9bn, instead of the XOF65bn originally budgeted. Much of the extra inflows, XOF137.5bn, comes from the World Bank. This has led the government to cut its target for tax revenue, budget grants and project loans.

The government is committed to ensuring that it meets the regional criteria of a 3.0% of GDP fiscal deficit. It is also determined to follow a conservative financing plan.

Of course, improving public finance management is at the core of *Plan Emergent Senegal*. The medium-term plan covering the 2019 – 2021 period envisages government capital expenditure amounting to XOF4.68tr. It anticipates sourcing XOF1.79tr in financing domestically, with the balanced sourced externally.

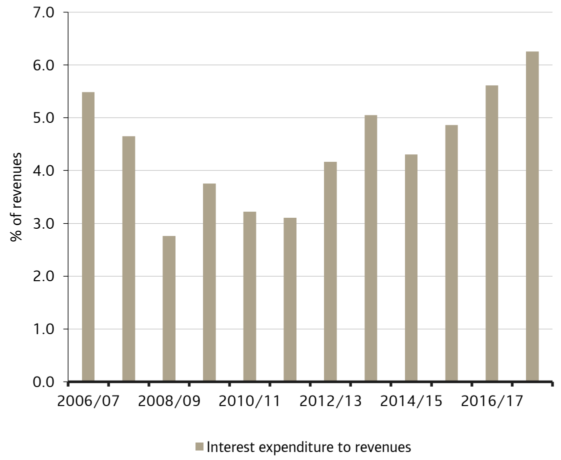
However, rather than relying on commercial external financing, as has been the case in many countries on the continent, the government will still look to cheaper funding sources. It envisages relying on project loans for 61.5% of its external financing needs.

Central government budget

% of GDP	2017	2018	
		Budget	Revised
Revenues	19.9	21.5	21.3
Expenditure	25.8	26.0	25.9
- Wages	8.3	8.3	8.4
- Interest	6.7	6.3	6.4
- Capital	3.1	2.9	2.7
- Arrears clearance	0.9	0.4	0.4
Budget deficit (- grants)	-6.8	-4.9	-5.0
Budget deficit (+ grants)	-6.1	-4.7	-4.7
Net domestic financing	5.9	2.0	2.2
Net external financing	0.0	1.3	2.0
Other financing	-0.2	1.7	1.7
Petroleum funds	-0.1	-0.2	-0.3
Sinking Fund	0.4	-0.1	-0.9
Contingency Fund	0.0	0.0	0.0
Grants	0.8	0.2	0.3

Source: Ministry of Finance

Interest expenditure

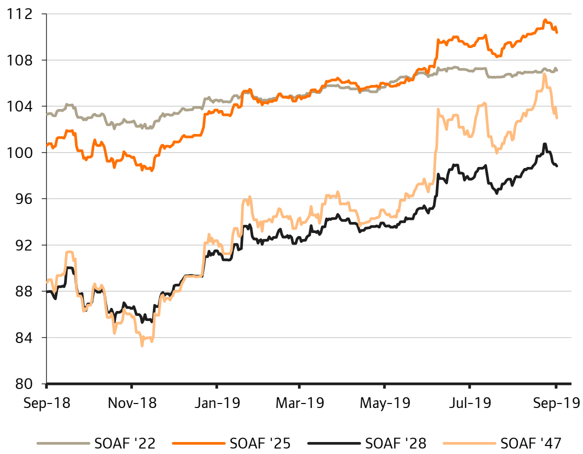


Source: Ministry of Finance and Economic Planning

Eurobond outlook: retaining overweight

We remain overweight Senegal, albeit with our exposure in the '21s. We are looking for opportunities to lengthen duration. Senegal Eurobonds have outperformed over the past 4-m, but they underperformed both Ivory Coast and Kenya. While the government is relying mostly on external financing to finance the budget deficit, this is mostly concessional financing. Chances are that the government will not need to issue Eurobonds to finance the budget deficit this year, perhaps even next year. Admittedly, with the maturity of the '21s approaching, there will be a need to refinance it. Hence, the government might take the opportunity to do that towards the end of next year. Of course, nothing prevents the government from refinancing that in early 2021.

Eurobond prices - mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	13.9	14.4	14.8	15.3	15.5	15.8	16.3
Nominal GDP (XOF bn)	9 775	10 509	11 252	12 205	13 094	14 137	15 283
Nominal GDP (USDbn)	19.7	17.7	18.1	21.1	22.9	23.9	27.0
GDP / capita (USD)	1 418	1 228	1 223	1 377	1 480	1 515	1 658
Real GDP growth (%)	4.7	6.5	6.3	7.1	6.8	7.0	7.2
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-8.1	-7.5	-5.5	-4.9	-5.7	-5.9	-5.7
Budget balance (incl. grants) / GDP (%)	-5.1	-4.5	-3.3	-2.9	-3.6	-3.1	-3.0
Domestic debt / GDP (%)	14.2	15.7	15.7	18.5	18.5	18.6	18.9
External debt / GDP (%)	38.9	39.5	40.0	40.0	39.0	39.1	39.5
Balance Of Payments							
Exports of goods (USDbn)	2.7	2.7	2.7	3.4	3.7	4.0	4.6
Imports of goods (USDbn)	-5.3	-4.8	-4.6	-6.2	-6.8	-6.8	-7.6
Trade balances	-2.6	-2.1	-1.8	-2.8	-3.1	-2.8	-3.0
Current account (USDbn)	-1.2	-0.9	-0.8	-1.6	-1.8	-1.4	-1.5
- % of GDP	-6.2	-5.1	-4.1	-7.5	-7.8	-6.0	-5.5
Capital & Financial account (USDbn)	1.6	1.2	0.9	1.8	2.7	2.4	2.7
- FDI (USDbn)	0.3	0.4	0.2	0.5	0.5	0.4	0.5
Basic balance / GDP (%)	-4.5	-3.1	-2.9	-5.0	-5.5	-4.1	-3.6
FX reserves (USDbn) pe	1.9	1.9	1.5	2.2	3.1	4.0	5.3
- Import cover (months) pe	4.1	4.8	3.8	4.3	5.5	7.1	8.4
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	B1	B1	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	-1.5	0.2	1.0	1.3	0.5	1.0	0.9
Consumer inflation (%) pe	-1.6	1.8	0.7	-0.7	1.3	0.9	1.1
M2 money supply (% y/y) pa	10.0	16.8	17.5	10.8	12.0	9.9	10.6
M2 money supply (% y/y) pe	6.7	18.7	13.7	9.3	14.1	7.5	11.5
Marginal lending facility (%) pe	3.5	3.5	3.5	4.5	4.5	4.5	4.5
USD/XOF pa	496.0	594.2	621.8	579.3	572.7	591.9	565.5
USD/XOF pe	544.3	609.9	612.0	558.2	580.3	585.6	555.8

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 spending to support growth

GDP growth: supported by capital expenditure

We were perhaps too quick to trim our GDP growth estimates for Tanzania in our May AMR publication. However, after our recent visit to Dar es Salaam in Aug, we now expect the economy to expand by 6.8% y/y and 7.0% y/y in 2019 and 2020 respectively.

Economic activity will be supported largely by public investment in infrastructure over the coming year as the government looks to build roads and expand ports.

Of course, we were concerned before that the government could struggle to source external funding for these flagship infrastructure projects and that thus GDP growth may decline. However, the government is likely to borrow via commercial sources to fund their development ambitions, as pre-conditions on these non-concessional loans are minimal. But, in addition, they may still be able to borrow from other multilateral agencies and bilateral donors as the government recently started to take a somewhat softer stance on some of the controversial laws they have adopted.

For instance, the National Statistics Act, which previously made it unlawful to make economic commentary, has now been suspended. Furthermore, following this move, around USD1.7bn in previously withheld project and budget support will now gradually be disbursed by the World Bank, according to local media reports that quoted the multilateral institution.

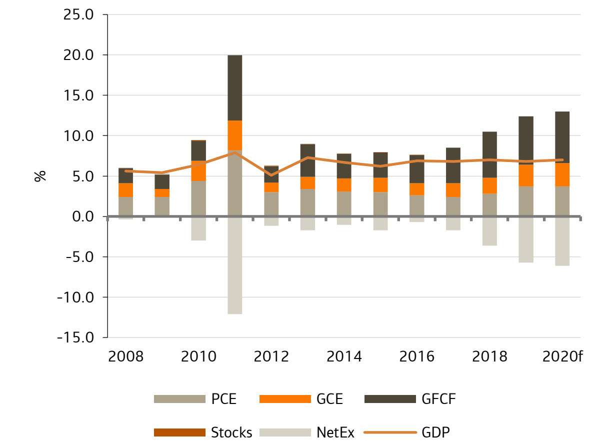
Moreover, the mining sector will most likely benefit from the government suspending its previous ban on exports of raw concentrate gold, which broadly accounted for nearly 30.0% of output for the mining sector.

Even while private sector activity was relatively subdued between 2015 and H1:18, the tourism and transport sector outperformed for most of this period. We suspect that this trend is likely to continue over the coming year.

However, arrears owed to the private sector have increased since Jan 19 and now are equivalent to 2.6% of GDP, from around 2.0% in Jun 18. If these arrears continue to rise, private sector firms could face cashflow issues that would eventually weigh down economic activity.

Though GDP growth is likely to pick up over the coming year on pre-election infrastructure spending, there is a risk that donor partners could withhold funding again should there be government clashes with opposition groups or a muzzling of the media prior to general elections in Oct 20.

GDP by expenditure



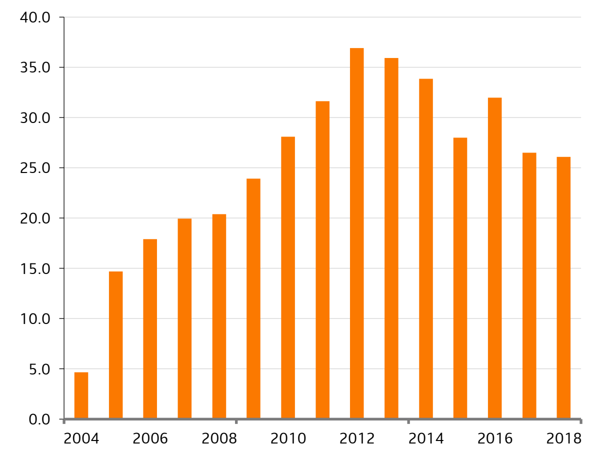
Source: National Bureau of Statistics; Standard Bank Research

GDP contribution

	2005	2010	2014	2016	2018
Agriculture	29.07%	26.31%	23.03%	21.0%	25.6%
Mining & quarrying	4.21%	3.39%	3.36%	3.6%	4.0%
Manufacturing	6.59%	7.54%	7.34%	7.4%	8.4%
Electricity & gas	1.99%	1.77%	0.88%	0.9%	0.8%
Construction	6.66%	7.79%	9.92%	11.4%	13.5%
Wholesale & retail trade	9.08%	10.04%	10.24%	10.3%	9.0%
Transport & storage	5.99%	5.99%	6.31%	6.7%	7.5%
Hotels & restaurants	1.89%	1.65%	1.48%	1.4%	1.3%
Information & communication	2.12%	3.42%	1.8%	1.7%	1.7%
Financial & insurance activities	2.21%	3.78%	4.12%	4.5%	3.6%
Real Estate	6.58%	5.33%	4.44%	4.1%	2.9%
Public administration	8.50%	6.08%	6.62%	6.5%	4.4%
Education	2.96%	3.42%	3.25%	3.3%	2.7%

Source: National Bureau of Statistics

Production of natural gas (bcf)



Source: Tanzania Petroleum Development Corporation

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	5.9	6.7	5.0	10.2	6.6	6.8	6.9	7.0	7.5	7.0	6.5	7.0
CPI (% y/y) pe	3.9	3.3	3.4	3.3	3.1	3.7	4.8	6.2	6.4	6.3	5.3	4.6
M3 (% y/y) pe	8.4	6.0	7.5	4.9	9.6	7.6	9.2	10.1	10.4	11.5	12.7	14.5
FX reserves (USD bn) pe	5.5	5.5	5.4	5.0	4.7	4.4	4.8	5.2	4.9	5.8	5.6	5.5
Import cover (months) pe	5.9	5.6	5.2	4.9	4.8	4.6	4.3	4.6	4.3	5.4	5.1	4.9
3-m rate (%) pe	2.8	2.5	2.9	3.5	3.9	4.1	4.4	5.0	5.3	5.4	5.5	5.7
5-y rate (%) pe	12.2	11.3	11.5	12.0	12.7	12.7	12.9	12.9	12.7	12.8	12.9	13.0
USD/TZS pe	2255	2275	2285	2310	2340	2310	2310	2330	2390	2360	2370	2400

Source: Bank of Tanzania; Ministry of Finance; National Bureau of Statistics; Standard Bank Research; Bloomberg
Note: pa – period average; pe – period end

Political risks: upcoming election in 2020

President Magufuli became the Chairman for the Southern African Development Community (SADC) in Aug. In his acceptance speech, he urged SADC member states to work together and ensure that the West lifts sanctions against Zimbabwe.

The trade links and deals that Tanzania could achieve by being part of both SADC and the East African Community (EAC) would be most beneficial. However, given the regional integration experience that we saw in the EAC, it's always a tough ask for economies to fully liberalize the mobility of labour and capital. Thus, these protectionist policies might delay the benefits typically expected from the synergies of regional integration with another economic or trading bloc.

Moreover, we reiterate that the government will be keen to boost infrastructure spending further as general elections approach in Oct 2020. Right now, the odds are probably still in favour of the incumbent being re-elected in 2020.

Already we can see a more accommodative approach being taken by the government perhaps in order to restore relations with donor partners, probably to ensure sufficient funding to expand the country's infrastructure base.

However, human rights watch groups and even multilateral and bilateral agencies will all be on standby, closely assessing whether the government infringes on any liberties that ought to be accorded to both the media and political opposition members.

Election results (2015)

Presidential election	**Party votes**	**% of**
John Magufuli	CCM	58.46
Edward Lowassa	CHADEMA	39.9
Mghwira	ACT	0.65
Yemba	ADC	0.43
Rungwe	CHAUMA	0.32

Legislative election	Seats
CCM	252
CHADEMA	70
CUF	42
Other	2
Total	367

Source: National Electoral Commission

Balance of payments: trade balance widening

We see the C/A deficit widening to 5.0% of GDP in 2019 and thereafter to 6.3% in 2020.

The increase in infrastructure projects will probably continue to keep imports elevated over the coming year. Already, as at the year ending Jul, imports of goods rose to USD8,446.6m, from USD7,719.9m during the same period in 2018. The government is keen to complete the ongoing construction of the Standard Gauge Railway (SGR) which they endeavour to eventually link to Dodoma and Mwanza. Furthermore, despite environmental concerns, they also remain adamant on the construction of the Stieglers Gorge hydropower dam.

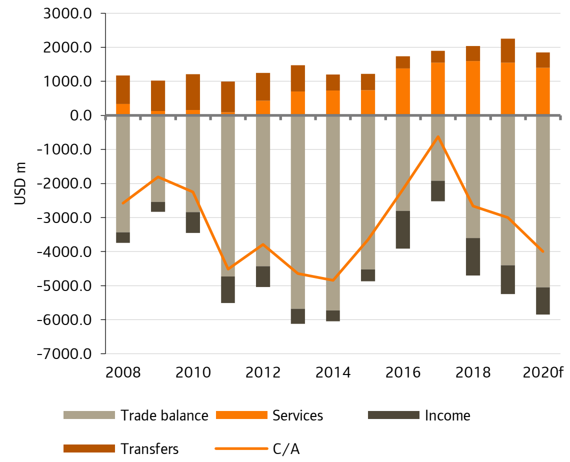
Service exports have continued to rise over the past 6-m. We suspect this will probably continue over the coming year, spearheaded by tourism and transport receipts. Even in the event that the government forces transport of goods via the SGR as it nears completion, the transport routes towards the landlocked neighbours such as Zambia are unlikely to be affected negatively.

Exports of goods have remained relatively flat over the past year or so. However, with new mines likely to increase output over the coming year, in addition to the government's decision to suspend the export ban of raw gold, should ideally bode well for mining export receipts over the medium term.

Moreover, this wider C/A deficit that is likely to materialize over the coming year will probably continue to be financed by a combination of FDI and external commercial loans recorded under 'other investment liabilities' in the financial account.

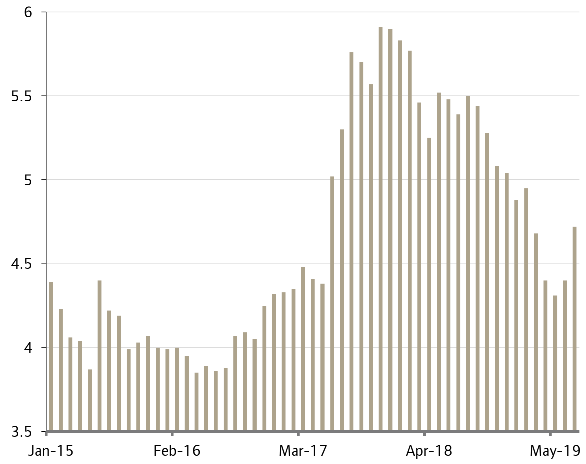
Of course, most of our pre-conditions in assuming a wider trade balance and C/A deficit hinge on the government being able to secure external funding for development expenditure. Thus, should they fail to adequately source these external loans, the C/A deficit would probably be much lower than we currently anticipate.

Current account developments



Source: Bank of Tanzania; Standard Bank Research

FX reserves (USD bn)



Source: Bank of Tanzania

FX outlook: cashew nut exports could weaken

We now see USD/TZS rising to around 2330 by Dec 19. In line with our expectations, between Apr and Sep the TZS has been anchored by seasonal agriculture inflows mainly from sesame, tobacco, cotton and pulses. We had been concerned that the government could look to control export prices for this season by intervening, similar to the cashew nuts case in Q4:18. However, this hasn't been the case. Nonetheless, despite the seasonal cashew nut export earnings that typically support the TZS in Q4, we still expect USD/TZS to drift upwards moderately in Q4:19, as the previous fiasco will probably have resulted in losses and cashflow constraints for cashew farmers. We therefore expect this season's cashew harvest to be poor. USD/TZS should then rise further in Q1:20 due to seasonal USD demand that arises prior to the dividend season. However, the BOT will probably intervene via direct USD sales to manage volatility in the pair.

USD/TZS: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative bias

We expect the MPC to maintain an accommodative stance over the coming year.

At its semi-annual meeting in Jun, the MPC cut the Statutory Minimum Reserve (SMR) ratio to 7.0%, from 8.0%. In fact, we suspect there remains a bias for further easing in H1:20 as the BOT looks to ensure that the recovery in Private Sector Credit (PSC) remains on track.

PSC growth expanded by 9.0% y/y in Jul 19, a 32-m high. This was higher than the 4.5% y/y average in H2:18 and 2.0% y/y in H1:18.

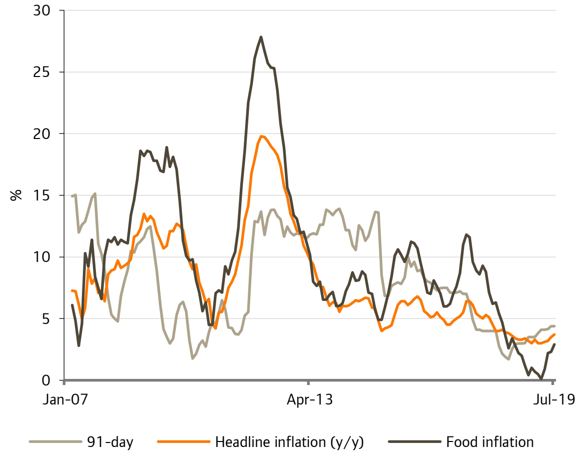
The accommodative stance that the MPC has adopted over the better part of the last 2-y or so has underpinned the recovery in PSC growth. Additionally, as private sector activity has also improved moderately over this period, commercial banks have been emboldened to extend more credit to the private sector.

In fact, despite the likelihood that the government will adopt an expansionary fiscal policy stance over the coming year, we doubt that the MPC would be too concerned around risks on the economy overheating. In fact, at this stage, growth of monetary aggregates doesn't suggest that the economy is expanding close to or above potential.

We see headline inflation rising to 6.2% y/y in Dec 19 as base effects unwind and domestic fuel pump prices are also revised higher.

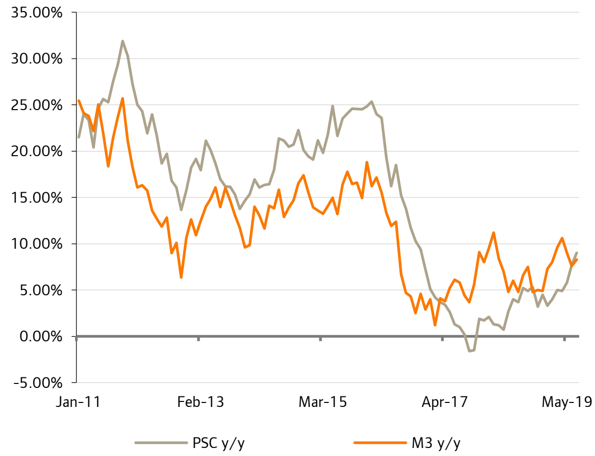
Thereafter, headline inflation is likely to average 6.4% y/y in H1:20 owing to the seasonal dry spell which will probably increase food prices. However, the MPC may not get too concerned by this transitory rise in headline inflation which is likely to subside to 4.6% y/y at the end of 2020.

Inflation and interest rates



Source: Bank of Tanzania; National Bureau of Statistics

Monetary aggregates

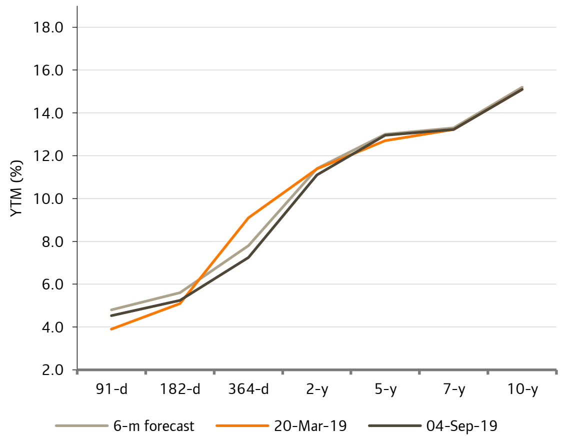


Source: Bank of Tanzania

Yield curve outlook: bear-flattening

We see the yield curve bear-flattening over the next 6-m. Apart from the short end of the curve rising and pushing higher bond yields, there aren't many other catalysts that could shift the longer end of the curve. More recently, activity on government bonds has been rather subdued owing to the consolidation of pension funds. However, domestic interbank liquidity conditions have remained rather tight and perhaps segmented even after the SMR cut from the MPC. Nevertheless, the government has remained rather disciplined and never accepts more than it has auctioned. Moreover, we have argued for a while now that the BOT has been primarily looking to boost PSC. Hence, we doubt that they would have a propensity for expensive bids at either T-bill or bond auctions. Although, in the unlikely event that the government fails to secure external commercial debt for budgetary support, they could look to borrow more from the domestic market. This is something that they have asserted in the past few years.

Changes in the yield curve



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: borrowing more commercial debt?

Not withstanding plans to increase development spending over the past 2-y or so, the government has struggled to deliver on this. Subsequently, their fiscal deficits have been lower. In FY2018/19 the fiscal deficit outturn was 2.0% of GDP, which was lower than the 3.2% initially thought.

Total expenditure is seen increasing to TZS33.1trn in FY2019/20 from a likely outturn of TZS22.3trn. Out of this, recurrent expenditure will rise to TZS20.9trn from TZS13.8trn, while development expenditure is also seen rising TZS12.2trn from TZS8.5trn.

Clearly, based on the execution rate of the development budget over the past couple of years, the FY2019/20 development spending target looks rather ambitious. But that said, we must also acknowledge that in the recent past the government had struggled to source external funding specifically on concessional terms. This obviously resulted in them spending less on capital-intensive development projects.

However, with the increased likelihood of issuing more commercial and non-concessional external debt, the government may have more funding available to execute their development budget in FY2019/20 especially as 2020 is an election year.

The budget will be funded by higher net domestic borrowing (TZS1.49trn vs TZS1.19trn) and lower external funding (TZS3.9trn vs TZS4.7trn). Total concessional lending which includes both project and general budget support is expected to decline to TZS1.5trn from TZS1.6trn, while non-concessional lending also eases to TZS2.4trn from TZS3.1trn.

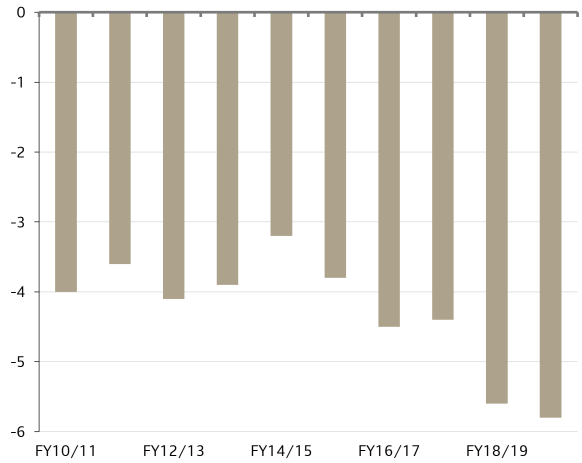
Also, despite the government clearing arrears owed to the private sector worth TZS598.4bn in FY2018/19, the stock of total arrears continues to rise as the government wanted to start the construction of infrastructure projects in H1:19.

Central government budget, % of GDP

	FY2018/19	FY2019/20
Total revenue	16.0	16.9
Total expenditure	21.6	22.7
- Wages	4.7	4.5
- Interest	6.2	5.4
- development expenditure	7.1	8.4
Overall balance (- grants)	-5.6	-5.8
Overall balance (+ grants)	-2.0	-2.3
Net domestic borrowing	0.9	0.7
Net external borrowing	1.1	1.6
Donor support (grants)	3.6	3.5

Source: Ministry of Finance

Fiscal deficit excluding grants (% of GDP)

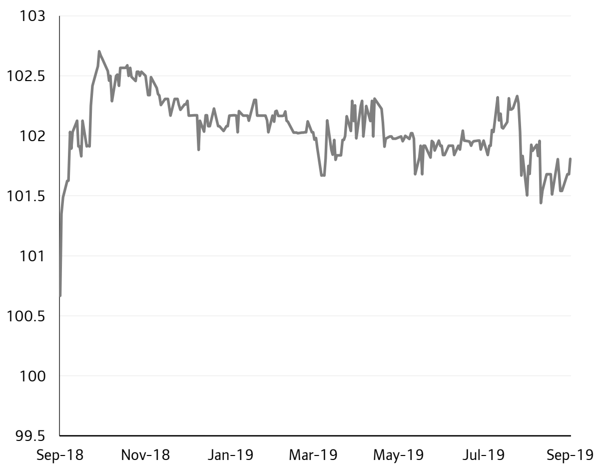


Source: Ministry of Finance

Eurobond outlook: neutral

The amortizing USD loan will mature in Mar 20. Inevitably, liquidity is quite thin, with only around USD130k outstanding for the bond. We doubt, however, that the government will be looking to issue a Eurobond in 2020 due to the delays in obtaining a credit rating. Previously, the government had reservations on the rating that Tanzania was being assigned by a contracted international credit rating agency. We suspect this is probably still going to be the primary reason for the delay in Eurobond issuances. However, as global liquidity conditions potentially improve over the coming year, the government could be tempted to explore the possibility of issuing a Eurobond. Although, in the interim, they may prefer to continue to issue more syndicated loans both from international commercial banks and other Development Financial Institutions (DFIs).

Tanzania '20 prices – mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	46.7	47.6	48.6	50	51.04	52	53.1
Nominal GDP (TZSbn)	82 603	94 349	108362	118744	129364	138675	150542
Nominal GDP (USDbn)	49.8	46.3	49.5	53.1	56.7	59.7	63.3
GDP / capita (USD)	1 066	973	1019	1062	1111	1148	1191
Real GDP growth (%)	6.7	6.2	6.9	6.8	7.0	6.8	7.0
Gold production ('000 Kg)	47.8	41.7	44.5	39.5	37.0	39.1	41.2
Tobacco production ('000 MT)	102.9	103.7	104.5	104.9	106.4	108.2	110.5
Coffee production ('000 MT)	62.2	62.1	63.5	63.1	63.9	60.3	61.4
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-7.3	-6.7	-7.5	-6.7	-7.2	-5.6	-5.8
Budget balance (incl. Grants) / GDP (%)	-3.9	-3.2	-3.8	-4.5	-4.4	-2.0	-2.3
Domestic debt / GDP (%)	9.4	9.5	9.9	10.1	9.7	9.9	10.3
External debt / GDP (%)	25.2	29.7	29.5	30.2	31.6	32.0	32.9
Balance of Payments							
Exports of goods and services (USDbn)	8.6	8.7	9.3	8.5	8.4	8.6	9.0
Imports of goods and services (USDbn)	13.6	12.5	10.7	8.9	10.4	11.5	12.7
Trade balance (USDbn)	-5.0	-3.8	-1.4	-0.4	-1.7	-2.9	-3.7
Current account (USDbn)	-4.8	-3.7	-2.2	-0.6	-2.7	-3.0	-4.0
- % of GDP	-9.6	-8.0	-4.3	-1.0	-4.8	-5.0	-6.3
Financial account (USDbn)	3.2	2.9	2.3	3.2	2.9	3.2	3.0
- FDI (USDbn)	1.4	1.6	1.4	1.1	0.8	0.9	1.2
Basic balance / GDP (%)	-6.8	-4.5	-1.6	1.0	-3.4	-3.5	-4.4
FX reserves (USDbn) pe	3.9	4.0	4.3	5.9	5.0	5.2	5.5
- Import cover (months) pe	3.4	3.8	4.2	5.4	4.9	4.6	4.9
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	6.1	5.8	5.1	5.3	3.5	4.5	5.7
Consumer inflation (%) pe	4.8	6.8	5.0	4.0	3.3	6.2	4.6
M3 money supply (% y/y) pa	14.5	15.3	9.3	5.5	6.7	9.1	12.3
M3 money supply (% y/y) pe	15.6	18.8	2.9	8.0	4.9	10.1	14.5
BOT discount rate (%) pa	16.0	16.0	16.0	11.5	8.0	7.0	7.0
3-m rate (%) pe	13.6	9.2	7.1	4.0	3.5	5.0	5.7
1-y rate (%) pe	15.0	18.7	15.8	8.4	9.3	8.4	10.5
2-y rate (%) pe	15.3	16.9	17.7	11.1	10.5	11.1	11.7
5-y rate (%) pe	16.4	17.5	18.0	13.6	12.0	12.9	13.0
USD/TZS pa	1 660	2 038	2189	2237	2281	2323	2380
USD/TZS pe	1 728	2 155	2188	2240	2310	2330	2400

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

Note: pa – period average; pe – period end; nr – not rated

Tunisia: a year of setbacks

GDP growth: a sharp slowdown

We cut our forecast for 2019 GDP growth to 1.6 % y/y, from 2.4% y/y, and our 2020 forecast to 2.2% y/y from 2.6% y/y.

The risk for this year's economic growth still lies firmly on downside, as has been confirmed by the data so far. GDP grew just 1.2% y/y in H1:19, making our initial forecast for 2019 unlikely. Granted, agricultural production, after contracting in Q1:19 due to poor olive output, grew 2.8% y/y in Q2:19 as rains had helped the cereal harvest. However, this is an insufficient rebound. Weak demand both in Tunisia and in Europe had resulted in a contraction of industrial production in H1:19 (-0.8% y/y for manufacturing and -1.7% y/y for non-manufacturing sectors). Extraction industries were a mixed bag but a contraction in the energy sector (-8.3% y/y) had more than offset a recovery in mining where production of phosphates rose by 19% y/y. Given that purchases of raw materials from overseas necessary for local manufacturing had also fallen, it is unlikely that industrial production can recover in H2:19 to make up for losses. The saving grace has been the services sector which expanded 2.5% y/y in H1:19 due to 3m tourist arrivals.

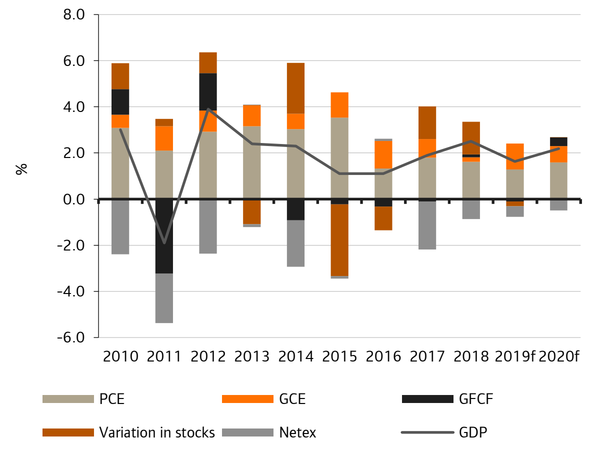
From a demand prospective, PCE growth will decelerate in 2019 but should still contribute c.1.3 ppts to overall growth, helped in H2:19 by the recovering agriculture and servicing sectors, especially tourism. That and wage increases won by trade unions would prevent PCE growth from stalling. In 2020, public consumption should recover somewhat helped by deceleration in inflation and probably by lower energy prices as the Nawara gas field operation starts production. We expect PCE contribution in 2020 to rise to 1.6 ppts.

Growth in GCE will pick this year but should subside in 2020 after the elections as government expenditures should ease. GCE contribution to GDP growth should therefore decrease from the expected 1.1 ppts in 2019 to 0.5 ppts next year.

Understandably, this year will prove difficult for GFCF. Both local and international investors will keep their plans on hold in anticipation of the kind of government to be formed. Government investments are also running well below the budget targets for the year, having increased by just 1.4% y/y in H1:19 (vs. 14.1% y/y in H1:18). We expect GFCF to be a net drain on GDP growth this year and to contribute 0.7 ppts in 2020.

The trade deficit of goods and services is expected to increase again this year before declining marginally in 2020, helped mainly by further increases in earnings from tourism. Weak demand from Europe would not allow net exports to turn into a positive contributor to GDP growth. We expect it to subtract c.0.5 ppts from GDP in 2019/20.

Composition of GDP growth by demand



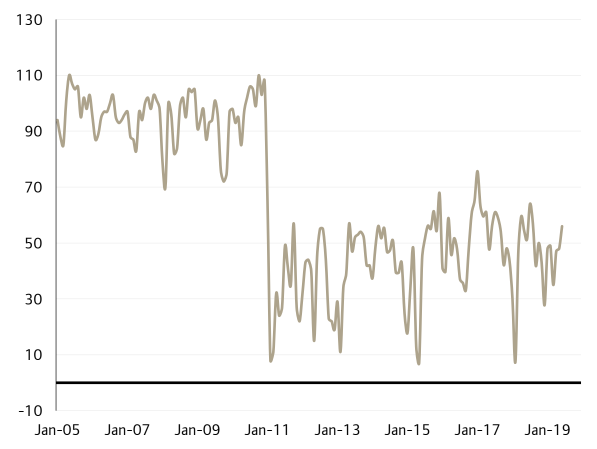
Source: Banque Centrale de Tunisie; l'Institut National de la Statistique; Standard Bank Research

Nominal GDP composition: sector breakdown, %

	2013	2014	2015	2016	2017	2018
Agriculture & Fishing	8.9	9.2	10.3	9.4	9.7	10.1
Manufacturing	15.9	15.6	15.3	14.9	14.8	14.9
- Agro-food industries	3.1	2.9	3.2	3.0	3.0	3.1
- Textile	2.9	2.8	2.5	2.5	2.6	2.5
- Mechanical and electrical	5.1	5.2	5.0	5.0	5.0	5.2
Non-manufacturing	12.8	11.3	9.7	9.1	8.4	8.4
- Oil/natural gas extraction	6.5	5.0	3.4	2.7	2.7	2.9
- Electricity/Gas	1.2	1.1	1.1	1.2	0.8	0.8
- Buildings/Civil engineering	4.4	4.4	4.3	4.2	4.0	3.9
Services	40.9	40.3	40.2	40.4	41.4	42.2
- Hotels	4.3	4.3	3.9	3.9	4.1	4.5
- Trade	8.8	8.8	9.4	9.4	9.4	9.3
- Transport	7.1	6.8	6.5	6.6	7.1	7.4
Financial intermediation	-1.4	-1.4	-1.4	-1.4	-1.8	-2.0
Admin activities	17.8	17.9	18.5	19.4	19.6	18.3
Net taxes	5.1	7.2	7.4	8.2	7.9	8.1
Total	100	100	100	100	100	100

Source: l'Institut National de la Statistique

Extraction of Minerals for the Chemical Industry and Natural Fertilizers, Index, 2010 = 100



Source: l'Institut National de la Statistique

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	2.3	2.9	2.7	2.1	1.1	1.2	2.0	2.0	2.6	2.5	1.8	1.8
CPI (% y/y) pa	6.9	7.5	7.3	7.4	7.2	6.9	6.4	6.0	5.7	5.4	5.4	5.5
M3 (% y/y) pa	11.8	10.8	9.5	8.4	6.3	6.7	7.5	7.8	8.0	7.7	7.5	7.5
CA/GDP (%) pe	-11.4	-9.9	-10.9	-12.2	-9.8	-12.5	-11.3	-13.0	-9.1	-11.7	-10.1	-12.2
FX reserves (USD bn) pe	5.1	4.7	4.7	5.1	5.5	5.1	6.0	5.8	5.7	5.8	5.9	6.0
Import cover (mths) pe	2.5	2.4	2.3	2.5	2.7	2.5	2.9	2.8	2.6	2.6	2.6	2.7
BCT policy rate (%) pe	5.75	6.75	6.75	6.75	7.75	7.75	7.75	7.75	7.75	7.75	6.50	6.50
USD/TND pe	2.43	2.61	2.80	3.05	3.03	2.86	2.98	3.09	3.09	3.07	3.05	3.06

Source: Banque Centrale de Tunisie; Institut National de la Statistique; Bloomberg; Standard Bank Research

Note: pa – period average; pe – period end

Political risks: political landscape heating up

The general elections set for 6-Oct are likely to see the moderate Islamist EM party doing well at the top but still fall short of the necessary majority for ruling.

The fortunes of the secular NT, which came first in the 2014 elections, have gone from bad to worse in this electoral cycle. The party was marred by infighting and allegations of corruption, culminating in losing a half of its parliamentary seats and the creation of a new secular Tahya Tounes (TT) party headed by Prime Minister Youssef Chahed. As TT also absorbed defecting members from other secular parties, it is now larger than NT. Tunisia's first democratically elected president, Beji Caid Essebsi, passed away in Jun at 92. He was also the head of NT, which means that in the space of few months the party lost two of its prominent members, one was the head of the state and other is still the head of the government. This has led to further lowering of morale in the party and acceleration in defections.

The presidential elections, which were originally scheduled for Nov, were brought forward because of the Essesbi's passing, and the first round took place on 15-Sep. Disillusionment of the masses with the established elite turned out so strong that two unfavoured by international observers candidates – a currently jailed leader of Qalb Tounes party Nabil Karoui and an independent Kais Saied – won and proceeded to the second round which is likely to take place in mid-Oct. Both are considered populists but fortunately in Tunisia the prime minister has more authority than the president.

The general elections may see EM becoming the largest party in the parliament, but it will have to go in a coalition with, principally, TT and probably with some of the smaller parties to form a government. The new cabinet is expected to have a broad representation. This is a good thing for keeping radicals at bay but will again negatively affect the efficiency of work, especially with strong opposition from the powerful trade unions.

Elections

Presidential election (2014)	Party	% of votes – first (second) round
Beji Caid Essebsi	NT	39.5 (55.7)
Moncef Marzouki	CR	33.4 (44.3)
Hamma Hammami	PF	7.8
Hechmi Hamdi	CL	5.8

Constituent Assembly elections (2014)	Seats	% of votes
Nidaa Tounes (NT)	86	37.6
Ennahda Movement (EM)	69	27.8
Free Patrotic Union (FPU)	16	4.1
Popular Front (PF)	15	3.6
Afek Tounes	8	3
Congress for the Republic (CR)	4	2.1
Democratic Current	3	2
Others	18	19.8
Total	217	100

Source: Instance supérieure indépendante pour les élections

Balance of payments: slight improvement in 2020

We revise our forecast for C/A deficit in 2019 to 11.7% of GDP, from 12.2%, and for 2020 to 10.8% from 11.4%.

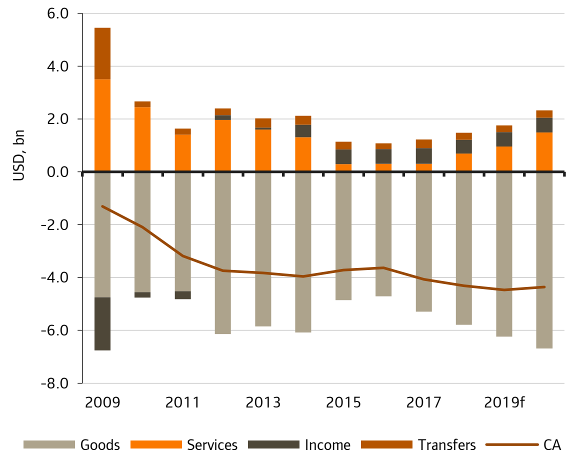
During H1:19, imports of goods grew by 14.6% y/y, outpacing exports (12.5% y/y). The largest increases in imports came from purchases of food (+35.6% y/y), energy refinery products (+36.6% y/y), and capital equipment (+17.5% y/y). We expect the trade of goods deficit to continue to widen in 2019/20, especially since the dinar is likely to remain overvalued.

The balance of payments could have been much wider in H1:19, had it not been for excellent performance of services sector where tourism receipts increased 42.5% y/y. Admittedly this is from a low base but it's very encouraging that both European and North African tourist arrivals rose sharply, not that deterred by fears of disturbances in an election year.

That said, C/A deficit is likely to increase this year to USD4.5bn before declining marginally in 2020. So far this year, the deficit was comfortably covered by an increase in FDI, primarily in the manufacturing sector, and by a 34% y/y improvement in the balance of loans, helped by a USD0.5bn Saudi Arabia loan, a KFW USD100m credit, and USD250m of the IMF 6th instalment under the EFF programme. The available BoP data doesn't yet reflect the sale of a EUR700m Eurobond, which is the main reason behind the significant improvement of FX reserves in July.

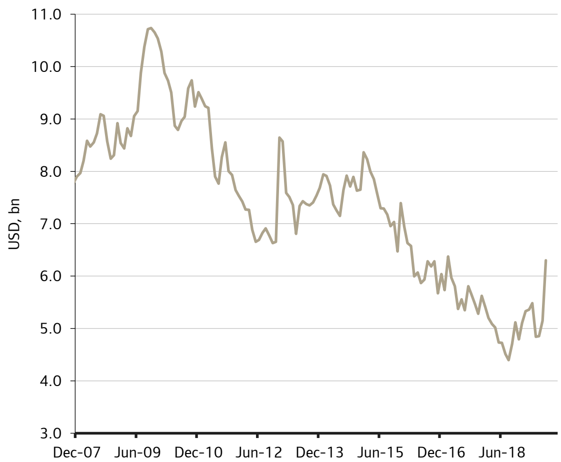
That said, the future C/A financing is far from certain. Support loans from the Gulf states are unlikely to recur. Granted, the recent favourable assessment of the country by the IMF Fifth review will help maintaining access to funds from the multilaterals and the EU; however, Tunisia will have to rely even more on market borrowing. Although FX reserves are likely to have bottomed in 2018, but we don't expect them to exceed 3-m of import cover in 2019/20.

Current account developments



Source: l'Institut National de la Statistique; Banque Centrale de Tunisie; Standard Bank Research

FX gross reserves



Source: Banque Centrale de Tunisie

FX outlook: resumption of depreciation expected

The currency basket (60%EUR + 40%USD) has, rather unusually, appreciated by nearly 5% since Feb-19. The main reason seems to be a combination of a sharp reduction in FX swaps used by the BCT for dinar liquidity injections and the lowering of banks' FX reserves requirements which resulted in an acceleration of FX sales by the sector. Once the effects of these developments have run their course, the dinar most likely will weaken again, without putting in jeopardy the 25% real depreciation accumulated during 2016-18. With C/A deficit running close to 12% of GDP this year, Tunisia can ill afford further currency appreciation.

We expect the dinar basket to weaken at an annual rate of 6% which, given our view on EUR/USD, suggests USD/TND at 3.09 and 3.06 by YE:19 and YE:20 respectively. The targets for EUR/TND are 3.27 and 3.63.

USD/TND: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: could get away with not hiking

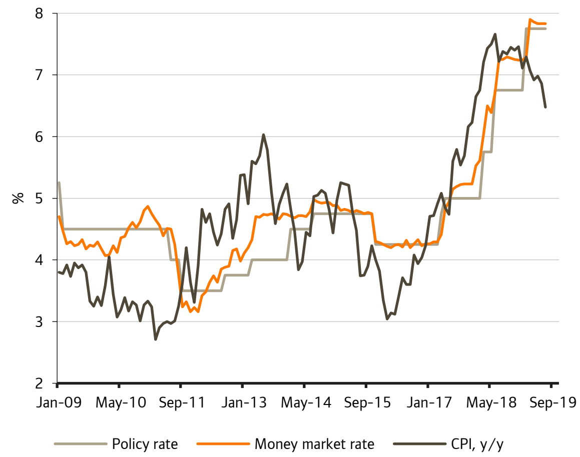
The BCT succeeded in turning the inflation trajectory around. We expect the bank to keep the interest rates on hold, balancing between reining in inflation and attracting investment from Europe. We retain our forecast for CPI for YE:19 at 5.9% y/y but increase it to 5.6% y/y by YE:20 from 4.6% y/y previously.

The tighter monetary conditions ushered by a 100-bps interest rate hike in Feb, a smaller loan-to-deposit ratio and the reduction of liquidity injections through FX swaps have finally tamed the pace of inflation growth, as CPI decelerated to 6.5% y/y in Jul from 7.5% y/y at the end of 2018. Food inflation, which takes about a quarter of the CPI basket, is now growing at a much lower rate than a year ago, registering 6.5% y/y in Jul. Underlying inflation that excludes food and energy prices fell in Jul to 6.5% y/y, from 7.0% y/y in Jun.

The BCT expects the regulated product prices to grow on average 4.6% y/y in 2019 and 4.2% y/y in 2020, with core inflation, which excludes food and regulated products, at 7.5% y/y and 7.6% y/y respectively. This means that a lot would depend on behaviour of free food prices which are obviously very volatile and on energy costs. Earlier in the year, the IMF team and Tunisian authorities reached an understanding that if an average quarterly inflation is not likely to reach a 6.8% y/y target by Dec-19, a further policy rate hike would be warranted. With energy prices subdued, we expect that target to be met comfortably.

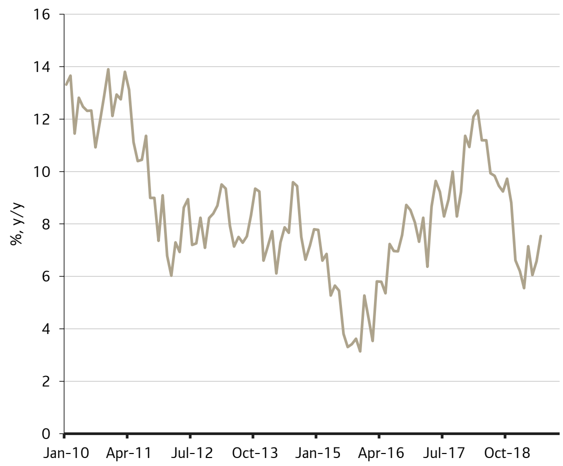
Yet, in 2020 inflation is likely to be higher than we previously envisaged. 2020 won't see a repetition of the 2019 prolonged currency appreciation. Secondly, Tunisian trade unions seem able to negotiate above-inflation wage increases. These considerations are likely to be behind the above mentioned BCT projections for a slight uptick in core inflation next year. We share the BCT concerns but still think that inflation should subside in 2020, given the global environment though likely higher than our previous forecast.

Inflation and interest rates



Source: Banque Centrale de Tunisie

M3 money supply growth



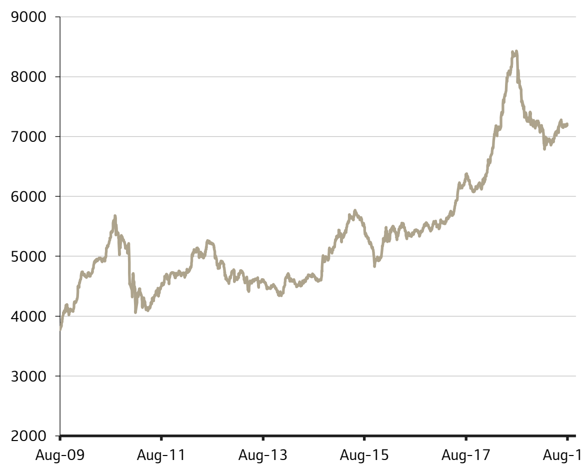
Source: Banque Centrale de Tunisie

Equity market outlook: to continue consolidate

The Tunisian stock market was one of the very few bourses in Africa that managed to grow, albeit marginally, in USD terms YTD, not least thanks to the dinar appreciation against the dollar. The local bull run that started in May seemed to be triggered by better than expected company provisional results, with the top 20 firms expecting an average 15% y/y increase in overall income for Q2:19. One of the few sectors that saw shares decline was financial services where profitability is being squeezed by tighter monetary conditions. That said, the sector in general remains well capitalised, with NPL steadily, albeit marginally, declining, so we don't expect the sector to fall further.

There have been some signs of foreigners returning to the bourse in Q2:19, specifically interested in buying shares of Banque de Tunisie and SFBT companies, bringing their participation to 25%. Overall, given lacklustre economic growth, we expect the stock exchange to consolidate at current levels.

Tunisia Stock Exchange: TUSISE index



Source: Bloomberg

Fiscal policy: to widen this year

We leave our previous estimates for 2019 and 2020 budget deficit excluding grants unchanged at 5.4% and 5.0% of GDP respectively.

We are not convinced that Tunisia will manage to reduce its fiscal deficit to 3.9% of GDP, as per the IMF guidelines. Preliminary budget performance data for H1:19 may not yet look too worrisome but we believe that expenditures will pick up in H2:19. So far, the overall deficit is slightly ahead of the year's pro-rata numbers (at 52% instead of 50%), with total revenues increasing 18.1% y/y in H1:19 and total expenditures by 22.6% y/y. Even a significant underperformance of the capital expenditure account, which runs at 47.2% of the yearly target, didn't manage to bring total expenditure in line with the Act's targets. Among the reasons is increasing wage bill that exceeded the half-yearly target of the Act. Bear in mind that those targets were already set 12% higher than for 2018, specifically taking into consideration that it is an election year. A similar situation can be seen in compensation expenses where subsidies on fuel and on transport are already running at 80% and 60% respectively of the entire year targets. These all lead us to a conclusion that the budget deficit should widen this year, not shrink.

There are more chances that the deficit will go down in 2020, although perhaps not as much as the gov't hopes. In that year we are likely to see hikes in VAT and in corporate taxes which were put on hold in 2019, a reduction in the subsidy account, increases in employees' pension contributions which should eliminate the need for budget transfers worth about 0.2% of GDP, and some other measures. However, a lacklustre economic growth that we expect for 2020 and surging interest account are unlikely to allow the deficit to tighten below 5% of GDP.

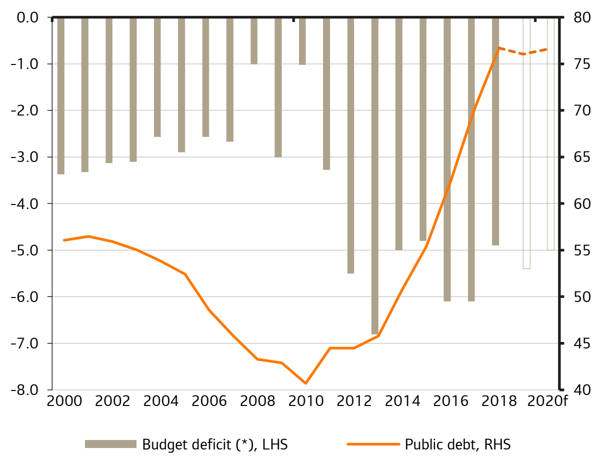
With no privatisation planned in 2019/20 and a widening budget deficit, we don't expect the public debt to decrease from its highest level of 77% of GDP achieved in 2018. At best, it will move sideways this year and next.

Central government budget, % of GDP

	2014	2015	2016	2017	2018	2019 (Act)
Total revenue	24.7	23.5	23.5	24.6	26.2	26.7
- Tax revenue	23.1	21.9	20.8	22.0	23.2	23.7
- Non-tax revenue	1.6	1.6	2.7	2.6	3.0	3.0
Total expenditure and net lending	29.6	28.2	29.1	30.7	30.9	30.3
- Current expenditure	21.4	20.3	20.5	22.2	22.4	22.1
- Wages and salaries	*13.0*	*13.7*	*14.7*	*14.9*	*14.0*	*14.4*
- Subsidies	*5.1*	*3.4*	*2.5*	*3.6*	*4.6*	*3.8*
- Capital expenditure	5.9	5.7	6.0	5.9	5.6	5.4
- Net lending	0.5	0.3	0.3	0.1	0.2	0.1
- Interest payment	1.9	1.9	2.2	2.3	2.6	2.7
Overall balance	-4.9	-4.7	-5.5	-6.1	-4.7	-3.6
Grants	0.5	0.3	0.1	0.2	0.2	0.1
Overall balance (+grants)	-4.5	-4.4	-5.4	-5.9	-4.4	-3.5
Net domestic borrowing	1.2	0.7	2.3	0.8	0.5	0.9
Net external borrowing	3.2	4.5	3.2	4.9	3.6	2.6

Source: Ministère de l'Economie et des Finances

Budget deficit* and public debt, % of GDP

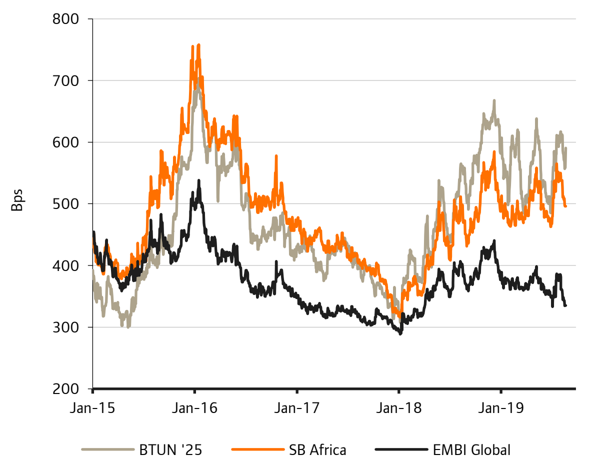


Source: Ministère de l'Economie et des Finances; Standard Bank Research;
(*) excluding privatisation receipts, grants and extraordinary revenues

Eurobond outlook: to underperform its peers

The country's flagship dollar-denominated Eurobond, the Tunisia '25, has underperformed our African Sovereign index so far this year, albeit by a small margin. We don't take much comfort from that. The saving grace for Tunisia has always been that its external borrowings are mainly concessional, which has supported existing bonds. This will continue but as budget deficit continues running above the targets, more frequent returns to financial markets will be unavoidable. Given the country's poor risk metrics (low growth, high debt, large twin deficits, low FX reserves), such borrowings will come at a cost. We witnessed it in July this year when a EUR700m issue for its success had to attract investors with a very high for a euro-denominated bond coupon of 6.375% and the need to shorten initial tenor to 7-y. For this year, Tunisia has met its market borrowing plan but may need to come to the market again in the coming months, as it's become clear that the deficit will be higher than envisaged.

Spread over treasuries



Source: Bloomberg; Standard Bank Research

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	11.0	11.1	11.3	11.4	11.5	11.6	11.7
Nominal GDP (TND bn)	80.9	84.7	89.8	96.3	105.6	114.5	124.2
Nominal GDP (USD bn)	46.8	42.8	41.2	39.8	39.8	38.1	40.4
GDP / capita (USD)	4,255	3,855	3,642	3,487	3,460	3,287	3,455
Real GDP growth (%)	2.3	1.1	1.1	1.9	2.5	1.6	2.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.9	-4.7	-5.5	-6.1	-4.7	-5.4	-5.0
Budget balance (incl. Grants) / GDP (%)	-4.5	-4.4	-5.4	-5.9	-4.4	-5.3	-4.9
General gov. debt / GDP, domestic (%)	20.1	20.1	21.7	21.8	20.0	19.8	19.5
General gov. debt / GDP, foreign (%)	30.6	35.3	40.6	48.6	57.0	56.3	57.1
Balance of Payments							
Exports of goods and services (USDbn)	21.3	17.4	16.7	17.6	19.0	19.5	21.6
Imports of goods and services (USDbn)	-26.5	-22.1	-21.1	-22.6	-24.1	-24.8	-26.8
Trade balance (USDbn)	-5.2	-4.7	-4.4	-5.0	-5.1	-5.3	-5.2
Current account (USDbn)	-4.3	-3.8	-3.7	-4.1	-4.3	-4.5	-4.4
- % of GDP	-9.3	-9.0	-9.0	-10.3	-10.8	-11.7	-10.8
Capital & Financial account (USDbn)	5.0	4.1	2.8	3.7	4.3	5.0	4.6
- FDI (USDbn)	1.0	1.0	0.6	0.8	0.9	0.9	0.9
Basic balance / GDP (%)	-7.2	-6.8	-7.5	-8.2	-8.5	-9.3	-8.4
FX reserves (USDbn) pe	7.7	7.4	6.0	5.6	5.1	5.8	6.0
- Import cover (months) pe	3.5	4.0	3.4	3.0	2.5	2.8	2.7
Sovereign Credit Rating							
S&P	NR	NR	NR	NR	NR	NR	NR
Moody's	Ba3	Ba3	Ba3	B1	B2	B2	B2
Fitch	BB-	BB-	BB-	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.6	4.4	3.6	5.3	7.3	6.6	5.5
Consumer inflation (%) pe	4.4	3.8	4.2	6.2	7.5	5.9	5.6
M3 money supply (% y/y) pa	7.7	5.0	6.6	8.8	10.2	7.4	7.7
M3 money supply (% y/y) pe	7.8	5.3	8.1	11.4	6.6	8.0	7.5
Policy rate (%) pa	4.6	4.7	4.3	4.8	6.1	7.55	7.25
Policy rate (%) pe	4.75	4.25	4.25	5	6.75	7.75	6.5
USD/TND pa	1.70	1.96	2.15	2.42	2.65	3.00	3.07
USD/TND pe	1.86	2.03	2.30	2.47	3.05	3.09	3.06

Source: Banque Centrale de Tunisie; Institut National de la Statistique; Ministère de l'Economie et des Finances; Bloomberg; Standard Bank Research

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

Uganda: delay in oil investment decision

GDP growth: looking solid despite FID delay

We retain our GDP growth estimate for 2020 at 6.6% y/y. Preliminary data from the Uganda Bureau of Statistics (UBOS) indicates that the economy expanded by 6.1% y/y in FY2018/19, slightly above our 6.0% y/y estimate.

Indeed, much of our optimism for economic growth over the coming year hinges on our assumption that economic activity will be boosted by a further rise in FDI largely associated with the energy sector.

Also, we had initially expected the Final Investment Decision (FID) for commercial oil production to be made towards the end of H2:19. However, we now expect this to be made in H1:20 and probably closer towards the end of that period. Disputes over tax classifications were predominantly holding back the FID, although there were also concerns on local arbitration demands from the Tanzanian government for the crude oil pipeline project.

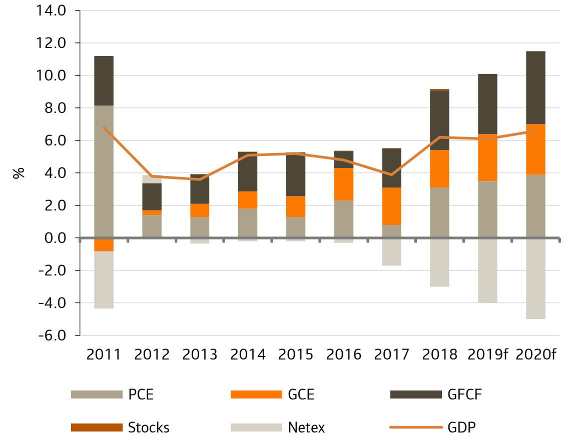
We suspect that the differences between the government and foreign energy companies could be resolved eventually due to the impressive level of recoverable oil reserves that the country holds, a fact that is mutually beneficial for both parties involved.

Nevertheless, economic activity is likely to remain robust even if the FID on oil is say postponed to the end of 2020 or even later. That said, GDP growth will probably not expand by the 6.6% y/y that we currently anticipate in 2020 if this transpired. However, it could remain solid above 6.0% y/y.

Notably, in addition to the rise in public sector investment in infrastructure which has been underpinning economic growth, the private sector has also become an engine of growth over the past few years. More importantly, as the government has consistently been clearing private sector arrears over the past few years, private sector firms cashflow positions have boosted personal consumption expenditure. Furthermore, the private sector is also likely to be supported by a further improvement in access to credit as commercial banks will probably be emboldened to continue extending more credit to the private sector especially as domestic demand remains robust.

Moreover, the ongoing amelioration in economic activity in neighbouring South Sudan in addition to the already positive state of private sector activity domestically, should ensure that the ongoing trade dispute with neighbouring Rwanda doesn't impact on growth substantially over the coming year.

Composition of GDP growth by demand



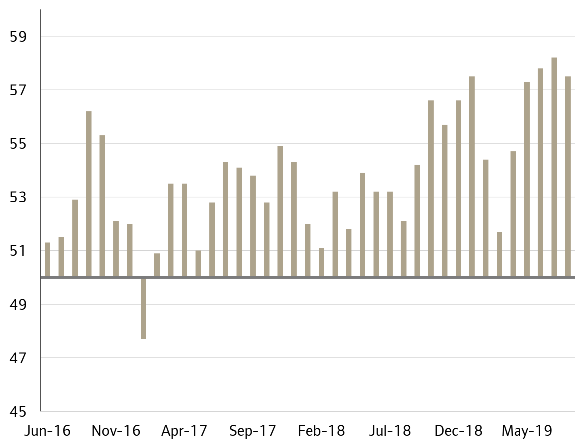
Source: Uganda Bureau of Statistics; Standard Bank Research

GDP by sector (%) contribution

	2008	2010	2014	2016	2018
Agriculture, forestry & fishing	27.1	25.2	22.5	21.1	21.9
Mining & quarrying	1.2	1.2	1.4	1.5	1.6
Manufacturing	8.7	5.6	7.8	7.9	7.6
Construction	5.5	5.6	6.5	6.6	6.6
Trade & repairs	13.3	12.9	11.6	11.0	11.3
Transport & storage	2.6	2.6	2.8	2.8	2.8
Accommodation & food	2.1	2.2	2.4	2.4	3.0
Information & communication	4.2	6.3	8.3	9.2	10.2
Financial & insurance	2.4	2.4	2.8	2.8	2.8
Real estate activities	5.5	5.2	5.3	5.5	5.4
Public administration	2.8	3.1	3	3.3	3.2
Education	5.3	5.0	5.4	5.7	5.9

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	6.1	5.2	6.8	6.5	5.5	6.0	6.4	6.5	6.6	6.4	6.8	6.7
CPI (% y/y) pe	2.0	2.2	3.7	2.2	2.9	3.4	2.3	4.1	5.0	4.7	5.1	5.6
M3 (% y/y) pe	11.3	12.8	10.8	8.2	6.8	7.1	9.5	10.5	12.7	12.6	13.4	14.9
FX reserves (USD bn) pe	3.6	3.2	3.3	3.4	3.4	3.3	3.4	3.5	3.7	3.6	3.9	4.1
Import cover (months) pe	5.0	4.4	4.5	4.5	4.2	4.1	4.1	4.0	3.9	3.9	4.2	4.3
3-m rate (%) pe	8.7	10.5	9.6	10.4	9.7	9.2	9.0	9.5	9.8	9.9	10.4	11.0
5-y rate (%) pe	12.5	12.7	16.4	16.5	15.5	14.9	14.1	14.8	14.7	15.0	15.3	15.5
USD/UGX pe	3690	3885	3815	3705	3715	3700	3715	3800	3840	3900	3930	3980

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

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

Political risks: focus on Kigali bilateral tensions

Tensions between Uganda and Rwanda remain elevated amidst the recent trade ban at the border. President Kagame of Rwanda had previously accused President Museveni of harbouring opposition rebels and loyalists of them in Uganda. Museveni and Uganda have categorically denied these claims.

At the time of writing, both leaders were expected to engage in conciliatory dialogue at a summit in Luanda at the end of Aug. However, previous attempts by President Kenyatta of Kenya proved to be futile in restoring the previously good relations between these two landlocked neighbours.

While both these economies remain well diversified and thus GDP growth isn't likely to sharply subside owing to the trade tensions between the two, one ought to be concerned if these tensions don't abate soon enough and become entrenched over the medium term.

2020 is a pre-election year and the government will most likely be looking to increase expenditure on infrastructure projects to perhaps appease the electorate. Furthermore, as seen in previous pre-election years in Uganda, there is always a preference by the government to increase spending on security and defence equipment. Next year may be more of the same given that President Museveni's fierce critic, Robert Kyagulanyi better known as Bobi Wine, has officially announced that he will be running for presidency in 2021.

Thus, along with the obvious risk of fiscal slippage prior to an election year, the governments treatment of the main political opposition presidential candidates could also come under close scrutiny from human rights groups as well as multilateral and bilateral donors.

Election results (2016)

Presidential election	Party	% of votes
Yoweri Kaguta Museveni	NRM	39.5 (55.7)
Kizza Besigye	FDC	33.4 (44.3)
Amama Mbabazi	PDP	7.8
Abed Bwanika	CL	5.8

Legislative election	Seats
National Resistance Movement (NRM)	293
Forum for Democratic Change (FDC)	36
Democratic Party (DP)	15
Uganda People's Congress (UPC)	6
Others	76
Total	426

Source: Electoral Commission of Uganda

Balance of payments: FDI to fund wider deficit

We have revised upwards our C/A deficit projections for both 2019 and 2020 to 11.9% and 12.2% of GDP respectively.

As at Jun 19, the C/A deficit had already widened to 11.4% of GDP, breaching our previous estimate of 9.0% for 2019. This has largely been on the back of a quicker rise in the pace of imports, considering that exports of goods have also increased.

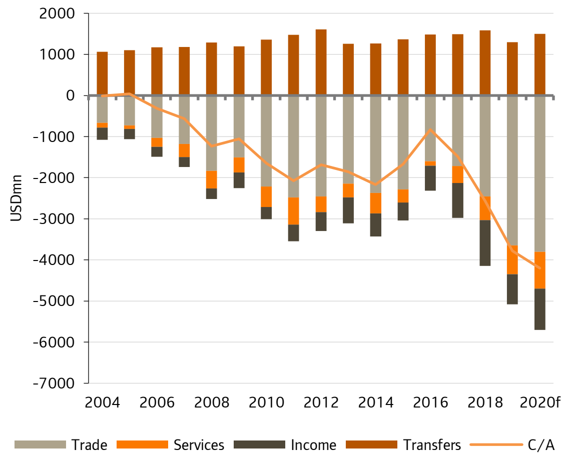
Total imports of goods rose to USD3,584.5m in H1:19 from USD3,199.7m in H2:18. This trend will probably continue over the coming year primarily due to large infrastructure projects that the government will be looking to complete that will be quite import-intensive.

However, given that domestic demand is already robust, private sector imports are also likely to continue contributing to a wider trade balance over the next few years. In fact, in the 6-m to Jun 19, imports from the private sector rose to USD3,177.2m from USD2,880.2m in the prior 6-m.

Coffee export earnings reduced to USD201.3m in H1:19 from USD214.9m in H2:18 mainly due to the delayed long rains season. Although non-coffee exports rose by 28.3% during this same period review underpinned by an increase in demand for Ugandan goods from neighbouring markets such as South Sudan. The political stability and increase in oil production in neighbouring South Sudan should continue to bode well for non-coffee exports over the medium term.

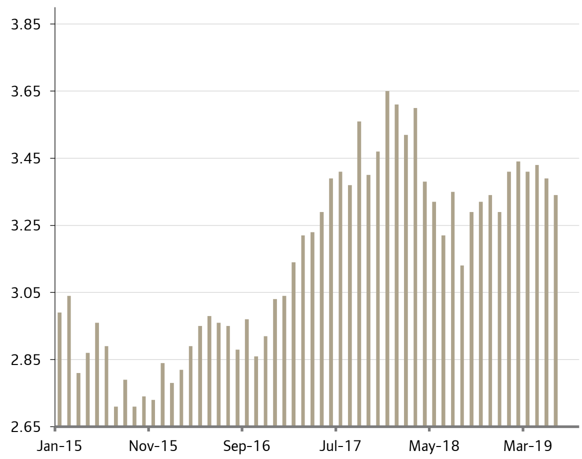
Even as the trade balance is likely to widen further owing to solid economic activity driven by both higher private sector activity and public sector infrastructure investment, we still believe this wider deficit will be adequately funded from the capital and financial account especially once the FID on oil has been made.

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves (USD bn)



Source: Bank of Uganda

FX outlook: moderate UGX weakness ahead

We now expect USD/UGX to rise to 3750-3800 levels by the end of 2019, from our previous forecast of 3900. Clearly, the UGX has been more stable for the better part of 2019 than we had initially expected. Of course, while the C/A deficit widened even faster than our expectation, the UGX remained steady. This has been courtesy of the sufficient funding available from both direct and portfolio investment. Once the government lowered withholding tax on bonds with a maturity of 10-y or more at the beginning of FY2019/20, foreign portfolio investors have been actively involved at the longer end of the yield curve. However, the BOU has been buying USD at the 3680-3700 levels from the market, thus, creating a floor for the pair. However, despite the likelihood that FDI will increase further especially post-FID, prior to that there is likely to be a rise in imports of goods as the government prepares the required infrastructure for commercial oil production, hence creating a weaker UGX bias.

USD/UGX: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: hawkish bias from H1:20

We now expect the MPC to hike its policy rate from H1:20, rather than Q4:19 which was our previous expectation.

The unexpected stability in USD/UGX for the better part of 2019 will probably provide comfort to the MPC that core inflation will rise more moderately than they previously expected.

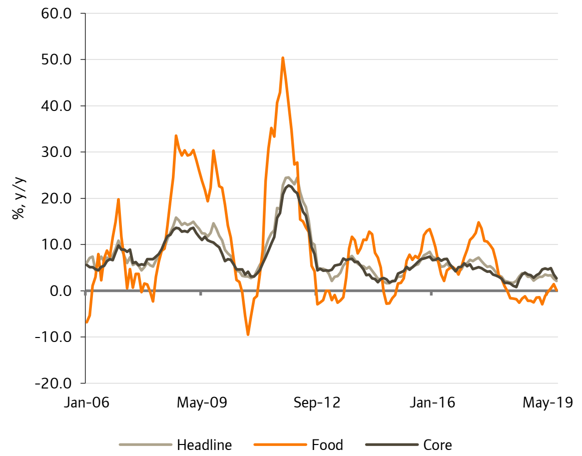
Of course, in re-evaluating this view we still acknowledge that the Bank of Uganda's MPC has always been very pre-emptive and in the past have not been afraid to raise their policy rate well before headline and core inflation begins to increase.

We see headline inflation rising to 4.1% y/y in Dec 19 and thereafter to 5.0% y/y in Mar 20 and 5.2% y/y in Jul 20. By Dec 20 headline inflation will probably be at around 5.6% y/y. However, our forward-looking inflation outlook largely depends on our current pre-conditional assumption that USD/UGX will only gradually drift higher in Q4:19. But with that said, considering that 2020 is a pre-election year and risks of fiscal slippage are higher, the UGX could possibly weaken more swiftly than we currently expect.

Perhaps this is also something that prompts the MPC to remain cautious with their own forward-looking inflation estimates where they see core inflation peaking at 6.4% y/y in Q4:20.

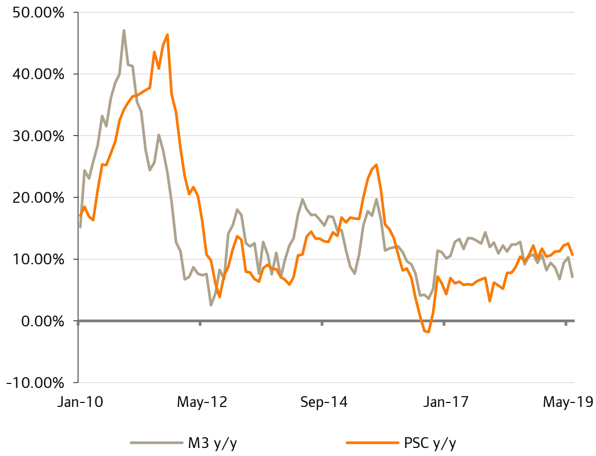
Total Private Sector Credit (PSC) grew by 10.7% y/y in Jun 19 slightly lower than the 11.1% y/y average recorded in Q1:19 but higher than the 9.2% y/y average of 2018. In any case, as total banking sector NPLs have reduced to 3.8% as at Jun 19 from 5.3% in Q1:18, PSC growth will probably improve further over the coming year, specifically as domestic demand continues to look solid. However, we wouldn't be too concerned that the economy is exhibiting warnings signs of an overheating at this stage or even in the next year or so.

Inflation



Source: Uganda Bureau of Statistics

Monetary aggregates

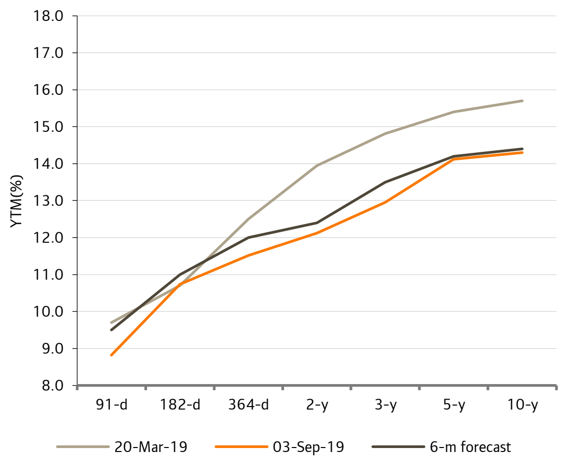


Source: Bank of Uganda

Yield curve outlook: bear-flattening, gradually

We expect the yield curve to bear-flatten over the next 6-m or so. Government bond yields fell sharply after withholding tax on tenors above 10-y maturity was reduced to 10.0% from 20.0% previously. This increased foreign portfolio inflows more notably from the beginning of FY2019/20. Moreover, the domestic market remains relatively liquid. At the time of writing, there were approximately UGX1.2trn in outstanding maturities of repos and auction deposits. However, the local borrowing target for FY2019/20 had been increased by UGX1.0trn. Interestingly, auction sizes have already been increased since Jul 19 to reflect this which is why we still expect T-bill yields to begin edging higher from H2:19. Nevertheless, owing to the amount excess liquidity in the system, the bear-flattening of the yield curve is likely to be gradual. All the same, elevated expenditure requirements in the 2020 pre-election year could also continue to force the government to borrow more from the local market.

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: higher expenditure for oil infrastructure

The FY2019/20 budget was always going to be expansionary given that 2020 is a pre-election year, but also since the government will have to ramp up expenditure on large infrastructure projects ahead of the FID and more importantly commercial oil production.

In FY2019/20 the planned budget deficit inclusive of grants is seen rising to 8.7% of GDP, from a projected outturn of 5.8% in the previous fiscal year. To recall, the governments initial target was a 6.6% of GDP fiscal deficit for FY2018/19. However, under absorption mainly for the development budget resulted in lower expenditure than originally planned.

Furthermore, the lower fiscal deficit for FY2018/19 was also on the back of improving revenue collections. We see tax collections continuing to outperform in FY2019/20 primarily due to the impressive rebound in economic activity that's only likely to accelerate over the next few years.

More importantly, in the event our core view that the FID will be made in H1:20 is wrong, then the fiscal deficit will probably be much lower in FY2019/20 than the government expects. However, contingent on external funding coming through, the government will probably still look to increase development spending even if the FID were to be delayed towards the latter part of 2020.

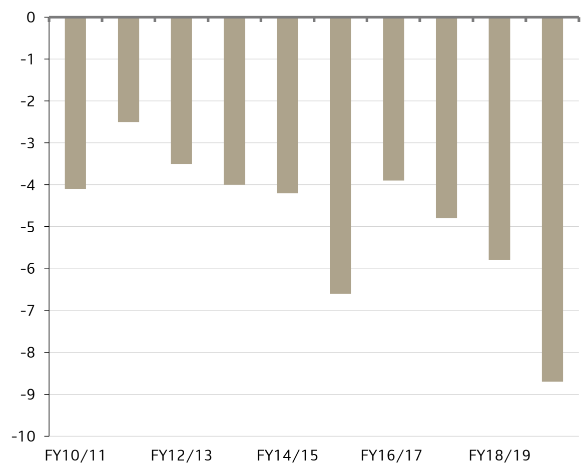
The government will be looking to source UGX9,433.6bn in FY2019/20, up from UGX3,569.8bn last year, in external project support. External General Budget Support (GBS) will rise to UGX675.2bn from UGX147.0bn. This sharp rise in external project support over external GBS probably suggests that the government will look to keep its external funding strategy intact, where their preference remains on the concessional side rather than borrowing through non-concessional and more commercial sources.

Central government budget

% of GDP	FY2018/19	FY2019/20
Total revenue (- grants)	14.6	15.3
Total expenditure	21.9	25.4
Wages	3.8	3.9
Interest	2.3	2.5
Development expenditure	10.7	12.2
Overall balance (- grants)	-7.3	-10.1
Overall balance (+ grants)	-5.8	-8.7
Net domestic borrowing	2.4	3.5
Net external borrowing	4.9	6.6
Donor support (grants)	1.5	1.4

Source: Ministry of Finance

Fiscal deficit incl. grants (%) of GDP



Source: Ministry of Finance

Equity market outlook: neutral

Foreign telecommunication firms may be forced to list on the Uganda Securities Exchange (USE). No timelines have been provided by the government yet, but it's a law that they may look to implement over the next few years. Of course, concerns on how this will be implemented will arise especially given the recent case study in neighbouring Tanzania. Uganda however is a fairly liberal economy, and we would be surprised if restrictions were placed for foreigners to invest in new offerings.

In fact, while we are not proponents of force listings, one may mildly celebrate some 'action' on a rather quiet USE. Over the years, trading activity has remained limited to only two stocks despite the cross-listings. Indeed, the All Share Index (ASI) has also been static for the most part of 2019.

Uganda Securities Exchange

Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	34.47	35.49	36.56	37.67	38.82	40	41.22
Nominal GDP (UGXbn)	72 351	81 333	86 951	97 919	110 649	118 980	134 550
Nominal GDP (USDbn)	27.6	24.4	25.3	27.1	29.3	31.9	34.4
GDP / capita (USD)	801	687	693	719	755	797	834
Real GDP growth (%)	5.1	5.2	4.8	3.9	6.2	6.1	6.6
Coffee production ('000 Tonnes)	216.5	221.8	226.5	229.7	225.5	222.4	230.5
Tea production ('000 Tonnes)	60.5	50.7	56.6	75.6	73.8	65.5	70.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5	-5.4	-8	-4.6	-5.9	-7.3	-10.1
Budget balance (incl. Grants) / GDP (%)	-4	-4.2	-6.6	-3.5	-4.8	-5.8	-8.7
Domestic debt / GDP (%)	13	13.1	13	13.5	13.9	14.1	14.5
External debt / GDP (%)	18.8	21.4	19.2	19.7	23.5	25	25.8
Balance of Payments							
Exports of goods and services (USDbn)	4.91	4.73	4.79	5	5.6	5.9	6.1
Imports of goods and services (USDbn)	7.77	7.33	6.4	7.2	8.63	9.55	9.9
Trade balance (USDbn)	-2.86	-2.6	-1.61	-2.2	-3.03	-3.65	-3.8
Current account (USDbn)	-2.18	-1.68	-0.7	-1.27	-2.56	-3.8	-4.2
- % of GDP	-7.9	-6.9	-2.8	-4.7	-8.7	-11.9	-12.2
Financial account (USDbn)	1.82	0.88	0.99	1.29	1.14	1.29	1.35
- FDI (USDbn)	1.03	0.74	0.63	0.7	1.15	1.4	1.8
Basic balance / GDP (%)	-4.2	-3.9	-0.3	-2.1	-4.8	-7.5	-7
FX reserves (USDbn) pe	3.2	2.8	3	3.7	3.4	3.5	4.1
- Import cover (months) pe	5.5	5.5	5.2	5.1	4.5	4	4.3
Sovereign Credit Rating							
S&P	B	B	B	B	B	B	B
Moody's	B1	B2	B2	B2	B2	B2	B2
Fitch	B	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.3	5.8	5.5	5.4	2.5	3.2	5.1
Consumer inflation (%) pe	1.8	8.7	5.7	3.3	2.2	4.1	5.6
M3 money supply (% y/y) pa	16.9	13.9	8.2	12.9	10.8	10.5	13.4
M3 money supply (% y/y) pe	17.1	11.7	11.1	12.8	8.2	8.5	14.9
BOU policy rate (%) pa	11.2	14	14.9	10.5	9.2	10	10.9
BOU policy rate (%) pe	11	17	12	9.5	10	10	11
3-m rate (%) pe	11.82	19.5	14	8.4	10.4	9.5	11
1-y rate (%) pe	13.92	22.3	15.9	9	13.2	12.5	13.4
2-y rate (%) pe	14.32	20.1	16.7	11.2	14.9	12.5	13.7
5-y rate (%) pe	14.39	22.3	16.9	12.7	16.5	14.8	15.5
USD/UGX pa	2 636	3 334	3433	3615	3773	3733	3913
USD/UGX pe	2 766	3 381	3596	3643	3705	3800	3980

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

Notes: pe — period end; pa — period average

Zambia: fiscal policy restraint required

GDP growth: likely at least below 4.0%

We forecast GDP growth of 2.5% y/y in 2019 and 2.4% y/y in 2020, from 2.9% y/y and 2.6% y/y previously. We have for some time had reservations about the growth forecasts of government and the central bank which have tended to be near or over 4.0% y/y, while we were starting to see growth mired below 4.0% y/y.

The IMF's forecast in the Apr 18 *World Economic Outlook* had Zambia's economic growth accelerating to 4.0% y/y last year, from 3.6% y/y in 2017, then accelerating to 4.5% y/y in 2019. However, these forecasts have now gravitated towards our forecasts of sub-4.0% y/y growth. We have even lowered our forecasts to less than 3.0% y/y for this year and next.

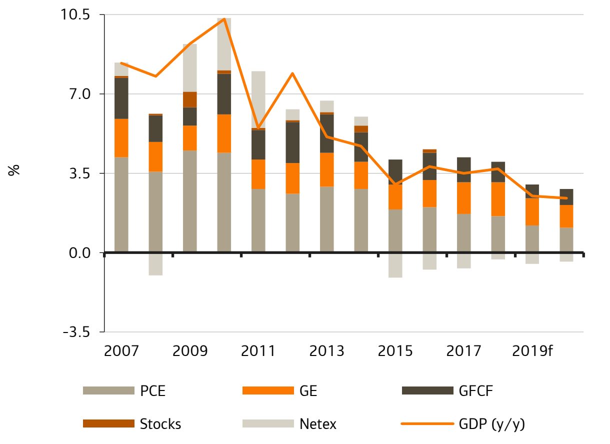
A point we have highlighted on a few occasions is the coincidence of a deceleration of economic growth with a concerted ramp-up in public investment spending, financed by larger fiscal deficits. While the combination of drought and depressed copper prices would reasonably have undermined economic growth in 2015/16, there hasn't been a noticeable rebound since then. Even the devaluation of the ZMW didn't do much to boost economic activity.

As it turns out, drought has restrained agricultural output again, threatening to undermine economic growth this year and next. Added to that is a precarious global growth outlook, with growth deceleration among developed economies potentially compounded by trade protectionism that could lead to lower commodity prices.

Might this depress GDP growth to below 2.0% y/y this year and next? That is the IMF's forecast, as now detailed in the report it issued after the Article IV Consultations.

While we acknowledge the risks posed by the drought, which not only undermines agricultural production but also hydro electricity generation, there could be some support for economic growth. The British High Commissioner has hinted at this. If the government were to declare an emergency, then there is a possibility for the government to galvanise aid from the international community. Such support would be instrumental in keeping household consumption spending elevated.

Composition of GDP growth by demand



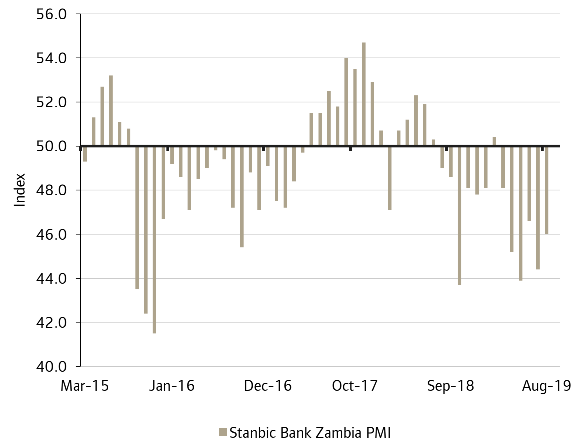
Source: Central Statistics Office; Standard Bank Research

Contribution to GDP by sector

	2011	2015	2017
Agriculture, forestry and fishing	9.6	7.3	8.2
Mining and quarrying	12.1	10.3	10.4
Manufacturing	7.7	8.1	8.0
Construction	9.7	10.3	11.0
Wholesale and retail trade	20.5	22.8	21.3
Financial and insurance activities	3.7	3.9	3.5
Real estate activities	4.0	3.4	3.4
Public administration and defence	3.2	5.0	5.2
Education	7.0	7.4	7.7

Source: Central Statistics Office

Purchasing Managers' Index



Source: Stanbic Bank Zambia; Markit

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	2.7	3.9	5.6	2.5	2.6	2.7	2.0	2.6	2.6	2.2	2.1	2.5
CPI (% y/y) pe	7.1	7.4	7.9	7.9	7.5	8.6	10.5	13.8	14.4	13.6	12.9	10.6
M3 (% y/y) pe	9.9	15.6	24.7	16.1	16.3	17.2	14.1	16.6	19.8	15.2	15.0	23.5
CA/GDP (%) pe	-3.8	-3.2	-3.0	-1.4	-3.7	-4.5	-6.6	-2.3	-6.7	-5.5	-4.5	-2.1
FX reserves (USD bn) pe	1.8	1.8	1.9	1.6	1.8	1.9	2.0	1.3	1.4	1.3	1.3	1.0
Import cover (months) pe	2.1	2.1	2.2	1.8	2.3	2.4	2.5	1.7	1.6	1.5	1.5	1.2
3-m rate (%) pe	10.0	10.0	10.0	12.0	14.8	15.5	15.8	16.5	16.6	16.8	17.0	18.5
5-y rate (%) pe	17.9	20.0	20.0	21.0	23.5	24.5	25	25.5	25.0	25.0	22.5	22.5
USD/ZMW pe	9.8	10.0	12.0	11.9	12.1	12.8	13.2	13.9	14.3	13.6	13.7	13.6

Source: Bank of Zambia; Central Statistics Office; Bloomberg; Standard Bank Research

Notes: pe — period end; pa — period average

Political risks: fiscal restraint required

Arguably, the biggest risk facing the economy is fiscal policy conduct that could derail macroeconomic stability. The next elections will be in 2021. There is likely to be political noise in the lead-up to that, with parliamentary and local government by-elections that might provide some hints as to whether the ruling party or opposition is gaining ground.

But we doubt if any of this will matter much for economic activity. However, ensuring that fiscal policy conduct does not derail macroeconomic stability, will.

One thing we have learnt from having 3 Finance Ministers in as many years is that the nature of the policy advice that has been delivered to the government has not altered much over the past 5-y or so. Yet, there hasn't been much indication that the government will actually adopt the policy recommendations proffered. This is especially so with respect to advice to restrain spending and reduce the fiscal deficit.

To be fair, the government followed through on undertakings given by former Finance Minister Felix Mutati to remove subsidies on fuel and electricity prices. It was restraining spending that the government didn't quite adopt.

Similarly, former Finance Minister Margaret Mwanakatwe's undertakings to postpone government infrastructure projects that were less than 80% complete appears not to have garnered the required buy-in in cabinet. Ultimately, the undertaking was watered down to only refer to projects financed domestically.

The current Finance Minister has given assurances that the government is making progress in implementing the fiscal consolidation measures that it announced last year. To that effect, the government has stopped contracting new commercial loans.

Elections

Presidential election (Aug 2016)		
	Party	% of votes
Edgar Lungu	PF	50.4
Hakainde Hichilema	UPND	47.7
Edith Nawakwi	FDD	0.7

Composition of parliament (Sep 15)		
	Seats	% of votes
Patriotic Front	87	52.3
MMD	34	26.2
UPND	33	18.1
ADD	1	0.7
FDD	1	0.7
Independent	1	1.3
Vacant (Kasama)	1	
Total	157	100

Source: Electoral Commission of Zambia; National Assembly of Zambia

Balance of payments: still under pressure

There is a strong chance that FX reserves will decline to USD1.3bn by year-end, covering 1.7-m of goods and services imports, according to our estimates. They will likely fall further to USD1.0bn by the end of 2020, covering 1.2-m of imports.

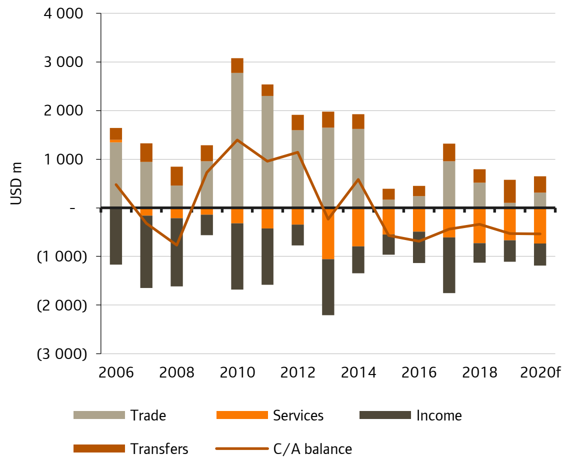
FX reserves declined only marginally in H1:19, reaching USD1.4bn by the end of May, from USD1.57bn in Dec 18. The C/A balance swung to a deficit of USD414m, from a surplus of USD244m in H2:18. Notably, monthly copper export volumes peaked at 100.6k MT in Nov 17, progressively declining since then. Copper exports amounted to 211.1k MT in Q2:19, 10.2% lower than in Q1:19, which, in turn, was 3.9% lower than in Q4:18.

The overall C/A deficit will likely rise to 2.3% of GDP in 2019, from 1.4% of GDP in 2018. This is lower than our previous forecast, owing largely to downward revisions to goods imports in the last few years. Even in H1:19 there was a noticeable reduction in goods imports, falling by 21.7% y/y. Sure, exports fell too, but only by 14.5% y/y. The decline in imports probably reflects a slower economy.

Given restrained agricultural output due to drought conditions, it is likely that there will be a boost to food imports. Interestingly, the British High Commissioner implored the government to declare an emergency so that the country can obtain aid. Hence, it is likely that if there were to be a surge in food imports it would be matched by an increase in transfer inflows.

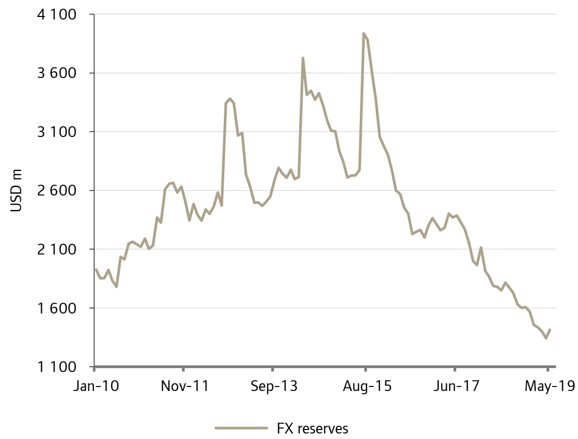
FDI inflows were notably strong in H1:19, amounting to USD893m, more than double the USD408m recorded in 2018. They will likely amount to about USD750m this year. The combination of uncertainty regarding taxes and a precarious global growth backdrop suggests that mining companies will be reticent to bring much new investment.

Current account developments



Source: Bank of Zambia; Standard Bank Research

FX reserves

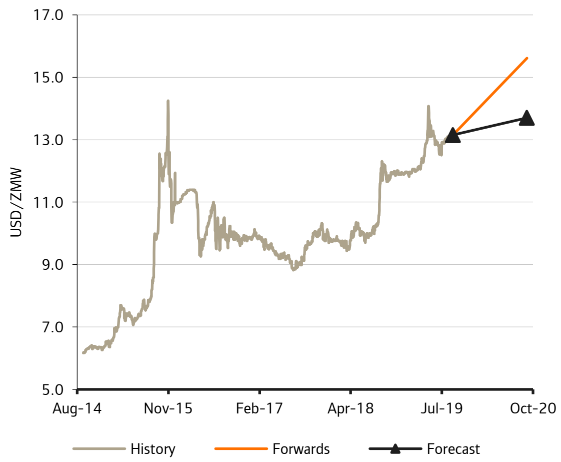


Source: Bank of Zambia

FX outlook: depreciation bias for the ZMW

USD/ZMW seems to have found a new level around 13.00. We doubt that this will prove to be enduring. Hence, we expect it to be trading near 13.90 by year-end, and 14.30 by Mar 20. Since the pair bottomed out just below 9.00 in Jul 17, it has shown a tendency to stick around certain levels before jumping higher. It stuck around 10.00 between Dec 17 and Aug 18, then rose to around 12.00, a level it stuck to between Oct 18 and Mar 19. The challenge is that BOP developments do not suggest that the pair can remain stable for a prolonged period, let alone fall durably and meaningfully. So far, demand for USD doesn't seem to have increased much. This is not surprising given the lacklustre performance of the economy, with import demand likely to remain subdued. The amount of ZMW bonds held by foreigners has been dropping somewhat. A year ago, foreigners held nearly ZMW8.8bn, but it has come down to ZMW8.2bn. Demand by foreign investors represents a notable risk to the ZMW.

USD/ZMW: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still could tighten

Even though at the last meeting of the MPC the committee decided to leave the policy stance unchanged, we still see scope for the committee to tighten further over the coming 12-m. We pencil in 125 bps of hikes by the end of 2020.

The committee is faced with something of a conundrum. Sure, there are significant upside risks to inflation. Most notably it is the likely pressure on food inflation that could take headline inflation to the mid-teens by H1:20. Drought conditions in parts of the country have undermined crop production, with the shortfall already exerting significant upward pressure on maize meal prices. This is likely to push headline inflation sharply higher.

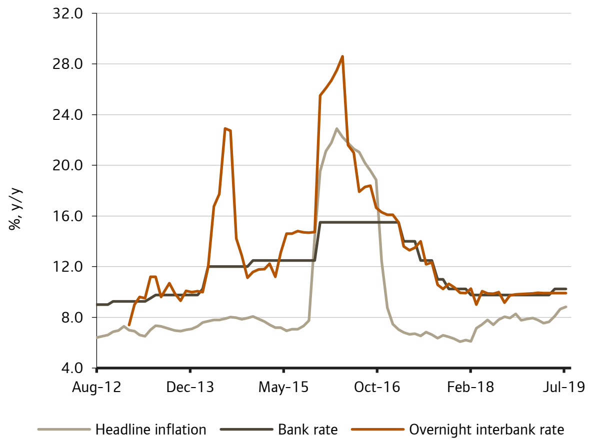
Another significant upside risk to inflation is represented by the likely trajectory of the exchange rate. Thus far, the exchange rate has tended to move in steps. While the ZMW depreciated by more than 20% over the past 12-m, nearly 15.5 ppts of that occurred between Aug 18 and Nov 18, with the pair quite static for nearly 6-m. As argued above, the risk of ZMW depreciation is still large, something that would likely pass through to inflation.

At the last MPC meeting in Aug, the committee reiterated factors that could jeopardise the inflation outlook. Among these were larger than programmed fiscal deficits and external debt service payments.

As can be seen, most of the upside risks to inflation are attributable to factors that tightening by the central bank might do little to address. Therein lies the conundrum for the MPC. The pressure on the exchange rate, and hence inflation, exerted by large external debt service payments and larger than programmed fiscal deficits require a fiscal solution. Tightening by the MPC would not address them. Similarly, drought-induced food price pressures would not be alleviated by monetary tightening.

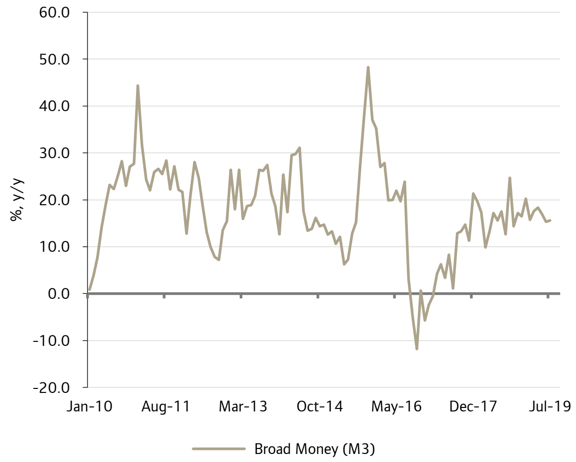
Nonetheless, it seems highly improbable that the committee would leave its policy stance unchanged if these risks materialised.

Inflation and interest rates



Source: Bank of Zambia; Central Statistics Office

Money supply growth

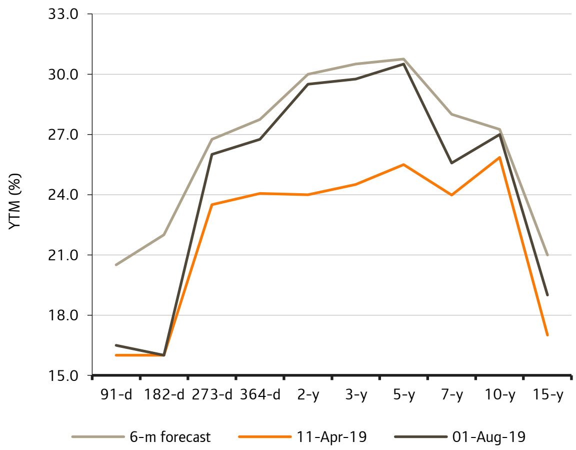


Source: Bank of Zambia

Yield curve outlook: upward pressure on yields

Given the wide spread between the policy rate and yields across the curve, it seems as if monetary policy conduct would not have much of an impact on the yield curve over the next 12-m. We believe that supply-demand dynamics will likely matter far more for the yield curve over the next 4-m. As things stand, demand for paper is currently inadequate to allow the government to meet its domestic financing needs. Hence, there is a risk that the government might run up more arrears. Regardless, data from the BOZ indicates that as of mid-Jul net issuance of T-bills in the current fiscal year amounted to ZMW1.77bn. Meanwhile, issuance of bonds was just about enough to cover maturities, with net issuance of just over ZMW300k. This is in contrast to last year when issuance of T-bills was barely enough to cover maturities. Perhaps the government will be able to galvanise demand for bonds, just as it did last year. If so, perhaps the upward pressure on yields would moderate.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: an unsustainable debt path

In its Article IV report, the IMF reiterated its assessment that, under current policies, public debt is on an unsustainable path. It also suggested that the build-up of expenditure arrears is a manifestation of the inevitable fiscal adjustment which is occurring in a disorderly fashion.

The IMF optimistically states that there is a narrow window of opportunity for policymakers to tackle fiscal challenges in an orderly and planned manner. The latter would require large front-loaded and sustained fiscal adjustment, centred, among others, on prioritisation of public investment projects, scaling back of tax exemptions and postponing the contracting of new non-concessional debt.

The president moved Bwalya Ng'andu from the BOZ, where he was the Deputy Governor, and appointed him as the Finance Minister. This is the third Finance Minister in as many years. Admittedly, the government has always known about the need for fiscal restraint. Yet, as the IMF pointed out, its staff's recommendations following the 2017 Article IV Consultations to reduce the fiscal deficit were never implemented. Furthermore, despite the government's self-imposed moratorium on projects less than 80% complete in Jun 18, foreign-financed capital expenditure that year exceeded budgeted levels. So, whether this change of Finance Minister amounts to a change in policy remains to be seen.

The IMF also noted an uncertain growth dividend from recent infrastructure investments. We have pointed out in the past to the empirical regularity of a slowdown in economic growth that coincided with an acceleration in public investment spending, higher debt levels and debt service costs since about 2012.

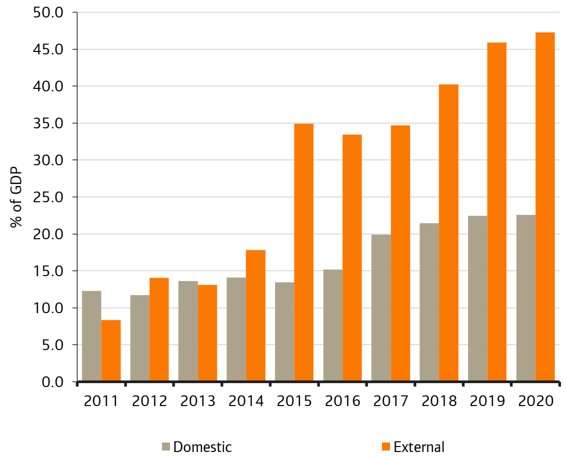
The IMF also noted that public and publicly guaranteed debt (including expenditure arrears) amounted to 78% of GDP at the end of 2018 from 65% of GDP at the end of 2017.

Central government budget

% of GDP	2017	2018	2019
Total revenue and grants	17.7	19.1	18.3
Total expenditure	25.4	25.4	24.7
- Interest	4.7	4.0	4.7
- Salaries		8.6	8.2
Overall balance (+ grants)	-7.7	-6.3	-6.4
Net domestic borrowing	4.9	4.1	1.1
Net external borrowing	2.9	2.2	5.2
Donor support (grants)	0.2	0.9	0.0

Source: Ministry of Finance and National Planning

Debt to GDP



Source: Ministry of Finance and National Planning

Eurobond outlook: neutral

Occasionally, bonds perk up whenever the market's hopes for an IMF-funded program rise. The last occasion for this was the appointment of the latest Finance Minister. Our favourable disposition to the bonds has been informed by our view that the government had the policy space to implement the required fiscal consolidation and remain current on its debt service obligations, a view reinforced by the IMF. However, its prevarication, even on its self-imposed targets, raises doubts about the government's willingness to go on a fiscal consolidation path. Perhaps when it has exhausted all alternatives to fiscal consolidation it will embrace it. Given that the large increase in external debt service requirements this year is due to amortisations of external debt, it seems inevitable that the government will need to restructure some of these loans. The IMF confirmed that the reason for the large increase in external debt amortisations is due to grace periods on some of these loans coming to an end.

Eurobond prices - mid

Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	15.0	15.6	16.0	16.4	16.9	17.5	17.8
Nominal GDP (ZMW m)	166 533	183 381	217 225	243 127	270 267	303 004	350 160
Nominal GDP (USD bn)	26.9	19.2	20.8	25.2	24.1	23.3	25.4
GDP / capita (USD)	1 789	1 235	1 302	1 537	1 427	1 333	1 425
Real GDP growth (%)	6.0	3.0	3.8	3.5	3.7	2.5	2.4
Copper production ('000 tons)	708	711	775	755	830	850	875
Central Government Operations							
Budget balance / GDP (%)	-5.7	-9.3	-8.8	-7.7	-6.3	-6.4	-5.1
Domestic debt / GDP (%)	14.1	13.5	15.2	19.9	21.5	22.4	22.6
External debt / GDP (%)	17.8	34.9	33.5	34.7	40.2	45.9	47.3
Balance Of Payments							
Goods and services exports (USD bn)	11.1	8.2	7.4	9.1	10.0	8.9	9.9
Goods and services imports (USD bn)	10.2	8.6	7.7	8.7	10.2	9.4	10.3
Trade balance (USD bn)	0.8	-0.4	-0.2	0.4	-0.2	-0.6	-0.4
Current account (USD bn)	0.6	-0.6	-0.7	-0.4	-0.3	-0.5	-0.5
- % of GDP	2.2	-3.0	-3.3	-1.7	-1.4	-2.3	-2.1
Capital and Financial account (USD bn)	-0.5	0.0	0.3	0.4	-0.1	0.2	0.2
- FDI (USD bn)	3.2	1.2	0.5	1.2	0.4	0.8	0.6
Basic balance / GDP (%)	14.1	3.2	-1.0	3.0	0.1	0.9	0.3
FX reserves (USD bn) pe	3.1	3.0	2.4	2.1	1.6	1.3	1.0
- Import cover (months) pe	3.6	4.1	3.7	2.9	1.8	1.7	1.2
Sovereign Credit Rating							
S&P	B+	B	B	B	B	B	B
Moody's	B1	B2	B3	B3	B3	B3	B3
Fitch	B	B	B	B	B-	B-	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.8	10.0	18.2	6.6	7.5	9.6	13.2
Consumer inflation (%) pe	7.9	21.1	7.5	6.1	7.9	13.8	10.6
M3 money supply (% y/y) pa	19.6	22.0	7.2	7.8	16.1	16.5	18.6
M3 money supply (% y/y) pe	12.6	35.2	-5.7	21.4	16.1	16.6	23.5
Policy interest rate (%) pa	11.13	13.00	15.50	12.31	9.79	10.33	11.50
Policy interest rate (%) pe	12.50	15.50	15.50	10.25	9.75	11.00	11.50
3-m rate (%) pe	13.0	15.0	20.5	9.8	12.0	16.5	18.5
1-y rate (%) pe	20.4	21.5	25.0	16.5	19.5	20.0	21.0
3-y rate (%) pe	16.2	23.5	23.2	18.0	20.0	21.5	22.0
5-y rate (%) pe	22.4	28.0	25.0	18.0	21.0	25.5	22.5
USD/ZMW pa	6.2	9.6	10.5	9.6	11.2	13.0	13.8
USD/ZMW pe	6.4	11.0	9.8	10.0	11.9	13.9	13.6

Source: Bank of Zambia; Central Statistics Office; Bloomberg; Standard Bank Research; Ministry of Finance and National Planning

Notes: pe — period end; pa — period average

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 13	16 January 2013
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
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
FY2016/17	2016/17 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
H1:16	First half of 2016
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 16	January 2016
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
Q1:16	First quarter of 2016
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.
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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1.1.9 The Client hereby expressly consents that SBR may disclose to or share its Personal Information with duly authorised third parties, which may be located in the Republic of South Africa or other jurisdictions, where it is necessary in order for SBR to fulfil its obligations in accordance with the regulation and/or this agreement.

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