AFRICAN MARKETS REVEALED

MAY 2020

Ferishka Bharuth • Mulalo Madula • Phumelele Mbiyo • Fausio Mussa •
Jibran Qureishi • Dmitry Shishkin • Gbolahan Taiwo

When Dust Settles
Igshaan Adams (2018) Installation view

Adam's cross-disciplinary practice combines process and material – performance, weaving, sculpture and installation – in an ongoing investigation into hybrid identity and the self, particularly in relation to race and sexuality, as well as more metaphysical questions of mysticism and truth.

Source: Standard Bank Corporate Art Collection

Contents

Disrupted by COVID-19

- Forecasts and prophesies are completely different concepts. Forecasts are almost always characterised by significant uncertainty rather than exactitude. Fortunately, most economically significant decisions that require forecasts as inputs can be made even without forecast precision. For example, at a time when the cost of hedging currency exposure is 20%, having a strong view of whether the currency is likely to depreciate by either 10% or 40% is far more useful than having a strong view of whether it is likely to depreciate by either 18% or 22%.
- By the way, some central banks tend to take issue with exchange rate forecasts made by forecasters as if such forecasts can actually cause the exchange rate to evolve in the manner predicted. No matter how many speculators lose their fortunes, the experience of the Bank of England's exit from the European Exchange Rate Mechanism is an enduring legacy in many central bankers' minds.
- Henceforth, for each of the countries in our coverage, we will publish a range of forecasts we believe illustrate whatever forecast uncertainty there may be. Bear in mind that for each country, we collect and forecast no less than 50 different variables. Thus, for tractability, we will limit this exercise to just the quarterly tables.
- Of course, the containment measures adopted by governments in response to COVID-19 have created abundant forecast risk for the countries in our coverage. This is compounded by the uncertainty regarding the duration of the disease and how widespread it will be.
- Eurobond markets sold off dramatically, in line with the risk-off sentiment in global financial markets, and thereby creating attractive buying opportunities. We like Côte d'Ivoire, Egypt, Kenya, Ghana and Senegal.
- There is concern about some oil sovereigns, especially Angola, defaulting on their external debt. It is not so clear-cut to us despite our assumption that Brent crude oil will range around USD25/bbl – USD30/bbl this year, a far more conservative assumption than the consensus that sees it in the low 50s early next year. We therefore maintain our exposure to both Angola and Nigeria in our shadow portfolio.
- Should oil prices pan out per the consensus, the Central Bank of Nigeria will most probably not allow USD/NGN to rise much from current levels. So, there is a case for selling USD/NGN NDFs. There is also a case for selling USD/ZMW NDFs given that copper prices are headed higher and the government has put debt restructuring on the table. We will add a short USD/EGP 12-m NDF position to our shadow portfolio. There are reasons to be constructive about the EGP.

USD performance, YTD

Asset class	Return, %
FX	
Africa 8, spot (with carry)	-6.3 (-3.2)
Africa 10, spot (with carry)	-9.0 (-6.2)
EM 10, spot (with carry)	-12.3 (-12.1)
Bloomberg USD index, spot	6.1
Local bonds	
Africa 8	-2.3
Africa 10	-5.4
EM 10	-12.1
Bloomberg DM Sovereign	1.7
Credit	
Africa (ex SA)	-16.9
Africa	-15.5
EMBI Global	-7.8
Bloomberg HY Global Corporate	-9.6
Equity	
MSCI Frontier Africa	-25.1
MSCI Africa	-33.9
MSCI EM	-19.2
MSCI DM	-14.8

Source: Bloomberg; Standard Bank Research

Global growth – recession likely to be short-lived

COVID-19 undoubtedly dislocated the global growth trajectory this year. While at the beginning of the year it seemed reasonable to forecast the global economy growing around 3% - 4% y/y this year and next, a global recession in 2020 is on the cards now. That said, most forecasters envisage a strong rebound going into 2021. Indeed, the broad expectation is that a recovery will start in H2:20.

In its Apr update of the World Economic Outlook, the IMF forecast a 3.0% y/y contraction in the global economy this year, followed by 5.8% y/y growth in 2021. Much of the contraction in 2020 would most likely be attributable to advanced economies, which the Fund expects to contract by 6.1% y/y. The Fund expects emerging economies, which typically grow by between 3% y/y and 5% y/y, to contract by 1.0% y/y this year before rebounding to grow by 6.6% y/y in 2021.

The Fund's forecasts for Sub-Saharan Africa reveal that the Fund still expects a dichotomy between natural resource exporters and non-resource exporters. Overall, the Fund expects SSA to contract by 1.6% y/y this year, rebounding to grow by 4.1% y/y in 2021. Just about all the countries that the IMF expects to contract this year, are resource-exporting countries. Of the natural resource exporting countries in our coverage, it is only Ghana and Tanzania that the IMF does not expect to contract. Mauritius is the only non-resource exporter in our coverage that the IMF expects to contract in 2020.

Forecast uncertainty as a matter of course

We appreciate that uncertainty is germane in any forecasting exercise. Were we to closely examine the IMF's forecasts, far from trying to understand why the Fund settled on a particular number as its forecast, we would try to understand what it sees as risk factors underlining its forecasts, which way it sees the balance of risks and the reasons thereof.

For instance, we acknowledge that COVID-19 complicates the task of producing forecasts for the economies in our coverage because its impact on African economies comes via two channels. First, there is an indirect impact that an economy would feel even if it were to be spared the disease, an impact that would be transmitted via disruptions to trade and international financial flows. This spill-over effect from the disruption to the global economy is comparatively easier to estimate. The second channel is direct, arising from the disruption to economic activity as governments put measures in place to contain the disease. This is far harder to estimate with a fair degree of confidence, especially for poor countries with large populations.

Furthermore, COVID-19 started in China, then spread to advanced economies. Only in recent weeks has the number of infections started to rise at an exponential rate in emerging market economies. Indeed, it is possible that the peak in infections in SSA countries will come well after the disease has been brought under control in advanced economies. Thus, estimating the spill-over effects of COVID-19 on SSA economies is far easier than estimating its direct impact.

As our clients are sophisticated financial professionals, they too appreciate that forecasts come with a considerable degree of uncertainty. For planning and budgeting purposes, many of them even collect forecasts from various sources rather than rely on forecasts from a single source.

Policymakers are similarly sophisticated but may, at times, regard forecasts to be infallible. Central bank officials may even fail to appreciate exchange rate forecasts made by private sector participants, especially those predicting a sharp depreciation of a currency. George Soros may be to blame for that. Many a central banker will always suspect that a private forecaster is merely interested in fomenting speculation against a currency, in much the same that Soros is famed to have done in order to force the Bank of England out of the European Exchange Rate Mechanism.

To be sure, most economically significant decisions can tolerate forecast uncertainty. To hedge currency exposure at a time when the cost of hedging is 20%, one can still make the decision to hedge or not to hedge based on whether one strongly believes that the currency will depreciate by either 40% or 10%. The challenge for a potential hedger is switching from expecting a 10% depreciation to expecting a 40% depreciation before market prices move.

Communicating forecast uncertainty is hard. A forecaster always runs the risk of being ignored if the forecast is seen to be woolly and imprecise. Hence, some forecasters tend to resort to a more dogmatic presentation of a forecast, perhaps leaving an impression that the forecast is synonymous with a prophesy.

Our forecasts are not meant to be interpreted as infallible prophesies. To appreciate this point, consider the trades that we make for our shadow portfolio. We do not have a mechanistic rule that relates our forecast to any trade. Indeed, sometimes we will not enter a trade despite a forecast that suggests that doing so would be profitable. Such restraint may purely be because we are not convinced that the balance of risks is in our favour. For example, suppose that the 12-m T-bill yield in a country is 15% and we wanted to target a minimum USD return of 5%. The trigger to buy that T-bill would be reasonable confidence that the currency will not depreciate by more than 10%. Forecasting that it will depreciate by 10% would not be the trigger.

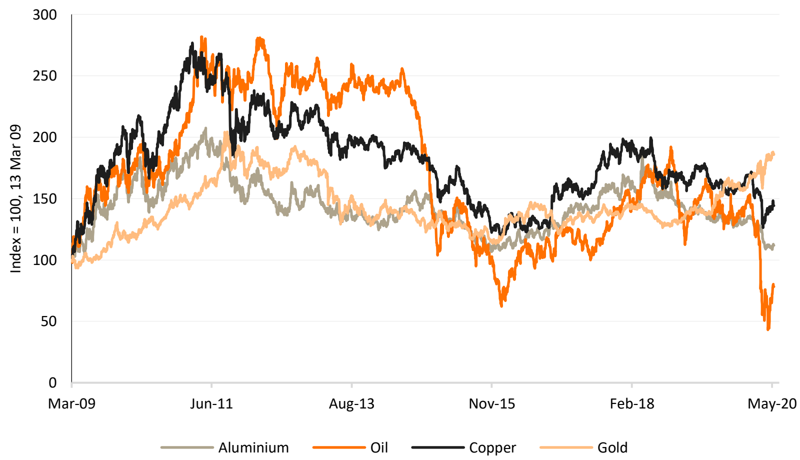
Perhaps before, our forecasts failed to convey their inherent uncertainty. In future, for each of the countries in our coverage we will be publishing a range of forecasts that we believe illustrate the forecast uncertainty that exists at the time of making such forecasts. Of course, since we collect and forecast no less than 50 different variables for each country, it would be impractical to publish a range of forecasts for each such variable. Instead, we will limit this exercise to just 6 variables in each country’s quarterly table.

Of course, at any given point in time there may be greater uncertainty with respect to one variable relative to another in any country. Arguably, the range of probable GDP growth outcomes for Ghana in 2020 is far greater than was the range for GDP growth last year, because of COVID-19. In fact, there may currently be greater uncertainty regarding the growth outlook in 2020 than the outlook for T-bill yields.

While we label the alternatives to the base scenario as the bull and bear scenarios, the financial outcomes for different entities need not match the characterisation of these scenarios. A scenario with a higher exchange rate relative to the base scenario would be bullish for an exporter but bearish for an importer.

Commodity prices: bias to the upside

Figure 1: Commodity prices have an upside bias



Source: Bloomberg

There are reasons to believe that commodity prices are more likely than not to rise in the next 4-m. Clearly the outbreak of COVID-19, and the associated containment measures adopted by governments around the world, depressed demand for commodities. But the markets seem to anticipate a normalisation in H2:20, with prices perhaps having gone past the nadir.

Copper prices illustrate this. In the immediate aftermath of the outbreak in China, it was clear that economic activity would be depressed for some time. But this was likely to be a transitory disruption. So, even though futures and spot prices dropped below USD4,600/MT consensus forecasts never dropped that low. Prices, which have since climbed above USD5,300/MT at the time of writing, seem to be on track to validate the consensus expectation that they will end the year closer to USD5,800/MT.

It seems likely that it will be China and advanced economies that will recover first from the COVID-19 crisis. Demand for commodities will start recovering, while many emerging market economies that produce such commodities will still be struggling to contain the disease. This can lead to excess demand for some commodities, something that could very well support prices. Bear in mind that the theme of potential future supply constraints has been consistent among copper analysts over the past 3 or so years. Considering that COVID-19 has spread quite extensively in Peru, the second-largest producer in the world, and is spreading rapidly in Chile, the largest, this risk cannot be understated.

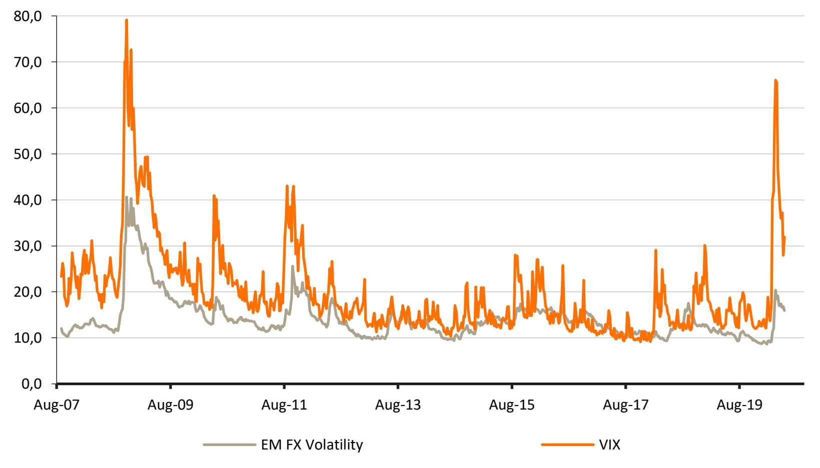
Other base metals prices have not been left behind. The London Metals Exchange's LMEX index has risen by some 10% since late-Mar. Iron ore prices rose above USD90/MT in recent weeks too, all seemingly corroborating the view of a recovery in Chinese demand for commodities.

Consensus forecasts for oil prices drifted somewhat lower after the outbreak of COVID-19. However, they never matched the sharp drop in spot and futures prices. Consensus forecasts for the Brent crude oil price put it in the 40s at the end of 2020 and approaching USD50/bbl in early 2021. For our macroeconomic forecasting purposes, we have assumed prices will be in a range of USD25/bbl – USD30/bbl over the remainder of this year.

Global risk appetite: recovery in risk assets seemingly underway

Following the spike in the VIX index, to over 80 at times in Mar, global risk appetite seems to be recovering. At the time of writing, the VIX index had dropped below 30, seemingly on its way further lower. It is highly probable that it will be below 15 within the next 4-m.

Figure 2: Volatility is moderating



Source: Bloomberg; Standard Bank Research

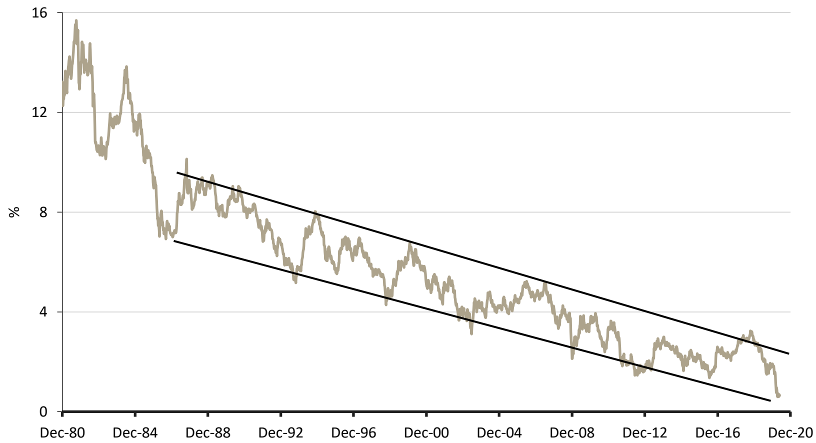
To be sure, US equity markets are still way off the highs reached in Jan. After bottoming out in late Mar, the ensuing rally seemed to have stalled in mid-Apr. But consensus forecasts for the S&P 500 index point to a further rally over the remainder of the year.

In our January edition, we noted some market commentators attributing the performance of the US equity markets to the monetary policy stimulus that the Fed has provided since the global financial crisis. Well, the COVID-19 pandemic prompted not only a strong monetary response, but a strong fiscal response too. The Fed has not only resumed asset purchases, but it has promulgated direct lending programs to the private sector as well.

Nonetheless, the market still demonstrates some sensitivity to political rhetoric. This is likely to get louder as the Nov elections approach. Not only is there likely to be bellicose rhetoric regarding trade from the US administration, but there are likely to be recriminations over the spread of COVID-19 too. It has not been just the US administration that has levelled accusations at China for not preventing the global spread of the disease. There's also the issue of Huawei Technologies.

Global rates: downside bias is persisting

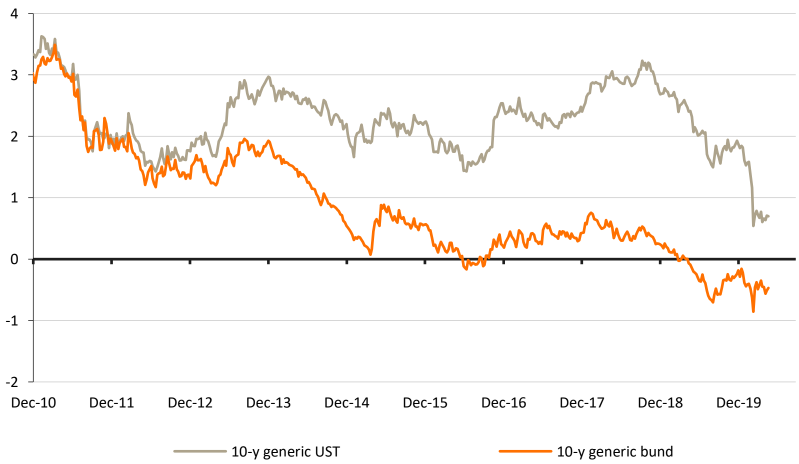
Figure 3: Downside bias for US Treasury 10-y yields is not abating



Source: Bloomberg

COVID-19 forced the US Federal Reserve's Federal Open Market Committee to cut it and resume asset purchases despite the committee having communicated its intention to keep the Fed Funds rate steady for a prolonged period. Market pricing suggests that a negative Fed Funds rate cannot be ruled out in the next 12-m.

Figure 4: 10-y generic US Treasury and German bund yields



Source: Bloomberg

Consensus forecasts for the Fed Funds rate indicate that it will be unchanged until the end of the year, with a hiking bias in 2021. This seems to imply that most economic forecasters expect the disruption to economic activity to be temporary, with a strong recovery in H2:20.

Inflation forecasts seem to bear this out. Consensus forecasts have the core PCE deflator bottoming out at a 1.0% y/y pace of increase between Q3:20 and Q1:21, before nudging up to a 1.5% y/y pace of increase in Q3:21. All this translates into a consensus forecast that the 10-y US Treasury yield will remain at sub-1% for the remainder of this year, but climb to 1.2% by Q3:21.

To address the health risks brought about by COVID-19, governments deliberately shut down most economic activities in their countries. This, naturally, dampened inflation pressures and expectations thereof. Curiously though, this has led to much lower developed market interest rates, while leading to a widening of emerging market spreads. Indeed, as Figure 5 indicates, EM yields initially increased outright as the sell-off in risk assets got underway, before these declined.

Steve Barrow, our G10 analyst, expects a US economic contraction of 5.0% y/y in 2020 followed by a rebound to 5.0% y/y growth in 2021. For the G10, he believes that the low point was in Apr, with a modest recovery now set to unfold. But this recovery is unlikely to be sufficiently robust to dissuade central banks from easing monetary policy or prompt bond yields to rise meaningfully. So, he expects US 10-y Treasury yields to be below 1.0% between now and Q2:21, rising to 1.1% at the end of Q3:21. Throughout this period he expects the Fed Funds rate to be unchanged.

Figure 5: EM 10-y average bond yields versus US Treasury 10-y yields

Source: Bloomberg

Political risks: COVID-19 likely to disrupt the electoral calendar

The Malawian general elections due to be held on 2 Jul are the only ones that will be held in the next 4-m among the countries in our coverage. The Constitutional Court annulled the results of the elections that were held last year, citing evidence of irregularities.

The elections are likely to generate some anxiety. After all, public protests have been a feature of the appeals process that led to the annulment of last year's results. It is not certain whether the spread of COVID-19 in the country will affect the elections in any way. It is likely that most opposition parties would oppose a proposal to postpone the elections were the electoral commission to point to COVID-19 as a motivation for such a postponement.

In any event, the Constitutional Court set a 150-d deadline, which is 3 Jul, for the elections when it made its determination. So, unless the court were to give a fresh ruling, the electoral commission if bound by this ruling. Furthermore, the number of confirmed cases is still low, amounting to less than 100 at the time of writing.

Despite the number of confirmed cases being similarly low in Ethiopia, this did not prevent the electoral commission postponing the elections there indefinitely. The elections were scheduled for Aug. The decision to postpone the elections was supported by opposition parties. The electoral body will announce a new date once the disease has subsided.

It is not inconceivable that elections due to be held later in the year in other countries will be postponed. Côte d'Ivoire's elections are scheduled for the end of Oct. They are highly unpredictable. As is the norm, coalitions will probably be formed in the run-up to the elections. Yet, at this stage it is not clear how these will be composed. At least one source of uncertainty - being whether President Ouattara, who is serving his second term and should thus be ineligible to be president, will run or not - has been resolved. He has declared that he won't run.

The number of COVID-19 cases remains relatively low, although it is rising fast. There were more than 2.1k cases at the time of writing, with daily infections of close to 50. Given the policy response to this crisis thus far, encompassing seeking IMF financial assistance, it is plausible that the electoral commission would postpone the elections.

Postponement of the elections notwithstanding, there are developments that might have a bearing on political risks, and hence investor confidence. Guillaume Soro, the former President of the National Assembly who fell out with President Ouattarra and has been positioning himself for a presidential run, was found guilty and given a 20-y prison term in absentia on allegations of corruption. There is still the public prosecutor's allegation that he was involved in a coup plot last year. Recall that it was Soro and his fighters that turned the tide against Laurent Gbagbo during the civil war in 2010, allowing Ouattara to capture the presidency.

Although the Ghanaian government responded very forcefully to the crisis, the number of confirmed cases has climbed substantially. In the West Africa region, the government leads with respect to testing for the disease. It eased the restrictions that it initially imposed, with the decline in the number of daily infections seemingly vindicating this decision.

Admittedly, the elections are only in Dec. So, it is not improbable that by then the disease will have abated sufficiently for the electoral body to believe that it can hold safe elections. This would be especially so if by then the government no longer sees the need to keep restrictions on the movement of people in place.

Could success or failure in containing COVID-19 have a bearing on the outcome of Ghana's elections? As we pointed out in Jan, the Ghanaian electorate tends to switch between the NPP, currently in power, and the NDC, giving each party 2 terms in power since multi-party democracy was introduced in 1992. So, successful containment of COVID-19 may increase the odds of the NPP holding on to power.

COVID-19 may turn out to be a useful distraction for another reason. Ordinarily, the market would have been fixated on whether the NPP would essentially try to buy the elections by boosting government spending in the lead up to the elections. COVID-19 has forced the government to increase the budget deficit. So, the fact that the government will not be able to observe the Fiscal Responsibility Act, which mandates the government to limit the fiscal deficit to 5.0% of GDP, will probably not be such a blow to market sentiment.

COVID-19 is probably an inconvenient distraction to Kenya's political elite. They would probably rather have the electorate focusing its attention on the Building Bridges Initiative. The broad expectations are that this initiative will lead to a proposal to amend the constitution so as to introduce the position of Prime Minister, who will have executive authority, while the President becomes a ceremonial figurehead. The constitutional referendum would need to be finished well ahead of the 2022 elections.

FX strategy: limited opportunities

Despite the flux in global financial markets, the currencies in our coverage did not do badly. The 8 most tradeable currencies in our coverage, what we refer to as the Africa 8, have returned -6.3% since the beginning of the year. If one includes the carry, then the return is -3.2%. Emerging market currencies fared far worse, as did equities, whether African or the broader emerging market universe, for that matter.

This makes it hard to find recovery trades among the currencies in our coverage. A case can be made that perhaps the market is overly pessimistic in its assessment of the NGN. The implied yield on the12-m USD/NGN NDF is nearly 30%, even higher for the 3-m tenor. Yet the CBN is not showing any sign that it would allow the NGN to depreciate much more than it has already done.

Of course, it is extremely hard to make a convincing argument that the CBN will not allow the NGN to depreciate further when there is clear evidence of excess demand for FX in the market. This is nothing new. The market experienced this in 2016/17, the last time that oil prices collapsed.

Ultimately, it all comes down to whether one believes that Brent crude oil prices will be stuck close to USD30/bbl for the remainder of this year or whether one believes the consensus forecast that Brent crude oil prices will be in the low 50s in early 2021. If one believes the latter, and the CBN happens to share that view, then selling USD/NGN NDFs will prove to be profitable. After all, it looks highly probable that the CBN would believe that, even if it is rationing FX supply currently, doing so would not be as detrimental as it was in 2016/17 due to the prevailing impact of COVID-19. After all, with no international travel possible, demand for FX by foreign exchange bureaus should not be material right now.

The ZMW has been the worst-performing currency of the ones in our coverage since the beginning of the year, having depreciated by about 24% at the time of writing. There is a case to be made that a rebound trade is worthwhile putting on. As we have pointed out in earlier editions of this report, USD/ZMW has risen in stepwise fashion since trading mostly in a 9.50 - 10.30 range between Mar 16 and Sep 18. The last step took the pair to nearly 19.00 in early Apr, from around 14.70 in mid-Feb.

It is highly probable that the ZMW will depreciate at a much slower pace than the annualised 26% pace between mid-2018 and early Apr this year. Given the broadly expected improvement in the global backdrop, copper prices are likely to improve. This suggests that copper exports will likely improve, providing some support to the BOP.

What’s more, the government is looking to restructure its external debt. This matters greatly to the outlook for the USD/ZMW exchange rate. Budgeted external debt service payments are budgeted to be in excess of USD1.5bn in 2020, continuing to rise in the medium term if the Medium Term Expenditure Framework is any guide. Data from the BOZ indicates that FX demand from the public sector is some 3 times the amount of FX demanded by FX bureaus. Clearly, a restructuring of external debt would reduce the government’s FX requirements considerably, thereby easing the upside pressure on USD/ZMW.

However, there remains considerable uncertainty regarding the time that will elapse until the government restructures its external debt. After all, the government seems to prefer voluntary restructuring. There is no certainty that the government’s external creditors, who probably have disparate interests, would quickly voluntarily come to a restructuring agreement.

Although the AOA has depreciated sharply since the beginning of the year, it is hard to call the top in USD/AOA. As with the NGN, the call boils down to one's expectation of the trajectory for oil prices. It's well worth keeping in mind that oil companies are now allowed to sell FX directly to commercial banks rather than selling it to the BNA. The BNA hoped that this reform would allow for better price discovery in the FX market.

There are indications that there is excess demand in the market, with some FX buyers not able to obtain FX. Even though the government is proceeding with reforms under the programme financed by the IMF's Extended Arrangement under the Extended Fund Facility, there doesn't seem to be an imminent improvement in the BOP position. Since dropping to about USD16.0bn in late 2018, gross FX reserves have hardly budged, only rising meaningfully after the government issued Eurobonds late last year. Even then, they still amounted to just USD16.4bn in Mar.

After depreciating by 13.1% in 2019, the first double-digit pace of depreciation since the 13.9% depreciation in 2015, the GHS has depreciated by just about 2% year-to-date. 2015 was a pre-election year as 2019 was. COVID-19 notwithstanding, it seems as if our expectation that the GHS will not depreciate in a disorderly fashion this year might still play out.

That said, foreign investors have divested from the fixed income market this year. Foreign investors held GHS29.07bn in Ghanaian bonds in Dec, rising to GHS30.51bn in Jan. This has dropped to GHS27.80bn in Apr, the lowest level since Sep 19. Indeed, throughout 2019 they were close to GHS27.50bn, with a peak of GHS29.22bn in Apr 18. However, foreigners now hold 23.2% of total domestic debt, the lowest percentage since 2016.

We are still not inclined to do anything. Implied yields on USD/GHS NDFs are quite low, right around the mid-teens. We prefer to express our view via duration rather than NDFs.

Selling USD/EGP is still by far the most compelling trade among the currencies in our coverage. Until the end of Oct 19 we maintained exposure to the EGP consistently since early 2017. We will re-establish a position by selling a 12-m USD/EGP NDF for our shadow portfolio.

It is unlikely that USD/EGP will rise sufficiently fast to erode the carry on the trade. Indeed, our baseline view is that the pair will fall somewhat from current levels in the near term, before commencing on an upward trajectory. While we acknowledge the large hit that the BOP will take from COVID-19, we also acknowledge that much of the risk to the EGP is behind us. There has already been capital flight, with the amount of EGP T-bills held by foreigners having dropped significantly. Similarly, FX reserves have dropped precipitously.

From this point onwards it is likely that the predominant impetus for the BOP will come from the recovery that will be supported by emergency support from the IMF. The EGP149.3bn in T-bills held by foreigners in Mar was the lowest level since 2017.

The East African shillings continue to exhibit broad stability. We see little impetus to change this over the next 4 – 6 months. The KES might enjoy some support in early Q1:20 due to flower sales. That might reverse somewhat in Q2:20 due to dividend payments.

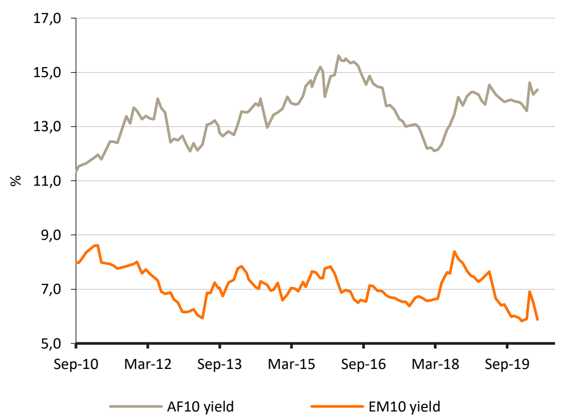
Fixed income strategy: it's tough to justify new positions

Our shadow portfolio is composed almost completely of local currency bonds. Considering the performance of the different asset classes (see table on page 2), this is not a bad strategy.

Most currencies in our coverage tend to be unresponsive to global systemic risks. They are much more responsive to idiosyncratic risks. And it is those idiosyncrasies that occasionally open up interesting rebound opportunities, both for carry and duration trades.

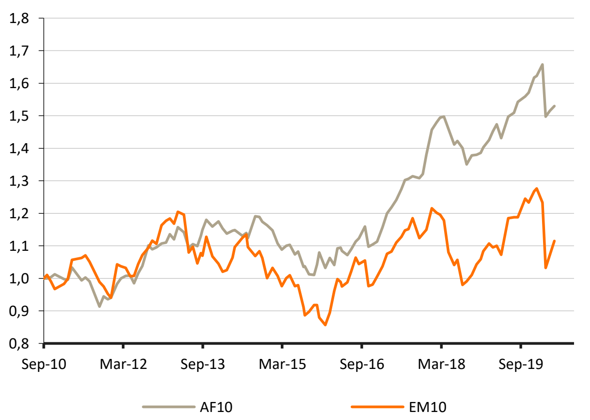
Neither carry nor duration rebound opportunities exist at this moment. Perhaps if one believes that oil prices will rise meaningfully from current levels, then one might be convinced into buying NGN duration. But this is a hard call to make when implied NDF yields are near 30%. It is probably better to express that view with NDFs rather than duration.

Figure 6: EM10 versus AF10 average 10-y bond yield



Source: Bloomberg; Standard Bank Research

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

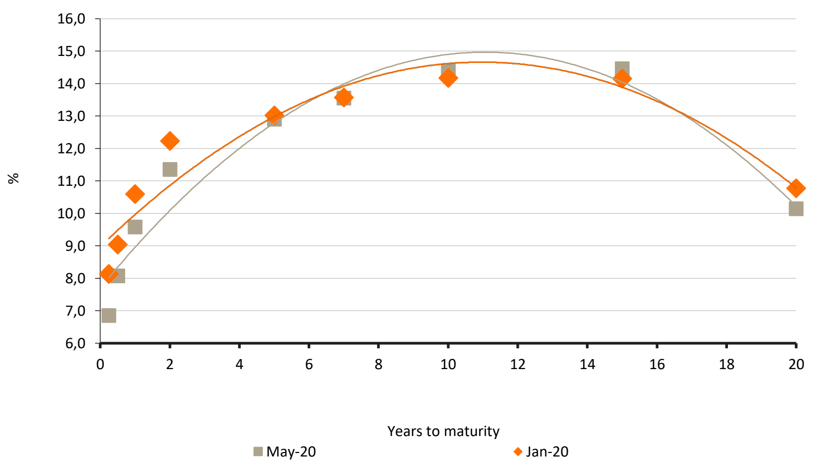


Source: Bloomberg; Standard Bank Research

This is not to say that an opportunity might not transpire in time. Perhaps there will be an impetus to push yields closer or above 15% in the coming 3 – 4 months. Bear in mind that the IMF's assessment suggested that the government will still have a financing gap even after it disbursed emergency funding to the government. This might prompt the government to issue more domestic paper, thereby pushing yields higher.

To be fair, many other countries are likely to be in the same position. In addition to Nigeria, Egypt, Ghana, Kenya and Uganda are notable countries that approached the IMF for emergency funding. While the IMF provided such assistance, it noted that some of these countries would still be left with large financing gaps. This raises the possibility that there might be some upward pressure on government bond yields.

Figure 8: AF10 yield curve simple yield average



Source: Bloomberg; Standard Bank Research

However, central banks have implemented measures to ensure that liquidity does not dry up in the money markets. In most cases central banks seem to have particularly worried about the possibility of a run on banks, something that would disrupt the banking system. After all, once it became clear that governments would impose lockdowns as a means to contain the spread of COVID-19, there was always a risk that some people would worry about being able to get access to cash in order to make payments for necessities.

The resultant liquidity injections make it all the more likely that any tendency for yields to rise due to increased issuance would be restrained. Hence, there might not be more attractive entry levels into duration in many of our markets.

That said, it is not implausible that the spread of the disease in the countries we cover might be such that the fiscal deficits widen further. After all, thus far the pleas for aid, from the IMF as well as other multilateral agencies like the World Bank and the African Development Bank, came at a time when the spread of the disease was in its infancy. Hence, the likelihood of the needed support being substantially more than what has been provided thus far cannot be dismissed.

We will not add anymore duration to our shadow portfolio at this point.

African Eurobonds: further spread compression on the cards

African Eurobond spreads, as measured by our SBAFSOZ index - comprising all the USD Eurobonds issued by African governments, except South Africa – widened to about 1,200 bps in late-Mar. This was the widest they have been. At the time of writing spreads had compressed significantly, with the spread of our SBAFSOZ index down to about 875 bps.

This is an indication that the market is recovering from crisis. This recovery seems set to persist over the coming 3 – 4 months. We have increased exposure to bonds in our shadow portfolio, favouring the longer-dated bonds.

Egypt and Senegal still make up our core holdings. Senegal is a high growth economy that is characterised by robust macroeconomic policy management. Sure, it owes much of the latter to its membership of the Union Economique et Monétaire Ouest-Africaine (UEMOA). However, unlike Côte d'Ivoire, also a member of the UEMOA, Senegal doesn't have a tricky election to contend with in the near term. That said, we recently added 1% exposure to the Côte d'Ivoire '33s in our shadow portfolio.

Angolan Eurobonds were the worst hit after the spread of COVID-19. Naturally, when oil prices collapsed, the market started to question the capacity of oil sovereigns to continue servicing the debts. So, Angolan bonds, along with Cameroonian, Gabonese and Nigerian bonds, sold off aggressively.

There was an extra dimension though. For some time the market was worried that the Zambian government would default on its external debt. However, the government frequently signalled its intention to engage its Chinese creditors with a view to restructuring the debt owed to them. But when the Zambian government sought advisors to help it restructure its external debt, the market seemed to conclude that Chinese creditors were not amenable to a restructuring of their debt. As it happens, the Angolan government has a lot of exposure to Chinese debt. So, the sell-off in Angolan Eurobonds, which is worse than that of Zambian Eurobonds thus far this year, may also reflect this contagion effect.

The response by the international community, most visibly demonstrated by the readiness of the IMF to provide emergency assistance to a number of countries on the continent, may yet allay investor fears. For much of Mar and Apr it seemed as if investors were scouring the African Eurobond universe looking to identify countries that were most likely to default on their external debt. That seems to be waning, something that will support bonds.

Of course, it didn't help that there were prominent individuals making a plea for a rescheduling of all external debt service payments by African governments. Given that G20 countries committed to providing debt relief to poor countries, the fear was that governments would end up defaulting on commercial debt, including Eurobonds.

We retain 1% overweight positions in both Angola and Nigeria. We will probably increase this in coming weeks or months if we come around to the view that oil prices are heading higher. We also have overweight positions on Kenyan, Ghanaian and Mozambican Eurobonds.

Hedging CNY exposure

Trade conducted between Africa and China is still predominantly done 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	1.57	1.54	1.61	1.66	1.66	1.66	1.65
CNY/GHS	0.79	0.80	0.79	0.82	0.84	0.87	0.92
CNY/KES	14.66	14.58	14.46	14.95	15.02	15.17	15.38
CNY/MUR	5.22	5.24	5.40	5.59	5.56	5.53	5.46
CNY/ZAR	2.12	2.08	2.25	2.46	2.48	2.49	2.51
CNY/UGX	544.53	525.41	532.75	528.44	534.38	540.18	560.80
CNY/ZMW	1.91	2.08	2.16	2.51	2.60	2.73	3.02

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-	68.251	3.7	19.11	1,884	1,872	-487	1452	1381	19.7	-38.0	-30.0
ANGOL 8.25% 09-MAY-2028	B3 *-/	62.806	4.9	16.92	1,655	1,642	-369	1137	1119	19.3	-38.3	-31.3
ANGOL 8% 26-NOV-2029	B3 *-/B-	62.725	5.3	15.67	1,527	1,511	-327	1009		17.9	-38.1	
ANGOL 9.375% 08-MAY-2048	B3 *-/	61.593	6.6	15.37	1,487	1,470	-302	839	842	19.6	-39.8	-32.0
ANGOL 9.125% 26-NOV-2049	B3 *-/B-	61.601	6.3	14.95	1,446	1,427	-291	802		17.9	-38.8	
REPCAM 9.5% 19-NOV-2025	/B	95.068	3.5	10.93	1,068	1,058	-142	583	507	4.9	-11.9	-2.5
REPCON 3% 30-JUN-2029	/CCC	78.591	3.4	12.36	1,212	1,192	23	464	557	-0.6	-7.5	-2.3
EGYPT 6.125% 31-JAN-2022	B2/B+	101.882	1.6	4.93	476	453	-44	245	138	0.8	-0.1	6.6
EGYPT 5.577% 21-FEB-2023	B2u/B+	101.177	2.5	5.11	492	483	-65	259	134	1.7	-1.3	7.4
EGYPT 4.55% 20-NOV-2023	B2u/B+	98.451	3.2	5.04	481	475	-64	256		2.0	-2.0	
EGYPT 6.2004% 01-MAR-2024	B2u/B+	102.936	3.3	5.33	510	502	-82	275	139	2.8	-2.7	7.8
EGYPT 5.875% 11-JUN-2025	B2/B+	100.857	4.2	5.68	538	531	-69	253	125	3.0	-3.0	9.2
EGYPT 7.5% 31-JAN-2027	B2/B+	104.539	5.1	6.64	625	618	-64	252	151	3.3	-3.5	8.9
EGYPT 6.588% 21-FEB-2028	B2u/B+	98.559	5.9	6.83	637	632	-57	225	154	3.4	-2.8	8.9
EGYPT 7.6003% 01-MAR-2029	B2u/B+	102.839	6.3	7.15	667	660	-52	227	158	3.2	-3.2	8.9
EGYPT 7.0529% 15-JAN-2032	B2u/B+	97.545	7.5	7.37	679	672	-48	225		3.5	-4.4	
EGYPT 6.875% 30-APR-2040	B2/B+	91.100	10.3	7.75	704	698	-44	230	182	4.3	-7.3	6.9
EGYPT 8.5% 31-JAN-2047	B2/B+	99.846	10.2	8.51	781	774	-48	233	181	4.6	-7.0	7.9
EGYPT 8.7002% 01-MAR-2049	B2u/B+	99.857	10.3	8.71	800	794	-43	240	192	4.1	-7.7	6.9
EGYPT 7.903% 21-FEB-2048	B2u/B+	94.953	10.6	8.37	764	759	-44	225	182	4.3	-6.7	7.5
EGYPT 8.15% 20-NOV-2059	B2u/B+	94.576	11.2	8.63	786	785	-45	240		4.0	-8.8	
ETHOPI 6.625% 11-DEC-2024	B2 *-/B	93.337	3.7	8.42	816	808	-224	510	427	8.6	-11.3	-2.3
GABON 6.375% 12-DEC-2024	/CCC	91.306	2.9	9.33	912	902	-281	573	407	8.7	-10.4	1.3
GABON 6.95% 16-JUN-2025	Caa1/CCC	89.032	4.0	9.74	946	938	-215	549	425	8.9	-13.3	-1.5
GABON 6.625% 06-FEB-2031	Caa1/CCC	83.824	6.6	9.18	868	859	-113			7.5		
GHANA 7.875% 07-AUG-2023	B3/B	98.727	2.7	8.33	813	804	-253	495	399	7.2	-7.2	1.1
GHANA 8.125% 18-JAN-2026	B3/B	96.789	3.7	8.99	873	863	-266	414	371	10.2	-7.0	1.0
GHANA 7.875% 26-MAR-2027	B3u/B	94.197	4.3	8.93	863	852	-237	375	353	10.8	-7.5	0.4
GHANA 6.375% 11-FEB-2027	B3/B	90.312	4.5	8.56	823	815	-209			9.8		
GHANA 7.625% 16-MAY-2029	B3/B	90.322	5.7	9.38	895	886	-192	347	329	11.4	-8.5	0.1
GHANA 10.75% 14-OCT-2030	B1/BB-	114.175	6.0	8.52	805	796	-104	313	294	6.3	-7.5	1.0
GHANA 8.125% 26-MAR-2032	B3u/B	89.635	6.8	9.56	904	894	-157	319	322	11.0	-8.8	-0.8
GHANA 7.875% 11-FEB-2035	B3/B	88.122	7.7	9.43	885	876	-134			10.4		
GHANA 8.95% 26-MAR-2051	B3u/B	89.005	9.3	10.12	947	937	-128	274	286	11.6	-9.3	-0.7
GHANA 8.627% 16-JUN-2049	B3/B	88.802	9.3	9.80	915	905	-127	253	258	11.4	-7.7	1.8
GHANA 8.75% 11-MAR-2061	B3/B	88.784	9.7	9.88	921	911	-119			11.1		
IVYCST 5.375% 23-JUL-2024	Ba3/B+	96.688	3.6	6.29	603	597	-86	362	229	3.2	-6.0	4.7
IVYCST 2.5% 31-DEC-2032	/B+	96.471	5.2	6.42	603	588	-68	210	148	3.5	-1.4	8.7
IVYCST 6.375% 03-MAR-2028	Ba3/B+	99.166	5.3	6.53	612	606	-89	251	145	4.8	-3.7	9.3
IVYCST 6.125% 15-JUN-2033	Ba3/B+	96.207	8.1	6.59	598	592	-74	190	113	5.9	-2.4	12.7
KENINT 6.875% 24-JUN-2024	/NR	97.273	3.4	7.66	742	734	-186	433	351	6.6	-7.8	1.0
KENINT 7% 22-MAY-2027	B2u/B+	96.562	4.8	7.73	738	731	-178	334	270	8.4	-6.7	3.2
KENINT 7.25% 28-FEB-2028	B2u/B+	96.245	5.7	7.90	747	739	-152	341	241	9.0	-8.8	4.3
KENINT 8% 22-MAY-2032	B2u/B+	96.469	7.1	8.50	795	788	-139	302	240	9.5	-8.7	3.8
KENINT 8.25% 28-FEB-2048	B2u/B+	95.588	10.3	8.67	796	790	-96	239	195	9.5	-7.6	6.5
MOROC 4.25% 11-DEC-2022	/BBB-	104.373	2.4	2.47	228	219	-27	164	127	0.6	0.4	4.8
MOROC 5.5% 11-DEC-2042	/BBB-	112.949	13.2	4.57	366	375	-17	193	134	1.4	-6.3	9.2
MOZAM 5% 15-SEP-2031	Caa2u/	78.679	6.6	10.78	1,028	1,021	-131	411		8.9	-13.7	
REPNAM 5.5% 03-NOV-2021	Ba2/BB	99.256	1.4	6.05	588	553	-105	429	375	1.5	-2.5	2.1
REPNAM 5.25% 29-OCT-2025	Ba2/BB	97.247	4.6	5.85	553	546	-80	285	213	3.8	-4.8	4.6

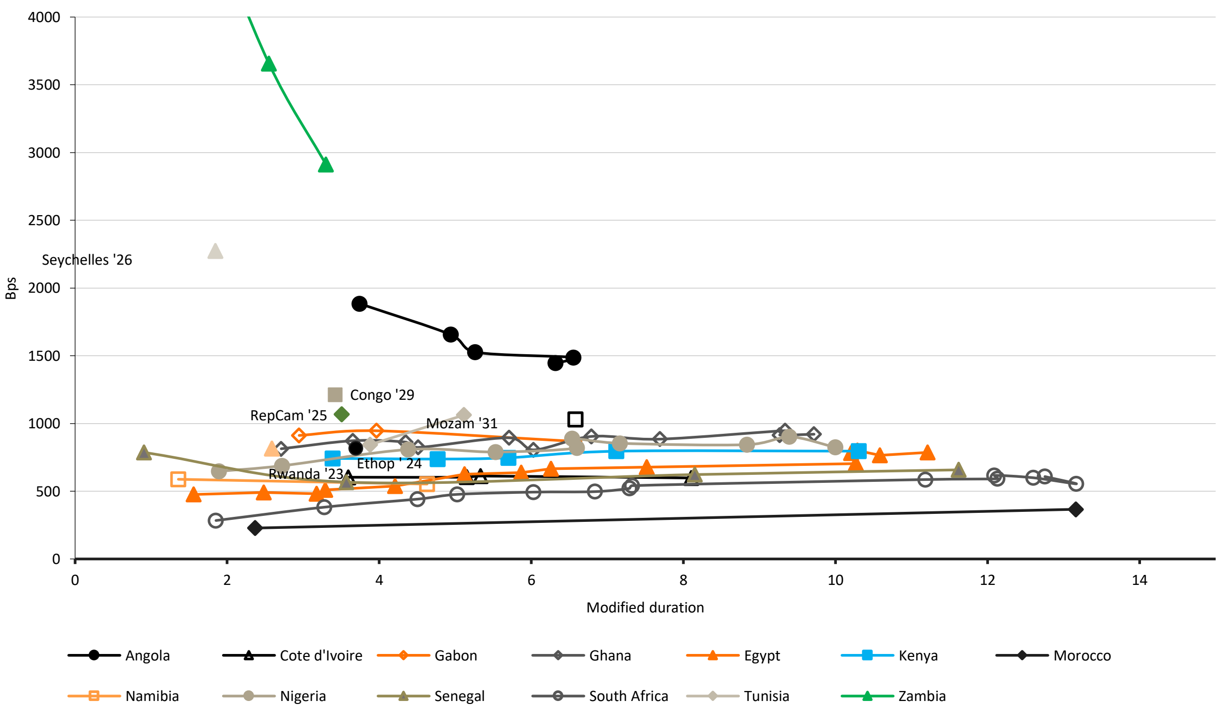
Continue on the next page

African Eurobonds (continued)

					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
NGERIA 5.625% 27-JUN-2022	B2/B	98.036	1.9	6.64	647	637	-235	428	365	4.7	-3.9	1.9
NGERIA 6.375% 12-JUL-2023	/B	98.048	2.7	7.08	688	679	-218	424	368	6.2	-5.7	0.9
NGERIA 7.625% 21-NOV-2025	B2/B	96.665	4.4	8.39	808	800	-191	427	400	8.3	-9.7	-2.4
NGERIA 6.5% 28-NOV-2027	B2/B	90.010	5.5	8.32	789	782	-159	356	328	9.1	-9.4	-0.7
NGERIA 7.143% 23-FEB-2030	B2/B	89.921	6.6	8.70	819	811	-140	320	318	9.5	-8.9	-1.2
NGERIA 8.747% 21-JAN-2031	B2/B	95.771	6.5	9.38	888	877	-154	341	358	10.3	-9.9	-3.1
NGERIA 7.875% 16-FEB-2032	B2/B	91.350	7.2	9.09	854	844	-162	305	327	11.7	-8.8	-2.3
NGERIA 7.696% 23-FEB-2038	B2/B	87.942	8.8	9.07	844	834	-136	275	293	12.0	-9.3	-1.9
NGERIA 9.248% 21-JAN-2049	B2/B	95.869	9.4	9.67	902	892	-124	286	297	11.3	-10.6	-2.1
NGERIA 7.625% 28-NOV-2047	B2/B	86.697	10.0	8.93	824	816	-124	247	256	12.0	-8.2	0.6
RWANDA 6.625% 02-MAY-2023	/B+	95.602	2.6	8.34	815	806	-66	551	498	1.8	-8.4	-2.1
SENEGL 8.75% 13-MAY-2021	Ba3/	100.698	0.9	7.98	786	728	-263	713	578	2.6	-4.0	1.2
SENEGL 6.25% 30-JUL-2024	Ba3/	101.166	3.6	5.93	567	560	-157	371	265	5.8	-6.4	2.7
SENEGL 6.25% 23-MAY-2033	Ba3/	95.282	8.2	6.84	623	617	-96	250	169	7.5	-7.1	7.7
SENEGL 6.75% 13-MAR-2048	Ba3/	92.602	11.6	7.39	658	659	-81	199	148	8.7	-5.3	10.3
SEYCHE 3% 01-JAN-2026	/B+	72.430	1.8	22.91	2,274	2,256	9	1790	1781	0.2	-27.6	-17.0
SOAF 5.875% 30-MAY-2022	Ba1/BB	105.560	1.9	3.01	284	274	-82	165	134	1.6	0.6	4.9
SOAF 4.665% 17-JAN-2024	Ba1/BB	102.060	3.3	4.05	382	375	-86	204	170	2.9	-0.6	5.2
SOAF 5.875% 16-SEP-2025	Ba1/BB	105.242	4.5	4.74	442	436	-102	229	186	4.7	-2.5	5.0
SOAF 4.875% 14-APR-2026	Ba1/BB	98.635	5.0	5.15	477	473	-94	242	215	4.8	-3.5	3.6
SOAF 4.85% 27-SEP-2027	Ba1/BB	96.685	6.0	5.40	493	490	-98	246	204	5.9	-4.8	4.0
SOAF 4.3% 12-OCT-2028	Ba1/BB	92.122	6.8	5.48	497	493	-97	230	217	6.7	-4.5	2.9
SOAF 4.85% 30-SEP-2029	Ba1/BB	93.370	7.3	5.77	521	518	-91	229		6.6	-5.0	
SOAF 5.875% 22-JUN-2030	Ba1/BB	99.247	7.3	5.98	541	536	-87	247	220	6.3	-6.3	2.8
SOAF 6.25% 08-MAR-2041	Ba1/BB	95.587	11.2	6.64	586	585	-56	233	246	5.7	-8.9	-2.0
SOAF 5.375% 24-JUL-2044	Ba1/BB	83.560	12.1	6.77	592	596	-64	235	256	6.9	-10.1	-4.1
SOAF 6.3% 22-JUN-2048	Ba1/BB	91.372	12.1	7.01	617	620	-69	250	254	7.4	-11.5	-3.5
SOAF 5.65% 27-SEP-2047	Ba1/BB	85.122	12.6	6.86	599	605	-69	235	255	7.8	-10.3	-4.3
SOAF 5% 12-OCT-2046	Ba1/BB	81.671	13.2	6.46	554	563	-63	220	239	7.2	-9.0	-2.9
SOAF 5.75% 30-SEP-2049	Ba1/BB	84.947	12.8	6.96	608	614	-63	236		7.1	-10.5	
BTUN 5.75% 30-JAN-2025	B2 *-/B	88.783	3.9	8.72	844	837	-80	286	263	3.2	-2.7	5.3
BTUN 8.25% 19-SEP-2027	B2 *-/WD	86.320	5.1	11.02	1,062	1,053	-34	420	448	1.8	-10.4	-4.2
ZAMBIN 5.375% 20-SEP-2022	/CC	43.520	1.7	48.46	4,829	4,819	-625	2875	3112	12.0	-32.6	-25.9
ZAMBIN 8.5% 14-APR-2024	/CC	43.790	2.6	36.75	3,655	3,643	-595	1884	1985	16.7	-31.0	-21.7
ZAMBIN 8.97% 30-JUL-2027	/CC	43.582	3.3	29.36	2,912	2,894	-437	1384	1443	15.5	-29.9	-20.4
SB Africa Eurobond (incl. SA)	B+		6.2	8.45	797	784	-84	317	275	5.9	-10.5	-1.0
SB Africa Eurobond (excl. SA)	B+		5.9	9.00	855	841	-91	345	293	6.1	-11.7	-1.7

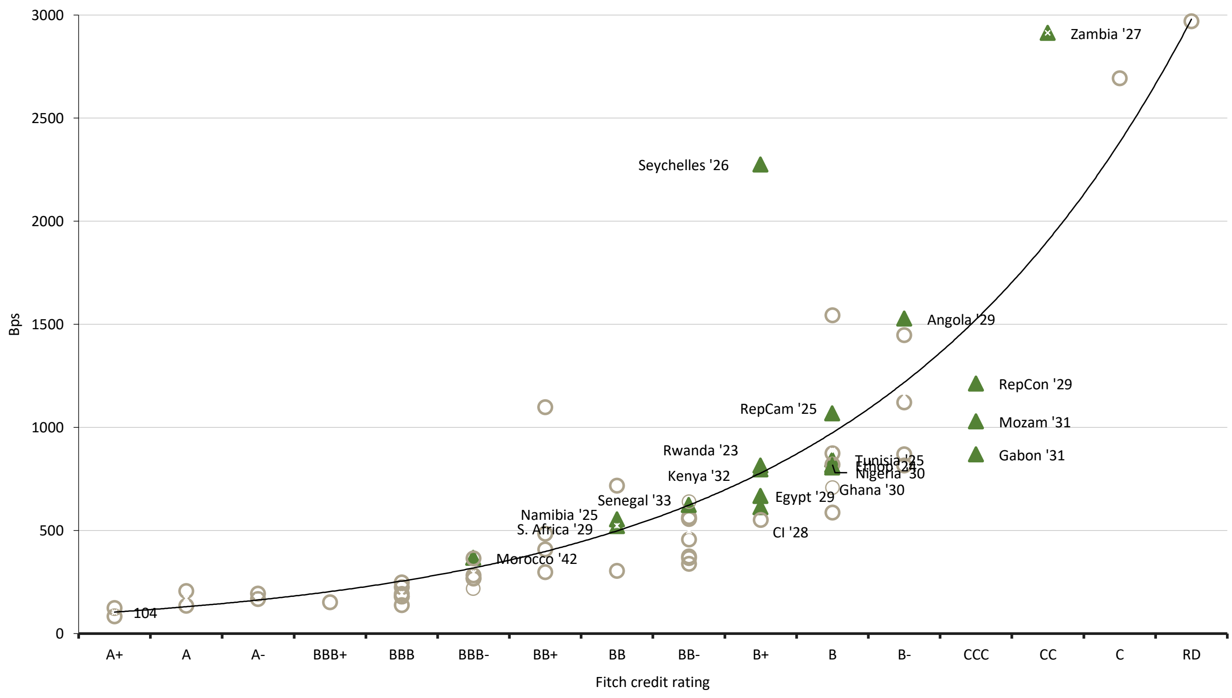
Source: Bloomberg; Standard Bank Research

Figure 9: African sovereign USD bonds (spread over US Treasuries versus modified duration)



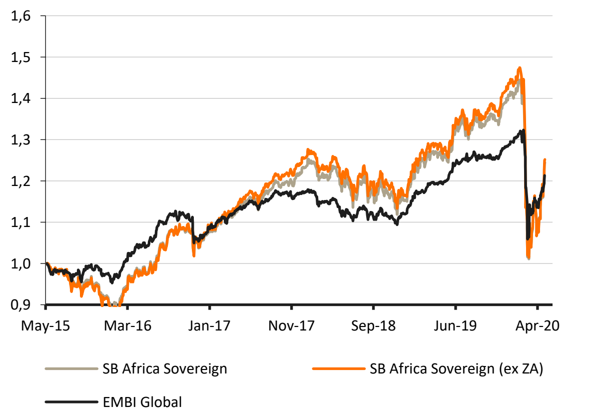
Source: Bloomberg; Stanard Bank Research

Figure 10: African and broader EM bonds (spread over US Treasuries versus credit rating)



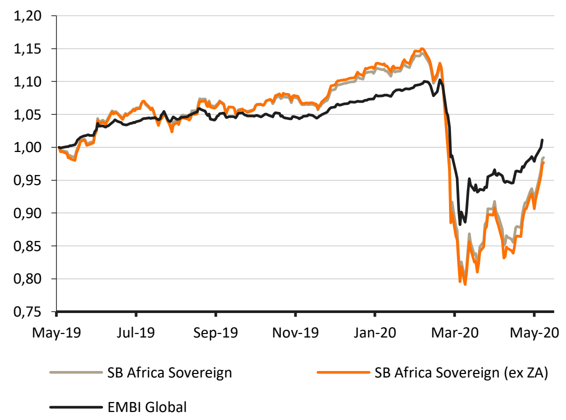
Source: Bloomberg; Standard Bank Research

Figure 11: African Eurobonds (5-y performance)



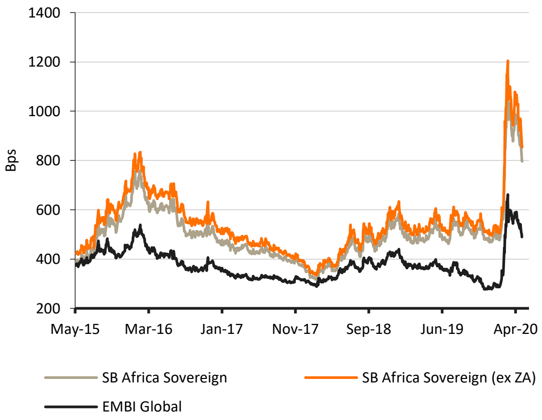
Source: Bloomberg; Standard Bank Research

Figure 12: African Eurobonds (1-y performance)



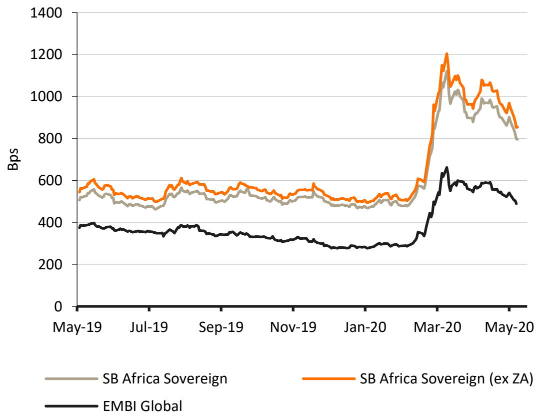
Source: Bloomberg; Standard Bank Research

Figure 13: African Eurobonds spread over UST (5-y)



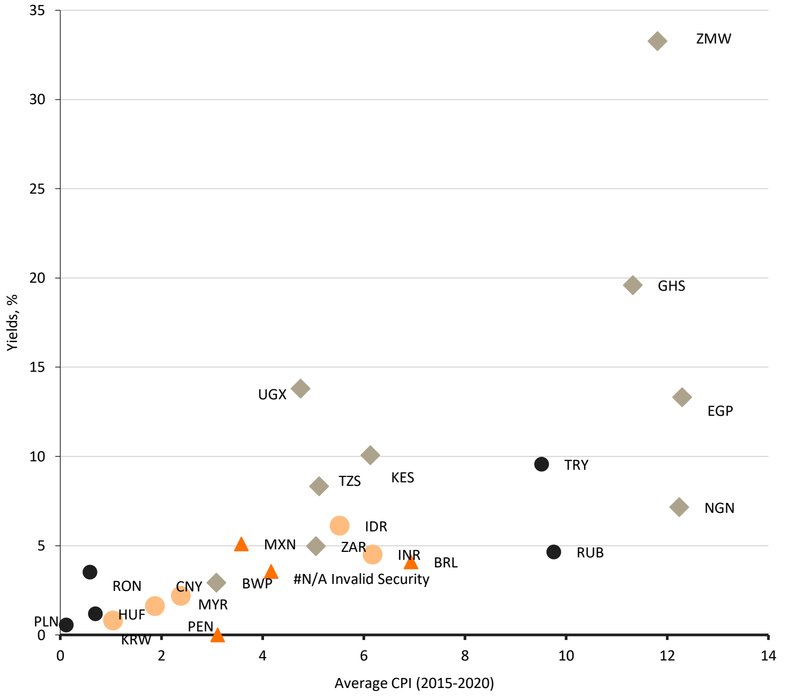
Source: Bloomberg; Standard Bank Research

Figure 14: African Eurobonds spread over UST (1-y)



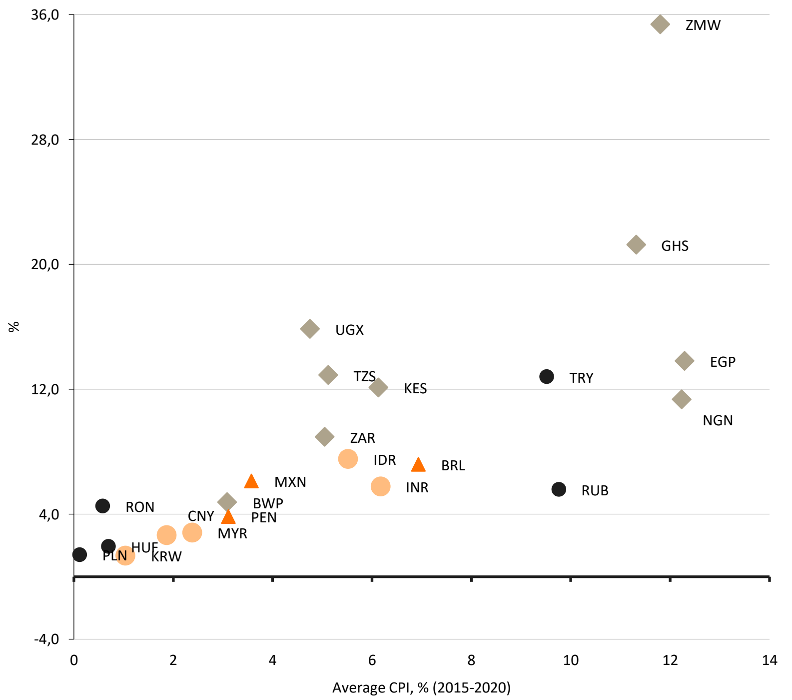
Source: Bloomberg; Standard Bank Research

Figure 15: Local 2-year bonds vs. past and forecast inflation



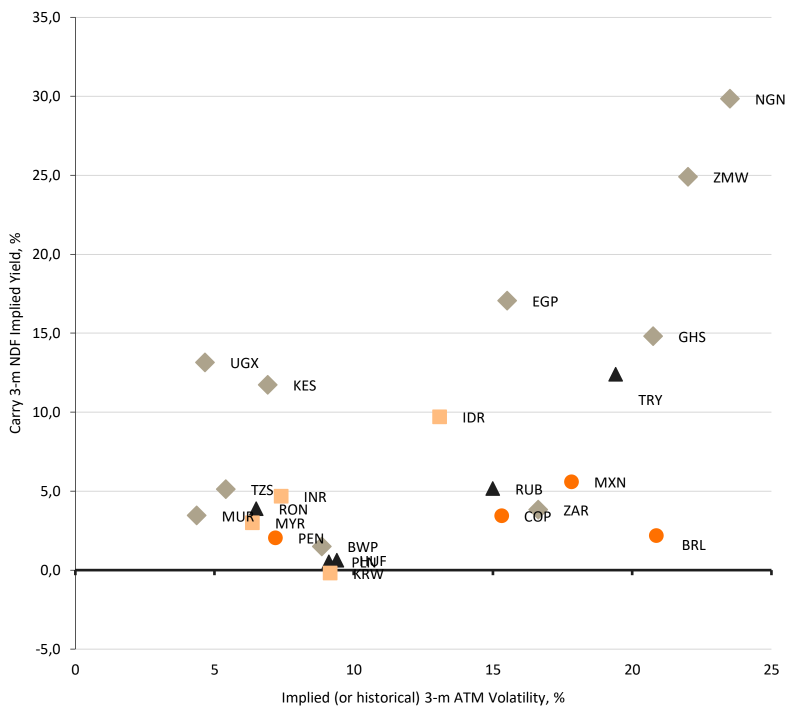
Source: Bloomberg; Standard Bank Research

Figure 16: Local 10-year bonds vs. past and forecast inflation



Source: Bloomberg; Standard Bank Research

Figure 17: NDF carry rates vs. implied vols



Source: Bloomberg; Standard Bank Research

Table of expected returns over the next 3 months

		Yield, %				Total return, %		
Country	Tenor	Current yield	Slide	Forward	SB forecast	Slide	Forward	SB forecast
Botswana	2Y	1.38	1.12	1.36	3.30	1.6	0.4	-3.2
	5Y	3.63	3.53	3.75	3.58	1.7	-0.1	1.1
	10Y	4.64	4.62	4.74	5.03	1.3	0.4	-1.9
Egypt	2Y	13.48	13.44	13.75	13.40	3.4	2.9	3.5
	5Y	13.92	13.93	14.08	13.55	3.5	2.9	4.7
	10Y	14.50	14.45	14.62	14.13	3.9	3.0	5.5
Ghana	2Y	19.45	19.26	20.51	21.40	5.1	3.3	2.0
	5Y	20.40	20.41	21.01	20.80	5.1	3.3	3.9
	10Y	20.65	20.67	21.10	20.80	5.1	3.3	4.6
Kenya	2Y	9.82	9.63	10.18	10.2	2.8	1.9	1.8
	5Y	11.48	11.41	11.75	11.3	3.1	1.9	3.5
	10Y	12.36	12.35	12.58	12.4	3.2	1.9	2.9
Nigeria	2Y	7.29	6.68	8.20	6.90	2.9	0.3	2.5
	5Y	11.51	11.34	12.21	9.00	3.5	0.4	11.9
	10Y	12.77	12.77	13.29	10.95	3.2	0.4	13.1
Tanzania	2Y	5.85	5.52	6.23	8.2	2.0	0.8	-2.6
	5Y	9.74	9.47	10.16	11.6	3.5	0.9	-4.5
	10Y	13.61	13.50	14.07	12.7	4.0	1.0	8.2
Uganda	2Y	14.54	14.39	15.47	14.5	3.9	2.2	3.7
	5Y	15.37	15.35	15.85	15.7	3.9	2.3	2.8
	10Y	15.62	15.62	15.96	15.8	3.9	2.3	3.0
Zambia	2Y	32.96	32.55	36.27	32.50	8.8	4.1	8.8
	5Y	34.43	34.44	36.45	34.20	8.6	4.2	9.1
	10Y	34.60	34.63	36.30	34.20	8.6	4.1	9.7

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	16.61	5.76	24.3	1.7
Zambia: buy ZAMGB '26	18-Nov-16	24.50	9.81	35.11	18.03	-2.8	4.5
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	13.85	15.86	67.5	1.0
Uganda: buy Uganda '29	14-Oct-19	14.90	3700	15.65	3788	1.9	-1.1
Kenya: KenGB '29	08-Apr-20	12.10	106.00	11.91	107.05	2.2	1.0
Total portfolio internal rate of return since prev. AMR (15-Sep-2019)						**-5.8**	

Source: Bloomberg; Standard Bank Research

Angola: pandemic and low oil prices to prolong recession

Medium-term outlook: clouded by COVID-19 and an oil market in flux

Angola still has among the lowest rates of COVID-19 infection, with 52 confirmed cases, when the world count topped 5-m at the time of writing. COVID-19 nevertheless poses a large risk factor for Angola because the country has limited financial resources, poor health infrastructure, a poverty rate around 41%, and high inequality. The impact of the pandemic here will raise unemployment, last reported at 38.1% in 2019, thereby dampening the outlook for disposable incomes and consumer spending.

Maintaining the structural reform programme remains of critical importance so that Angola can reduce its dependency on oil. The programme, which is supported by the IMF, aims to improve governance and competition, reduce the size of the government and foster a private sector-led economic diversification. The oil sector accounts for 96% of exports, 65% of government revenues, and 33% of GDP.

In our base case we see the recession continuing this year and next as the recovery in net exports (Netex) expected cannot offset the negative impact of depressed general domestic expenditure (GDE) on low personal consumer spending, a tighter government budget, and subdued private investment. Due to both COVID-19 and soft oil, the economy only temporarily escapes recession by 2022 but with the risk of the recession lasting until 2023.

Our bull scenario anticipates real GDP to resume growth from Q2:21 onwards, still much lower rates than the 3.2% y/y population growth, which would result in a contraction in per capita real GDP.

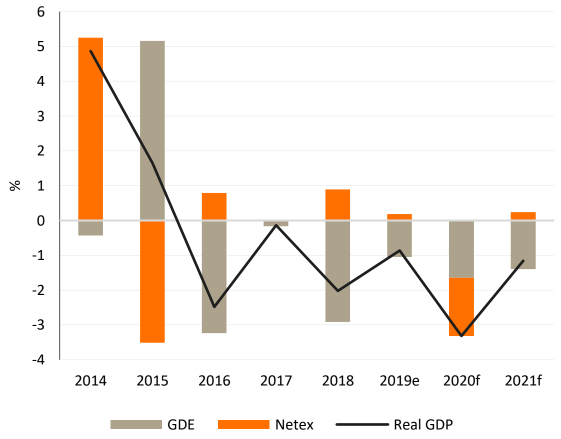
Our bear scenario sees real GDP annual contractions of 3.3% and 1.2% in 2020 and 2021, easing from 4.8% this year to 3.1% next year.

In our bull case, the economy grows by 0.5% y/y in 2021, from a recession of 0.8% y/y this year. Our base case assumes an average oil price of USD31.3/bbl for 2020 and USD31.8/bbl for 2021, slightly lower than the USD35/bbl assumed in the revised government budget which was cut from USD55/bbl. The bull case also assumes average oil prices of respectively USD36.4/bbl and USD41.8/bbl.

In our bear case, oil prices are at USD23/bbl and USD18.3/bbl.

The recent OPEC agreement sees Angolan oil exports capped at 1.18m bpd, lower than the average of 1.48m bd recorded in Apr when the price for the Angolan oil fell to USD26.75/bbl, Apr data shows oil exports at USD1.19bn, 55% lower than the 2019 average of USD2.62bn per month.

Composition of GDP by demand (ppts)



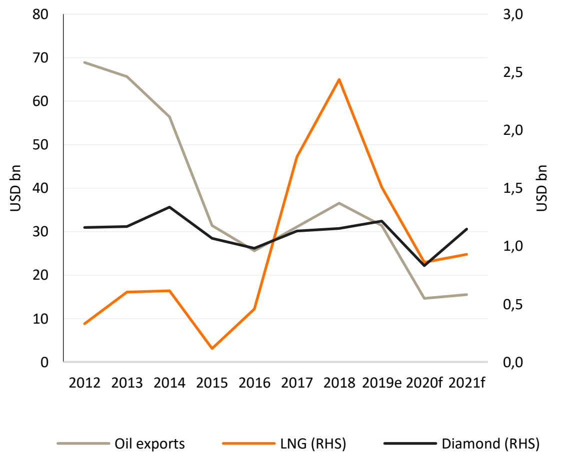
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010	2015	2019
Agriculture	3.8	4.3	4.7
Fisheries	1.6	2.5	1.9
Oil and Gas	43.0	38.1	31.5
Mining and Quarrying	2.0	1.8	2.0
Manufacturing	3.3	3.4	4.3
Electricity and Water	0.5	0.7	1.0
Construction	7.7	9.8	11.5
Trade	11.0	13.1	13.3
Transport and Storage	1.8	2.3	2.7
Communication	0.9	1.8	1.9
Financial Services	1.7	1.5	1.4
Property	4.6	4.7	5.6
Public administration	8.9	8.7	8.1
Other	9.2	7.3	10.3
Total	100.0	100.0	100.0

Source: Instituto Nacional de Estatística de Angola

Principal exports



Source: Banco Nacional de Angola; Standard Bank Research

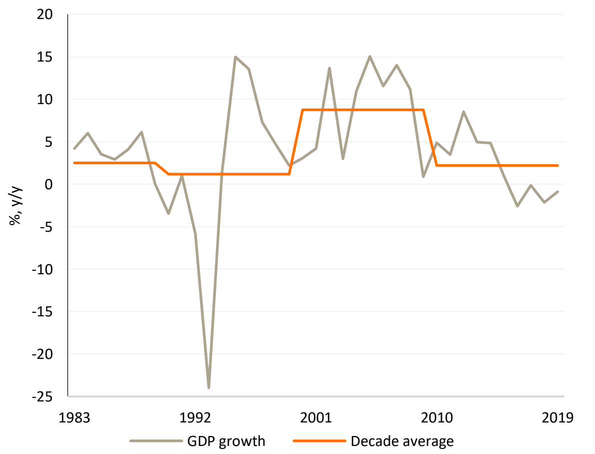
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	-0.5	-4.9	-4.5	-3.3	-1.6	-0.9	-0.8	-1.2	1.0	2.9	3.3	2.4	-2.2	-2.8	-2.9	-2.6
CPI (% y/y) pe	19.6	23.1	27.7	30.6	29.8	27.8	23.8	21.1	21.9	22.0	20.8	18.5	16.2	14.9	14.7	14.9
BNA rate (%) pe	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
3-m rate (%) pe	15.0	16.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
6-m rate (%) pe	16.5	16.5	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1
USD/AOA pe	536.7	602.4	667.8	719.6	759.2	800.9	844.9	891.4	932.1	974.7	1 019.2	1 065.8	1 098.0	1 131.3	1 165.6	1 200.9
Bull scenario																
GDP (% y/y) pa	-0.3	-4.4	-3.9	-2.8	-0.8	0.7	1.6	0.5	2.8	2.7	2.2	2.6	0.6	0.9	0.6	0.7
CPI (% y/y) pe	19.6	22.8	24.0	24.7	21.5	18.1	15.4	12.7	12.0	14.4	10.7	10.0	10.7	11.4	11.2	10.9
BNA rate (%) pe	15.5	15.5	15.5	15.5	15.5	15.5	15.5	14.5	14.0	14.0	14.0	14.0	13.0	12.5	12.5	12.5
3-m rate (%) pe	15.0	16.0	14.4	14.4	14.4	14.4	14.4	13.5	13.0	13.0	13.0	13.0	12.1	11.6	11.6	11.6
6-m rate (%) pe	16.5	16.5	14.9	14.9	14.9	14.9	14.9	13.9	13.4	13.4	13.4	13.4	12.5	12.0	12.0	12.0
USD/AOA pe	536.7	596.6	633.1	671.8	696.3	721.7	748.0	775.2	798.7	822.9	847.9	873.6	894.7	916.3	938.5	961.2
Bear scenario																
GDP (% y/y) pa	-1.1	-6.4	-6.9	-4.8	-3.6	-2.9	-2.8	-3.1	-0.9	-1.2	-2.7	-1.6	-6.1	-4.5	-2.9	-4.5
CPI (% y/y) pe	19.6	25.4	31.2	36.7	37.2	34.5	30.6	26.8	26.1	25.3	24.6	23.9	22.8	21.7	20.6	19.6
BNA rate (%) pe	15.5	16.0	16.5	17.5	18.0	18.5	18.5	18.5	18.5	19.0	19.5	19.5	19.5	19.5	19.5	19.5
3-m rate (%) pe	15.0	16.5	8.3	8.8	9.0	9.3	9.3	9.3	9.3	9.5	9.8	9.8	9.8	9.8	9.8	9.8
6-m rate (%) pe	16.5	17.0	9.9	10.5	10.8	11.1	11.1	11.1	11.1	11.4	11.7	11.7	11.7	11.7	11.7	11.7
USD/AOA pe	536.7	614.0	690.7	776.9	824.4	874.9	928.5	985.3	1 039.5	1 096.6	1 156.9	1 220.5	1 280.0	1 342.5	1 407.9	1 476.6

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

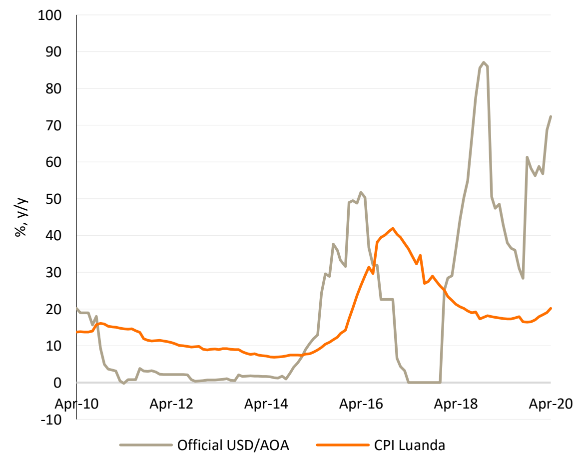
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Instituto Nacional de Estatística: Standard Bank Research

Annualised pace of change



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

Balance of payments: C/A deficit looms

The balance of payments (BOP) current account (C/A) will likely swing into a deficit of USD9.2bn (or 13.3% of GDP) this year, as the plummet in oil prices will likely see the value of merchandise exports at USD16.7bn, down from USD34.7bn in 2019. If merchandise imports are trimmed from USD14.1bn last year to USD12.3bn this year and USD10.4bn next year, the trade surplus eases from USD20.6bn in 2019 to USD4.3bn this year, improving to USD7.6bn next year as exports recover. Adding an expected net services deficit of USD7.1bn, down from USD7,5bn last year, the result is a trade deficit including services of USD1.9bn this year and a surplus of USD1.5bn next year.

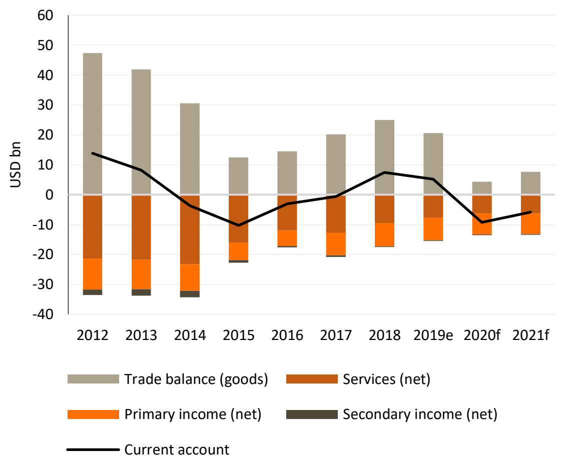
The BOP adjustment is likely to be painful as we expect BNA to continue to capitalise on substantial progress being already made through ongoing structural reforms towards a free-floating exchange rate regime which aims at eliminating the FX backlog and protecting FX reserves by moving away from an administrative setting, which ultimately could help encourage foreign direct investment, import substitution and economy diversification.

Even considering the trimming of imports, the magnitude of the BOP shock will likely require Angola to seek external financing, which could come in the form of a USD3.0bn Eurobond issuance per year and a restructuring of bilateral debt with China. Both options seem challenging.

Despite the uncertain outlook for the oil sector, we expect net foreign direct investment (FDI) inflows to turn into positive at USD3.18bn next year as some of the planned FDI in the oil sector for 2020 gets delayed to 2021. The government may also sweeten fiscal conditions to help attract further FDI.

We expect gross FX reserves to fall to USD11.6bn next year, with an import cover ratio around 8-m. The BNA started to report FX reserves data daily this month, reported at 15.9bn for 20 May, which helps ease uncertainty and build confidence.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves

Source: Banco Nacional de Angola; Standard Bank Research

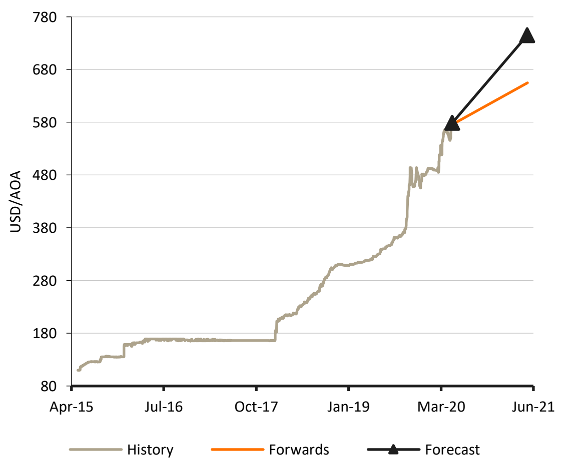
FX outlook: USD/AOA further up

The USD/AOA is likely to continue to rise. Our base case sees the USD/AOA closing at 719.6 this year, rising by 49.2% y/y, from 56.3% y/y last year and 86% y/y in 2018 when FX reforms started.

The USD/AOA pair was trading at an official level of 574.4 at the time of writing, with the parallel market at an average of USD/AOA619.4 which represents a spread of 7.8%, a substantial decline from above 30% recorded until Oct 19. The maximum FX rate in the parallel market at USD/AOA705.1 still shows a spread of 22.8% against the official FX rate.

The USD/AOA raise helps trim imports and stabilize FX liquidity in a more efficient and sustained manner than administrative measures. In combining this with local currency liquidity management, the BNA aims to manage the BOP shock.

USD/AOA: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: limited space for easing

Given the magnitude of the BOP and fiscal pressures facing Angola, which can cause inflation to rise, we do not see the BNA cutting policy rates anytime soon, even if this was a measure taken by most central banks globally to help their economies deal with COVID-19.

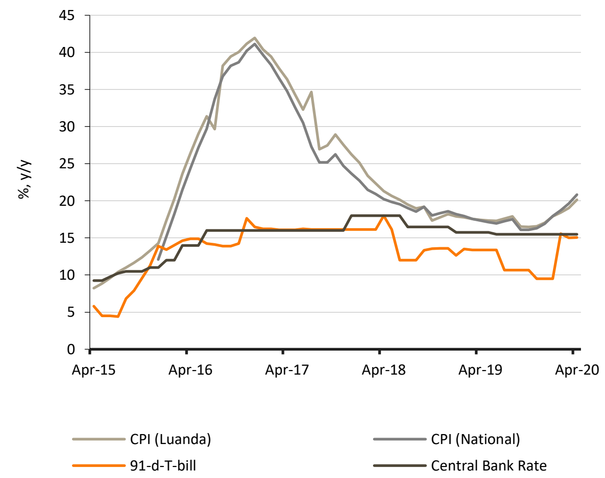
Given the weak interest rate transmission mechanism, we are likely to see the BNA focusing on liquidity management using open-market operations. Since COVID-19 was declared a pandemic, BNA Monetary Policy Committee has focused on delivering mechanisms to improve the supply of local currency liquidity to companies through the discount of government securities.

Our base case assumes the BNA rate at the current level of 15.5% for the entire forecast period, consistent with the view that BNA will likely continue to seek a consolidation of ongoing reforms to normalize the FX market and avoid a return to an administrated FX rate regime. It means the BNA will likely allow for real interest rates to deepen into negative territory as inflation maintains an upward trend.

Keeping policy rates steady would provide relief to both business and families already with poor balance sheets and depressed disposable incomes from the four-year recession.

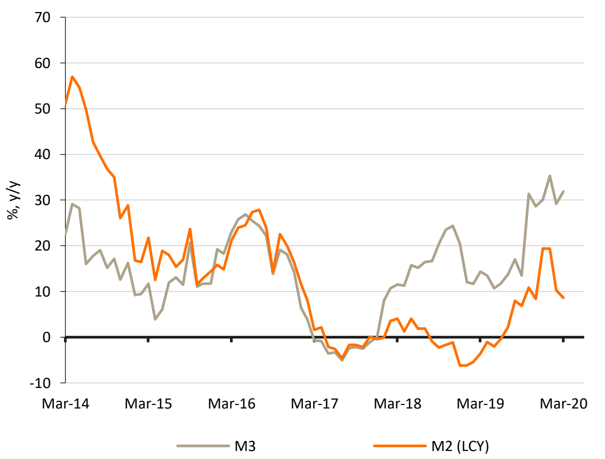
Inflation data continues to show a limited passthrough effect from the FX rate. This could change as both official and parallel FX rates reach new highs. Our base case sees inflation at 30.6% y/y by year-end, easing to 21.1% next year, with the 12-m average at 24.3% y/y this year and accelerating to 26.2% y/y next year on base effects. As per the latest INE report, inflation was 20.1% y/y in Luanda and 20.8% y/y at national level in Apr, with the 12-m average at 17.7% in both cases. This denotes prices increases across the main categories of the CPI basket, including the food items. The need to progress with fuel subsidy reform adds to inflation expectations.

Inflation and interest rates



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

Money supply growth



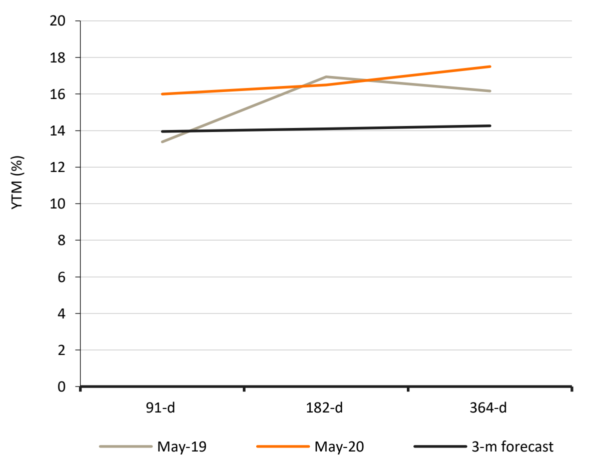
Source: Banco Nacional de Angola; Standard Bank Research

Yield curve outlook: downward shift in view

We still foresee downward pressure on yields across the curve this year. Even considering that the government will likely increase the domestic supply of paper, thanks to a larger fiscal deficit, the market will experience moments of high supply of local currency liquidity as some government debt matures but with limited investment options.

As a result, the government could use this as an opportunity to fund the deficit at lower interest rates. This is demonstrated by both our base and bear cases where T-bills travel in an opposite direction to inflation. Latest data available reported to Apr shows the T-bill stock down by 60.8% y/y, to AOA204.6bn (USD367m), with the stock of government bonds up by 36.2% y/y, to AOA11,060.0bn (USD3.6bn), as the government increases the maturity profile of domestic debt.

Changes in the yield curve



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

Fiscal policy: deficit likely

It is unlikely that the government will be able to generate a fiscal surplus this year. Our expectation is for a deficit of 2.1% of GDP, partially funded by the usage of USD1.5bn from the Sovereign Fund, with a deficit of 2.6% of GDP next year.

The sharp decline in oil prices forced the government to propose a revision of the 2020 budget. The 2020 original budget targeted a fiscal surplus of 1.2% of GDP, so we look to the new target as the budget revision document becomes available. Provisional data shows that fiscal performance since 2018 has been remarkable, breaking away from large fiscal deficits.

However, the impact of lower oil prices on fiscal revenues will be material. After all, the oil sector still accounts for about 65% of fiscal revenues. The ongoing privatization programme will only contribute to revenues in time. Therefore, expect borrowing requirements to rise, both domestic and external.

Ongoing structural reforms continue to take shape as President João Lourenço cuts the size of the government by reducing the number of ministries and encouraging a number of initiatives to raise fiscal revenues outside the oil sector and to cut both recurrent and investment expenditure.

The positive track record on the current programme with the IMF bodes well for Angola. Revision of some of the program metrics is probably inevitable. After all, given the current challenges both domestic and external borrowing requirements, will inevitably rise.

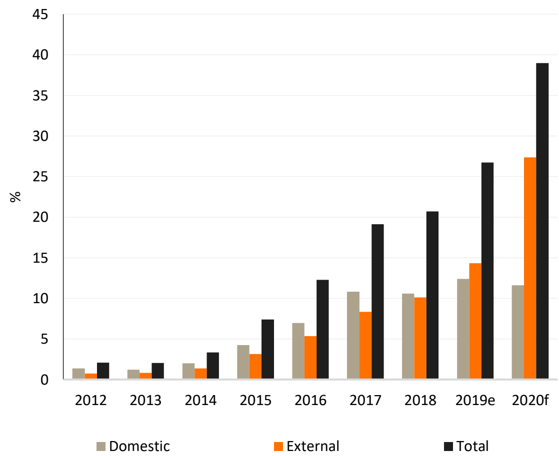
Tapping into Eurobonds and pursuing a restructuring of the sovereign debt with China are likely to be considered. There is already pressure from high debt service ratios that would need to be managed. The overall interest bill could rise to 40% of revenues. Under the original budget, the debt service (interest plus principal) to GDP ratio was at 113%, from 91% in 2019 and 100% in 2018.

Central government budget

	2018	2019	2020
% of GDP	Actual	Estimate	Initial budget
Revenues	22.0	19.6	20.4
- Oil	14.0	11.7	13.2
Expenditure	20.0	19.6	19.2
- Wages	5.8	5.9	5.3
- Interest	4.6	5.2	5.9
- Capital	4.5	3.4	3.2
Overall balance (commit.)	2.0	0.0	1.2
Changes in balances	-3.2	0.0	0.0
Overall balance (cash)	-1.2	0.0	1.2
Net domestic financing	-1.7	-1.6	-5.3
Net external financing	2.9	1.6	4.1

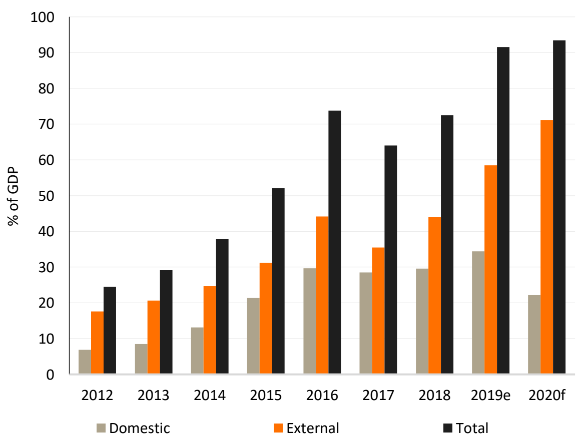
Source: Ministry of Finance; Standard Bank Research

Interest expenditure to revenue



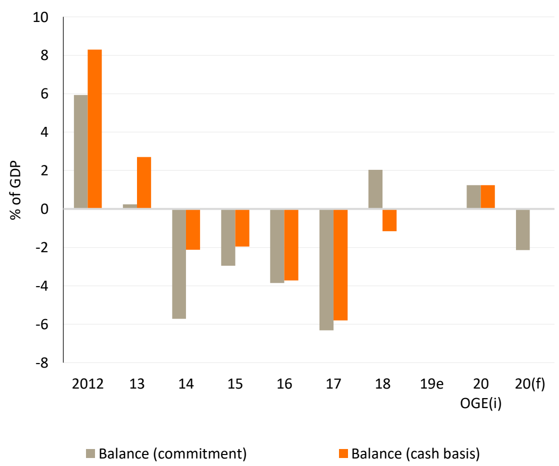
Source: Ministério das Finanças; Standard Bank Research

Public debt to GDP



Source: Ministério das Finanças; Standard Bank Research

Fiscal balance



Source: Ministério das Finanças; Standard Bank Research

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	26.6	27.5	28.3	29.3	30.2	31.1	32.1
Nominal GDP (AOA bn)	13 781.8	16 459.0	20 262.0	26 605.9	30 535.7	42 407.4	53 562.0
Nominal GDP (USD bn)	114.8	100.6	122.1	105.2	83.7	69.5	66.2
GDP / capita (USD)	4 314.5	3 661.7	4 308.6	3 597.3	2 773.7	2 231.5	2 060.3
Real GDP growth (%)	1.6	-2.5	-0.1	-2.0	-0.9	-3.3	-1.2
Oil production ('000 bpd)	1 721	1 675	1 577	1 418	1 319	1 263	1 335
LNG production ('000 000 BOE)	0	14	69	42	51	55	59
Diamond production ('000 Q)	8 205	7 934	9 753	7 993	8 535	8 279	8 179
Central Government Operations							
Budget balance (commitment) / GDP (%)	-3.0	-3.9	-6.3	2.0	0.0	-2.1	-2.6
Budget balance (cash basis) / GDP (%)	-2.0	-3.7	-5.8	-1.2	0.0	0.0	-2.6
Domestic debt / GDP (%)	21.4	29.7	28.5	29.6	34.4	22.2	19.6
External debt / GDP (%)	31.2	44.2	35.5	44.0	58.4	71.2	75.2
Overall public debt/GDP (%)	52.6	73.8	64.1	73.6	92.8	93.4	94.9
Balance of payments							
Exports of goods (USD bn)	34.4	28.3	35.6	41.4	35.2	17.1	18.5
Imports of goods (USD bn)	-38.0	-25.7	-28.3	-25.9	-22.3	-19.0	-17.0
Trade Balance	-3.5	2.6	7.3	15.5	12.9	-1.9	1.5
Current account (USD bn)	-10.3	-3.1	-0.6	7.4	5.1	-9.2	-5.9
- % of GDP	-8.9	-3.1	-0.5	7.0	6.1	-13.3	-8.9
Capital & Financial account (USD bn)	8.4	5.3	-4.3	-8.2	-3.2	5.8	3.9
- FDI (USD bn)	10.8	-0.5	-8.7	-6.5	-1.7	-3.1	3.8
Basic balance / GDP (%)	-1.6	2.2	-4.0	-0.8	2.3	-5.0	-3.0
Gross FX reserves (USD bn) pe	24.4	24.4	18.2	16.2	17.2	13.9	11.6
- Import cover (months) pe	7.7	11.4	7.7	7.5	9.3	8.8	8.2
Sovereign Credit Rating							
S&P	B+	B	B-	B-	B-	CCC+	CCC+
Moody’s	Ba2	B1	B2	B3	B3	B3	B3
Fitch	B+	B	B	B	B	B-	B-
Monetary & Financial Indicators							
Consumer inflation (%) pa		30.4	30.4	19.7	17.1	24.1	26.4
Consumer inflation (%) pe	12.1	41.1	23.7	18.6	16.9	30.6	21.1
M2 money supply (% y/y) pa	11.0	20.9	-0.9	16.2	17.3	30.0	18.9
M2 money supply (% y/y) pe	11.8	14.4	-0.1	20.4	30.2	25.0	15.0
BNA rate (%) pa	9.94	14.83	16.33	17.25	15.58	15.50	15.50
BNA rate (%) pe	11.00	16.00	18.00	16.50	15.50	15.50	15.50
3-m rate (%) pe	13.9	16.5	16.2	13.6	9.5	14.0	14.0
6-m rate (%) pe	15.0	24.1	20.2	17.1	12.0	14.1	14.1
12-m rate (%) pe	12.6	24.7	23.9	19.0	14.7	14.3	14.3
USD/AOA pa	120.0	163.7	165.9	252.9	364.8	610.5	809.6
USD/AOA pe	135.3	165.9	165.9	308.6	482.2	719.6	891.4

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

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

Botswana: weak exports to detract from growth

Medium-term outlook: constrained

The pandemic's aftermath inevitably will see Botswana suffer an economic contraction in 2020; we forecast -11.8% y/y in 2020 and thereafter growth of 4.5% y/y in 2021. Previously, we had expected growth of 4.0% y/y in 2020. The government now forecasts a GDP contraction of -13.1% y/y in 2020.

In 2019, GDP growth slowed to 3.0% y/y, from 4.5% y/y in 2018. This was largely due to a 3.9% y/y contraction in the mining sector. Weak global demand for diamonds and low production from some diamond mines resulted in subdued growth in the mining sector.

Global demand was already weak in 2019, and now persisting in 2020, and this trend is being exacerbated by the pandemic. Besides, the economy will be directly affected by the lockdown imposed from 02 Apr until 08 May to curb viral spread. During the lockdown, only essential services could be provided.

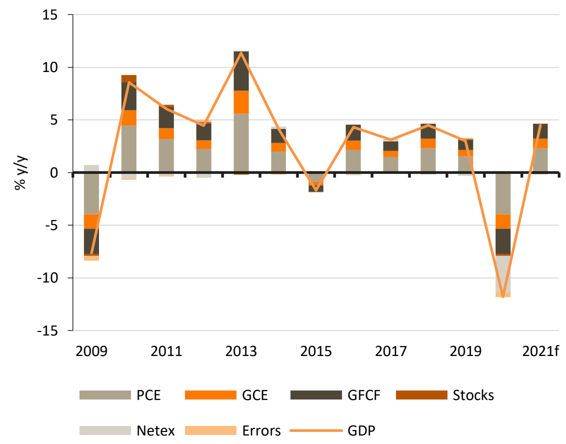
Whilst the mining sector was granted essential-service status, some mines halted production for some time. The mere fact that sight or sales meeting cannot be held in Botswana due to travel restrictions exacerbates this negative impact. Although, remote selling is still possible, it's a challenge to export goods to destination markets.

Admittedly, diamonds exports are likely to decline over the coming year as luxury spending will probably subside globally. This impact is expected to be meaningful for Botswana, considering that diamond exports make up 90% of total exports.

Nonetheless, the government has already relaxed the lockdown. Essentially, they have allowed most business to operate under certain stipulated conditions. But, the sale and trade of alcohol and tobacco remains prohibited. Indeed, travel restrictions are likely to linger, such that tourism exports stand to remain constrained over the coming year. A weaker tourism sector will have negative spill-over effects to other sectors. But local tourism should ease the pressure somewhat.

In the probable event that the pandemic's impact is deep but short-lived, the bullish scenario in the next page could be likely. Sure, if businesses can make up for production lost in the first half of Q2, the economy could contract by 4.7% y/y in 2020 and grow by 7.1% y/y in 2021. Yet, if the impact is protracted, the bearish scenario could be the outcome, with the economy contracting by -14.2% y/y in 2020 and recovering to 1.9% y/y in 2021.

Composition of GDP growth by demand



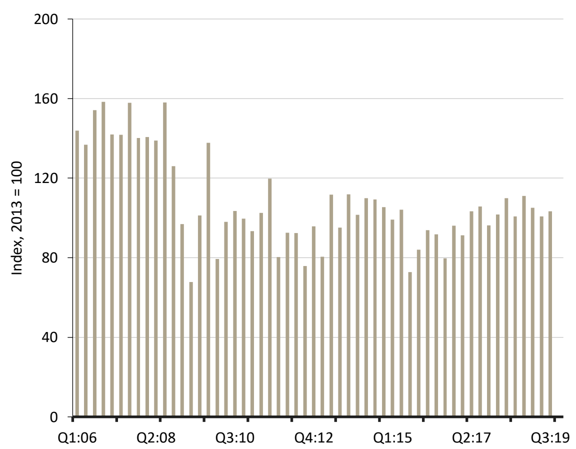
Source: Statistics Botswana; Standard Bank Research

Contribution to GDP by sector

% of GDP	2016	2017	2019
Agriculture	1.9	2.0	2.0
Mining	16.7	17.4	15.2
Manufacturing	5.0	5.1	5.3
Water & Electricity	1.2	1.0	1.0
Construction	6.6	6.4	6.8
Trade, hotels, restaurants	19.0	19.5	19.7
Transport & Comm.	6.1	5.9	6.2
Finance & Bus Serv.	14.2	13.9	14.5
General Gov	14.5	14.4	14.7
Soc & Per. Serv.	5.5	5.5	5.6
VA	90.8	91.0	90.9
Taxes on Imports	4.9	4.8	4.7
Other Taxes	4.8	4.7	4.9
Subs	-0.4	-0.4	-0.4
Total GDP	100.0	100.0	100.0

Source: Statistics Botswana; Standard Bank Research

Diamond production



Source: Statistics Botswana

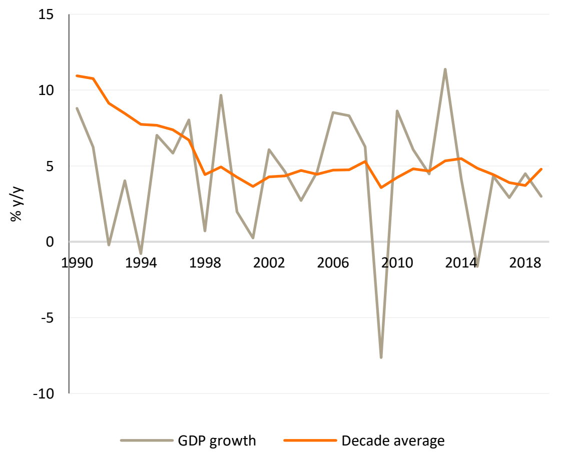
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	1.23	-35.57	-13.76	0.85	3.06	6.52	4.33	4.14	4.49	4.42	4.44	4.47	4.12	4.24	4.37	4.48
CPI (% y/y) pe	2.19	2.91	2.95	3.17	3.41	2.98	2.96	3.02	3.04	3.04	2.99	3.02	2.95	2.95	2.95	2.98
Bank rate (%) pe	4.75	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
6-m rate (%) pe	1.79	1.83	1.95	2.00	2.05	1.92	1.92	1.92	1.92	1.92	1.92	1.92	1.92	1.92	1.92	1.92
USD/BWP pe	11.49	11.95	11.61	11.27	11.21	11.14	11.07	11.00	11.01	11.02	11.04	11.05	10.20	10.26	10.34	10.40
Bull scenario																
GDP (% y/y) pa	1.23	-17.78	-6.88	4.65	6.56	8.72	6.93	6.34	6.19	6.12	6.14	6.27	5.62	4.24	4.37	4.48
CPI (% y/y) pe	2.19	2.91	3.25	3.37	3.91	3.68	3.76	4.22	4.94	4.94	5.19	4.92	4.85	4.25	3.75	3.68
Bank rate (%) pe	4.75	4.25	4.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
6-m rate (%) pe	1.79	1.83	1.95	2.25	2.30	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17
USD/BWP pe	11.49	11.42	10.91	10.46	10.48	10.49	10.51	10.53	10.54	10.55	10.53	10.51	9.65	9.67	9.70	9.76
Bear scenario																
GDP (% y/y) pa	1.23	-37.87	-17.06	-2.95	-0.44	4.32	1.73	1.94	2.79	2.72	2.74	2.67	2.62	4.24	4.37	4.48
CPI (% y/y) pe	2.19	2.41	1.65	1.87	1.91	1.18	0.96	1.72	1.84	1.84	2.49	2.52	2.45	2.25	2.25	2.18
Bank rate (%) pe	4.75	4.25	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6-m rate (%) pe	1.79	1.83	1.95	1.75	1.80	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67
USD/BWP pe	11.49	12.48	12.31	12.08	11.93	11.78	11.63	11.47	11.49	11.50	11.54	11.58	10.74	10.85	10.98	11.04

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

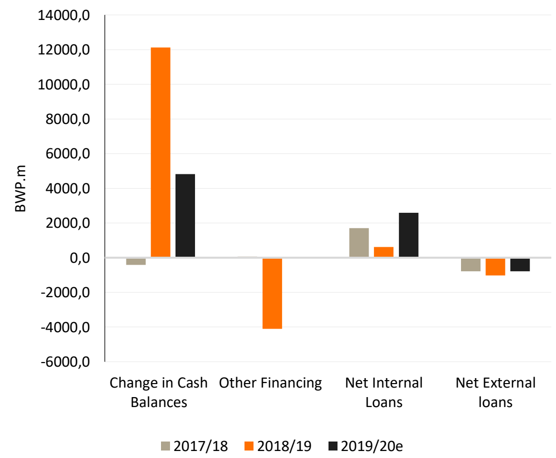
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Statistics Botswana

Budget financing



Source: Ministry of Finance

Balance of payments: C/A deficit to widen

We expect the C/A deficit to widen to 10.3% of GDP in 2020 before narrowing to 8.9% of GDP in 2021. We estimate that it was 5.3% of GDP in 2019.

In 2019, diamond exports fell by 16% y/y, from growth of 8.1% y/y in 2018. Meanwhile, SACU transfers declined by 2.4% y/y in the first three quarters of 2019. This essentially determined the trajectory of the C/A balance.

Thus, the C/A is estimated to have slid into a deficit in 2019 for the first time since 2012. Sure, the quantum of surpluses before 2019 broadly followed the trends in mineral earnings, transfers and the tourism sector.

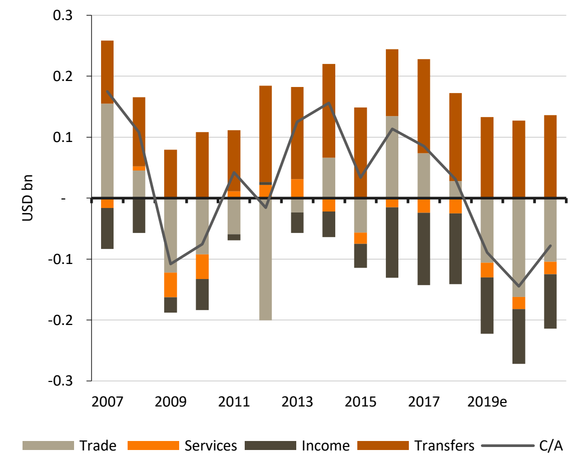
The expected slowdown in global growth caused by the pandemic will result in lower tourism and diamond export earnings. Crucially, diamond exports account for 90% of total exports.

Thus, we expect the C/A deficit position to persist over the medium term. In 2021 the continued weakness will likely be attributable to lethargic SACU transfers and declining diamond and tourism exports. Certainly, regional growth is also bound to shrink.

FX reserves too continued to trend downwards. FX reserves declined to USD6.1bn in Dec, covering 13-m of goods and services imports, according to our estimates, from USD6.5bn in Nov, covering 12.2-m of goods and services imports. This reflects a decline of 7.0% y/y in Dec, compared to the 8.0% y/y decrease in Nov.

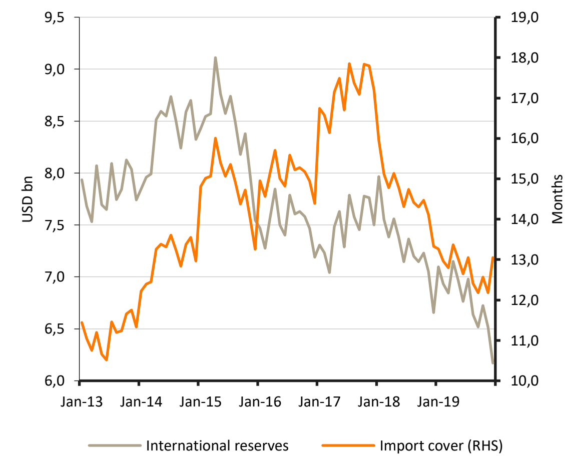
We expect this decline to persist in 2020 but both goods and service imports are not expected to rise meaningfully. Moreover, considering a lower development budget, FX reserves may not decline substantially. At the end of Dec 20, FX reserves are likely to amount to USD5.9bn (12.6-m imports

Current account developments



Source: Bank of Botswana; Standard Bank Research

FX reserves



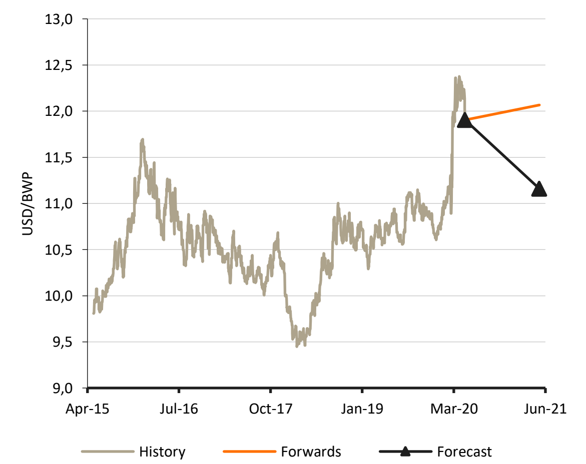
Source: Bank of Botswana; Statistics Botswana; Standard Bank Research

FX outlook: taking a cue from the ZAR

We see USD/BWP at 11.27 and BWP/ZAR at 1.42 by the year-end. Indeed, FX reserves have dwindled, but we believe that the BOB would still be able to control their FX policy. FX reserves, although at historically low levels, covers above 12-m of imports. As such, USD/BWP moves will continue to follow the trajectory of USD/ZAR.

The Bank of Botswana (BOB) recently revised the BWP rate of crawl against the currency basket to a 2.87% downward rate of crawl, after it decided to adjust to a downward rate of crawl of 1.51% from 0.3% upward rate of crawl in Jan. This revision effectively implies that the BOB will allow the BWP to depreciate further against the basket of currencies on a nominal effective basis. The weight to the basket remains unchanged at 45% for the ZAR and 55% for the SDR basket.

USD/BWP forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: remaining accommodative

We revise our 2020 inflation forecast slightly upward to 2.8% y/y, from 2.7% y/y published before. We also revise our 2021 forecast to 3.1% y/y, from 3.0% y/y. Regarding policy, we expect the MPC to maintain an accommodative monetary policy stance over the medium- to long term.

In response to the COVID-19 pandemic, the BOB cut the Bank rate by 50 bps, to 4.25%. In addition, the committee cut both the statutory and primary reserve ratio by 250 bps each.

More importantly, if the output gap was to widen further, the BOB would probably not hesitate to cut the bank rate further. Of course, the probability of a rate cut does make sense, as the medium-term inflation outlook is also looking subdued.

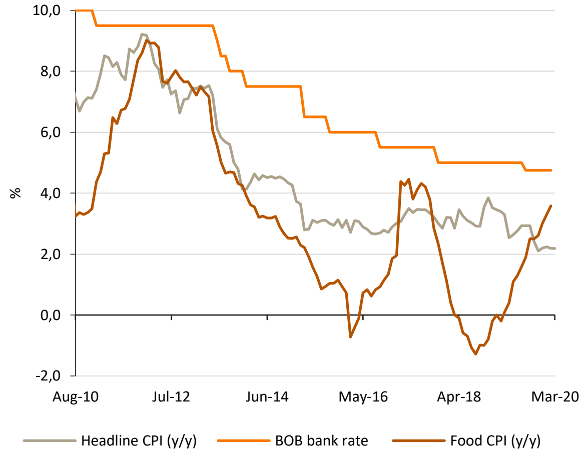
But then again, although the MPC has planned and maintained a relatively easy monetary policy stance for some time now, we note that money supply growth has in fact moderated since 2015. Sure, an uptrend was notable in early 2019, but it was followed by a downward trend.

As for inflation, we expect it to remain benign because we see limited domestic demand pressures and low imported inflationary pressures. Headline inflation is likely to reach an average of 2.6% y/y in H1:20, before rising to 3.0% y/y in H2:20.

Moreover, if oil prices remain low, we expect the contribution of the transport component to headline inflation to remain subdued. Sure, the 22% increase on electricity tariffs should be offset somewhat by decrease on fuel prices.

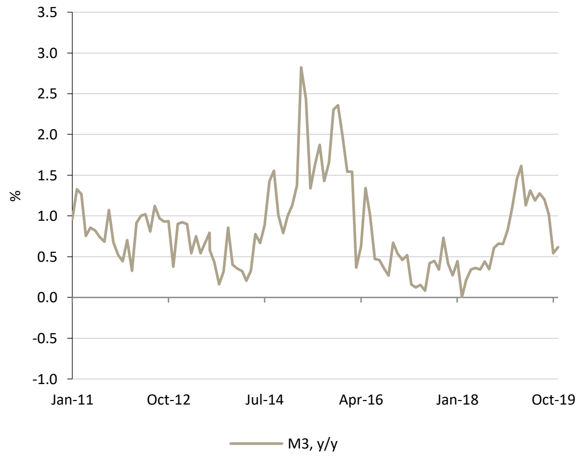
Likewise, we also expect the relative BWP strength against the ZAR, combined with muted underlying inflation amongst the country's trade partners, to keep import inflation benign.

Inflation and interest rates



Source: Bank of Botswana; Statistics Botswana

Money supply



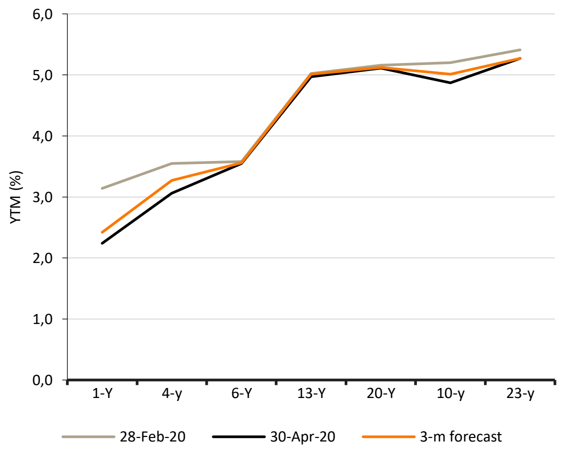
Source: Bank of Botswana; Standard Bank Research

Yield curve outlook: inching higher

Although the BOB is likely to keep an accommodative stance, we doubt that yields will decline. Of course, the negative outlook in the domestic economy, being exacerbated by the pandemic, is likely to embolden the BOB to cut the bank rate further. But we expect fiscal pressures and the high likelihood that the government will source funds from the domestic market to place upward pressure on BWP yields.

Moreover, recent data has indicated that the FY2019/20 deficit may have turned out worse than, or on par with, the BWP7.9 billion (3.9 % of GDP) that was budgeted. Thus, it is likely to manifest in increased funding requirements for FY2020/21. This could further exert some pressure on bond yields in the next 3-6 months. But then again, the benign inflationary environment largely emanating from low international oil prices and subdued domestic demand may put a lid on bond yields.

Change in yield curve



Source: Bank of Botswana; Standard Bank Research

Fiscal policy: falling government revenue

The 2020 budget is likely to redirected owing to the expected decrease in overall expenditure. The government expects the budget deficit to rocket to BWP10.8bn, or 5.9% of GDP, from BWP5.22bn, or 2.4% of GDP in the original budget.

Sure, upon the government revising its projection for revenue downwards to BWP48.8bn, from BWP62.4bn for FY2020/21, due to the pandemic, it also cut expenditure. Notably, mineral revenue, accounting for 32% of total revenue, is now projected to decline to BWP6.7bn, from the budgeted BWP20.0bn. Furthermore, the Ministry of Finance revised its expectation for government expenditure by BWP8bn, to BWP59.6bn.

Indeed, even the latest data published by the BOB indicates that Botswana continued to run a fiscal deficit position. In the first 3-q of FY2019/20, revenues came in at 70% of the annual target, whilst expenditure came in at 71% of the full-year target. This resulted in a fiscal deficit in the first 3-q of BWP6.3b or 3.2% of GDP. Thus, it seems highly likely that the outstanding data for the last quarter of FY2019/20 will bring the fiscal deficit above the originally budgeted deficit of 3.5% of GDP. After all, the last quarter recorded relatively low nominal GDP figures.

We only expect pressure from SACU customs pool from FY2021/22 onward. SACU payments from South Africa are not set to recover meaningfully from 2021 on the expected subdued economic growth in the region.

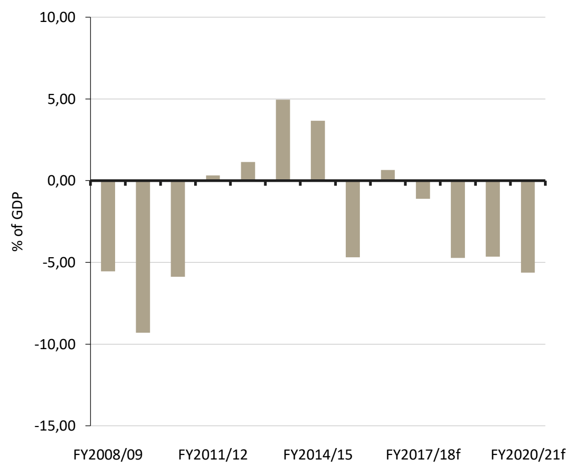
While the government may look to limit the size of the deficit in 2020, this may prove to be somewhat of an uphill task, especially as the duration of the pandemic remains unclear. The government introduced various interventions, ranging from a wage subsidy up to BWP1.bn government loan guarantee amounting to BWP1bn and other measures with the help of various stakeholders. The government estimates that this will cost up to 2.4% of GDP.

Central government budget, % of GDP

	F2018/2019	FY2019/2020	FY2020/21
Total revenue	27.1	33.8	25.4
Total expenditure	31.6	38.2	31.0
Recurrent	24.0	28.8	29.0
- development	-4.5	-4.2	-5.4
Overall balance (+ grants)	-4.5	-4.6	-5.6
Overall balance (- grants)	0.3	1.4	-0.5
Net domestic borrowing	-0.7	-0.9	-0.9
Donor support (grants)	0.0	0.2	0.2

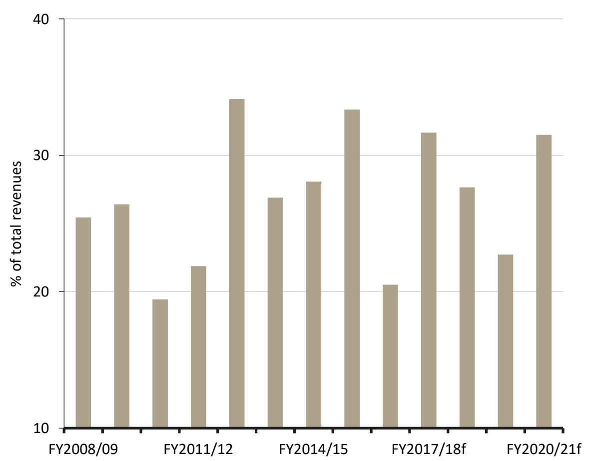
Source: Ministry of Finance, Statistics Botswana, Bank of Botswana, Standard Bank Research

Fiscal balance



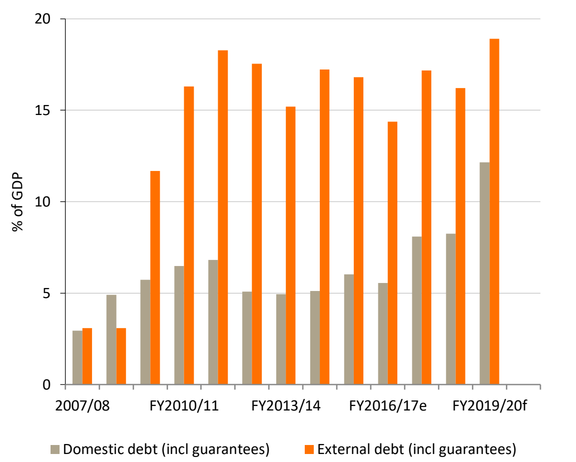
Source: Ministry of Finance, Statistics Botswana, Bank of Botswana, Standard Bank Research

SACU receipts



Source: Ministry of Finance; Standard Bank Research

Domestic and external debt



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	2.1	2.1	2.2	2.3	2.4	2.4	2.4
Nominal GDP (BWP bn)	145.9	170.6	180.1	190.4	197.3	179.5	193.1
Nominal GDP (USD bn)	14.31	15.73	17.48	18.65	18.37	15.47	17.35
GDP / capita (USD)	6 892	7 537	7 944	7 992	7 731	6 460	7 194
Real GDP growth (%)	-1.6	4.3	2.9	4.5	3.0	-11.8	4.5
Diamond ('000 carats)	20 824	20 892	22 724	24 724	23 759	17 259	20 892
Coal (thousand tons)	2 066	2 066	2 068	2 070	2 062	1 711	1 891
Central Government Operations							
Budget balance / GDP (%)	3.7	-4.1	0.6	-1.0	-4.5	-4.2	-5.4
Domestic debt / GDP (%)	6.0	5.6	8.1	8.3	12.2	7.7	7.7
External / GDP (%)	16.8	14.4	17.2	16.2	18.9	13.4	13.4
Balance of Payments							
Exports of goods and services (USD bn)	6.2	7.5	6.0	6.3	5.3	3.9	4.5
Imports of goods and services (USD bn)	6.8	6.0	5.2	6.0	6.4	6.2	6.4
Trade balance (USD bn)	-0.6	1.5	0.8	0.3	-1.2	-2.3	-1.9
Current account (USD bn)	0.37	1.25	0.93	0.34	-0.98	-1.59	-1.54
- % of GDP	2.1	7.9	5.3	1.8	-5.3	-10.3	-8.9
Capital & Financial account (USD bn)	-0.90	-0.80	-1.09	0.01	-0.69	-0.66	-0.64
- FDI (USD bn)	0.18	-0.05	0.18	0.11	0.07	0.05	0.02
Basic balance / GDP (%)	3.9	7.6	6.4	2.4	-4.9	-10.0	-8.8
FX reserves (USD bn) pe	7.5	7.2	7.5	6.7	6.2	5.97	5.89
- Import cover (months) pe	13.3	14.4	17.2	13.3	13.0	12.6	12.5
Sovereign Credit Rating							
S&P	A-	A-	A-	A-	A-	BBB+	BBB+
Moody's	A2	A2	A2	A2	A2	A2	A2
Fitch	NR	NR	NR	NR	NR	NR	NR
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.1	2.8	3.3	3.2	2.8	2.8	3.1
Consumer inflation (%) pe	3.0	2.9	2.9	3.5	2.2	3.2	3.0
M3 money supply (% y/y) pa	18.6	7.7	3.4	4.3	10.9	4.6	6.8
M3 money supply (% y/y) pe	19.9	5.4	2.7	8.3	5.5	7.0	7.0
BOB Policy rate (%) pa	6.8	5.8	5.4	5.0	4.88	4.75	4.75
BOB Policy rate (%) pe	6.0	5.5	5.0	5.0	4.75	4.75	4.75
6-mnth rate (%) pe	1.2	1.0	1.3	1.6	1.8	2.0	1.9
5-yr rate (%) pe	5.5	4.3	4.1	4.4	4.2	4.5	4.5
USD/BWP pa	10.2	10.8	10.3	10.2	10.7	11.6	11.1
USD/BWP pe	10.9	10.7	10.2	10.7	10.6	11.3	11.0

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

Notes: pa – period average; pe – period end

Côte d'Ivoire: still relatively resilient

Medium-term outlook: a brief dip in growth

The disruption of the pandemic will likely restrain economic growth to only 3.1% y/y this year, instead of our previous 7.4% y/y forecast. That would be the slowest growth since the recession in 2011 that was precipitated by election violence. However, we'd then expect 7.4% y/y in 2021, matching the trajectory of the post-2011 period.

COVID-19 will depress investment spending. For one thing, the government will probably need to cut spending in order to constrain the fiscal deficit. For another, the private sector will also likely defer some capital expenditure programmes.

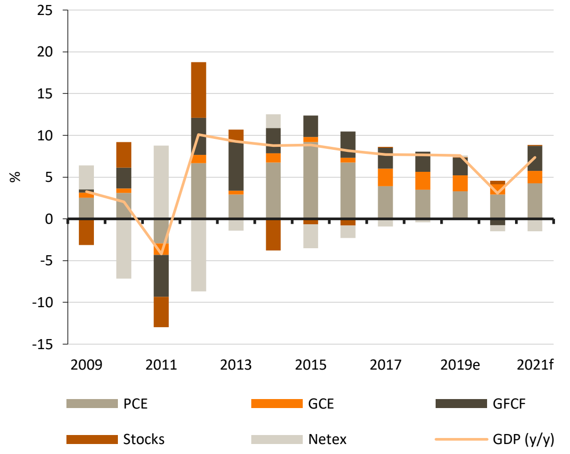
About the elections later this year, a source of uncertainty – President Ouattara running or not – is no longer pertinent as he has stated that he wouldn't. But there's still a great deal of uncertainty about Guillaume Soro's supporters' response to the embezzlement and money laundering charges against him. He was ultimately found guilty, and sentenced to a 20-y jail term, in absentia.

The relative resilience of the economy, illustrated by sustained growth of over 7.0% y/y since 2012, is testament to the hard-worn macroeconomic gains over the past 8-y. Our bull scenario, in which the spread of the disease turns out to be less extensive than we assume in our base case, the economy could grow over of 7.0% y/y again, even as soon as Q4:20. If so, a recovery in global financial markets would make it easy for the government to obtain international financing. Private capital inflows, like FDI, would also recover much quicker than in our base case.

Our bear scenario, in which the disease spreads so quickly that the government is forced to tighten containment measures, cannot be ruled out. This scenario would likely depress the production of export crops and agro-processing industries. Fiscal pressures under this scenario would require forceful consolidation once the crisis abated. Such fiscal consolidation would probably be a factor to lead to relatively depressed growth in the medium term.

The elections are meant to take place at the end of Oct but COVID-19 may well delay them, thereby prolonging the uncertainty around the elections, and thereby dampening business confidence. But, even so, we'd expect growth of 0.6% y/y in 2020.

Composition of GDP by demand



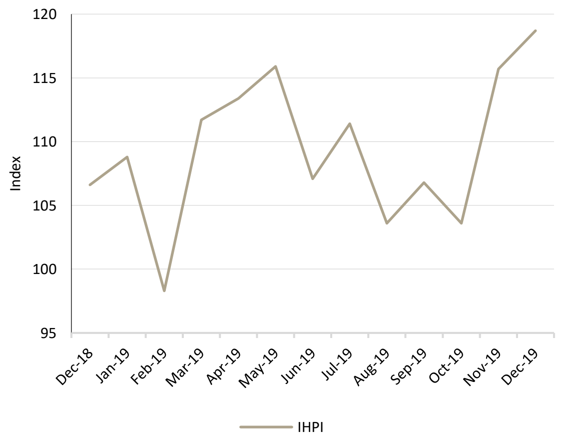
Source: Institut National de la Statistique; Standard Bank Research

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

Harmonised Index of Industrial Production



Source: Institut National de la Statistique

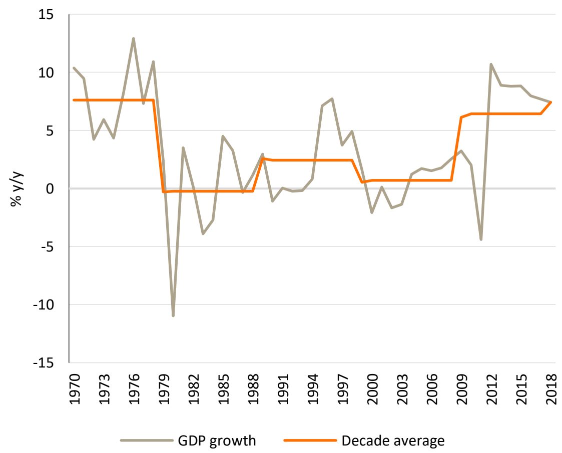
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	4.1	1.2	2.5	4.6	5.8	8.5	7.9	7.2	7.6	7.9	6.9	7.7	7.1	6.7	6.9	7.2
CPI (% y/y) pe	2.4	1.6	2.2	1.6	1.7	2.0	2.0	1.7	1.6	2.1	2.2	2.1	2.0	1.5	1.4	1.4
Policy interest rate (%) 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	4.5	4.5	4.5	4.5
3-m rate (%) pe	3.9	2.6	2.9	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
6-m rate (%) pe	4.2	4.6	4.8	4.6	4.5	4.4	4.2	4.3	4.4	4.2	4.2	4.2	4.2	4.2	4.2	4.2
USD/XOF pe	596	637	625	596	575	561	547	538	521	508	505	490	505	505	525	525
Bull scenario																
GDP (% y/y) pa	4.1	3.5	5.0	7.4	7.9	9.3	8.7	9.0	8.4	8.7	8.2	8.5	8.4	8.0	8.2	8.5
CPI (% y/y) pe	2.4	1.9	2.7	3.1	3.2	3.1	2.8	2.6	2.3	2.4	2.8	3.1	3.3	2.8	3.1	2.7
Policy interest rate (%) 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	4.5	4.5	4.5	4.5
3-m rate (%) pe	3.9	3.4	3.3	3.5	3.7	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
6-m rate (%) pe	4.2	5.4	5.2	5.6	5.8	6.2	5.7	5.6	5.7	5.1	5.1	5.1	5.1	5.1	5.1	5.1
USD/XOF pe	596	637	596	570	551	547	525	525	521	508	505	505	505	497	505	486
Bear scenario																
GDP (% y/y) pa	4.1	-1.8	-1.0	1.4	3.8	5.8	6.2	6.0	6.9	7.2	6.2	7.2	6.9	6.5	6.7	7.0
CPI (% y/y) pe	2.4	1.4	0.9	1.1	1.3	1.6	1.3	1.6	1.2	1.7	2.0	1.9	1.8	1.3	1.2	1.2
Policy interest rate (%) pe	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
3-m rate (%) pe	3.9	2.4	2.2	1.8	1.7	1.5	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
6-m rate (%) pe	4.2	4.4	4.1	3.9	3.8	3.5	3.6	4.0	4.1	3.9	3.9	3.9	3.9	3.9	3.9	3.9
USD/XOF pe	596	637	656	690	729	729	690	690	656	656	625	596	570	570	547	547

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

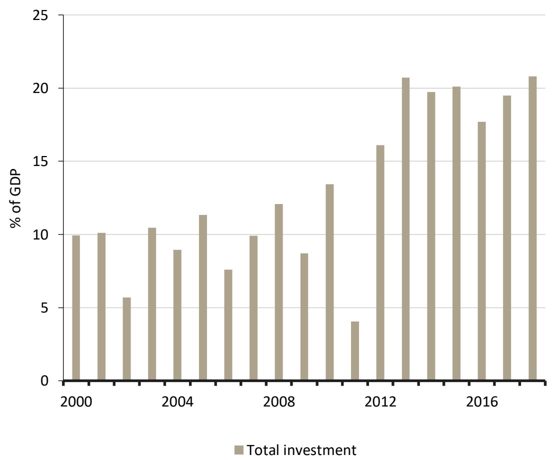
Notes: pa - period average; pe - period end

Long-term growth performance



Source: Bloomberg

Investment spending



Source: International Monetary Fund

Balance of payments: under pressure

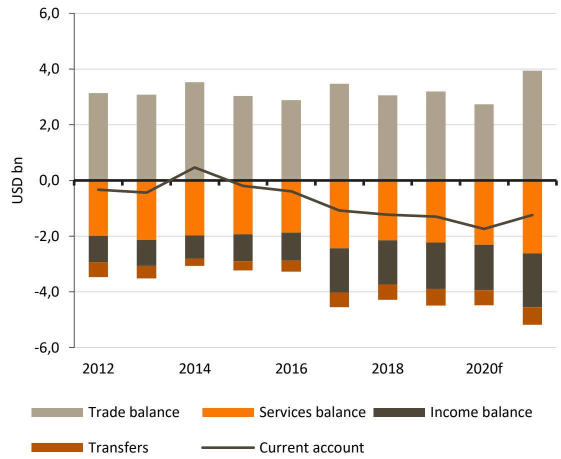
We expect the C/A deficit to widen to 4.0% of GDP in 2020, before narrowing to 2.4% of GDP in 2021. Containment measures by the government in reaction to COVID-19 will disrupt economic activity. Furthermore, external demand from China and Europe will also be severely restricted for much of H1:20, and they account for more than 50% of total goods trade for Côte d'Ivoire. However, COVID-19 is already abating in those regions, so external demand, and hence exports, may well recover well before import demand does. Therefore, we'd expect the trade surplus recovering in 2021, reducing the overall C/A deficit in that year.

There are many workers from the region working in Côte d'Ivoire, resulting in remittance outflows predominating. While these outflows are likely to dwindle somewhat given the disruption to economic activity, that wouldn't much alter the trajectory of the C/A deficit.

Private financial inflows will probably be inadequate to finance the C/A deficit. The collapse in confidence due to the spread of the disease will likely hamper FDI inflows. In H1:20 the government will also likely find it hard to raise international financing.

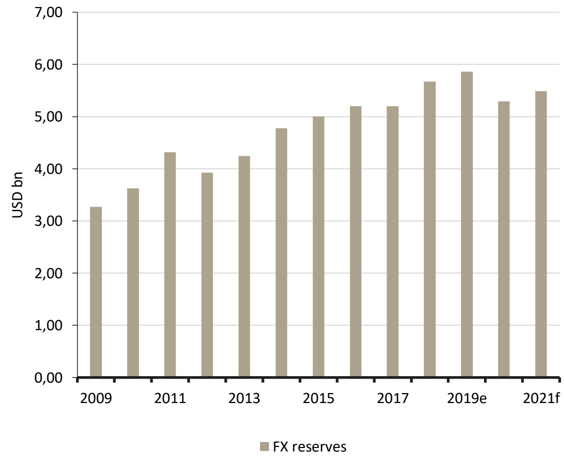
True, it has sought assistance from the IMF, which disbursed a total of USD886.2m under the Rapid Credit Facility and the Rapid Credit Line. However, the IMF analysis shows that there will still be a funding gap. Just as other governments have done, the Ivorian government has sought more financing from the likes of the World Bank, African Development Bank, primarily for health-related expenditure. Nevertheless, FX reserves are likely to decline this year. But we see import coverage remaining above 6-m both this year and next.

Current account developments



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

FX reserves



Source: Bloomberg; Standard Bank Research

FX outlook: the XOF remains linked to the EUR

COVID-19 will probably quell talk of reforming the XOF for much of this year as policymakers will be focused on measures to combat the spread of the disease. Even over the next 4 years the XOF will likely remain linked to the EUR.

Much discussion and consultation still would need to occur among members of ECOWAS before the ECO replaces the XOF. Even the UEMOA, which has indicated its intention to rename the XOF as the ECO, has affirmed maintaining the peg to the EUR at the current level. For practical purposes, it seems likely that the XOF will be pegged at 655.97 to the EUR over the next 3 – 4 years. Our G10 strategist expects EUR/USD to hover at 1.10 – 1.03, and head higher next year, so the bias is for USD/XOF to range at 595 – 640 this year. We see it declining further, to 537.6 at end-2021, and briefly falling below 500 in 2022.

USD/XOF: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: maintaining a neutral stance

It still looks highly likely that the BCEAO's MPC will leave the monetary policy stance unchanged this year. Inflation will probably remain very subdued throughout the region, with little chance that the committee will find reasons to change its assessment of inflation risks.

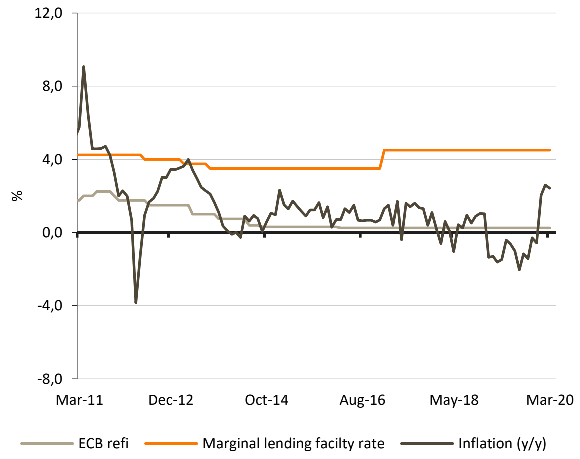
After the 4 Dec policy meeting, the committee expressed a constructive view of inflation across the region. It expects regional inflation to be 1.6% y/y over the next 24-m, a level that the committee judges to be in line with the price stability objective pursued by the BCEAO. Inflation across the region averaged -1.0% y/y in Q3:19, down from -0.7% y/y in Q2:19.

As has been the case with other central banks, the committee responded to the spread of COVID-19 by, among other measures, imploring the public to rely on electronic means of making payments. It also took measures to ease pre-empt liquidity challenges that businesses in the region might face as a consequence of COVID-19.

Naturally, given the likely disruption to economic activity across the region, it is likely that there will be a downward bias to inflation over the course of the next 6 – 12 months. Hence, the committee might have an easing bias. However, we believe that it would take far greater disruption to economic activity than we expect for the committee to ease the monetary policy stance.

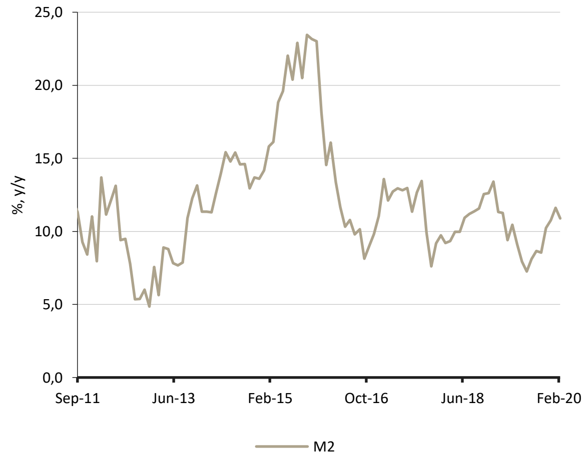
Inflation in Côte d'Ivoire will probably be similarly subdued. The country experienced deflation during 2019, averaging 1.1% y/y. Although inflation jumped to an average of 2.3% y/y in Q1:20, we see it ending this year at 1.6% y/y, averaging 2.1% y/y. It will likely hover just below 2.0% y/y in 2021, ending that year at 1.7% y/y.

Inflation and interest rates



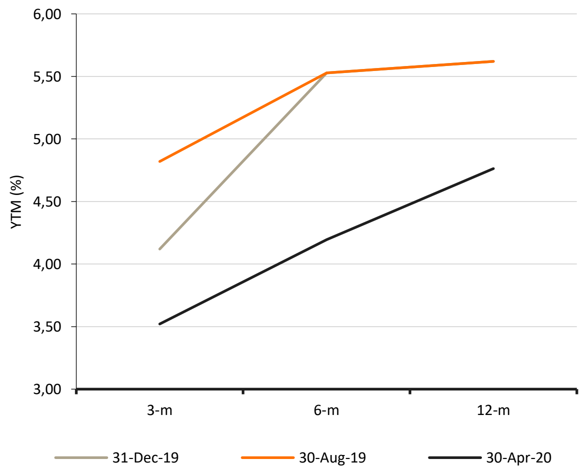
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Money supply growth



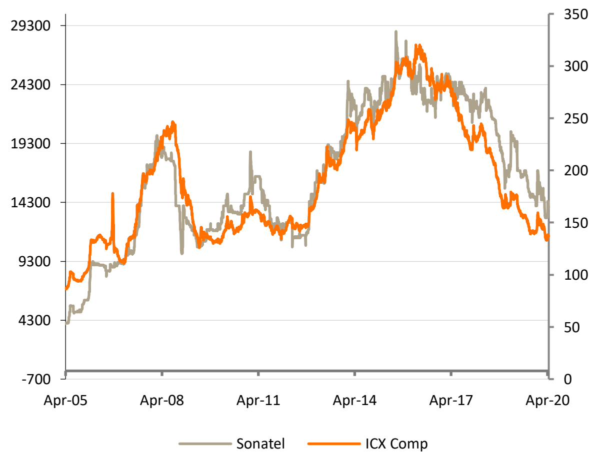
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Yield curve changes



Source: Bloomberg

Capital market outlook



Source: BRVM; Bloomberg

Fiscal policy: looser, for now

COVID-19 prompted the government to loosen fiscal policy. In the process of applying for the RCF and RFI, it indicated to the IMF that the budget deficit would be 5.2% of GDP this year. Among the measures that the government has undertaken are increasing cash transfers to poor households, indirect funding to SMEs, and deferring some tax payments.

The government has committed to achieving the regional convergence criteria of 3.0% of GDP for the fiscal deficit after the crisis has abated. It has helped that the government made fiscal consolidation efforts under the auspices of the economic programme funded by the IMF's Extended Credit Facility and the Extended Fund Facility. The IMF completed the 6th review of these programmes in Dec and approved the government's request to extend it by 1-y, ensuring that it would expire after this year's presidential elections.

In the Debt Sustainability Analysis, the IMF and World Bank still judged the risk of external debt distress as moderate. The IMF anticipates the fiscal deficit returning to the pre-crisis level once the crisis abates. However, the Fund continues to warn that under its baseline scenario the ratio of external debt service to revenue remains close to breaching the threshold in the medium term.

Additionally, the DSA now indicates that the debt is more vulnerable to shocks than was the case when a DSA was conducted in Dec. In a stress test, the ratio breaches the threshold, highlighting the need for the government to boost domestic revenue mobilisation.

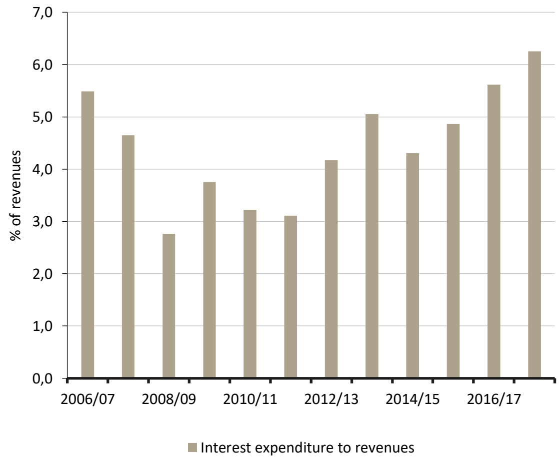
The government admits considerable risks to its fiscal projections. However, if revenue were to turn out to be worse than it projects, it believes that it could make adjustment to some spending lines. For example, it could delay implementing some infrastructure projects.

Central government budget

	2018	2019	2020
Tax revenue	16.3	17.0	17.2
Non-tax revenue	2.6	2.4	2.3
Grants	1.2	1.2	1.1
Total expenditure	24.0	23.6	23.5
Recurrent expenditure	14.3	13.8	13.3
- Of which: interest due	1.8	2.0	2.1
- Of which: wages	6.7	6.6	6.3
Capital expenditure	6.8	6.6	6.8
Budget deficit (incl. grants)	-3.9	-3.1	-2.9
Budget deficit (excl. grants)	-5.2	-4.2	-4.0
Domestic financing	-2.6	-1.2	0.3
External financing	5.6	3.4	2.7

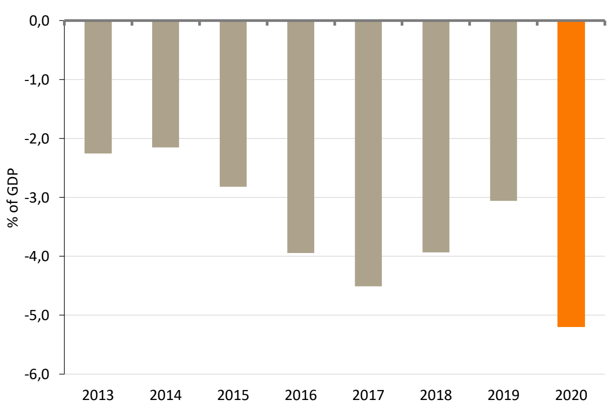
Source: Ministère de l'Economie et des Finances

Interest expenditure



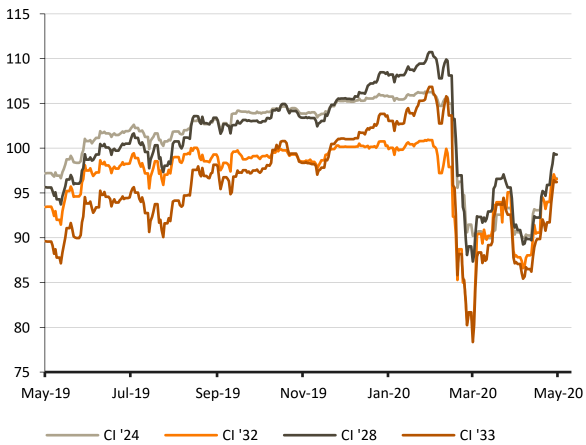
Source: Ministère de l'Economie et des Finances

Budget deficit (incl. grants)



Source: Ministère de l'Economie et des Finances

Eurobond prices – mid



Source: Bloomberg

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	24	24	25	25	26	26	26
Nominal GDP (XOF bn)	19 595	20 931	22 151	24 258	25 833	27 175	29 680
Nominal GDP (USD bn)	33.0	33.7	38.2	42.4	43.7	44.3	53.5
GDP / capita (USD)	1 374	1 403	1 529	1 694	1 679	1 691	2 026
Real GDP growth (%)	8.8	8.2	7.7	7.7	7.6	3.1	7.4
Oil production (m bbl)	8.5	10.0	11.0	11.0	13.0	15.0	15.5
Cocoa production (m tonnes)	1.8	1.6	1.8	1.8	2.0	2.4	2.3
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-4.3	-5.6	-5.7	-5.2	-4.2	-4.2	-4.3
Budget balance (incl. grants) / GDP (%)	-3.4	-3.9	-4.5	-3.9	-3.1	-3.0	-3.0
Domestic debt / GDP (%)	16.4	19.3	19.3	16.6	14.6	13.9	14.4
External debt / GDP (%)	21.4	23.8	26.0	31.0	33.3	35.1	34.1
Balance of Payments							
Exports of goods (USD bn)	11.2	10.2	12.2	12.0	12.2	11.4	14.5
Imports of goods (USD bn)	-8.2	-7.4	-8.8	-8.9	-9.0	-8.6	-10.5
Trade balance	3.0	2.9	3.5	3.1	3.2	2.8	4.1
Current account (USD bn)	-0.2	-0.4	-1.1	-1.2	-1.3	-1.8	-1.3
- % of GDP	-0.6	-1.2	-2.8	-2.9	-3.0	-4.0	-2.4
Capital & Financial account (USD bn)	0.4	0.3	1.1	1.7	1.5	1.2	1.5
- FDI (USDbn)	0.5	0.5	0.3	0.6	0.6	0.4	0.7
Basic balance / GDP (%)	0.8	0.4	-2.0	-1.5	-1.6	-3.0	-1.2
FX reserves (USD bn) pe	5.0	5.2	5.2	5.7	5.9	5.3	5.5
- Import cover (months) pe	7.3	8.5	7.1	7.6	7.8	7.4	6.3
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	B	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	1.2	0.8	0.7	0.4	-1.1	2.1	1.9
Consumer inflation (%) pe	1.4	0.7	1.1	1.0	-0.6	1.6	1.7
M2 money supply (% y/y) pa	20.3	11.2	11.8	11.0	9.4	11.9	13.4
M2 money supply (% y/y) pe	18.2	11.0	9.2	13.4	10.8	12.0	12.6
Marginal lending facility (%) pe	3.5	3.5	4.5	4.5	4.5	4.5	4.5
USD/XOF pa	594.2	621.8	579.3	572.7	591.7	613.4	555.0
USD/XOF pe	609.9	612.0	558.2	580.3	585.7	596.3	537.6

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: balance of payments pressures mounting

Medium-term outlook: pandemic disruptions create uncertainty

The COVID-19 pandemic will have a significant impact on the DRC economy. It had been poised to grow by over 4% y/y in the next 2 – 3 years but now the impact of this pandemic is likely to see a contraction of -4.0% y/y this year, with any kind of recovery likely only next year. In our base scenario overleaf, we forecast economic growth recovering to over 5.0% y/y only after 2022.

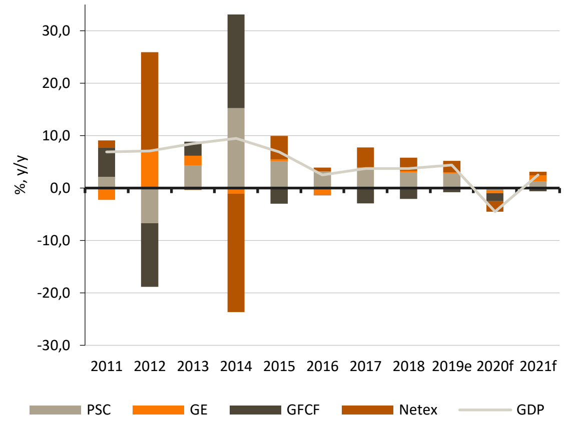
Lower copper prices since Mar, combined with the lockdown, will restrain DRC copper production. Thus, investment in the extractive sector will likely stall. This could become a critical factor to undermine long-term growth in this sector. While the extractive sector contributes 26% to GDP, it plays a meaningful role in driving up overall GDP growth. Lower mineral production is expected to spill over to the wider economy, affecting the fuels, chemicals, machinery, and transportation sub-sectors.

How this pandemic will evolve poses a large risk. The number of new infections in DRC is rising and a peak is unknown. Nonetheless, it appears that more tests are being conducted and lockdown measures enforced.

In our bear scenario, growth could contract by -6.5% y/y, recovering to above 4.0% y/y only in 2023. In this scenario, the government finds it hard to prevent further deterioration of fiscal and external balances. External funding conditions barely improve, and pressures on the balance of payments intensify. Hence, there is a sharp correction in the currency. Moreover, in this bearish scenario, currency weakness passes through to inflation, pushing inflation markedly higher than in the base case scenario. As much as the BCC would be eager to boost economic activity, high and rising inflation may compel the MPC to tighten its monetary policy stance, thereby pushing T-bill yields higher than in the base case.

Our bull case sees GDP growth at -3.7% y/y in 2020, then recovering strongly to over 4.0% y/y in 2022. Of course, the economy's growth prospects are still diminished by weaker prospects of the extractive sector over the near term. Recall, from the start of this year, large copper and cobalt producers placed their operations in the DRC under care and maintenance. Existing fiscal constraints will likely prevent the government from contributing meaningfully to the economy. Still, the IMF programme in place could over time become a catalyst in repairing relationships with the wider donor community.

Composition of GDP by demand



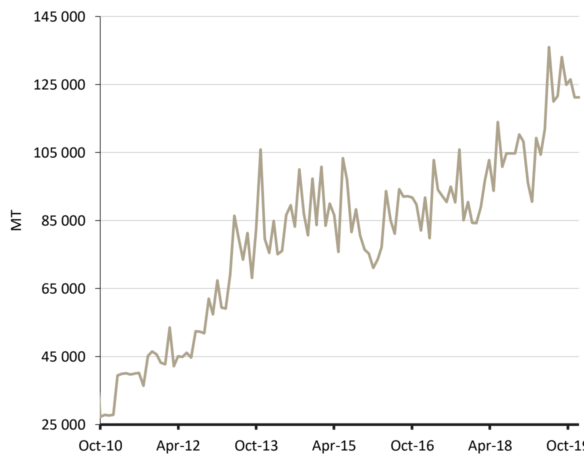
Source: Banque Centrale du Congo; Standard Bank Research

Contribution of GDP by sector (% of total)

	2011	2013	2015	2016	2017	2018
Agriculture, forestry, fishing & hunting	47.7	39.4	27.9	17.1	16.6	15.9
Mining and quarrying	8.9	12.1	33.5	25.8	26.5	29.3
Manufacturing	5.2	5.5	5	12.4	12.2	11.5
Electricity, gas and water	3.2	3.3	3.5	0.7	0.7	0.7
Construction	5.2	6.1	4.5	3	3.5	4.2
Wholesale and retail trade, hotels and restaurants	16.6	17.2	10.5	9.6	9.3	14.9
Transport, storage and communication	4.2	5	6	12.9	12.7	11.8
Finance, real estate and business services	5.6	7.5	5	15.5	15.5	9.2
General government services	3.4	3.8	4	2.3	3.5	3.4
GDP	100	100	100	100	100	100

Source: Banque Centrale du Congo; Standard Bank Research

Copper production



Source: Banque Centrale du Congo; Standard Bank Research

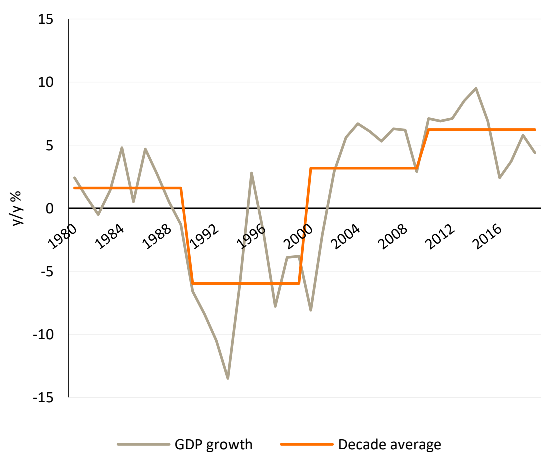
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	-4.5	-4.5	-4.5	-4.5	2.5	2.5	2.5	2.5	4.0	4.0	4.0	4.0	5.5	5.5	5.5	5.5
CPI (% y/y) pe	5.3	9.6	15.9	21.6	22.8	28.9	25.7	21.6	11.7	10.0	11.1	13.8	12.9	8.2	6.1	5.9
Policy rate (%) pe	7.5	7.5	7.5	12.0	12.0	12.0	15.0	15.0	15.0	13.0	13.0	13.0	13.0	9.0	9.0	9.0
3-m rate (%) pe	6.5	8.2	11.4	13.0	13.5	15.0	17.4	18.0	17.3	15.3	13.5	10.2	9.3	8.4	7.2	7.4
USD/CDF pe	1707.0	1779.1	1859.1	1942.8	2005.0	2042.7	2081.1	2120.2	2136.1	2152.1	2162.9	2173.7	2184.6	2190.0	2195.5	2201.0
Bull scenario																
GDP (% y/y) pa	-3.7	-3.7	-3.7	-3.7	4.0	4.0	4.0	4.0	5.4	5.4	5.4	5.4	6.3	6.3	6.3	6.3
CPI (% y/y) pe	5.3	8.9	15.4	15.6	16.8	17.9	13.7	11.6	11.1	9.4	10.5	13.2	12.1	7.4	5.3	5.1
Policy rate (%) pe	7.5	7.5	7.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	7.0	7.0
3-m rate (%) pe	6.5	8.0	11.2	12.5	13.0	14.5	16.9	17.5	16.8	14.8	13.0	9.7	8.8	7.9	6.7	6.9
USD/CDF pe	1707.0	1766.7	1828.6	1874.3	1921.2	1969.2	1993.8	2018.7	2033.9	2049.1	2064.5	2080.0	2085.2	2087.3	2089.3	2091.4
Bear scenario																
GDP (% y/y) pa	-6.5	-6.5	-6.5	-6.5	1.3	1.3	1.3	1.3	3.3	3.3	3.3	3.3	4.9	4.9	4.9	4.9
CPI (% y/y) pe	5.3	11.6	17.9	23.6	26.8	38.9	37.7	33.6	21.7	24.0	21.1	16.8	10.9	5.2	7.1	6.4
Policy rate (%) pe	7.5	7.5	7.5	14.0	14.0	18.0	18.0	18.0	18.0	18.0	18.0	14.0	14.0	14.0	12.0	12.0
3-m rate (%) pe	6.5	9.1	12.3	13.9	14.4	15.9	18.3	18.9	18.2	16.2	14.3	11.1	10.2	9.3	8.1	8.3
USD/CDF pe	1707.0	1809.4	1936.1	2071.6	2195.9	2327.7	2467.3	2516.7	2567.0	2618.3	2670.7	2697.4	2724.4	2751.6	2779.1	2806.9

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

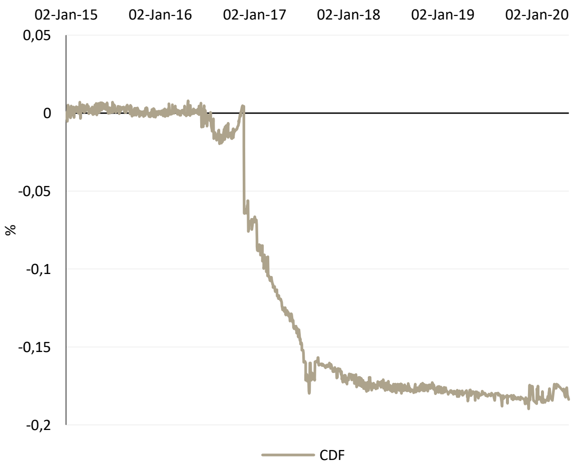
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Standard Bank Research

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: extreme pressures

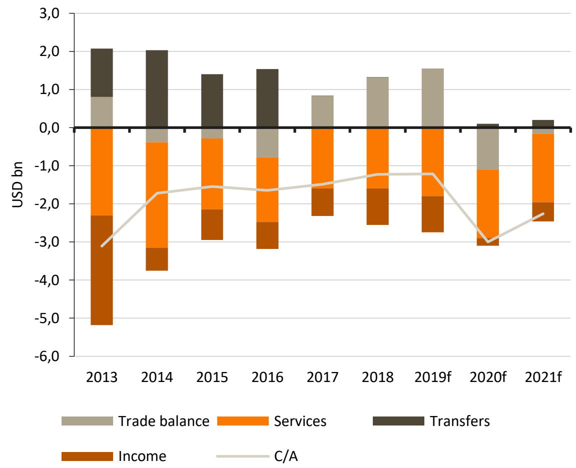
The balance of payments position seems set to deteriorate further in the near term. Particularly the trajectory of mineral exports, accounting for over 90% of exports, will fall sharply due to disruptions to the supply chain, reduced global demand, and declining commodity prices against the pandemic backdrop.

The C/A deficit will likely widen to over 5.0% of GDP in 2020. Ordinarily, a decline in mineral exports is accompanied by a decline in imports related to mineral production, which to some extend would limit pressures on the trade balance. However, the pandemic-relief efforts come with significant import requirements given the medical supplies and equipment required. Admittedly, current transfers may recover on account of pandemic-related aid inflows.

Near term, insufficient financial inflows could exacerbate the funding gap. FDI tends to be concentrated in the extractive sector. However, lower base metals prices, combined with an increasingly uncertain global outlook, may disrupt investment in this sector. Despite the government's efforts to improve the operating environment, FDI is not likely to increase significantly over the next 2-y.

The government's access to external finance remains limited, increasing the likelihood that financial inflows will be inadequate for the country's external financing needs. The BCC's financing of the government's budget in USD compounds pressure on FX reserves. The government's continued reliance on the BCC for FCY funding increases the country's external vulnerabilities since FX reserves are low at USD792m in Feb, which is consistent with 2-w of import cover. Since Dec, the IMF has approved two Rapid Credit Facilities totalling USD730m for the DRC to relieve immediate BOP pressures, which will provide a temporary boost to FX reserves. The government has also started buying FX from mining companies to boost FX reserves.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves

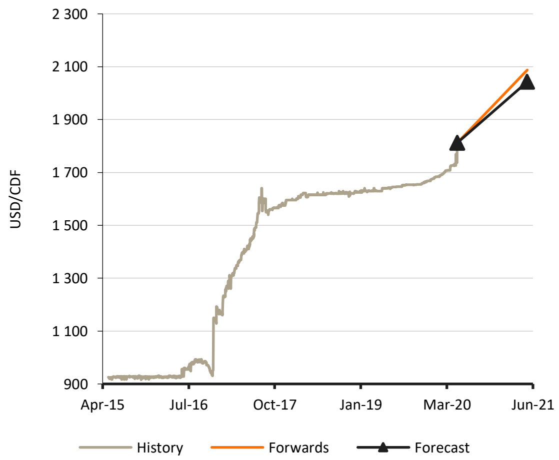
Source: Banque Centrale du Congo

FX outlook: moving higher, moving faster

We expect USD/CDF to end Q2:20 at 1780 and Q3:20 at 1860. While CDF depreciation seems inevitable this year, the magnitude is uncertain. The government's continued reliance on the central bank to finance the budget could precipitate a series of devaluations, which poses meaningful upside risk to the outlook. In our bear scenario, we see the USD/CDF ending 2020 at 2071 and 2021 at 2516.

After sharp depreciations in 2016/17, the USD/CDF depreciated just 1.9% in 2018 and 2.6% in 2019. Already we had expected the USD/CDF to rise more meaningfully this year as trade inflows were forecast to taper off due to reduced mineral production, but this will now be exacerbated by disruptions related to the pandemic.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: upside risks to inflation

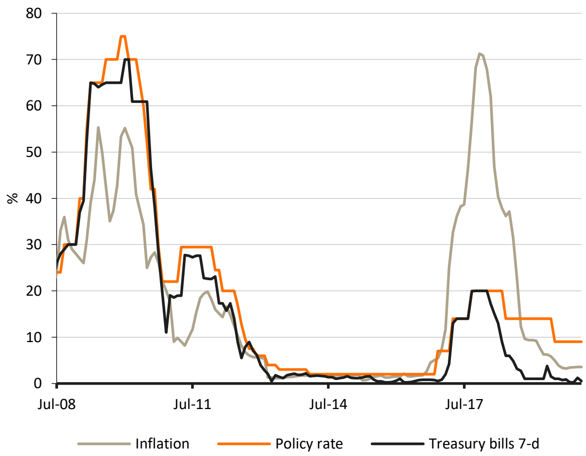
The BCC will likely leave the policy stance unchanged at 7.5% over the next 4-m. In fact, the committee may well leave the policy rate unchanged for the year. Since the effectiveness of the credit channel of monetary policy is limited by the weak transmission mechanism, the MPC would have to move the rate by large increments to improve the transmission of its policy decision.

At the end of Mar, in response to the Covid-19 pandemic, the BCC's MPC reduced its benchmark interest rate to 7.5% from 9.0% and reduced the reserve requirement ratio on CDF deposits to 0% from 2%. The MPC could supplement the Mar's rate cut with open-market operations.

According to the BCC, in Mar inflation reached 6.94% y/y. Perhaps the higher pace of currency depreciation during Q4:19 and Q1:20 drove inflation higher. As reported by the BCC, w/w inflation is creeping higher, reaching 1.94% at the end of Mar. It is likely that supply disruptions due to border closures could push the price of basic goods higher in coming months.

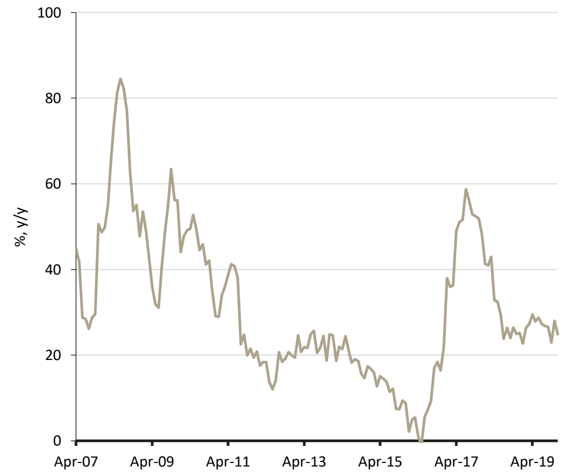
We see inflation rising to 9.7 % y/y in Jun, before reaching 21.6% y/y at year end. Admittedly, risks to inflation are to the upside. Perhaps the most notable risk to the outlook is a resumption of CDF depreciation, probably as a function of excessive money creation by the BCC. This would be consistent with episodes of currency depreciation that occurred during 2016/17 when the USD/CDF rose to 1595 in Jan 16 from 920 in Dec 17. Then, inflation peaked at 71.3% y/y in Aug 17 from 1.6% y/y in Jan 16.

Inflation and interest rates



Source: Banque Centrale du Congo; Standard Bank Research

Broad money supply growth



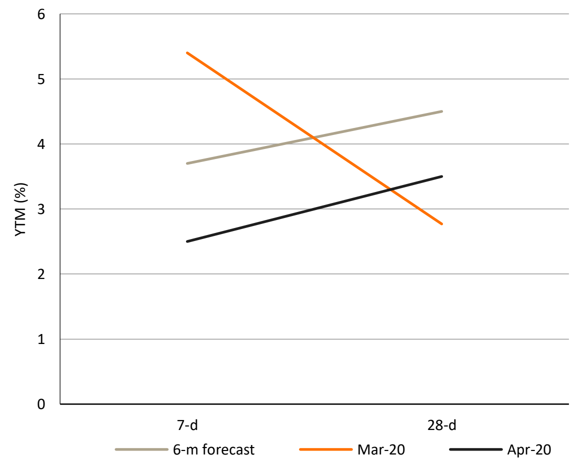
Source: Reuters; Standard Bank Research

Yield curve outlook: MOF's bond programme progresses

In the 4-m to Apr, the 7-d and the 28-d yields rose by 96 bps (to 2.5%) and 99 bps (to 3.5%) respectively. Typically, the BCC issues 84-d T-bills less frequently, yields have remained around 12%. Since risks are skewed to the upside in the inflation outlook, there is a chance that yields may rise further from current levels.

In Oct the Ministry of Finance reactivated the treasury bond market. After only issuing 91-d T-bills, the MOF started issuing 6-m T-bills in Apr as well. The MOF has plans to start issuing 181-d and 364-d T-bills. The MOF plans to issue CDF320m in bills in Q2:20. Mostly the weighted average yields on the 91-d and 181-d T-bills remained around 7% and 9%. At auctions, 91-d T-bill yields have steadily ticked higher for reaching 7% at the beginning of May.

Yield curve changes



Source: Banque Centrale du Congo; Standard Bank Research

Fiscal policy: fiscal pressure intensifies

The government is yet to revise the FY2020 budget to factor in the impact of the pandemic. In fact, even before the disruptions incurred by this pandemic, revenue performance was weak, as revenue mobilization reforms were lagging and expenditure pressures were mounting due to the President's Free Basic Educations initiative. Thus, the pandemic-related rising public health expenditure and widespread domestic revenue performance will intensify fiscal pressures.

Regardless, FY2020 budget revenue projects appeared too optimistic, even if these forecasts were predicated on structural reforms that improved revenue collection. Large mine closures indicated that taxes from the extractive sector would most likely shrink this year. The Treasury has anticipated that the budget would post a surplus in the first 3-m of the fiscal year but instead the deficit reached CDF140bn at the end of Mar.

The FY2020 budget demonstrated that the government expects its financing conditions to improve factoring in grants and budget support funding. In the face of the pandemic, in addition to funds from the IMF's second Rapid Credit Facility, the World Bank and other developmental partners have pledged financial support to DRC. The FY2020 budget forecast a deficit of deficit (excluding grants) of CDF846.5bn, which by estimates is around 0.9% of GDP. Even if the government rationalizes planned expenditure, it's likely that the budget deficit for FY2020 could be much wider than the government's budget.

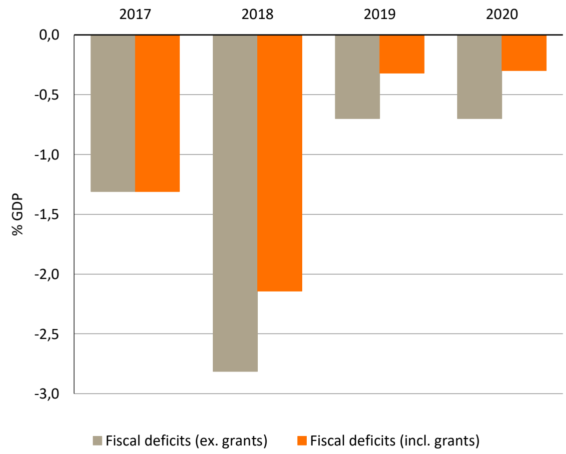
Recall that in previous years the government was impelled to execute the budget on a cash basis. Fiscal policy tightened since any deviation from executing the budget on a cash basis implied that the government would have to resort to the BCC for financing, or accumulate further arrears. Notwithstanding some improvement in its financing conditions, including re-engagement with developmental partners and the MOF introducing a bond programme, the government continues to rely on the BCC for financing.

Central government finances

% of GDP	2017	2018	2019f	2020f
Total central govt. revenue	6.7	9.5	12.5	17.4
Total central govt. expenditure	9.5	9.8	12.8	18.3
- Recurrent	8.5	9.8	8.6	8.8
- Interest	0.4	0.4	0.8	0.8
- Wages	3.3	3.6	4.6	5.1
- Development/transfers	1.1	0.8	2.4	3.5
Central govt. bal. (ex. grants)	-2.8	-0.3	-0.7	-0.8
Central govt. bal. (incl. grants)	-2.1	-0.3	-0.3	0.0
Net domestic borrowing (saving)	1.5	0.0	0.2	0.3
Net external borrowing (saving)	0.7	0.0	0.0	0.0
Grants (incl. HIPC)	0.7	0.0	0.3	0.8

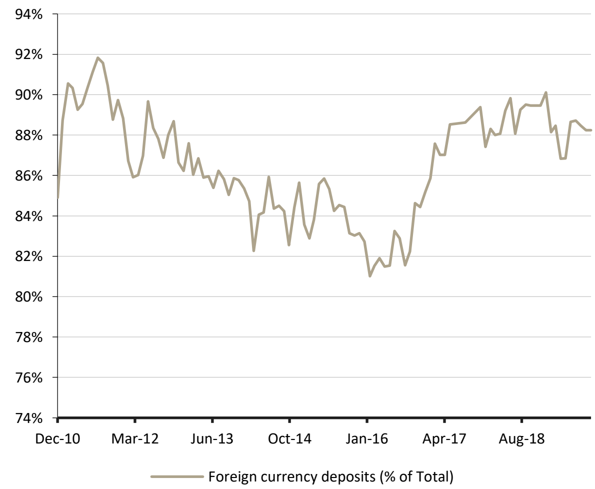
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Fiscal deficit



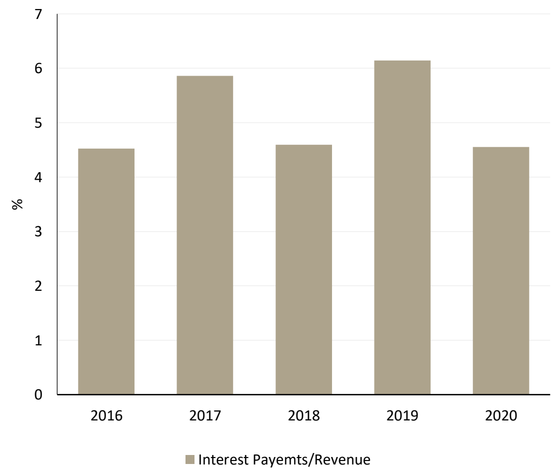
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Foreign currency deposits



Source: Banque Centrale du Congo; Standard Bank Research

Interest payments



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

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	81.5	83.9	86.3	88.8	91.3	93.9	95.0
Nominal GDP (CDF bn)	35 111.2	37 936.0	59 446.6	74 750.9	80 929.2	94 800.9	112 797.5
Nominal GDP (USD bn)	37.9	36.6	39.6	46.2	49.8	54.3	63.0
GDP / capita (USD)	465.4	436.0	458.3	520.7	545.4	578.4	663.3
Real GDP growth (%)	6.9	2.5	3.7	3.8	4.4	-4.5	2.5
Diamond production (m carats)	15.7	15.5	18.9	15.1	12.9	12.3	12.8
Crude oil ('000 barrels)	8 247.0	7 058.0	7 363.0	8 392.6	6 817.0	4 090.2	4 499.2
Copper ('000 tonnes)	1 039.0	1 024.0	1 090.0	1 225.3	1 420.4	923.3	997.1
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-0.8	0.0	-1.3	-2.8	-0.3	-0.7	-0.9
Domestic debt / GDP (%)	na	na	na	na	na	na	na
External debt / GDP (%)	13.7	16.4	15.2	20.5	20.5	21.5	25.0
Balance of Payments							
Exports (USD m)	10 284.8	8 199.0	10 780.0	12 970.0	15 930.0	10 500.0	13 515.0
Imports (USD m)	10 574.6	8 981.0	9 946.0	11 651.0	14 395.0	11 600.0	13 675.3
Trade balance (USD m)	-289.8	-782.0	834.0	1 319.0	1 535.0	-1 100.0	-160.3
Current account (USD m)	-1 545.6	-1 646.0	-1 485.8	-1 230.7	-1 214.7	-3 000.0	-2 260.3
- % of GDP	-4.1	-4.5	-3.8	-2.7	-2.4	-5.5	-3.6
Financial account (USD m)	1 543.6	1 362.8	1 250.0	1 200.0	1 450.0	2 000.0	1 800.0
- FDI (USD m)	1 165.7	890.0	950.0	1 080.0	1 200.0	1 400.0	1 600.0
Basic balance / GDP (%)	-1.0	-2.1	-1.4	-0.3	0.0	-2.9	-1.0
FX reserves (USD m) pe	1 404.0	852.1	844.0	879.5	1 031.0	700.0	810.0
- Import cover (mths) pe	1.6	1.1	1.0	0.9	0.9	0.7	0.7
Sovereign Credit Rating							
S&P	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	B3	B3	B3	B3	Caa1	Caa1	Caa1
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Headline inflation (%) pa	1.4	5.8	53.0	21.9	4.3	11.7	23.7
Headline inflation (%) pe	2.1	25.0	46.8	7.7	3.9	21.6	16.5
M3 money supply (% y/y) pa	12.1	9.0	43.4	16.7	14.3	25.6	16.7
Policy bank rate (%) pa	2.0	4.5	18.5	14.0	10.3	8.6	13.5
Policy bank rate (%) pe	2.0	7.0	20.0	14.0	9.0	12.0	15.0
7-d rate (%) pe	0.3	4.2	15.1	1.0	2.0	3.0	5.6
USD/CDF pa	925.8	1 037.1	1 503.0	1 617.4	1 625.2	1 822.0	2 062.2
USD/CDF pe	925.0	1 165.0	1 595.0	1 625.0	1 667.6	1 942.8	2 120.2

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: hard-won macro gains should shine through

Medium-term outlook: growth decelerating

It seems likely that GDP growth will decelerate meaningfully over the next 2-y. However, we believe that the economy will escape recession, managing to grow by 1.5% y/y in 2020 before a recovery commences in 2021, with growth accelerating to 3.2% y/y. We anticipate GDP growth eclipsing 5.0% y/y again only in 2023.

Needless to say, the COVID-19 pandemic creates considerable uncertainty. Egypt has the most number of confirmed cases among the countries in our coverage, now rapidly approaching 10k. Economic activity has clearly been hampered by the global spread of the disease. As can be expected, Egypt's tourism sector will be hard hit.

Of course, the economic disruption will be far more widespread than tourism. Indeed, the Markit Egypt PMI dropped to 29.7 in Apr, from 44.2 in Mar. Admittedly, the PMI was hovering near the 50 level that demarcates expansion from contraction in economic activity, actually mostly below that level, in the 2-y before the outbreak of the pandemic.

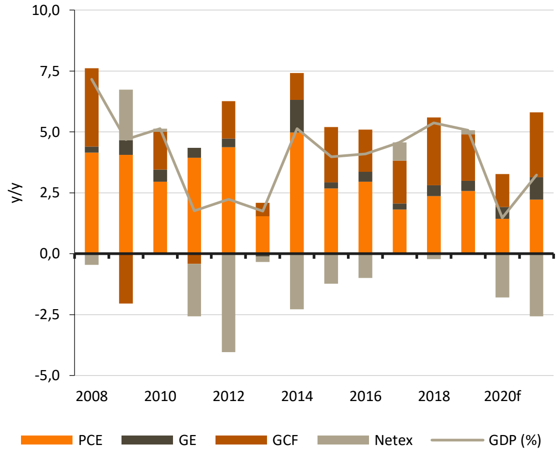
Given the uncertainty, we cannot dismiss a recession this year, with plenty of evidence pointing to a dramatic dislocation in economic activity. Given the speed at which the disease is spreading in Egypt, economic disruptions could be prolonged.

Additionally, even the government and the central bank indicated that much of the growth momentum of the economy since the promulgation of the economic reform programme in 2016 has been attributable to external demand. Naturally, the disruption to global economic activity due to the pandemic will depress external demand.

In a scenario in which the disease spreads extensively, and lingers, it is highly probable that the economy will contract by some 1.5% y/y this year, with a recovery only commencing next year. Even so, the economy would still contract in H1:21. It would return to above 5.0% y/y only by 2024.

Of course, we must also acknowledge that the government has sought some external financing in order to deal with the disease. It is accessing funding from the IMF under its emergency programmes, as well as a standby financing arrangement. Additionally, as has been the case since 2016, the government is likely to maintain pro-poor spending. Hence, in a scenario in which the spread of the disease turns out to be more limited and short-lived than we assume in our base case, economic growth would decelerate to just below 4.0% y/y this year, and top 5.0% y/y by next year.

Composition of GDP by demand



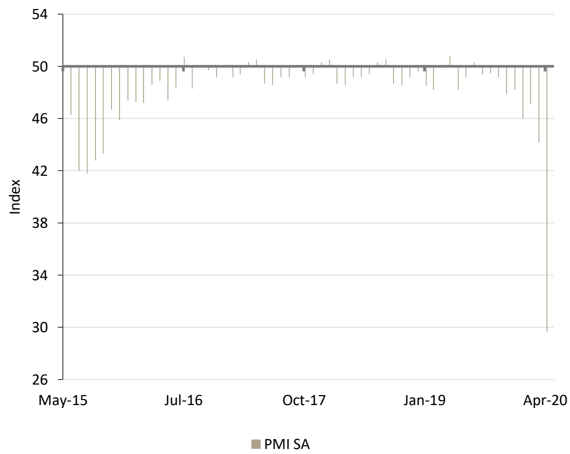
Source: Ministry of Planning; Standard Bank Research

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

Markit Egypt PMI



Source: Markit; Bloomberg

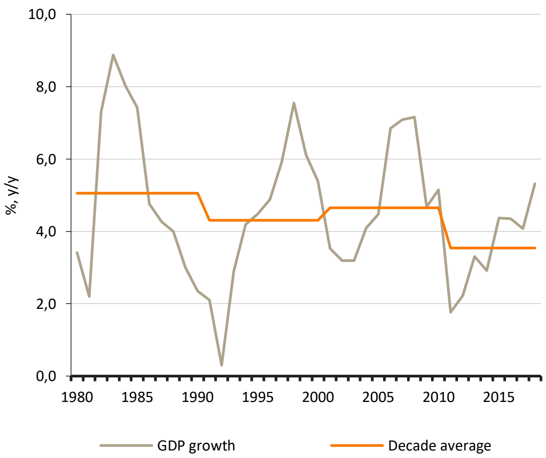
Medium-term economic scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	2.3	0.4	1.2	2.1	3.0	3.3	3.2	3.4	3.2	4.2	4.6	4.4	4.8	5.2	5.3	5.4
CPI (% y/y) pe	5.1	6.0	6.3	5.5	6.8	7.2	8.2	8.6	8.7	8.8	8.6	8.5	8.3	8.3	9.2	9.5
CBE lending rate (%) pe	10.25	10.25	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75
3-m rate (%) pe	12.60	12.50	12.10	12.00	11.90	11.95	11.90	11.90	11.80	11.80	11.90	11.90	12.00	12.00	12.10	12.15
6-m rate (%) pe	13.30	12.80	12.10	12.10	12.00	12.00	11.95	11.95	11.90	11.90	11.90	12.00	12.10	12.15	12.20	12.20
USD/EGP pe	15.80	15.85	15.75	15.60	15.40	15.60	15.85	16.00	16.15	16.25	16.20	16.35	16.30	16.50	16.75	16.90
Bull scenario																
GDP (% y/y) pa	3.5	3.1	4.0	4.9	5.5	6.1	5.7	5.9	6.0	6.2	6.7	6.6	6.5	6.4	6.5	6.7
CPI (% y/y) pa	5.1	6.2	6.7	6.1	7.5	7.9	8.8	9.5	9.7	10.1	10.2	10.0	9.8	9.9	10.8	11.0
CBE lending rate (%) pe	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.75	10.75	10.75	10.75	10.75	10.75	10.75	10.75
3-m rate (%) pe	12.60	12.50	12.90	13.00	13.05	13.10	13.15	13.40	13.55	13.55	13.65	13.90	14.00	14.00	14.10	14.15
6-m rate (%) pe	13.30	12.80	12.90	13.10	13.15	13.15	13.50	13.45	13.85	13.85	13.85	14.20	14.30	14.60	14.65	14.65
USD/EGP pe	15.80	15.70	15.45	15.15	14.95	15.25	15.40	15.55	15.70	15.90	15.85	16.15	16.10	16.30	16.55	16.70
Bear scenario																
GDP (% y/y) pa	1.8	-2.9	-2.5	-2.3	-1.3	-0.2	1.4	2.1	1.9	3.3	3.8	3.6	4.0	4.4	4.6	4.7
CPI (% y/y) pa	5.1	5.4	5.3	5.2	4.8	5.0	5.4	5.6	5.7	6.1	6.5	6.7	6.5	6.6	7.5	7.7
CBE lending rate (%) pe	10.25	10.25	9.75	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.75	9.25	9.25	9.25	9.25
3-m rate (%) pe	12.60	12.30	11.26	10.50	10.15	9.98	10.05	10.05	10.18	10.38	10.48	10.48	10.58	10.58	10.68	10.73
6-m rate (%) pe	13.30	12.80	11.26	10.60	10.25	10.03	10.10	10.10	10.28	10.48	10.48	10.58	10.68	10.73	10.78	10.78
USD/EGP pe	15.80	16.00	16.10	16.15	16.20	16.28	16.38	16.45	16.60	16.78	16.78	16.73	16.68	16.75	17.00	17.15

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

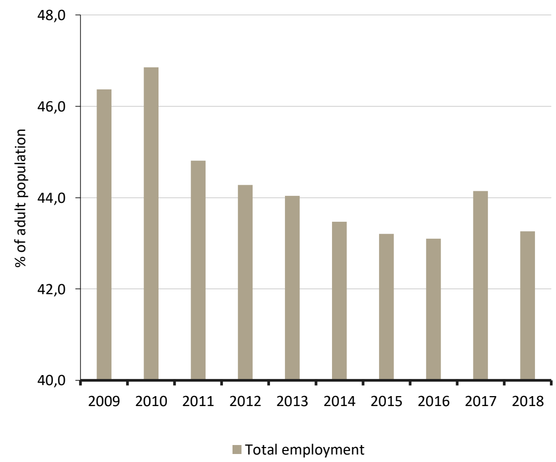
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Central Agency for Public Mobilisation and Statistics

Employment to population ratio



Source: Central Bank of Egypt

Balance of payments: weakness likely transitory

The disruption caused by COVID-19 will likely lead to a much wider C/A deficit over the next 2-y. We forecast that it will be 7.9% of GDP this year, up from what we estimate was 3.0% of GDP last year, before declining to 4.4% of GDP next year. The 2020 deficit would be at its widest since 2016.

The pressure on the BOP is most obvious when examining the recent trend in FX reserves. They collapsed to USD37.1bn in Apr, from USD40.1bn in Mar. Except for a temporary drop to USD42.6bn in Dec 18, they inched higher from the level of USD44.0bn they reached in Apr 18, to reach USD45.4bn in Dec 19 and USD45.5bn in Feb.

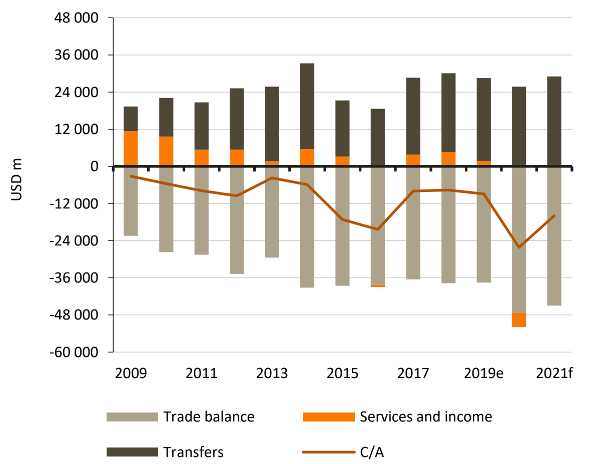
They will likely keep declining over the rest of this year, reaching USD29.7bn in Dec, covering 4.1-m of imports. During 2021 they will probably stabilise somewhat, ending the year at USD29.3bn, covering 3.7-m of imports.

The tourism sector is one obvious channel through which the COVID-19 pandemic will affect the BOP. The sector was enjoying a noticeable revival since suffering following the 'Arab Spring'. Travel services receipts, mainly tourism, rose to USD13.0bn in 2019, from USD11.5bn in 2018, eclipsing the previous record of USD12.5bn in 2010. Naturally, even when the government has successfully suppressed the disease, it is not clear how long it will be before normality resumes. In our base, case we see that happening next year.

We expect non-oil goods imports to contract this year, a reasonable outcome given the economic slowdown that we anticipate. Already, they decelerated to 2.1% y/y growth in 2019 following 12.2% y/y growth in 2018.

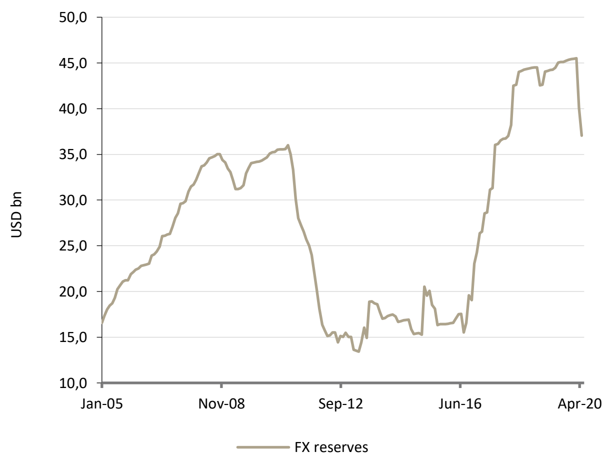
Official financial inflows, mainly government borrowing, are likely to be the predominant source of financing for the BOP. A resurgence of FDI and other private inflows is likely in 2021.

Current account developments



Source: Central Bank of Egypt; Standard Bank Research

FX reserves

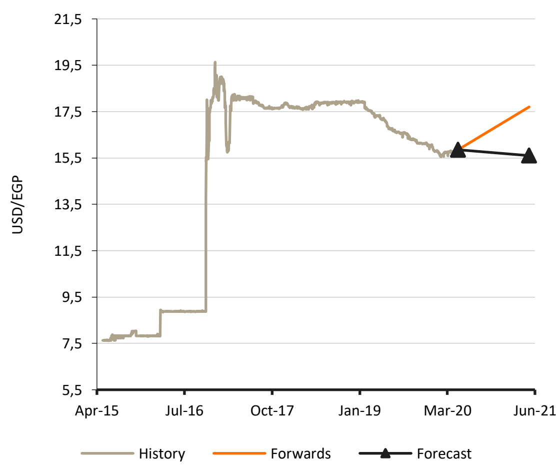


Source: Central Bank of Egypt

FX outlook: holding steady

It is hard to believe that USD/EGP will rise at anything like the path indicated by forwards. Indeed, we still expect the pair to fall somewhat from current levels in the near term before rising in the medium term. We expect the pair to drop to the 15.40 region by the beginning of 2021, before the pair rises to end that year at 16.00. Increased portfolio inflows attracted by high yields have been the predominant part of the narrative for the EGP over the past 3-y. However, there have been significant outflows in recent months. The amount of T-bills held by foreigners dropped to EGP149.3bn in Mar, from EGP310.3bn in Feb and EGP254.3bn in Dec 19. Holdings of T-bills by foreigners have not been that low since 2017. Those outflows were probably instrumental in the depreciation of the EGP that took USD/EGP to 15.85 from just under 15.40 earlier this year. In a scenario that would lead to a much weaker EGP, there would need to be much further pressure on the BOP.

USD/EGP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: further easing likely

The bias is heavily weighted towards the CBE's MPC easing the policy stance further than it has done so far. It is true that the committee has delivered the biggest cuts of its policy rates in a long time. However, real policy rates are still much higher than they have been historically.

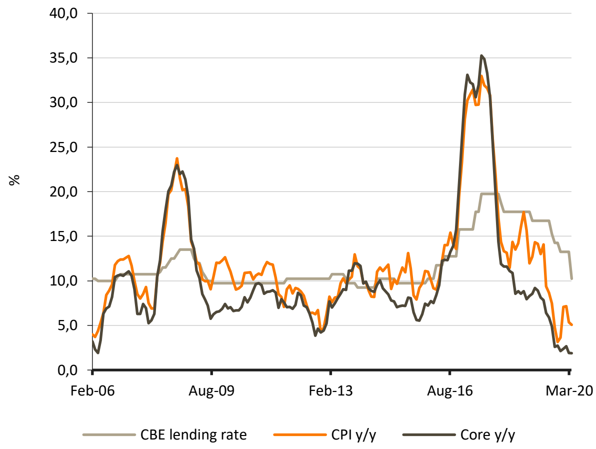
We have been wondering how long it would be for the committee to keep real policy rates so high. While GDP growth was elevated, the committee opted to emphasise risks to the inflation outlook in its policy deliberations. Yet, even before the pandemic, we were of the view that the committee would come to realise that it is overly cautious in its assessment.

COVID-19 has changed all that, putting the committee firmly on an easing path. The CBE's inflation target is 9% y/y ± 3 percentage points for Q4:20. Sure, the disruption caused by COVID-19 has the chance of disrupting the supply of some consumer goods that ordinarily would exert some upward pressure on headline inflation. However, demand is likely to be subdued too, something that is likely to keep overall inflation pressures subdued.

There has been plenty of evidence that inflation pressures have been subdued. Admittedly, quite a few of the sub-indices have been rising at a double-digit pace in recent months. This is especially true of the transport, health, recreation and education sub-indices. Yet, core inflation has been below 5% y/y in the past 8-m, averaging just 2.3% y/y in that period.

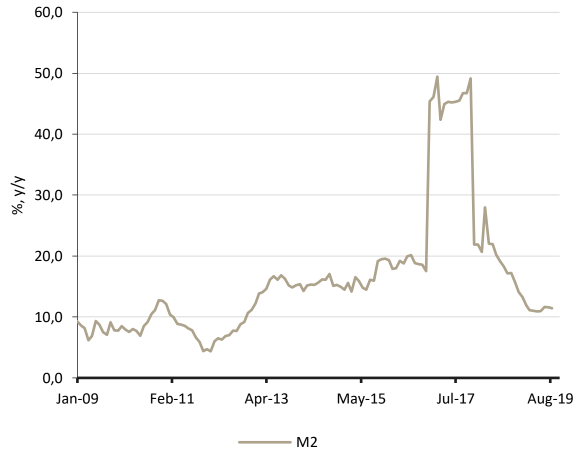
Core inflation has been in single digits since mid-2018. It was 1.9% y/y in both Feb and Mar. Headline inflation bottomed out at 3.1% y/y in Oct 19. After initially accelerating to 7.1% y/y and 7.2% y/y in Dec and Jan respectively, it subsided to 5.3% y/y and 5.1% y/y in Feb and Mar respectively. We expect it remaining in a 5% – 6% y/y range this year, ending the year at 5.5% y/y. It will likely inch higher during 2021 but remain well in single digits. By Dec 21 headline inflation will likely be at 8.6% y/y.

Inflation and interest rates



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

Money supply growth

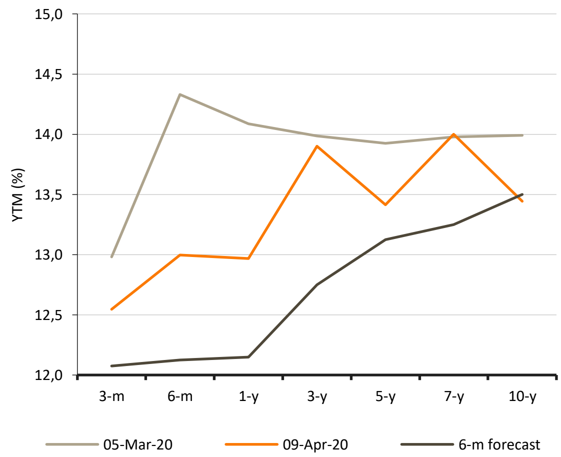


Source: Central Bank of Egypt

Yield curve outlook: bull-steepening

The yield curve will likely remain positively sloped over the coming 4 months. Even though yields drifted upward immediately after the spread of the pandemic to Egypt, that trend has ended. The easing bias of the CBE's MPC is a factor that is likely to keep T-bill yields anchored in the low teens. For some time, we have been expecting the yield curve to dis-invert. The dis-inversion of the yield curve came about much earlier than we were anticipating. At the beginning of the year we expected that the dis-inversion would only transpire sometime between Q2:20 and Q4:20. In some respects, this dis-inversion is testament to the normalisation of the economy and the markets following the promulgation of the government's economic reforms in late-2016. Real yields remain elevated and demand for paper remains strong. The combination of all these factors suggests that yields are likely to fall than rise, especially T-bill yields.

Changes in the yield curve



Source: Central Bank of Egypt; Standard Bank Research

Fiscal policy: crisis-management mode

Similar to other governments, the Egyptian government sought the assistance of the IMF via the Rapid Credit Facility. The Fund's Executive Board approved USD2.7bn in financing under the facility, noting the severe BOP shock that the country is going through. In addition to the tourism sector that has come to a standstill, the board noted that there has been capital flight and a slowdown in private remittance inflows.

As with other governments too, the government reallocated resources towards spending on the health sector. Additionally, the government is enhancing social support programmes, aiming to provide targeted support to the most vulnerable in society.

Needless to say, it is highly probable that the budget deficit will turn out to be a lot higher than the government expected. There is a very high probability that revenues will be materially lower than the government originally budgeted for. Just under 50% of total tax revenue is made up of taxes on goods and services. A deceleration in economic activity would depress the amount collected under this revenue line. As it so happens, last year revenues were lower than the government's budget.

Of course, it is likely that the government will seek more international financing. For one thing, it is looking for a standby facility from the IMF. It has also indicated its desire to obtain financing from other multilateral agencies as well as bilateral financing. Unless market conditions were to improve dramatically, we doubt that the government will look to issue a Eurobond over the next 6-m.

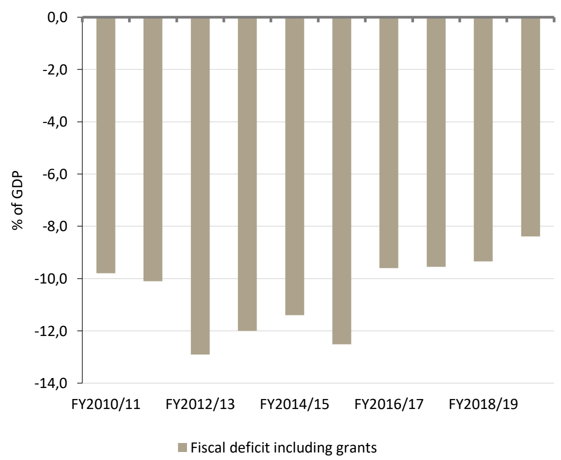
Incidentally, despite the upheaval triggered by the pandemic, which led to capital flight as foreign investors exited the Egyptian fixed income market, there is still high demand for paper in the primary auctions. Of course, real interest rates are still elevated. Hence, demand for paper might remain elevated, perhaps with some portfolio flows reversing in coming months.

Central government budget

% of GDP	FY2015/16	FY2017/18	FY2019/20
Total Revenue	18.0	21.5	21.8
Grants	0.1	0.0	0.1
Total Expenditure	30.6	31.0	30.3
Wages and salaries	7.9	6.2	5.8
Interest payments	9.0	9.8	10.9
Subsidies	7.4	8.6	6.3
Overall balance (- grants)	-12.6	-9.6	-8.5
Overall balance (+ grants)	-12.5	-9.5	-8.4

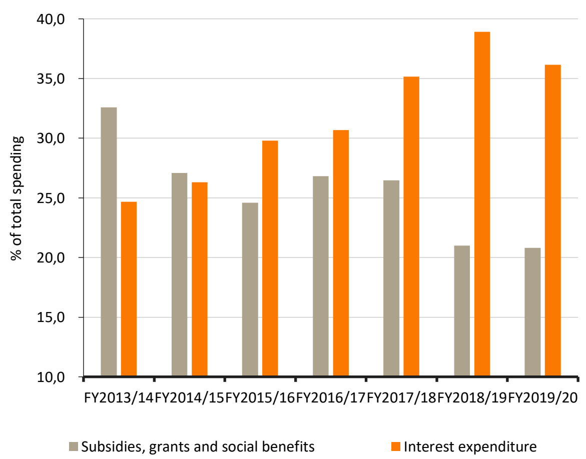
Source: Ministry of Finance

Fiscal deficits



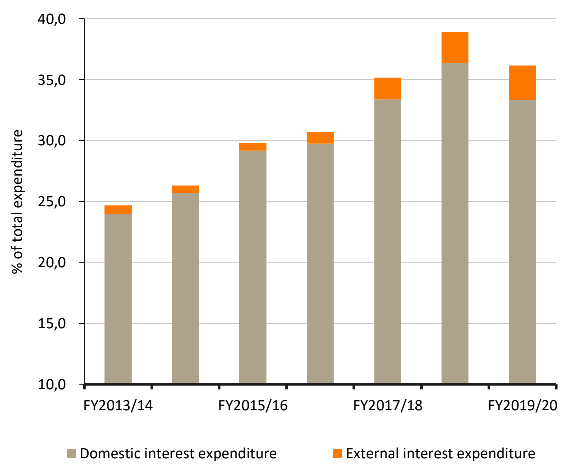
Source: Ministry of Finance

Components of expenditure



Source: Ministry of Finance

Composition of interest expenditure



Source: Ministry of Finance

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	89.0	91.0	95.2	97.1	99.4	101.7	104.0
Nominal GDP (EGP bn)	2 351	2 763	3 530	4 232	4 844	5 194	5 748
Nominal GDP (USD bn)	300.2	152.3	198.2	236.2	302.0	333.0	359.2
GDP / capita (USD)	3 373	1 674	2 082	2 432	3 039	3 273	3 454
Real GDP growth (%)	3.8	3.8	4.9	5.5	5.1	1.5	3.2
Oil Production ('000 b/d)	603.0	597.1	600.0	600.0	650.0	650.0	675.0
Gas Production (bcm)	36.6	34.6	42.1	45.0	50.0	55.0	65.0
Central Government Operations							
Budget balance (incl grants) / GDP (%)	-11.49	-12.51	-10.90	-9.68	-9.56	-8.69	-8.04
Budget balance (excl grants) / GDP (%)	-12.54	-12.64	-11.20	-9.80	-9.58	-8.77	-8.04
Domestic debt / GDP (%)	96.66	104.17	98.12	91.25	85.71	83.93	79.64
External debt / GDP (%)	8.35	19.47	20.82	20.55	18.89	18.93	19.64
Balance Of Payments							
Exports of goods and services (USD bn)	37.62	33.62	42.87	51.62	53.52	46.55	64.26
Imports of goods and services (USD bn)	-69.46	-68.28	-70.22	-76.33	-78.95	-87.05	-95.98
Trade balance (USD bn)	-31.84	-34.65	-27.35	-24.71	-25.43	-40.49	-31.72
Current account (USD bn)	-17.21	-20.34	-7.92	-6.28	-8.91	-26.15	-15.93
- % of GDP	-5.73	-13.35	-4.00	-2.66	-2.95	-7.85	-4.43
Capital & Financial account (USD bn)	23.32	32.72	23.84	14.70	11.97	9.92	15.53
- FDI (USD bn)	6.93	8.11	7.41	7.82	8.02	4.68	9.07
Basic balance / GDP (%)	-3.43	-8.03	-0.26	0.65	-0.30	-6.45	-1.91
FX reserves (USDbn) pe	16.45	24.27	37.00	42.55	45.42	29.68	29.28
- Import cover (mths) pe	2.84	4.26	6.32	6.69	6.90	4.09	3.66
Sovereign Credit Rating							
S&P	B-	B-	B-	B	B	B+	B+
Moody’s	B3	B3	B3	B3	B2	B2	B3
Fitch	B	B	B	B	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%, y/y) pa	10.37	13.72	29.61	14.40	9.37	5.72	7.42
Consumer inflation (%, y/y) pe	11.05	23.30	21.87	11.98	7.07	5.47	8.60
M2 money supply (%, y/y) pa	17.36	26.00	39.70	17.91	11.34	12.32	13.48
M2 money supply (%, y/y) pe	19.31	46.07	21.86	13.28	11.53	12.64	13.57
CBE overnight lending rate (%) pa	9.79	12.58	18.08	18.00	15.63	10.58	9.75
CBE overnight lending rate (%) pe	10.25	15.75	19.75	17.75	13.25	9.75	9.75
3-m rate (%) pe	11.18	18.92	18.77	19.50	16.20	14.30	13.60
1-y rate (%) pe	11.35	19.32	18.50	19.80	16.30	15.60	13.75
5-y rate (%) pe	13.17	16.72	15.73	18.80	14.70	15.10	14.20
USD/EGP pa	7.70	10.06	17.98	17.87	16.60	15.86	15.76
USD/EGP pe	7.83	18.14	17.81	17.92	16.04	15.60	16.00

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: external risks will weigh on growth

Medium-term outlook: tepid GDP growth

The pandemic's spread and the impact on economic activity compel us to revise our GDP growth forecasts. We now see GDP growth of 4.1% y/y and 4.3% y/y for 2020 and 2021. Our base case sees GDP growth recovering slightly in 2021, and thereafter to over 7.0% y/y in 2022. The Ministry of Finance sees GDP growth slowing by 3.0 percentage points in 2020.

Despite the pandemic, the government is looking to complete its projects, with more emphasis on the ongoing construction of the Grand Renaissance Dam hydropower project. Thus, public investment in infrastructure is likely to be the main driver of economic growth over the medium term. However, domestic savings remain low. Savings declined to 22.3% of GDP in FY2018/19, from 24.3% in FY2017/18, thus necessitating the need to attract significant external funding to sustain GDP growth. However, with the current classification of high risk of debt distress, tapping foreign funding would have to come via concessional partners. Even then, funds would probably have to be channelled towards healthcare and social spending to curb COVID-19's spread.

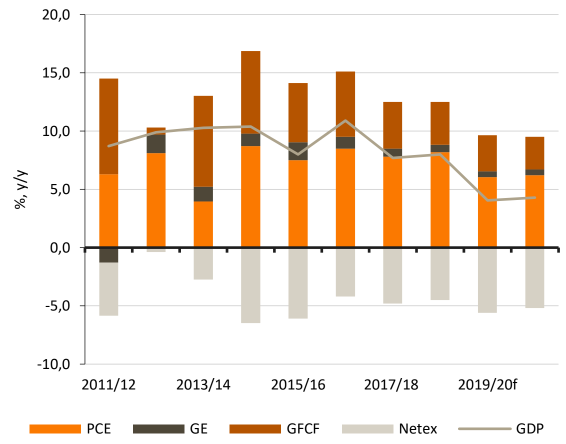
Our bear case sees social and health spending intensifying and inducing the government to halt its entire development agenda. The economy contracts by 0.9% y/y and 1.5% y/y in 2020 and 2021 respectively. Thereafter, a gradual economic recovery is seen from 2022.

Crucially, foreign currency shortages remain a downside risk to GDP growth, continuing to dampen growth in some sectors of the economy. Key sectors typically providing foreign currency to the market, such as transport, tourism and horticulture, are hardest hit by the pandemic. Furthermore, given the enormous importance of Ethiopian Airlines for government revenues and job creation, there would be fiscal and private consumption implications. Diaspora remittances could also weaken due to the negative impact of the pandemic.

The government is mobilizing around USD 2.15 billion for sectoral and budget support. Additionally, the IMF approved USD411m in emergency assistance under the Rapid Financial Instrument arrangement. Further to this, Ethiopia will also benefit from debt service relief. Meanwhile, the World Bank provided USD82.6m emergency support shortly after approving USD500m in support of the Homegrown reform agenda. These capital inflows perhaps boosted FX reserves and accordingly, it could perhaps boost FX supply to the private sector.

Our bull scenario sees the economy growing by 6.9% y/y in 2020.

Composition of GDP by demand



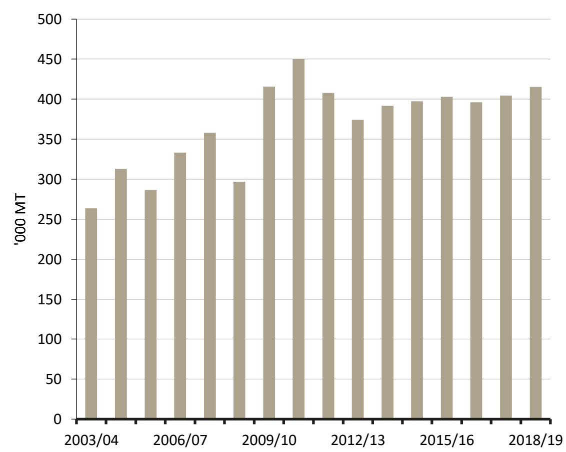
Source: National Bank of Ethiopia; Standard Bank Research

Contribution to GDP by sector

% of GDP	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

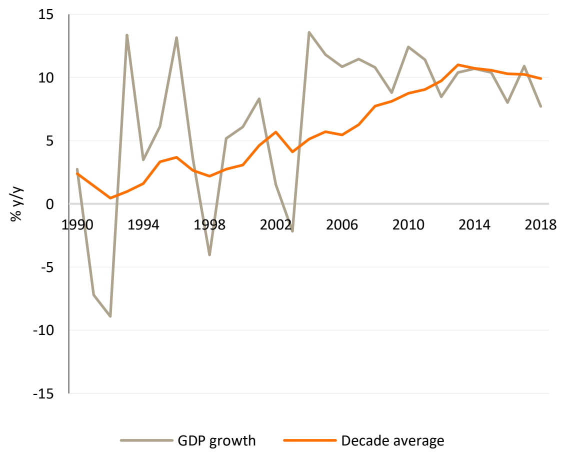
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	4.10	4.10	4.10	4.10	4.30	4.30	4.30	4.30	7.60	7.60	7.60	7.60	7.20	7.20	7.20	7.20
CPI (% y/y) pe	22.60	14.01	13.68	13.41	12.15	12.03	12.03	12.03	11.52	11.64	11.52	11.71	11.96	12.12	12.04	12.15
Policy rate (%) pe	7.00	7.00	7.00	7.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
3-m rate (%) pe	0.80	0.80	0.80	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
6-m rate (%) pe	1.20	1.20	1.20	1.20	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
USD/ETB pe	32.80	34.75	35.69	36.67	37.66	38.69	39.74	40.83	41.94	43.08	44.26	45.46	46.70	47.97	49.28	49.28
Bull scenario																
GDP (% y/y) pa	5.70	6.40	7.40	7.90	7.80	6.50	6.90	6.50	9.30	9.30	9.30	9.40	8.70	7.20	7.20	7.20
CPI (% y/y) pe	22.60	14.01	13.98	13.61	12.65	12.73	12.83	13.23	13.42	13.54	13.72	13.61	13.86	13.42	12.84	12.85
Policy rate (%) pe	7.00	7.00	8.50	8.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
3-m rate (%) pe	0.80	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
6-m rate (%) pe	1.20	1.35	1.35	1.35	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55
USD/ETB pe	32.80	34.75	35.49	36.36	37.26	38.19	39.49	40.68	41.79	42.83	44.06	45.26	46.50	47.77	49.08	49.08
Bear scenario																
GDP (% y/y) pa	0.70	-0.90	-1.30	-2.10	-2.70	-1.90	-0.70	-0.70	2.60	2.60	2.60	4.20	3.80	1.80	3.60	4.20
CPI (% y/y) pe	22.60	14.01	13.38	13.21	11.65	11.33	11.23	10.83	9.62	9.74	9.32	9.81	10.06	10.82	11.24	11.45
Policy rate (%) pe	7.00	7.00	5.50	5.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
3-m rate (%) pe	0.80	0.65	0.65	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
6-m rate (%) pe	1.20	1.05	1.05	1.05	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
USD/ETB pe	32.80	34.75	35.89	36.98	38.06	39.19	39.99	40.98	42.09	43.33	44.46	45.66	46.90	48.17	49.48	49.48

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

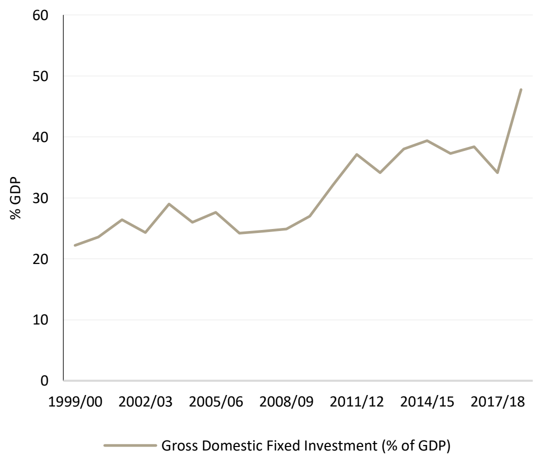
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; National Bank of Ethiopia

Domestic fixed investment



Source: National Bank of Ethiopia

Balance of payments: C/A deficit inching lower

We expect the C/A deficit to inch lower to 4.6% of GDP in 2020 and thereafter to 4.4% in 2021, from an estimated 4.7% of GDP in 2019.

In FY2018/19, goods imports declined by 0.9% y/y, while services imports surged by 23.3% y/y. The increase in service imports was largely attributable to travel and transport. Global travel restrictions will suppress travel and transport service imports in 2020.

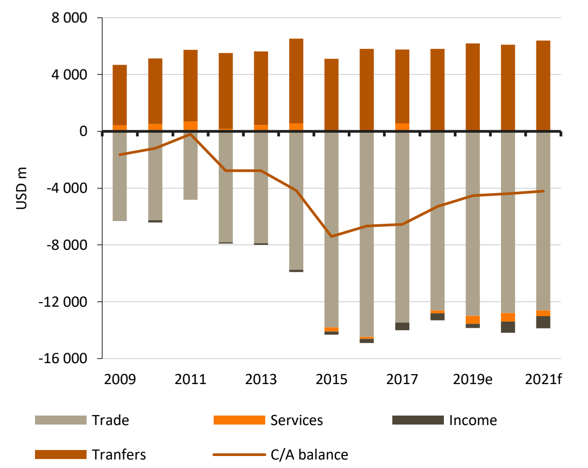
We also expect the import bill to decline due to very subdued international oil prices. Oil prices have plunged due to the price war within OPEC+ and subdued global demand due to widespread travel restrictions. Brent crude prices have already fallen by roughly 50% YTD. Fuel accounts for 15.8% of total imports for Ethiopa, based on Q1 FY2019/20 data.

The ongoing infestation of desert locusts poses a profound risk to food security, which could potentially increase the governments' food importation requirements. Imports of healthcare goods and services are bound to rise too. On the other hand, we expect export receipts from both the tourism and transport sector to remain depressed this year.

Waning luxury spending globally could also hamper flower exports. Still, the balance of the risk is slanted to imports decreasing in larger volume than exports. After all, imports are nearly 3.0 times larger than the value of exports.

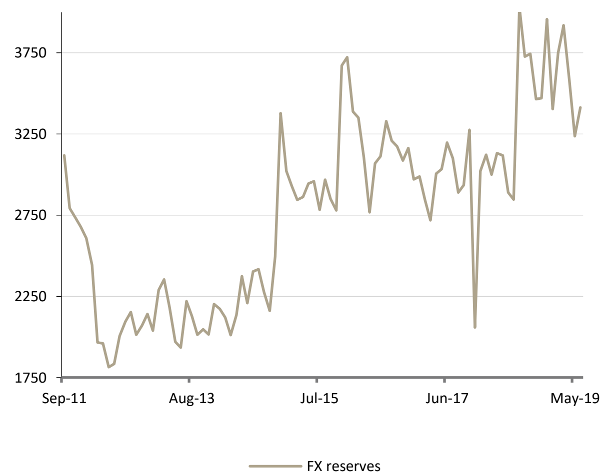
In line with the conditions of the IMF programme, the government may reduce the fiscal deficit from FY2020/21, which is likely to arrest imports of goods and further narrow the current account balance. Against this backdrop and added to the mobilisation of about USD2.5bn elaborated in the medium-term outlook section, FX reserves may stay pat unless diaspora remittances declined disorderly.

Current account developments



Source: National Bank of Ethiopia

FX reserves

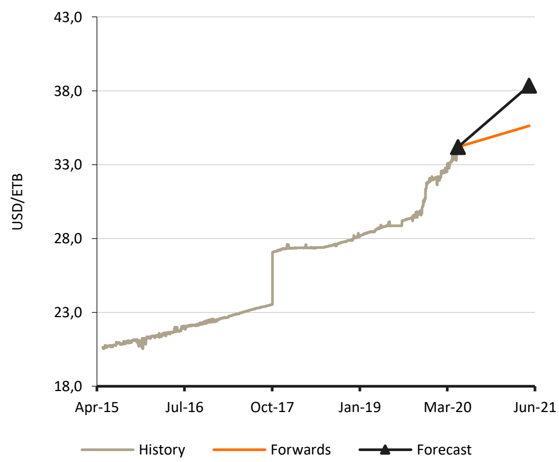


Source: Bloomberg

FX outlook: further USD/ETB upside

We see USD/ETB increasing to 34.0-36.7 by year-end. According to the IMF, the government has made progress in narrowing the gap between the official and parallel market rate from 27.5% in mid-Nov, to 22% in Apr. It seems the authorities have approved the roadmap guiding the plans to shift to a market-based exchange rate, as stated on the IMF staff report. The IMF expects the government to transition to a flexible exchange rate regime as part of the Extended Credit Facility (ECF) and Extended Financing Facility (EFF) programme. ETB weakened against the USD by roughly 4.97% YTD. In 2019, the ETB depreciated by 12.0%. Still, a devaluation of the ETB at a faster pace would have adverse effects on inflation expectations. However, the IMF has suggested a tight monetary policy stance to achieve a single-digit inflation in the wake of the pandemic. Other than that, ETB devaluation may stand to benefit exports though the need for other structural reforms would be pivotal for exports to rise.

USD/ETB: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias for now

We expect headline inflation to average 16.1% y/y in 2020 and 12.2% y/y in 2021, from 15.7% y/y in 2019. Despite upside pressure on inflation, we expect the NBE to adopt an accommodative monetary policy stance in 2020 in response to the pandemic. Thereafter, the NBE is likely to resume a tight stance, especially if inflation expectations hadn't abated.

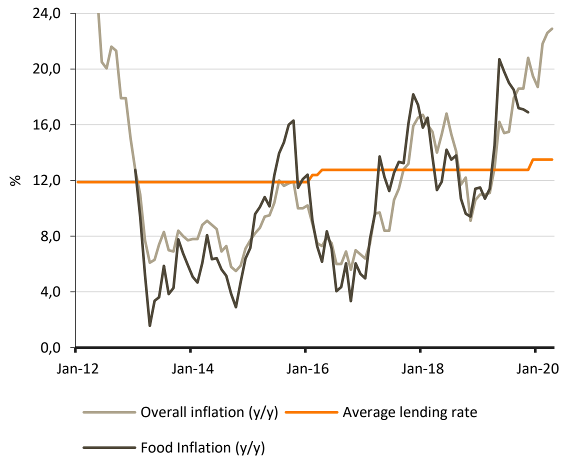
As expected, the weakness in the ETB in Q4:19 may have increased inflationary pressures in Q1:20. USD/ETB surged by 7.8% in Q4:19, compared to a 3.9% depreciation on average in the first 3-q of 2019.

Inflation averaged 21.5% y/y in the first 4-m this year, compared to 11.5% y/y in 2019 and 15.6% y/y in 2018 same time. In fact, unwinding base effects may have also played a part here too. Moreover, due to the ongoing infestation of desert locusts, food security is at risk. Should it worsen, food prices could stay higher.

Furthermore, the monetization of the fiscal deficit may continue to make it challenging for the NBE to lower inflation, which the IMF is likely to persuade the authorities to avoid. But then again, based on the latest data published by the NBE, claims on government are still trending upwards, rising to ETB199.2bn in Q1:FY2019/20, from ETB166.7bn in Q1:FY2018/19. This increase is attributable to direct advances made to the government. Meanwhile, the amount held through bonds has declined.

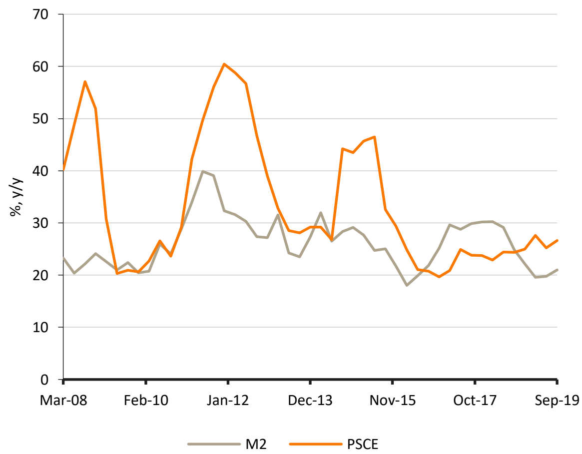
We expect headline inflation to average 19.1% y/y in H1:20 and 12.5% y/y in H2:20 due to unwinding base effects. Moreover, low international oil prices are likely to lead to notable fuel price reductions in Ethiopia. In 2021, as weather conditions improve and perhaps the locust infestation is contained, headline inflation could subside further.

Inflation and interest rates



Source: National Bank of Ethiopia

Money aggregate



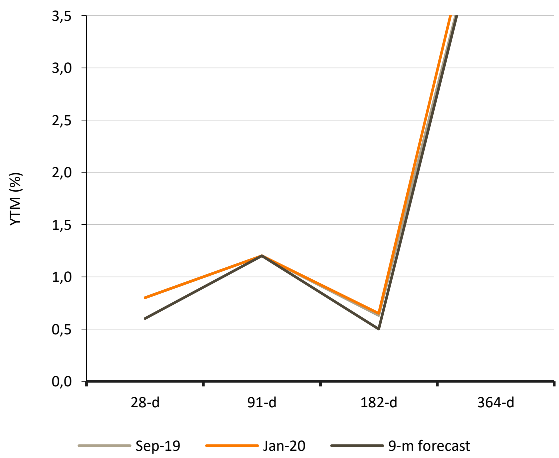
Source: National Bank of Ethiopia

Yield curve outlook: downward bias

It is only after the pandemic that we'd expect monetary and fiscal policy to revert to a contractionary stance. For now, monetary and fiscal policy is likely to be slanted towards curbing the impact the pandemic is having on the economy. Therefore, yields could decline in the short- to medium term.

However, even though the fiscal deficit is expected to widen, the government is not likely to borrow considerably from the domestic market and thereby put upside pressure on ETB yields. The government will likely continue to source funds externally to a larger extent. Treasury bills are only issued to partly finance government projects even though the domestic capital market is not as thin as it uses to be. It perhaps may not enable the government to fully meet its financing needs. Latest data indicates that the government increased its domestic issuance by 32.3% y/y, to ETB110.bn in Q1:FY2019/20.

Changes in the yield curve



Source: National Bank of Ethiopia; Standard Bank Research

Fiscal policy: deficit could rise sharply

The pandemic will likely cause a sharp increase in the fiscal deficit this year. Thereafter, the government will likely return to a contractionary fiscal policy stance from 2021, in line with the IMF programme.

In fact, even the IMF supports the government to prioritise COVID-19 fiscal measures for now and resume the fiscal consolidation once the crisis has abated. But while still making effort to address reforms under the ECF-EFF arrangements.

We expect slower economic growth in 2020 to impart pressure on tax revenues. Declining trade would also reduce customs tax receipts, while government earnings from Ethiopian Airlines are also bound to subside.

This is all happening against a backdrop where it will be difficult to reduce spending, particularly given the situation with the pandemic. Moreover, if the disorder caused by the desert locusts should create intense food security issues in 2020, then the government would inevitably have to also increase social spending for that too.

Due to limited sources of domestic financing, deficit financing from external sources will probably continue to remain substantial. It seems the government is looking to mobilise USD2.5bn. So far, the IMF extended USD411m, emergency assistance under the Rapid Financial Instrument and the World Bank's USD82.6m emergency support too.

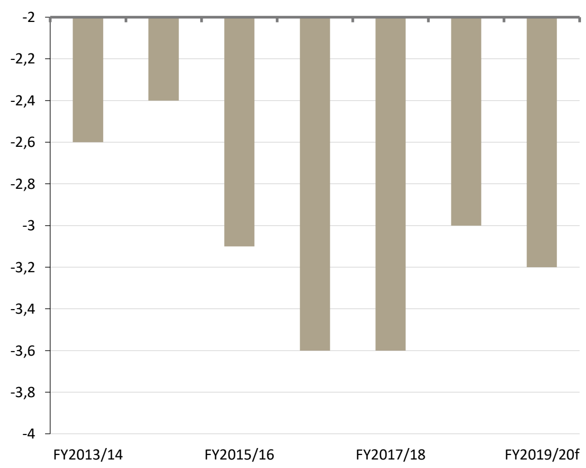
Notably, domestic debt which includes direct advances from the central bank, picked up sharply. By Q1:FY2019/20 gross claims of NBE on the government reached birr 199.7 billion which was 19.5% y/y increase. Of the gross claims of NBE on the government, direct advances accounted for 96.5% and bonds 3.5%.

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%	0.90%
net domestic borrowing	2.1%	2.3%

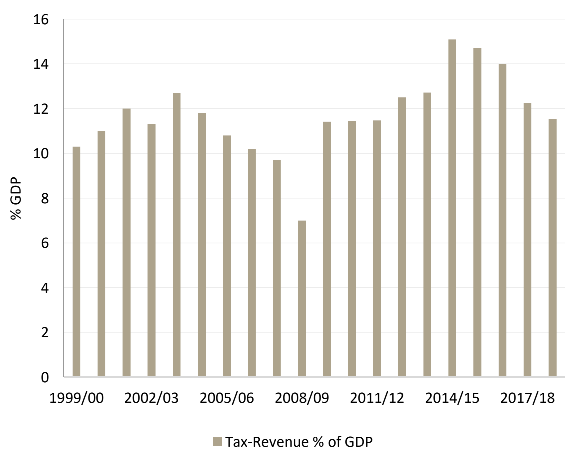
Source: Ministry of Finance

Fiscal deficit excl. grants (%) of GDP



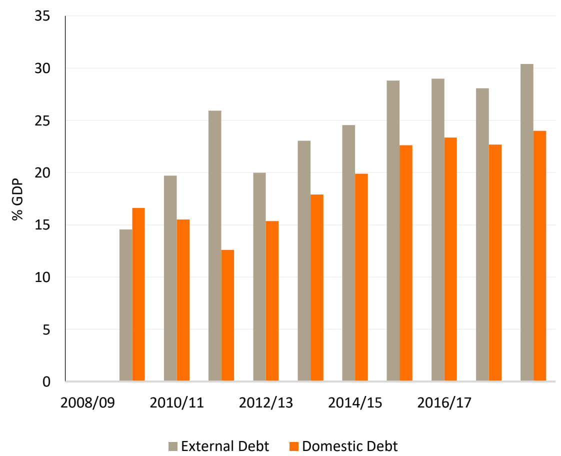
Source: Ministry of Finance

Tax revenue



Source: National Bank of Ethiopia

Debt % of GDP



Source: Ministry of Finance

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	89.1	91.2	92.6	94.1	95.6	97.1	98.7
Nominal GDP (ETBbn)	1332.0	1568.1	1832.6	2202.4	2696.2	3 290	3740
Nominal GDP (USDbn)	66.3	74.3	81.8	84.4	96.0	98.5	106.6
GDP / capita (USD)	743.9	814.7	882.9	896.4	1003.7	1014.4	1079.6
Real GDP growth (%)	10.4	8.0	10.9	7.7	8.0	4.1	4.3
Coffee production ('000 MT)	397.5	402.8	396.0	404.7	415.5	430.2	438.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.3	-3.0	-3.6	-3.6	-3.0	-3.2	-3.1
Budget balance (incl. Grants) / GDP (%)	-2.0	-3.0	-3.4	-3.5	-2.8	-2.6	-2.5
Domestic debt / GDP (%)	22.6	23.4	22.7	24.0	27.0	27.5	28.0
External debt / GDP (%)	28.8	29.0	28.1	30.4	33.4	33.6	33.7
Balance of Payments							
Exports (USDbn)	6.0	6.1	6.3	7.1	7.7	6.0	7.1
Imports (USDbn)	19.8	20.6	19.7	19.7	20.7	18.8	19.7
Trade balance (USDbn)	-13.8	-14.5	-13.5	-12.6	-13.0	-12.8	-12.6
Current account (USDbn)	-7.4	-6.7	-6.5	-5.3	-4.5	-4.4	-4.2
- % of GDP	-11.2	-9.0	-8.0	-6.3	-4.7	-4.6	-4.4
Financial and Capital account (USDbn)	7.8	6.6	6.9	6.2	4.8	3.8	3.9
- FDI (USDbn)	2.3	2.6	4.2	3.7	3.0	2.3	2.6
Basic balance / GDP (%)	-7.7	-5.5	-2.9	-1.9	-1.6	-2.1	-1.5
FX reserves (USDbn) pe	3.4	3.7	3.0	2.8	3.7	3.0	3.2
- Import cover (months) pe	2.0	2.2	1.8	1.7	2.2	1.9	1.9
Sovereign Credit Rating							
S&P	B	B	B	B	B	B	B
Moody’s	B1	B1	B1	B1	B1	B2	B2
Fitch	B	B	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	10.1	7.3	10.9	13.9	15.7	16.06	12.23
Consumer inflation (%) pe	10.0	6.7	13.2	10.6	19.5	13.4	12.03
M2 money supply (% y/y) pa	24.8	21.2	29.6	26.6	22.4	20.9	18.4
M2 money supply (% y/y) pe	21.7	25.1	30.2	22.2	26.0	19.1	17.6
Policy rate (%) pa	5.0	5.0	5.9	7.0	7.0	7.0	9.0
Policy rate (%) pe	5.0	5.0	7.0	7.0	7.0	7.0	9.0
USD/ETB pa	20.7	22.1	24.3	28.0	29.8	33.4	35.1
USD/ETB pe	21.2	22.4	27.6	28.2	32.0	36.7	38.7

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

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

Ghana: fiscal concerns resurging

Medium-term outlook: clouded by COVID-19

COVID-19 undoubtedly will affect economic growth meaningfully. Whereas growth of 6% – 8% y/y in the next 2 – 3 years seemed reasonable before, now 1.0% y/y seems likely this year, with a recovery only next year. In our base case, we see economic growth topping 5.0% y/y only by 2022.

Naturally, given the oil price collapse, and the flux in that market, Ghana's oil production will be restrained too. A significant source of uncertainty is how long oil prices will remain as depressed. The longer so, the greater the likelihood that investment in the oil sector will dwindle, undermining long-term growth.

Oil revenues are a significant source of government revenue, at 5.5% of total revenue, with dividends from oil accounting for an additional 6.8% of revenue. Also consider the service suppliers to the oil industry. Were oil prices to remain depressed for long, overall economic activity would suffer.

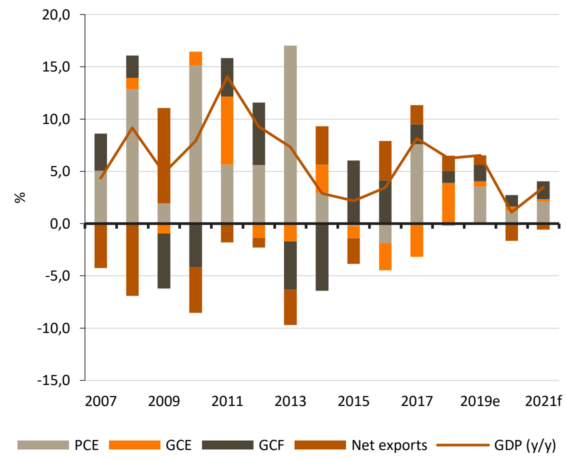
The new infections peak in Ghana is unknown, as are measures the government would have to undertake to bring the outbreak under control. Notably, after a 21-day lockdown, the government has now lifted partial lockdown in the major cities but that seems to have coincided with rising new infections.

Our bear scenario sees an economic contraction this year, then recovering to over 5.0% y/y growth by 2024. In this scenario, the government would find it hard to arrest a widening fiscal deficit, triggering significant portfolio outflows that would lead to faster depreciation of the GHS than in our base scenario.

Nevertheless, in the bear case there would be less pressure on inflation. Additionally, the BOG's MPC would be eager to boost economic activity. As we have already seen thus far this year, this would lead to the committee easing the policy stance, thereby pulling T-bill yields lower than would be the case in our base scenario.

In our bull case, GDP growth bottoms out at just under 3.0% y/y in Q3:20, recovering strongly to over 6.0% y/y in 2021. Such a quick rebound would ease some of the fiscal concerns in the market, leading to some portfolio inflows to support the GHS.

Composition of GDP by demand



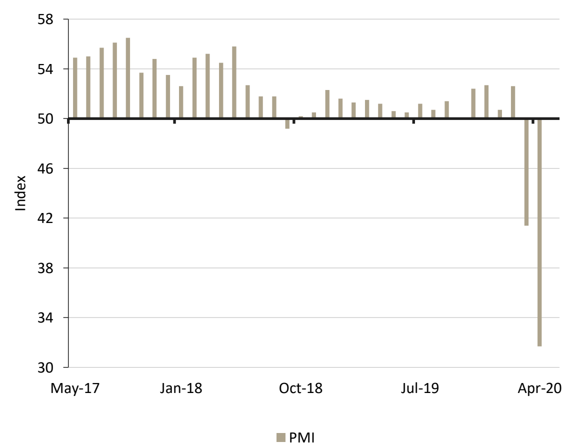
Source: Ghana Statistical Services; Standard Bank Research

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

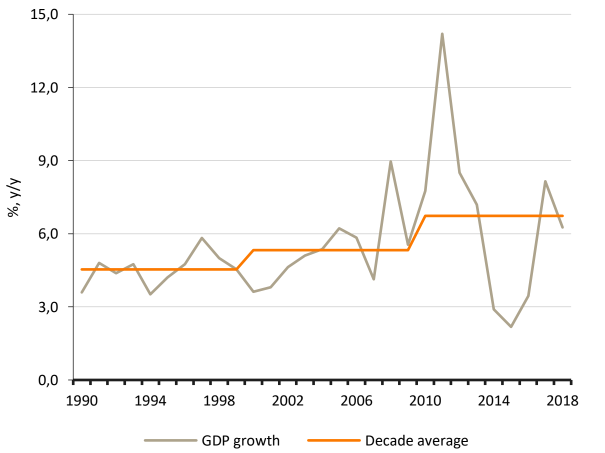
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	4.1	1.4	-0.5	-0.6	1.7	4.0	3.8	4.4	5.2	5.2	5.4	5.0	5.6	7.2	6.5	6.5
CPI (% y/y) pe	7.8	8.1	9.2	9.5	9.1	8.5	8.6	7.9	7.5	7.4	6.9	6.8	6.9	7.2	7.6	8.1
BOG prime rate (%) pe	14.50	14.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
3-m rate (%) pe	14.75	14.85	15.10	15.25	15.25	14.85	14.75	14.70	14.25	13.55	13.25	13.25	13.25	13.25	13.25	13.25
6-m rate (%) pe	15.25	15.25	15.65	15.85	15.85	15.85	15.20	15.00	14.85	13.85	13.65	13.65	13.65	13.65	13.65	13.65
USD/GHC pe	5.77	5.94	6.10	6.26	6.45	6.74	6.83	6.92	7.18	7.38	7.48	7.58	7.71	8.05	8.22	8.33
Bull scenario																
GDP (% y/y) pa	5.7	3.7	2.8	3.2	5.2	6.2	6.4	6.6	6.9	6.9	7.1	6.8	7.1	7.2	6.5	6.5
CPI (% y/y) pe	7.8	8.1	9.5	9.7	9.6	9.2	9.4	9.1	9.4	9.3	9.1	8.7	8.8	8.5	8.4	8.8
BOG prime rate (%) pe	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
3-m rate (%) pe	14.75	14.68	14.78	14.93	14.93	14.53	14.25	14.20	14.10	13.40	13.10	13.10	13.10	13.10	13.10	13.10
6-m rate (%) pe	15.25	15.08	15.33	15.53	15.53	15.53	14.70	14.50	14.70	13.70	13.50	13.50	13.65	13.65	13.65	13.65
USD/GHC pe	5.77	5.94	5.90	5.95	6.05	6.24	6.58	6.77	7.03	7.13	7.28	7.38	7.51	7.85	8.02	8.13
Bear scenario																
GDP (% y/y) pa	3.4	-1.1	-3.2	-3.7	-1.8	0.9	1.3	1.9	2.7	2.7	2.9	3.3	3.9	4.5	4.7	5.0
CPI (% y/y) pe	7.8	7.6	7.9	8.2	7.6	6.7	6.6	6.6	6.3	6.2	6.4	6.3	6.4	6.5	6.9	7.3
BOG prime rate (%) pe	14.50	14.50	13.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
3-m rate (%) pe	14.75	15.08	15.33	15.68	15.68	15.28	15.08	15.03	14.50	13.80	13.50	13.50	13.50	13.50	13.50	13.50
6-m rate (%) pe	15.25	15.48	15.88	16.28	16.28	16.28	15.53	15.33	15.10	14.10	13.90	13.90	13.90	13.90	13.90	13.90
USD/GHC pe	5.77	6.66	7.13	7.51	7.80	8.09	8.18	8.27	8.33	8.33	8.43	8.33	8.66	8.90	8.95	9.38

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

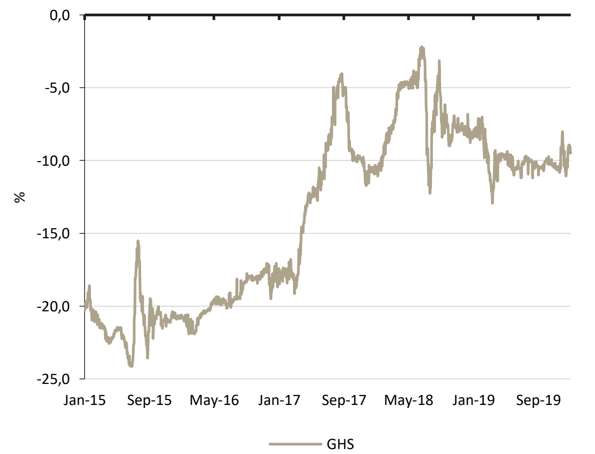
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Ghana Statistical Service

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: strong due to capital inflows

Strong official financial inflows will likely leave the BOP in a healthy position this year despite pressure on the C/A balance. The government has already secured the external financing it required for the budget deficit this year, having issued Eurobonds in Mar. Thereafter, the government received USD1.0bn in emergency BOP support via the IMF's Rapid Credit Facility.

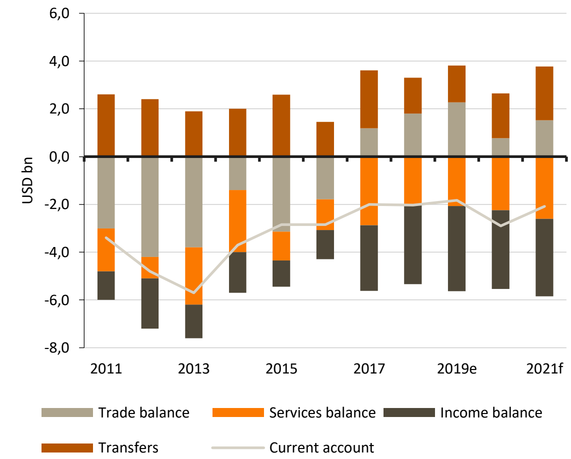
These financial inflows are likely to suffice for gross FX reserves staying above USD10.0bn for much of this year. Indeed, they amounted to USD10.0bn in Feb, before the Eurobond issuance. Sure, the pandemic and the precipitous drop in oil prices are likely to depress private capital inflows. FDI inflows are likely to fall sharply. While we do not anticipate portfolio outflows to drop dramatically, there is likely to be little impetus for portfolio inflows to rise meaningfully. Regardless, official capital inflows are likely to counter these inadequate private capital inflows.

Even before the pandemic and the steep slide in oil prices, we saw the C/A deficit bottoming out in 2019 and widening in 2020 and 2021. But now, the C/A deficit will increase by more than we had anticipated. For this year the C/A deficit will likely rise to 4.6% of GDP, marginally less than it was in 2016, before declining to 3.3% of GDP in 2021.

Perhaps the greatest downside risk to the C/A balance is oil production and exports. Tullow Oil indicated that oil production was likely to be stagnant this year. With a glut in the oil market, a fall in production seems most likely now.

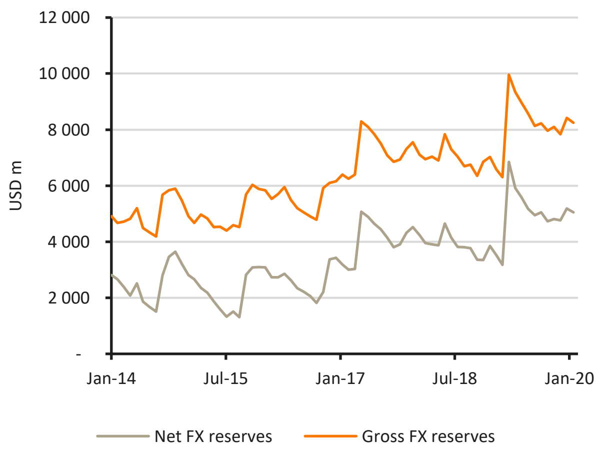
Of course, given the economic slowdown, it is highly probable that goods imports will decelerate. Interestingly, imports dropped by 13.6% y/y in the first 2-m of the year, while goods exports were 3.4% y/y higher. The latter was bolstered by gold exports.

Current account developments



Source: Bank of Ghana; Standard Bank Research

FX reserves



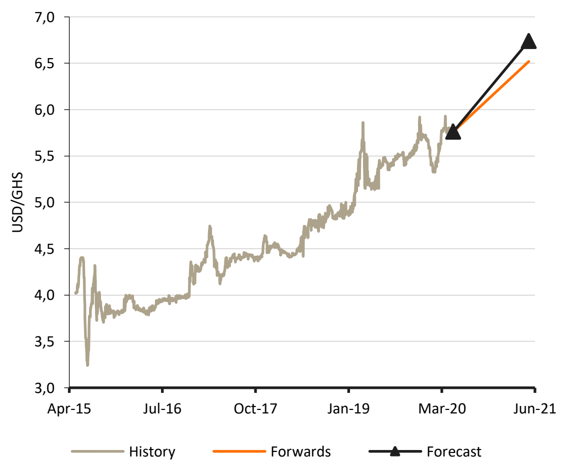
Source: Central Bank of Ghana

FX outlook: GHS depreciation to continue

The 3-y annualised pace of depreciation of the GHS has stabilised around 10%, much lower than between 2015 and early 2017. We anticipate this deceleration persisting on a multi-year basis. The combination of fiscal consolidation and investments in export-oriented sectors of the economy is likely to lead to a marked and sustainable improvement in the country's BOP. Sure, the pandemic raises the risk that the GHS might depreciate at a faster pace in the near term — but this would be unlikely to change the medium-term dynamics.

Hence, while there is a risk that USD/GHS might experience a spurt that takes the pair well above 6.00 in the next 6-m, we see the pace of depreciation easing off. We still see a strong chance that there will be a revival of portfolio inflows that would support the GHS. The BOG's FX supply in the near term should help to arrest the depreciation of the GHS.

USD/GHS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias

The BOG's MPC will likely leave the policy stance unchanged over the next 4-m. However, there is a strong chance that it will ease the policy stance yet again.

Headline inflation is likely to remain within the 6% - 10% y/y range over the remainder of the year. The pandemic is likely to disrupt economic activity enough to depress inflation.

We expect headline inflation rising up to an average of 9.5% y/y in Q4:20, which is likely to be the cyclical peak over the next 3-y. Much of that upside pressure is likely to be driven by unwinding base effects.

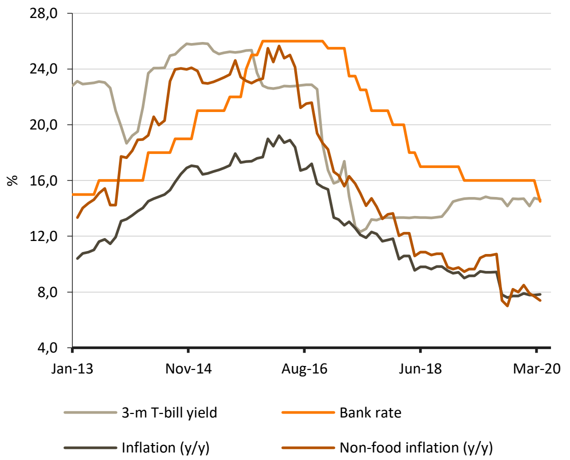
That said, headline inflation has surprised to the downside over the past 6-m. In fact, since the launch of the new CPI series in Aug 19, only the alcohol and tobacco sub-index and the transport sub-index have risen at an average pace above 10% y/y.

Of course, there are other factors that are likely to keep headline inflation low. The decline in oil prices is likely to lead to a reduction in fuel prices. There has been some depreciation of the GHS, which would counteract the decline in oil prices. Even though there is a strong likelihood that oil prices will recover this year, it is likely that local fuel prices will remain low.

Indeed, the pace of increase of the transport sub-index has subsided over the past 2-y. It rose by 9.2% y/y in Mar, from 9.9% y/y in Feb and 10.5% y/y in Jan. It rose by an average of 11.4% in 2019, down from the high teens in early 2018.

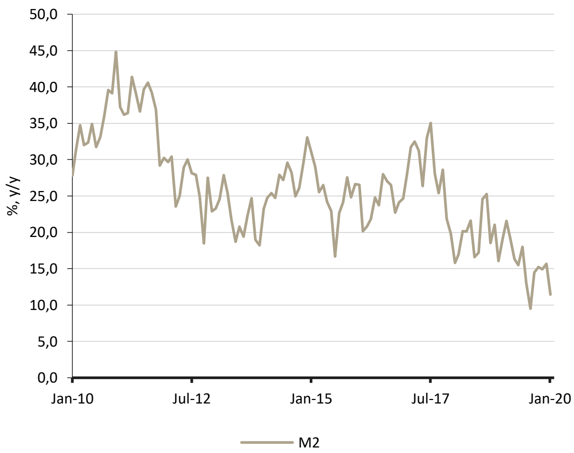
An easing bias is probably justifiable given that money supply growth has been subsiding since early 2017. M2 money supply growth was 11.4% y/y in Jan, down from an average of 15.3% y/y in Q4:19 and 19.9% y/y in Q1:19. It was above 30% y/y in early 2017.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

Money supply growth



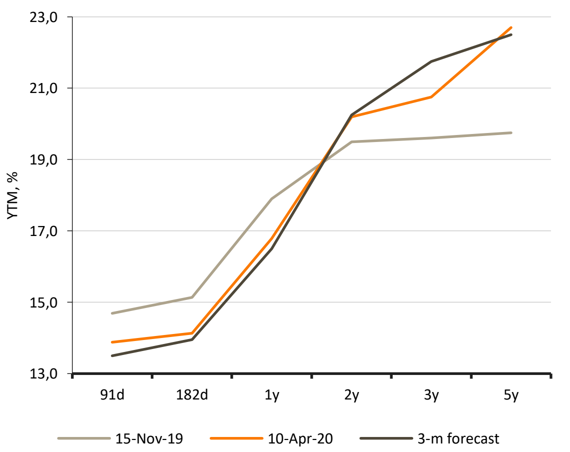
Source: Bank of Ghana

Yield curve outlook: bull-steepening

The MPC's easing bias has set the stage for a bull-steepening of the curve over the coming 3 – 4 months. Admittedly, the extent of the drop in T-bill yields is likely to be marginal. After all, there is likely to be a substantial increase in the government's borrowing requirement due to the pandemic. Additionally, as has been the case over the past few months, much of the additional government borrowing is likely to be absorbed by local investors.

Foreign investors have been reducing the amount of GHS bonds they hold relative to domestic investors, even as the total amount they hold has dropped only slightly. We doubt if there is much scope for bond yields to rise much. Having allowed bond yields to rise above 20% in the primary auctions, the BOG and the Finance Ministry probably do not see any justification for these to rise meaningfully.

Yield curve changes



Source: Bank of Ghana; Standard Bank Research

Fiscal policy: crisis management strategy

In its request to the IMF for emergency BOP support under the Rapid Credit Facility, the government indicated that it expected revenues to be 2.2% of GDP lower than it did before. Coupled with a boost to spending due to emergency health expenditure, its revised expectation is for a budget deficit of 6.6% of GDP, rather than the originally budgeted 4.7% of GDP.

In the original budget, the government used an oil price assumption of USD62.6/bbl. The government projects that if oil prices were to average USD30/bbl, then the shortfall in oil receipts would amount to GHS5.68bn. The slowdown in economic activity would result in an additional GHS2.25bn shortfall in non-oil revenues.

Among the policy responses to COVID-19, the government will cut GHS1.25bn in spending on goods and services, defer interest payments amounting to GHS1.22bn to the BOG, lower the cap on the Ghana Stabilisation fund by USD200m to USD100m, thereby releasing GHS1.25bn for spending related to COVID-19.

In addition to these measures, the government will look for BOG financing beyond the previously stipulated cap in the Bank of Ghana Act. The government also appealed to local asset managers to accept a 200 bps reduction in yields on short-dated government paper up to the 1-y point on the yield curve. Of course, the government has also approached the World Bank and the African Development Bank for financing. It is also looking for bilateral financing as well.

Crucially, the government has no plans to issue more debt on commercial terms this year. Of course, the government issued Eurobonds before the disorderly sell-off in emerging market bonds.

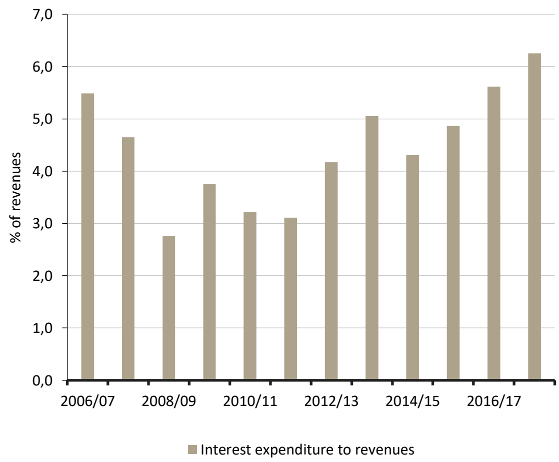
The government is committed to observing the 5.0% of GDP ceiling for the fiscal deficit. It expects reverting to observing this anchor after the pandemic has been brought under control.

Central government budget

	2019		2020
% of GDP	Budget	Revised	
Revenues	16.8	15.5	16.5
Expenditure	21.1	20.3	21.2
- Wages	6.6	6.5	6.7
- Interest	5.4	5.7	5.4
- Capital	2.5	1.7	2.3
- Arrears clearance	0.2	0.2	0.4
Budget deficit (- grants)	-4.5	-5.0	-5.1
Budget deficit (+ grants)	-4.2	-4.7	-4.7
Net domestic financing	1.3	3.3	4.0
Net external financing	2.8	1.8	2.7
Other financing	0.4	0.0	0.0
Petroleum funds	-0.1	-0.1	-0.1
Sinking fund	-0.2	-0.2	-1.8
Contingency fund	0.0	0.0	0.0
Grants	0.3	0.2	0.3

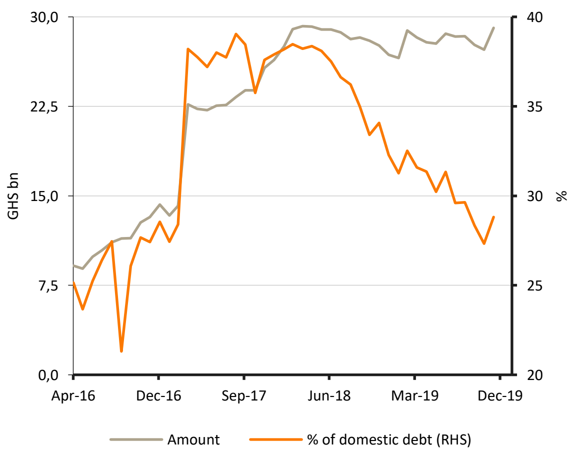
Source: Ministry of Finance

Interest expenditure



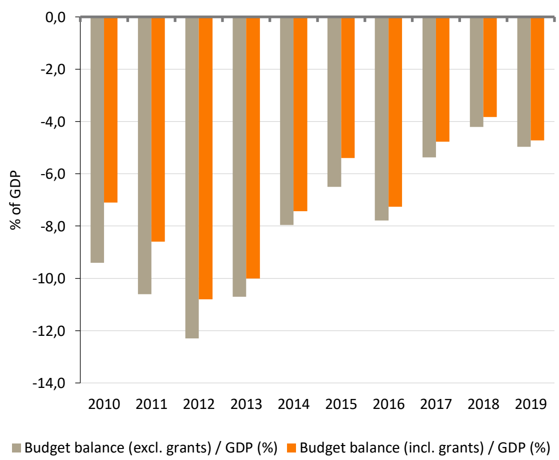
Source: Ministry of Finance and Economic Planning

Domestic debt held by foreigners



Source: Central Securities Depository

Fiscal deficit



Source: Ministry of Finance

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	27	28	29	29	30	31	31
Nominal GDP (GHC bn)	180	215	257	298	343	375	421
Nominal GDP (USD bn)	47	55	58	64	63	63	63
GDP / capita (USD)	1 770	1 947	2 035	2 174	2 106	2 055	2 006
Real GDP growth (%)	2.2	3.5	8.2	6.3	6.5	1.1	3.5
Gold Production ('000 FO)	3 200	3 300	3 795	4 175	4 279	4 429	4 650
Cocoa bean production ('000 MT)	875	870	870	887	905	925	945
Oil production (k bpd)	103.0	101.7	81.2	135.4	165.5	135.0	160.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-6.5	-7.8	-5.4	-4.2	-5.0	-5.1	-4.7
Budget balance (incl. grants) / GDP (%)	-5.4	-7.3	-4.8	-3.8	-4.7	-4.7	-4.5
Domestic debt / GDP (%)	22.4	24.8	26.0	29.1	31.0	31.0	31.3
External debt / GDP (%)	33.2	32.0	29.5	28.8	30.2	30.8	31.8
Balance of Payments							
Exports of goods (USD bn)	10.3	11.1	13.8	14.9	15.6	14.8	16.3
Imports of goods (USD bn)	-13.5	-12.9	-12.6	-13.1	-13.4	-14.0	-14.7
Trade Balance	-3.1	-1.8	1.2	1.8	2.3	0.8	1.5
Current account (USD bn)	-2.8	-2.8	-2.0	-2.0	-1.8	-2.9	-2.1
- % of GDP	-6.0	-5.2	-3.4	-3.2	-2.9	-4.6	-3.3
Capital & Financial account (USD bn)	3.1	2.6	3.0	1.8	3.1	5.4	2.6
- FDI (USD bn)	3.0	3.5	3.2	2.5	2.3	0.8	2.1
Basic balance / GDP (%)	0.3	1.2	2.1	0.7	0.7	-3.3	0.0
Gross FX reserves (USD bn) pe	5.9	6.2	7.6	7.0	8.3	10.8	11.3
- Import cover (months) pe	5.2	5.7	7.2	6.4	7.4	9.2	9.2
Sovereign Credit Rating							
S&P	BB-	BB-	B-	B-	B-	B-	B-
Moody's	B3	B3	B3	B3	B3	B3	B3
Fitch	BB	BB	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	17.1	17.5	12.4	9.8	8.6	8.3	8.6
Consumer inflation (%) pe	17.7	15.4	11.8	9.4	7.7	9.4	7.9
M2 money supply (% y/y) pa	25.1	24.2	28.5	19.5	16.0	13.0	20.1
M2 money supply (% y/y) pe	24.8	24.1	21.9	21.0	14.9	12.4	16.5
BOG prime rate (%) pa	23.6	25.9	22.7	17.7	16.0	14.3	13.0
BOG prime rate (%) pe	26.0	25.5	21.0	17.0	16.0	13.0	13.0
3-m rate (%) pe	22.8	19.0	11.5	16.5	15.1	15.3	15.8
1-y rate (%) pe	22.5	20.5	14.8	19.5	15.5	15.9	16.0
2-y rate (%) pe	22.0	20.9	18.0	21.3	19.3	20.0	19.5
5-y rate (%) pe	22.0	19.0	17.9	21.5	19.0	21.2	20.0
USD/GHC pa	3.81	3.93	4.40	4.69	5.44	5.94	6.67
USD/GHC pe	3.81	4.22	4.52	4.91	5.71	6.26	6.92

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

Notes: pa - period average; pe - period end

Kenya: growth likely to slide to a 12-year low

Medium-term outlook: depends on pandemic's duration

We now expect GDP growth to slide to 3.0% y/y in 2020, from our previous forecast of 5.9% y/y. Due to erratic weather conditions, GDP growth already slid to 5.4% y/y in 2019, from 6.3% y/y in 2018.

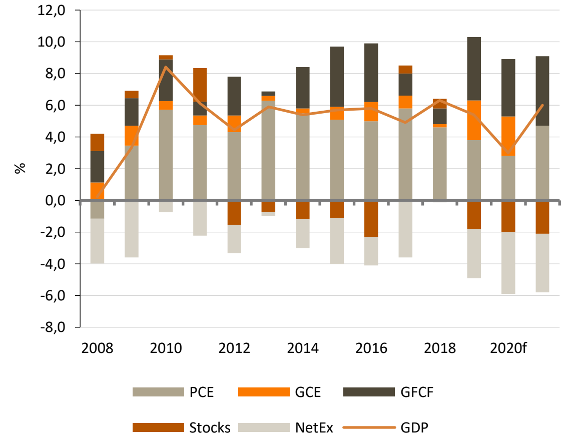
In our Jan edition, we were relatively optimistic that economic activity would rebound over the next couple of years. This view was driven not only by the likelihood that weather conditions would improve in 2020 but also as the government had just repealed the interest rate capping law which previously had restrained private sector credit (PSC) growth. And, authorities were making a concerted effort to clear the backlog of bills owed to the private sector, which included VAT refunds. Now, economic disruptions associated with the pandemic will weigh on net exports. The pandemic's impact will be far-reaching and afflict most key sectors such as tourism, floriculture, trade, manufacturing, transport and even construction.

Not surprisingly, the tourism sector has been the hardest hit due to the global travel restrictions. Anecdotal evidence implies mass retrenchments already across this sector. This may make a V-shaped recovery unlikely for tourism, considering that travel could only start to approach pre-pandemic levels once a vaccine has been found or when infection rates approach zero, both of which may be at least 8-m away, according to epidemiologists. The floriculture sector, which is mainly reliant on the euro zone market, too has suffered as luxury spending is down across the globe. But net exports may recover once lockdown restrictions there have been eased and when cargo flights return to normal.

Our base case is for a U-shaped recovery in economic activity, with GDP growth expected to recover to 6.0% y/y in 2021. For this to pan out, local curfew restrictions would have to be eased by end of Jun or early Jul. Our base case also relies on the infestation of desert locusts not destroying key crop harvests in H2:20.

Our bear scenario sees GDP growth falling to 1.2% y/y in 2020 and thereafter recovering to 4.0% y/y in 2021. In this scenario, the infestation of desert locusts moves towards the key food-growing counties in the breadbasket of Kenya. Conversely, in our bull scenario, we see a V-shaped growth recovery, with no relapse expected once the government looks to ease curfew restrictions. Nevertheless, as political tensions are expected to rise, growth will slow in the base, bear and bull scenarios, to 4.7% y/y, 3.5% y/y, and 5.3% y/y respectively during the 2022 election year.

Composition of GDP by demand



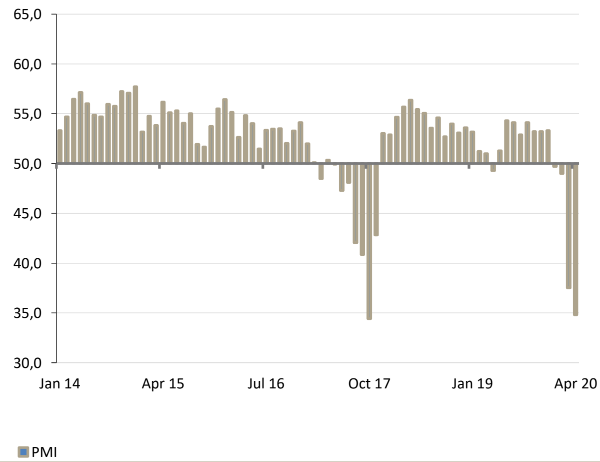
Source: Kenya National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2005	2014	2019
Agriculture	25.6	25.2	20.8
Mining & quarrying	0.5	1.1	1.0
Manufacturing	9.9	12.2	9.5
Electricity & water	2.4	2.7	1.9
Construction	3.0	5.5	5.7
Wholesale & retail trade	9.0	8.7	7.7
Accommodation	1.3	1.3	1.4
Transport & storage	10.4	7.5	7.3
ICT	-	4.1	4.4
Financial & insurance	3.7	6.8	6.1
Public administration	4.0	4.4	3.9
Real estate	5.6	9.2	8.4
Education	6.2	7.9	6.9

Source: Kenya National Bureau of Statistics

Stanbic Bank Kenya PMI



Source: IHS Markit

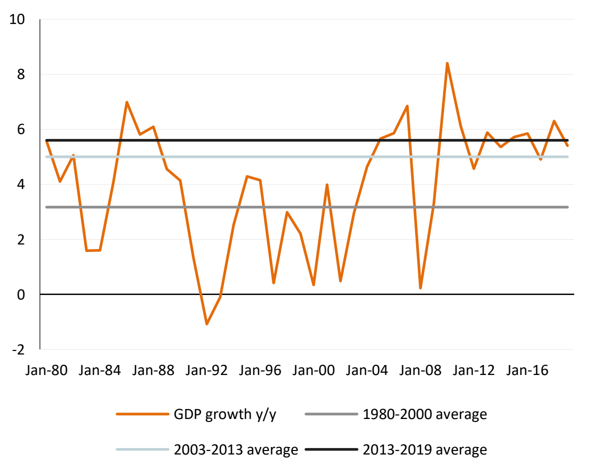
Medium-term economic growth forecasts

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
CPI (% y/y) pe	5.5	4.4	4.3	4.0	5.7	5.8	5.1	4.3	4.4	4.7	6.3	7.3	6.5	5.2	2.2	3.8
CBK policy rate (%) pe	7.25	6.75	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.0
3-m rate (%) pe	7.2	7.0	6.8	6.8	6.8	7.0	7.2	7.2	7.3	7.5	7.5	7.6	7.6	7.5	7.5	7.5
6-m rate (%) pe	8.1	7.9	7.8	7.6	7.8	7.9	8.1	8.4	8.5	8.6	8.7	8.8	8.8	8.8	8.7	8.5
USD/KES pe	104.7	106.5	106.8	105.0	107.4	109.2	107.9	108.5	108.2	110.3	111.5	109.3	108.6	109.5	109.8	110.4
GDP (% y/y) pa	4.5	1.0	2.8	3.7	5.7	6.5	5.6	6.0	5.1	4.4	4.1	5.3	6.2	6.1	6.3	6.0
Bear scenario																
CPI (% y/y) pe	5.5	6.1	6.9	6.8	6.6	7.1	6.5	6.4	7.2	7.6	8.1	8.3	6.8	6.4	5.7	5.8
CBK policy rate (%) pe	7.25	7.0	7.0	7.0	7.0	7.5	7.5	8.0	8.5	8.5	8.5	8.5	8.5	8.0	8.0	8.0
3-m rate (%) pe	7.2	7.5	7.8	8.2	8.5	8.7	8.9	9.1	9.2	9.3	9.3	9.4	9.4	9.3	9.3	9.3
6-m rate (%) pe	8.1	8.4	8.8	9.5	10.3	10.5	10.7	11.1	11.3	11.5	11.7	11.9	11.8	11.8	11.7	11.5
USD/KES pe	104.7	107.8	109.5	110.4	110.1	112.5	114.4	113.8	115.6	117.7	118.1	117.5	115.5	113.4	113.8	114.5
GDP (% y/y) pa	3.1	-2.5	1.1	3.1	4.1	5.7	3.5	2.8	3.8	3.2	3.2	3.7	4.8	4.5	5.4	5.4
Bull scenario																
CPI (% y/y) pe	5.5	4.1	3.8	3.2	3.9	4.4	4.3	3.5	3.7	3.8	4.5	4.9	4.7	4.4	1.8	2.5
CBK policy rate (%) pe	7.25	6.5	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.0	5.0	5.0	5.0
3-m rate (%) pe	7.2	6.9	6.7	6.2	6.2	6.2	6.3	6.3	6.4	6.4	6.5	6.5	6.5	6.4	6.4	6.4
6-m rate (%) pe	8.1	7.9	7.5	7.3	7.2	7.2	7.2	7.3	7.4	7.4	7.5	7.5	7.6	7.6	7.6	7.5
USD/KES pe	104.7	104.8	104.1	103.2	103.5	104.4	104.1	105.2	105.9	106.5	107.1	105.5	105.5	106.1	106.5	107.2
GDP (% y/y) pa	5.2	3.5	4.1	5.5	5.5	6.5	6.1	6.2	4.8	5.5	5.4	5.3	6.3	6.3	6.6	6.5

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

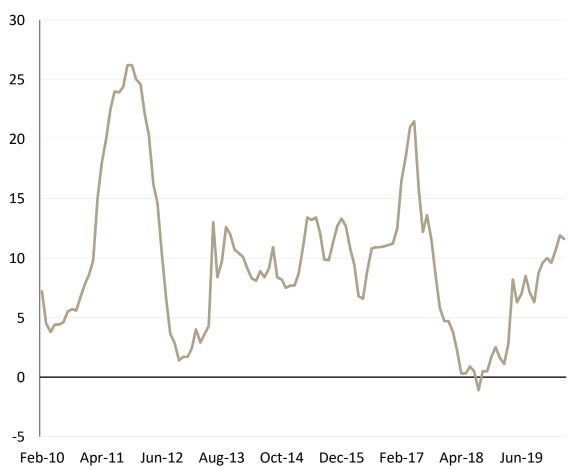
Notes: pa - period average; pe - period end

Long-term GDP performance (%)



Source: Kenya National Bureau of Statistics; World Bank

Food inflation (y/y %)



Source: Kenya National Bureau of Statistics

Balance of payments: service exports to decline

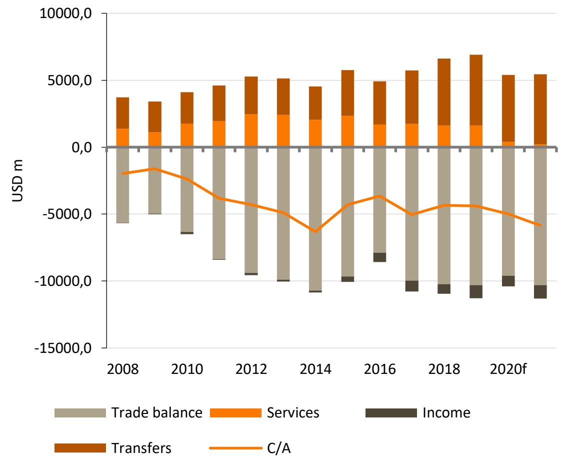
We expect the C/A deficit to widen moderately to 5.1% of GDP in 2020, from 4.8% in 2019. Arguably, the pandemic will sharply weigh on export earnings. In addition to weaker receipts expected from the tourism and floriculture sector, service receipts from the transport sector are also likely to wane over the coming year.

Due to the ongoing disruptions to global supply chains, the logistics and transport business has also been negatively impacted. This will probably reduce transit transport business that Kenyan truckers would ordinarily have conducted in 2020. Furthermore, tourism earnings may take much longer to recover. Hence, whereas service receipts from transport could recover in 2021, tourism receipts could remain relatively subdued at least until H2:21. However, surprisingly, despite floriculture export earnings subsiding, tea exports continue to remain quite resilient. Tea production has been bolstered by the favourable long rains season. That said, in addition to supply chains disrupted by the pandemic, weak demand in key source markets such as Pakistan, Egypt and UK could also indirectly reduce tea exports over the coming year.

The outlook for diaspora remittances is looking rather bleak. However, remittances rose by around 6.0% y/y in Q1:20. Nonetheless, we suspect that the impact of global lockdowns could be reflected in remittances from Mar 20 onwards, weighing on net current transfers.

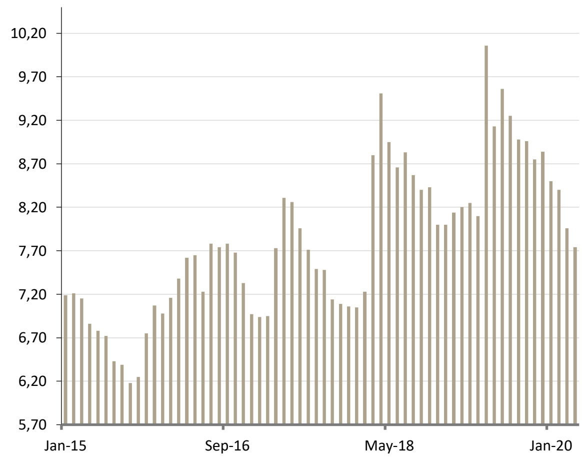
The sharp decline in international oil prices should substantially reduce the overall import bill. Bear in mind that oil imports account for nearly a third of total imports. This would help offset the weakness that we envisage in export earnings. In fact, while consumer imports are also likely ease in 2020 due to weaker private sector economic activity, they may recover in 2021, which is why we see the C/A deficit widening to 5.3%.

Current account developments



Source: Central Bank of Kenya; Standard Bank Research

FX reserves (USD bn)



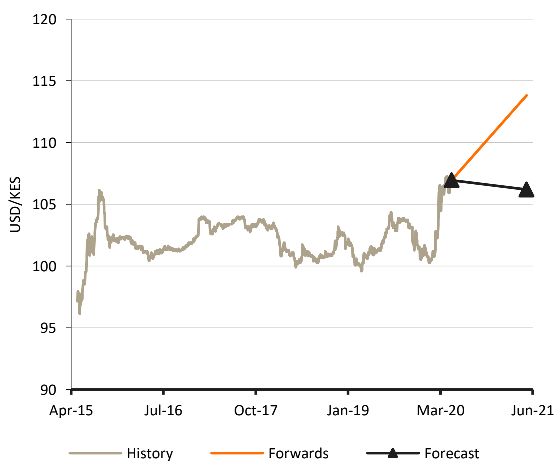
Source: Central Bank of Kenya

FX outlook: depends on global risk conditions

We expect USD/KES to trade in a 104.5-105.0 range until end Dec 20. The pair had drifted upwards as global risk aversion rose, triggering foreign portfolio outflows from both the KES equity and fixed income markets. Foreigners hold only around 4.0% of Kenya's local government debt, which is a relatively smaller exposure to foreign portfolio investment, in comparison to other African economies. Severe bouts of global risk aversion tend to see the KES depreciate as the USD appreciates. Perhaps the worst for the KES is behind us but as the pandemic situation and global risk sentiment are so fluid, notable upside risks to USD/KES remain.

The decline in oil imports could be positive for the KES, while official capital inflows from multilateral donors should boost FX reserves and somewhat offset the weakness in export earnings.

USD/KES: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative bias persists

We expect the MPC to cut its key policy rate by a further 50 bps before end Dec 20, and thereafter remain neutral in 2021.

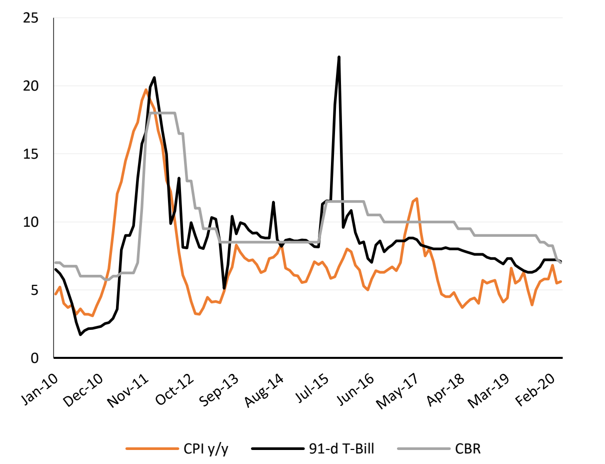
The MPC has already lowered the CBR by a combined 125 bps, to 7.0%, since Jan 20. Even before the pandemic shock, we had expected the MPC to adopt an accommodative bias in 2020. Now, the output gap will probably materially widen in 2020 due to headwinds associated with the pandemic, and the MPC will likely look to lower the policy rate much more aggressively than we thought before.

Still, the MPC may not wish to exhaust its ammunition to address a black swan event such as this pandemic. Even if the MPC were to say cut rates by a further 100 bps, that still wouldn't support aggregate demand. Given that asset quality for commercial banks has deteriorated, rate cuts alone may not be the most effective response to the pandemic shock. In fact, should global risk conditions remain volatile, keeping an ultra-loose monetary policy stance could eventually have a perverse impact, especially if the KES should depreciate and the CBK then would have to mop up liquidity via open-market operations despite policy rate cuts. This would further exacerbate the weak transmission mechanism between a looser monetary policy stance and increased PSC growth.

We see headline inflation remaining rangebound, averaging 4.2% y/y in H2:20. Unfortunately, in the absence of a historical data series, it's cumbersome to model and forecast inflation after the CPI rebase in April. Hence, as we get more data from the rebase, naturally some of our forward-looking forecasts could also be altered.

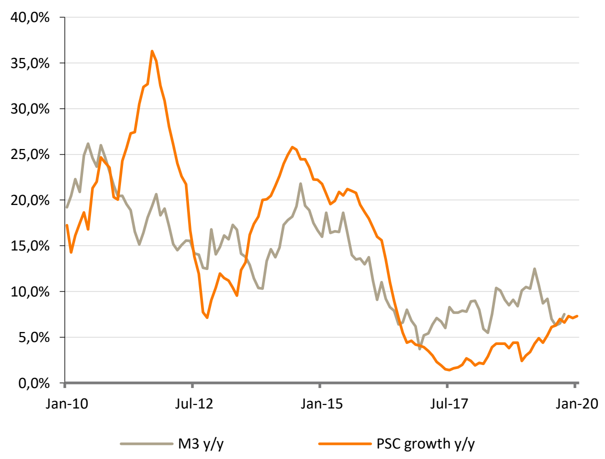
In any case, lower fuel prices will probably curb inflation expectations over the next 6-m. However, we suspect international oil prices will on average rise in H1:21. This, combined with a relatively more robust pace of private sector economic activity, will probably result in headline inflation

Inflation and interest rates (%)



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

Monetary aggregates

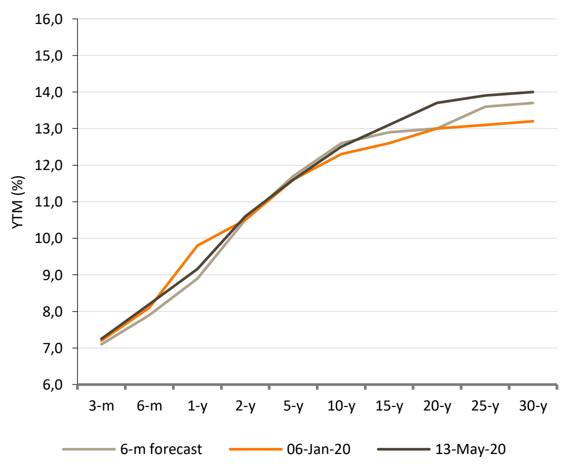


Source: Central Bank of Kenya

Yield curve outlook: quite unclear

Despite the MPC likely to remain accommodative over the coming year, the outlook for T-Bill yields is not straightforward. Sure, one would expect yields at the shorter end of the curve to mirror the CBR's trend. However, it's not uncommon for T-bill yields to deviate from the directional trend of the CBR. For instance, recently the National Treasury has been contemplating a proposal that would postpone interest and principal payments for the pension fund industry for 2-y. This uncertainty has obviously reduced participation levels at both government T-Bill and bond auctions. We don't see this proposal coming through, as trustees of pension funds may not agree to this. However, until there is no clarity on this issue, subscription levels at auctions could suffer. Furthermore, in H2:20, the pace of USD/KES movements and the FY2020/21 domestic borrowing target will probably be the two main factors to drive the yield curve.

Changes in the yield curve



Source: Central Bank of Kenya; Standard Bank Research

Fiscal policy: consolidation delayed further

The government's fiscal consolidation plans will obviously have to be put on hold. Authorities had planned to reduce the budget deficit inclusive of grants to 6.3% of GDP in FY2019/20, from 7.7% in the previous fiscal year.

Now, both revenue collections and overall expenditure are likely to be diminished due to the pandemic as weaker economic activity will reduce tax collections. Emergency and public health related expenditure requirements would inevitably have to increase too.

More importantly, whereas the FY2019/20 fiscal deficit will most probably be much higher than the initial planned 6.3% of GDP, the FY2020/21 budget deficit is also likely to perhaps exceed 8.0% of GDP.

Crucially, one can make the argument that the government could still ensure that its fiscal deficit doesn't get out of control due to the pandemic's impact. This can be achieved if expenditure is simply re-allocated away from non-priority development expenditure and say towards critical public health spending or other measures that ought to be taken to mitigate the impact of the pandemic. If this re-allocation does indeed take place, the budget deficit won't rise dramatically perhaps, even as revenue collections wane. However, due to scant data, it isn't particularly clear how much of the KES730.8bn development budget for FY2019/20 has been absorbed already.

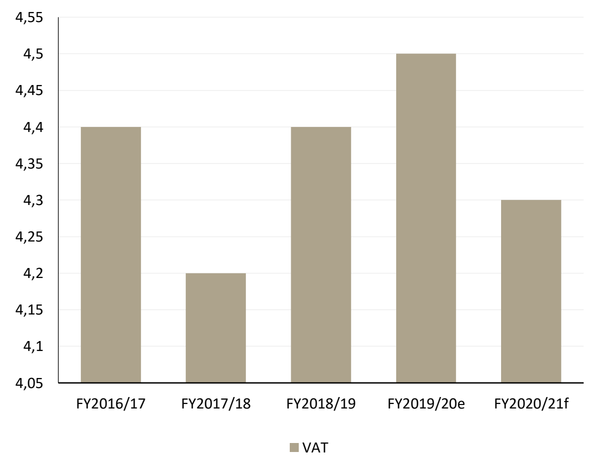
On the funding side, the government will likely be keen to tilt their preference towards long-term concessional debt and away from commercial debt. This doesn't rule out a Eurobond issuance in FY2020/21. However, that would be contingent on global risk conditions and the availability of funding from concessional partners. At the time of writing, the National Treasury said that the government was looking to receive USD1.0bn from the World Bank in budget support and at least another similar amount from the AfDB.

Central government budget

% of GDP	FY2018/19	FY2019/20
Total revenue	18.2	20.1
Total expenditure	26.1	27.7
Wages	4.5	4.7
Interest	4.0	4.3
Development	5.8	7.0
Overall balance (+ grants)	-7.7	-6.3
Overall balance (- grants)	-7.9	-7.6
Net external borrowing	4.4	3.3
Net domestic borrowing	3.2	2.9
Donor support	0.1	0.1

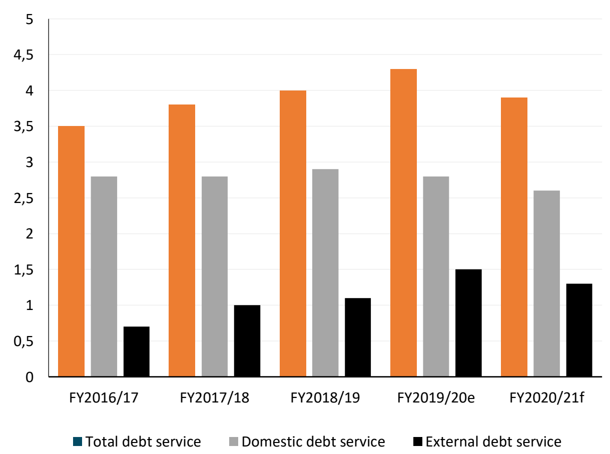
Source: National Treasury

VAT collections (% of GDP)



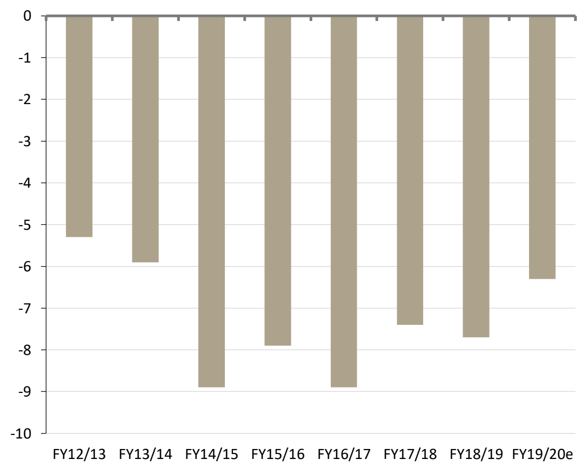
Source: National Treasury

Debt service (% of GDP)



Source: National Treasury

Fiscal deficit incl. grants (% of GDP)



Source: National Treasury

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output	44.2	45.5	46.7	48	49.4	50.7	52.1
Population (million)	6284	7022	8165	8892	9740	10800	12430
Nominal GDP (KESbn)	63.5	69.1	79.0	87.8	95.4	102.1	114.8
Nominal GDP (USDbn)	1436	1521	1693	1829	1931	2013	2203
GDP / capita (USD)	5.7	5.9	4.9	6.3	5.4	3.0	6.0
Real GDP growth (%)	32.2	39.6	33.2	35.5	36.2	40.2	38.5
Coffee production ('000 tons)	399.2	471.2	439.8	485.5	445.0	475.6	461.3
Tea production ('000 tons)							
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.4	-8.4	-9.3	-7.4	-7.9	-7.6	-8.9
Budget balance (incl. Grants) / GDP (%)	-7.9	-7.9	-9.1	7.3	-7.7	-6.3	-7.8
Domestic debt / GDP (%)	26.1	27.5	28.4	28.8	28.9	29.2	29.9
External debt / GDP (%)	25.5	27.3	29.5	30.5	33.4	35.5	36.2
Balance Of Payments							
Exports of goods (USDbn)	5.9	5.7	5.8	6.1	5.9	5.3	5.5
Imports of goods (USDbn)	15.6	13.6	15.9	16.3	16.2	14.9	15.8
Trade balance (USDbn)	-9.7	-7.9	-10.1	-10.2	-10.3	-9.6	-10.3
Current account (USDbn)	-4.3	-3.6	-5.1	-4.4	-4.4	-5.0	-5.9
- % of GDP	-6.77	-5.21	-6.45	-5.01	-4.81	-5.10	-5.34
Financial account (USDbn)	5.1	4.1	4.6	5.3	6.1	5.7	5.7
- FDI (USDbn)	0.52	0.39	0.55	0.75	0.74	0.65	0.82
Basic balance / GDP (%)	-5.96	-4.64	-5.76	-4.16	-3.84	-4.26	-4.43
FX reserves (USDbn) pe	7.1	7.0	7.1	8.0	8.8	9.5	9.8
- Import cover (mths) pe	4.5	4.5	4.7	5.2	5.4	5.3	5.0
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	B1	B1	B1	B2	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	6.6	6.3	7.8	5.0	4.9	4.6	5.2
Consumer inflation (%) pe	7.4	6.4	4.5	5.7	5.8	4.0	4.3
M3 money supply (% y/y) pa	15.4	7.7	7.4	8.7	8.4	8.1	12.4
M3 money supply (% y/y) pe	13.7	3.6	9.5	10.1	5.6	6.9	10.5
Policy interest rate (%) pa	10.1	11.0	10.0	9.1	8.9	7.0	6.5
Policy interest rate (%) pe	11.5	10.0	10.0	9.0	8.5	6.5	6.5
3-m rate (%) pe	10.4	8.6	8.1	7.3	7.2	6.8	7.2
1-y rate (%) pe	12.8	11.0	11.1	10.0	9.8	8.7	9.1
2-y rate (%) pe	12.3	12.6	11.7	10.8	10.4	10.3	11.2
5-y rate (%) pe	13.8	14.4	12.5	11.6	11.5	11.4	12.0
USD/KES pa	99.0	101.6	103.3	101.3	102.1	105.8	108.3
USD/KES pe	102.3	102.5	103.3	102.0	101.4	105.0	108.5

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

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

Malawi: caught in the crossfire

Medium-term outlook: pandemic uncertainty

Malawi's was poised to grow by 4.5% – 6% y/y in the next 2 to 3-y but the COVID-19 pandemic will change that growth trajectory, likely reducing economic growth to 1.8% this year, with a recovery next year. Our base scenario sees GDP growth recovering to above 4% y/y in 2022.

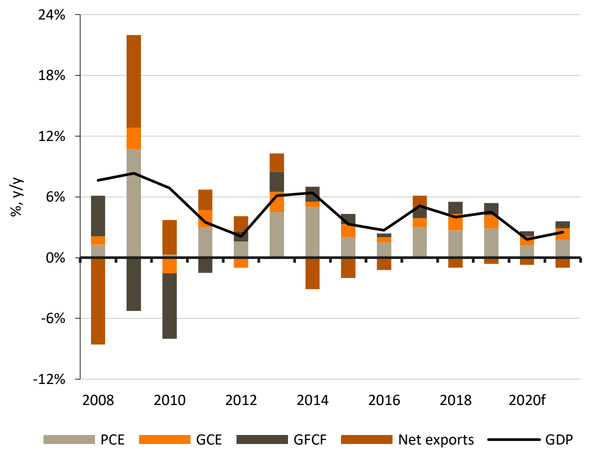
Malawi was one of the last African countries to record its first case of COVID-19, and a peak level of infection is unknown. Notably, a civil rights group won a legal challenge delaying the government from implementing a 21-day lockdown to contain viral spread, and demanding government should provide a social safety net for the poor before implementing any lockdown. Regardless, many companies implemented social distancing measures.

Around 30% of Malawi's GDP comes from the agricultural sector. Good rainfall is vital to growth prospects here, with a correlation between a strong agricultural sector and a strong economy. Stronger agricultural production is also supported by households having higher levels of disposable income. Due to the agrarian nature of Malawi's economy, widespread disruptions in crop-planting cycles in 2020 will limit agriculture's contribution to GDP in 2021. In this case, our bear scenario sees a U-shaped recovery, with a GDP contraction this year, then growth of 4.0% y/y by 2023.

Uncertainty around the outcome of the presidential election scheduled for H2:20 adds to near-term downside risks. Further, the state of public finances would deteriorate markedly, with fiscal deficits widening. Weak domestic growth conditions undermine domestic revenue generation. Nonetheless, while the Bank of Malawi's MPC would be eager to boost economic activity, rising inflation on account of a higher level of currency depreciation may limit the scope for an interest rate cut during 2021.

In our base case, given the low number of infections, there is a chance that economy could turn out to be somewhat better, Here, GDP growth could bottom out at around 3.0% y/y in 2020, then recover to over 5.0% y/y by 2023.

Composition of GDP by demand



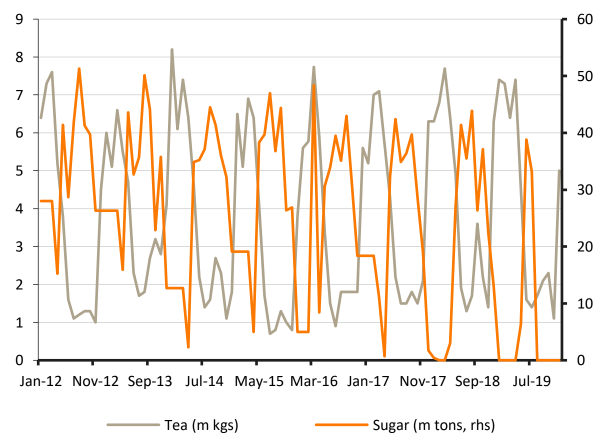
Source: Reserve Bank of Malawi; Standard Bank Research

GDP composition by sector

	2015	2016	2017	2018	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

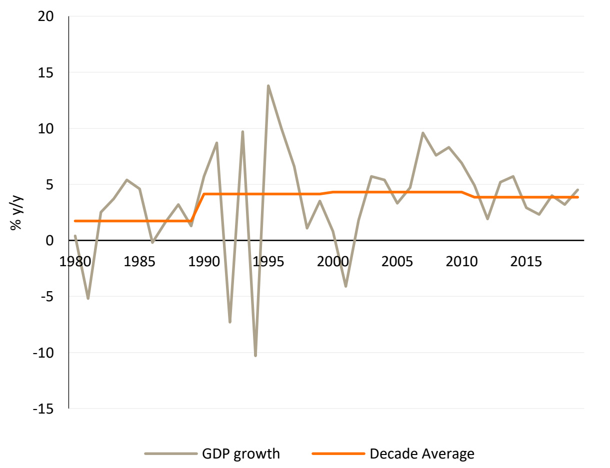
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	1.80	1.80	1.80	1.80	2.40	2.40	2.40	2.40	4.00	4.00	4.00	4.00	5.50	5.50	5.50	5.50
CPI (% y/y) pe	9.80	8.91	8.94	9.16	10.50	11.19	10.98	10.30	10.35	9.24	9.41	9.45	9.20	9.17	8.54	8.70
Policy rate (%) pe	13.50	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00
3-m rate (%) pe	7.50	7.40	7.40	7.00	7.80	8.20	9.00	8.20	8.85	9.30	8.85	7.75	8.25	8.80	8.50	8.40
6-m rate (%) pe	10.84	10.73	10.73	10.33	11.13	11.53	12.33	11.53	12.18	12.63	12.18	11.08	11.58	12.13	11.83	11.73
USD/MWK pe	732.94	750.00	770.00	817.76	830.90	839.23	843.43	847.64	856.12	864.68	877.65	886.43	904.16	922.24	940.68	959.50
Bull scenario																
GDP (% y/y) pa	3.00	3.00	3.00	3.00	4.20	4.20	4.20	4.20	5.00	5.00	5.00	5.00	6.50	6.50	6.50	6.50
CPI (% y/y) pe	9.80	8.91	8.94	8.76	10.10	10.79	10.58	10.10	10.15	10.04	10.41	10.65	10.70	11.67	12.04	12.70
Policy rate (%) pe	13.50	13.50	11.50	11.50	11.50	11.50	11.50	11.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	14.00
3-m rate (%) pe	7.50	7.17	7.17	6.77	7.47	7.87	8.67	7.87	8.52	8.97	8.52	7.42	7.92	8.47	8.17	8.07
6-m rate (%) pe	10.84	10.57	10.57	10.17	10.87	11.27	12.07	11.27	11.92	12.37	11.92	10.82	11.32	11.87	11.57	11.47
USD/MWK pe	732.94	750.00	770.00	809.76	820.90	829.23	833.43	835.64	844.12	852.68	865.65	874.43	889.16	912.24	930.68	949.50
Bear scenario																
GDP (% y/y) pa	0.80	0.80	0.80	0.80	1.20	1.20	1.20	1.20	3.00	3.00	3.00	3.00	4.50	4.50	4.50	4.50
CPI (% y/y) pe	9.80	9.41	9.44	9.66	11.70	12.39	12.58	11.90	11.95	10.84	11.01	10.45	10.20	10.17	9.54	9.70
Policy rate (%) pe	13.50	13.50	12.00	12.00	12.00	12.00	12.00	12.00	10.50	10.50	10.50	9.00	9.00	9.00	9.00	9.00
3-m rate (%) pe	7.50	8.10	8.10	7.90	8.70	9.10	9.90	9.10	9.90	10.35	9.90	8.80	9.14	9.69	9.39	9.29
6-m rate (%) pe	10.84	11.50	11.50	11.30	12.10	12.50	13.30	12.50	13.30	13.75	13.30	12.20	12.54	13.09	12.79	12.69
USD/MWK pe	732.94	770.00	817.00	834.00	859.02	884.79	911.33	938.67	948.06	957.54	967.12	976.79	981.67	986.58	991.51	996.47

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

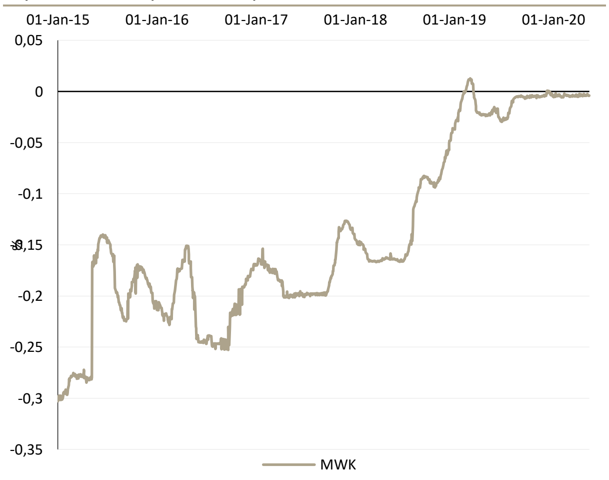
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: pressures building

The C/A deficit will likely remain above 15% over the next 2-y and FX reserves above USD 600m, corresponding with 3-m of import cover.

Such a wider C/A deficit this year could be due to, largely, the uncertainty surrounding tobacco inflows. Potential disruptions, due to the pandemic, to the tobacco marketing season would reduce export inflows. The tobacco crop typically generates in excess of USD300m annually. The Tobacco Commission estimates that tobacco output will decline by 6.6% y/y, to around 154m kg, compared to demand of 161m kg. On average, tobacco prices were lower during the 2018/19 marketing season, therefore excess demand should support tobacco prices this season.

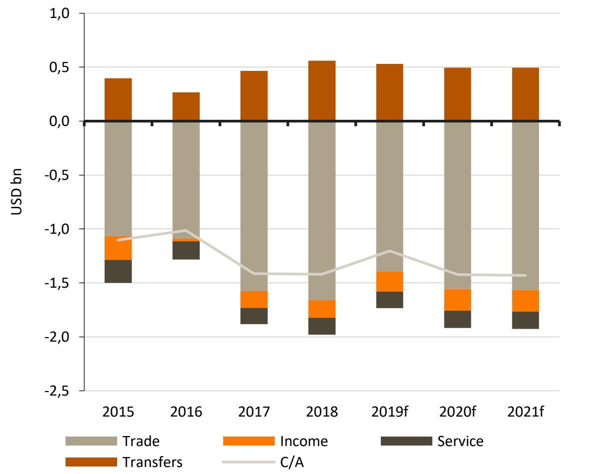
Export receipts from other agricultural exports – tea and sugar – are likely to continue to disappoint due to low soft commodity prices. This would further restrain exports growth.

Regardless, goods imports are likely to continue accelerating due to a rise in medical goods and equipment required to contain the pandemic. The reconstruction work undertaken following Cyclone Idai is ongoing, and these projects tend to carry an import requirement. Many of these projects are set to continue beyond 2020.

Despite some recovery in donor funding over the past few years, donor funding remains well below levels recorded before the "Cashgate" scandal. Subsequently, many donors have opted to provide project support, rather than direct budget support.

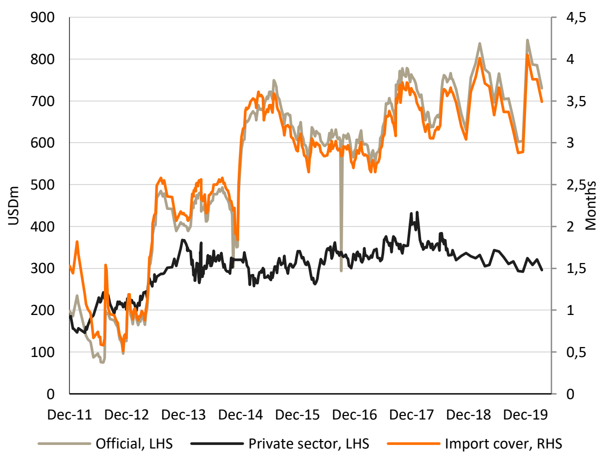
In the medium term, investment inflows and government borrowing should account for most of capital and financial inflows. It is likely that Malawi will continue contracting external debt on concessional terms.

Current account developments



Source: Reserve Bank of Malawi

FX reserves



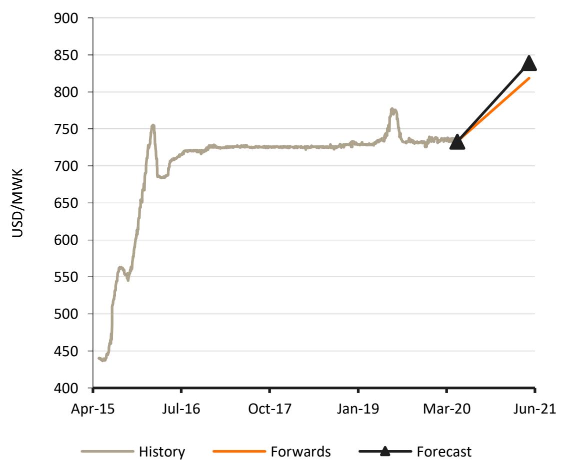
Source: Reserve Bank of Malawi

FX outlook: stable, for now

Before moving over 810 by year-end, we'd expect the USD/MWK trading around 750 in 4-m. Guidelines in place for foreign exchange trading activities have limited the currency's upward movement, and this could keep the MWK stable despite mounting USD demand. Note that, in a business day, only for transactions greater than or equal to USD2m, authorized dealer banks are permitted to revise their rates.

Usually by Apr, FX inflows from the tobacco sales, clears some of the USD demand. The tobacco marketing season has had a slow start this year. COVID-19 prevention measures limit the number of people allowed on an auction floor, which has constrained tobacco sales. Given this slower pace of sales this year, the tobacco marketing season is expected continue after Sep when it usually would have ended. Of course, any disruption in the tobacco marketing season would push the USD/MWK higher.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative tilt

The Reserve Bank of Malawi is likely to cut the policy rate over the next 4-m. It had left the policy stance unchanged for almost a year, last cutting the policy rate by 100 bps in Mar 19. To be sure, the policy rate remains at 13.5%.

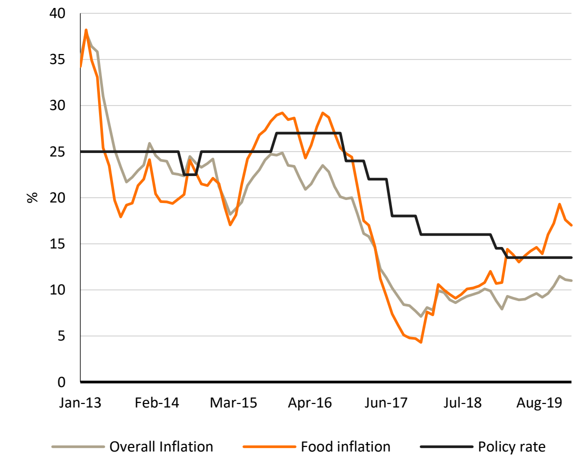
Following an unscheduled MPC meeting in Apr, the MPC reduced the LCY reserve ratio by 125 bps to 3.75% from 5.0% and set the Lombard Rate at 20 bps above the policy rate. These measures were aimed at easing liquidity constraints in the banking sector and to incentivise commercial banks to adequately support the sectors affected by the pandemic.

Headline inflation is set to ease closer to the upper end of the RBM's medium-term inflation target band of 5% with a 200 bps corridor. Headline inflation moderated to 9.8% y/y in Mar, compared with 11% y/y in Feb and 11.1% y/y in Jan. The RBM expects inflation at around 9.3% y/y by December, compared with 11.5% y/y in Dec 19 and 9.9% y/y in Dec 18. We anticipate headline inflation remaining around 9.3% y/y in H1:20, recording 8.9% y/y in Jun 20, then rising to an average of 9.2% y/y in Dec 20.

Bar supply disruptions, now that the maize harvest is in full swing, inflation should support food prices. In Apr maize prices at the farmgate fell by 11% y/y. Improved food supply appears to have restrained food inflation as it averaged 16.45% y/y in Q1:20, compared with 17.5% y/y in Q4:19. Food inflation peaked at 19.3% y/y in Dec but had moderated to 14.73% y/y by Mar.

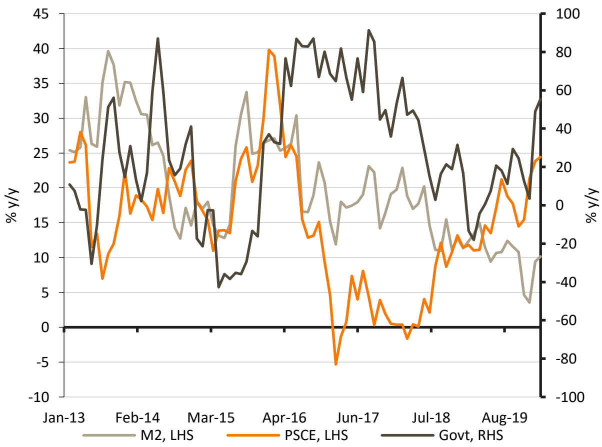
Non-food inflation should remain subdued. After all, non-food inflation has remained below 5.5% y/y since May 19, falling as far as 4.3% y/y in Oct 19. Non-food inflation averaged 5.2% y/y during Q1:20 from 4.7% y/y in Q4:19. The Malawi Energy Regulatory Authority slashed petrol prices by 16% and paraffin prices by 9% at the beginning of Apr, which should help contain non-food inflation in the months to come.

Inflation and interest rates



Source: Reserve Bank of Malawi; Standard Bank Research

Money supply growth



Source: Reserve Bank of Malawi; Standard Bank Research

Yield curve outlook: staying steady

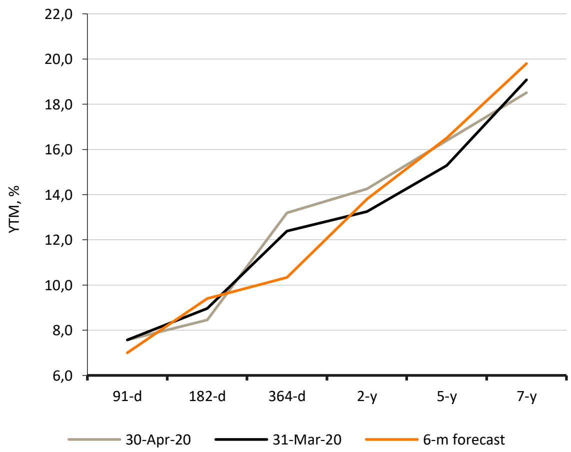
Of course, the Ministry of Finance is likely to continue reprofiling its debt stock, favouring the issuance of T-bonds to T-bills.

That said, 91-d and 181-d T-bill auction sizes have gotten smaller over the last 6-m. Given the increased focus on T-bonds issuance, it appears that more pension funds are active in the bond market.

Over the next 4-m, yields on the short-end of the curve are likely to stay flat. Issuance will likely be concentrated in the longer end of the curve.

The RBM's accommodative monetary policy stance is likely to keep T-bill yields lower in the short term. Yields on the 91-d, 182-d and 364-d bills have risen by 138 bps and 100 bps and 272 bps since Jan.

Yield curve changes



Source: Reserve Bank of Malawi; Standard Bank Research

Fiscal policy: consolidation postponed

The FY2019/20 budget had planned to deliver fiscal consolidation, projecting a budget deficit (including grants) of MWK224.5bn, around 2.4% of GDP. However, the pandemic is likely to delay consolidation efforts. Further, fiscal targets set by the IMF under the ECF programme, which should underpin fiscal rebalancing, are likely to be waived at the upcoming review.

The government reserved MWK15bn to respond to the pandemic. Around 7% of these funds were disbursed by mid-Apr. We'd also expect additional unbudgeted spending related to pandemic relief efforts. With that said, the government is likely to rationalize its expenditure, which typically involve a reduction of the developmental budget. However, the National Treasury indicated that donor-funded projects are exempt and work on these projects will continue in the event of a lockdown.

Regardless, fiscal space is limited. Domestic revenue forecasts for FY2019/20 were predicated on GDP growth of 5.0% y/y and 7.0% y/y in 2019 and 2020 respectively. Now, we see scope for meaningful revenue underperformance. Often, non-compliance with conditionality attached to the disbursement of grants, results in the non-disbursement of budget support, which has over the years compounded domestic revenue shortfalls. This occurred during FY2018/2019 when MWK60bn in budget support grants was not disbursed, which caused the fiscal deficit to overshoot official forecasts.

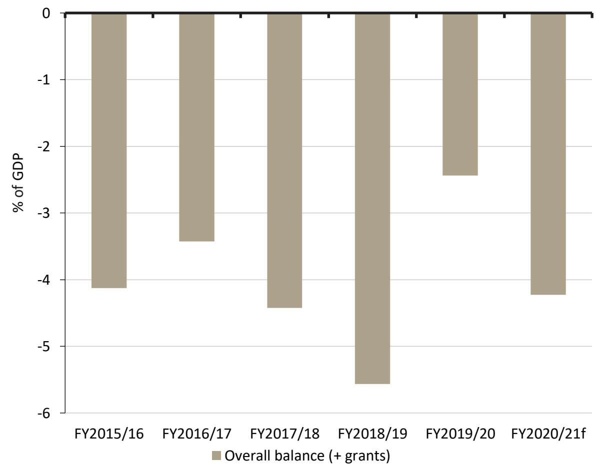
Moreover, due to COVID-19 restrictions, meetings between fiscal authorities and parliament have been postponed, which would delay the compilation of the FY2020/21 budget which should begin in Jul. Since the presidential election is set for H2:20, it is likely that expenditure included in the FY2020/21 budget would cater for this.

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

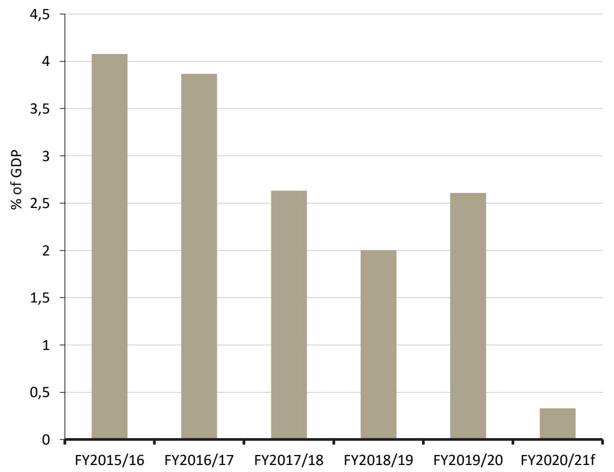
Source: Ministry of Finance

Fiscal deficits



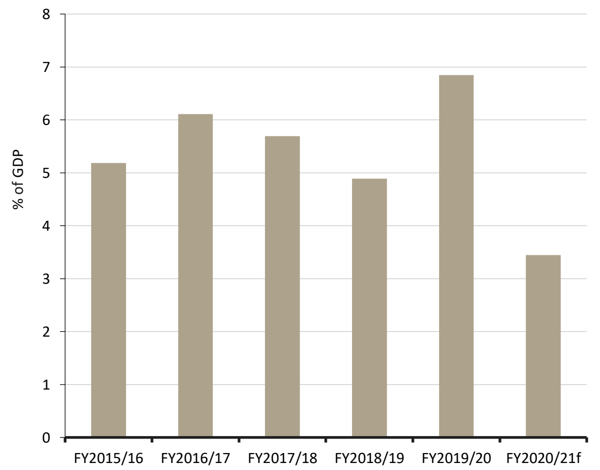
Source: Ministry of Finance; Standard Bank Research

Budget grants



Source: Ministry of Finance; Standard Bank Research

Developmental spending



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	16.30	16.65	17.00	17.30	17.50	17.83	18.03
Nominal GDP (MWK bn)	3 212.68	3 818.49	4 482.50	5 074.57	5 752.55	6 396.95	7 263.25
Nominal GDP (USD bn)	6.11	5.37	6.18	6.98	7.77	7.61	8.57
GDP / capita (USD)	375.11	322.44	363.63	403.20	443.72	426.90	475.29
Real GDP growth (%)	3.25	2.70	5.10	4.00	4.00	1.80	2.40
Tobacco auction sales (million kgs)	193.00	194.00	158.00	202.00	154.00	150.00	190.00
Tea production (million kgs)	38.40	43.61	46.20	50.50	48.20	49.16	50.54
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.54	-6.99	-5.88	-7.57	-4.65	-4.42	-4.00
Budget balance (incl. Grants) / GDP (%)	-4.68	-4.45	-2.96	-5.57	-2.37	-4.10	-3.60
Domestic debt / GDP (%)	16.80	18.90	19.50	20.00	21.60	23.05	25.00
External debt / GDP (%)	37.00	33.20	33.50	35.00	34.80	36.00	38.00
Balance of Payments							
Exports (USD m)	1 153.80	1 066.20	909.66	945.38	960.05	880.05	955.05
Imports (USD m)	-2 220.03	-2 156.19	-2 486.51	-2 603.74	-2 356.96	-2 437.09	-2 519.95
Trade balance (USD m)	-1 066.22	-1 089.98	-1 576.85	-1 658.35	-1 396.91	-1 557.05	-1 564.91
Current account (USD m)	-1 101.02	-1 013.33	-1 414.16	-1 418.57	-1 202.64	-900.00	-899.00
- % of GDP	-18.01	-18.88	-22.88	-20.34	-15.49	-11.82	-10.49
Financial account (USD m)	939.29	475.93	198.38	458.29	452.77	890.00	890.00
- FDI (USD bn)	292.85	119.92	95.24	107.13	118.54	110.00	135.00
Basic balance / GDP (%)	-13.22	-16.64	-21.34	-18.80	-13.96	-10.38	-8.92
FX reserves (USD m) pe	638.85	606.93	759.00	730.00	700.00	845.00	650.00
- Import cover (months) pe	3.06	2.90	3.66	3.36	3.23	3.89	3.00
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	21.85	21.79	12.29	9.21	9.36	9.20	10.74
Consumer inflation (%) pe	24.72	19.98	7.10	9.90	11.50	9.16	10.30
M2 money supply (% y/y) pa	21.43	22.78	18.03	15.70	13.20	24.86	25.36
M2 money supply (% y/y) pe	26.39	15.22	19.74	11.36	3.55	27.72	23.60
Policy interest rate (%) pa	26.00	25.50	20.00	14.75	14.75	13.00	12.50
Policy interest rate (%) pe	27.00	24.00	16.00	16.00	13.50	12.50	12.50
3-m rate (%) pe	23.63	23.99	14.50	11.50	10.89	7.00	8.20
USD/MWK pa	525.44	711.27	725.13	727.51	740.83	767.68	840.30
USD/MWK pe	667.77	728.00	725.52	736.78	730.00	817.76	847.64

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: tourism to take the worst hit

Medium-term outlook: how long for tourism to recover?

The pandemic's economic impact will afflict most sectors, with tourism suffering the most. We now expect the economy to contract by 8.9% y/y in 2020 and then grow by 4.4% y/y in 2021, from our previous 3.6% y/y forecast for 2020.

In 2019, tourist arrivals in Mauritius declined by 1.1% y/y, after growing by 4.3% y/y in 2018. The decline in 2019 was mainly attributable to reduced arrivals from Asia and Oceania markets. In fact, tourism arrivals fell by 13.5% y/y in Q1:20, compared to a decline of 1.2% in Q1:19.

These lacklustre flows were due to travel restrictions and the lockdown in Mar when tourist arrivals fell by 51.2% y/y; essentially the 13.5% y/y decline in Q1 was boosted by high tourist arrivals in Jan. The nationwide lockdown is expected to be lifted by Jun but global travel restrictions will linger, keeping the tourism sector depressed. This sector contributes roughly 6% to GDP but the impact on tourism tends to spill over to other sectors.

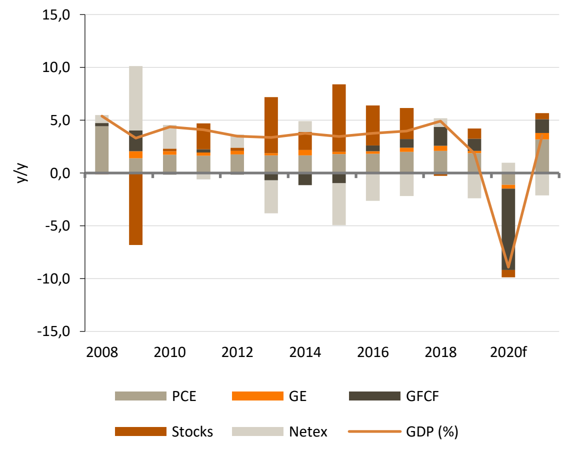
Weaker EU economic growth, the main trading partner, will worsen the contraction. The EU accounts for above 60% of tourism arrivals. In the medium- to long term, a meaningful acceleration in growth would probably rely mostly on an improvement in global growth, especially in the euro zone.

Domestic demand has helped drive overall growth in the past three years. Investment spending and grew by 3.7% y/y in 2016, after declining by an average 4.9% y/y in the 3-y to 2015. This momentum continued until 2018. But, in 2019, GDP growth slowed to 3.0% y/y, from 3.8% in 2018, a slowdown attributable to slower growth in investment spending which eased to 6.8% y/y in 2019 from 10.9% y/y in 2018. We expect the government to halt some investment spending to prioritize other emergency and social expenditure in response to the pandemic.

This is likely to hinder the construction sector which recovered from a prolonged recession in 2017, and in turn, has boosted growth between 2017- 2019. The construction sector has underpinned growth for some time now.

Of course, the recovery of the economy could turn out to be better and faster than we are envisaging. In our bull scenario, GDP growth recovers 7.0% y/y in 2021. In our bear scenario, it grows by 3.1% y/y in 2021.

Composition of GDP growth by demand



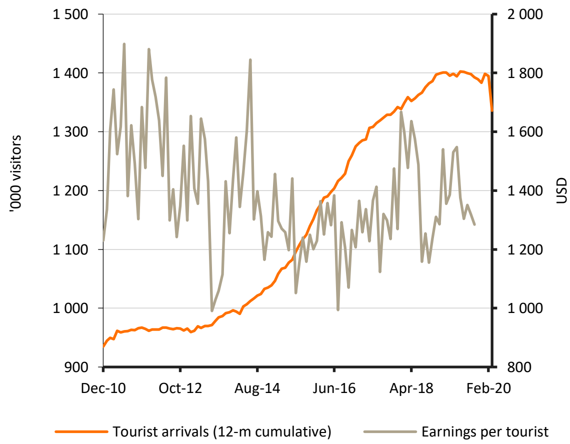
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector

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

Source: Statistics Mauritius

Tourism trends



Source: Statistics Mauritius

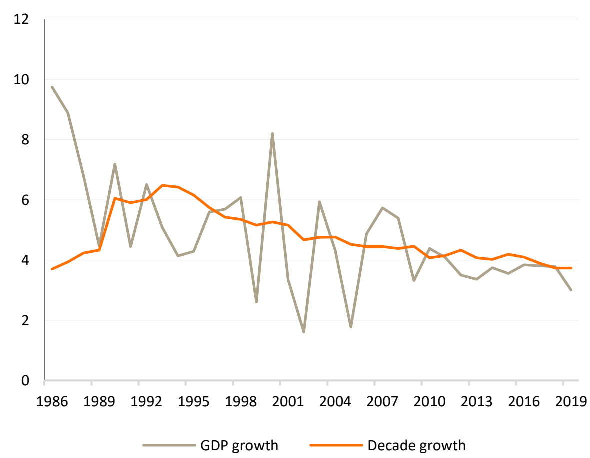
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	0.85	-20.99	-7.73	-7.86	-7.10	12.00	6.80	5.80	4.10	3.80	3.80	3.90	3.67	4.00	3.70	4.30
CPI (% y/y) pe	2.87	3.47	3.64	3.76	2.56	2.24	2.19	2.12	1.97	1.90	1.89	1.96	2.52	2.40	2.36	2.27
BOM policy rate (%) pa	2.85	1.85	1.85	1.85	1.85	1.85	2.0	2.0	2.0	2.85	2.85	2.85	2.85	2.85	2.85	2.85
3-m rate (%) pe	0.91	0.4	0.4	0.4	0.4	0.4	0.91	0.91	0.91	1.03	1.03	1.03	1.03	1.03	1.03	1.03
6-m rate (%) pe	0.85	0.5	0.3	0.3	0.3	0.3	1.2	1.2	1.2	1.42	1.42	1.42	1.42	1.42	1.42	1.42
USD/MUR pe	39.25	40.27	40.41	39.68	37.58	37.19	36.60	36.25	36.75	36.18	34.85	34.17	34.06	35.05	35.31	34.80
Bull scenario																
GDP (% y/y) pa	2.45	-18.69	-4.43	-4.06	-3.60	14.20	9.40	8.00	5.80	5.50	5.50	5.70	5.17	4.00	3.70	4.30
CPI (% y/y) pe	2.87	3.47	3.94	3.96	3.06	2.94	2.99	3.32	3.87	3.80	4.09	3.86	4.42	3.70	3.16	2.97
BOM policy rate (%) pa	2.85	1.85	3.35	3.35	3.35	3.35	3.5	3.5	3.5	4.35	4.35	4.35	4.35	4.35	4.35	4.35
3-m rate (%) pe	0.91	1.32	1.32	2.12	2.12	2.12	2.23	2.23	1.91	2.03	2.03	2.03	2.03	2.03	2.03	2.03
6-m rate (%) pe	0.85	1.42	1.22	2.02	2.02	2.02	2.52	2.52	2.2	2.42	2.42	2.42	2.42	2.42	2.42	2.42
USD/MUR pe	39.25	40.27	40.11	39.48	37.08	36.49	35.80	35.05	34.85	34.28	32.65	32.27	32.16	33.75	34.51	34.10
Bear scenario																
GDP (% y/y) pa	-0.25	-22.02	-8.83	-9.01	-8.29	10.80	5.55	4.55	2.84	2.51	2.50	2.60	2.37	2.68	2.40	2.95
CPI (% y/y) pe	2.87	3.47	3.34	3.56	2.06	1.54	1.39	0.92	0.07	0.00	-0.31	0.06	0.62	1.10	1.56	1.57
BOM policy rate (%) pa	2.85	1.85	0.35	0.35	0.35	0.35	0.5	0.5	0.5	1.35	1.35	1.35	1.35	1.35	1.35	1.35
3-m rate (%) pe	0.91	0.17	0.17	0.10	0.10	0.10	0.58	0.58	0.66	0.78	0.78	0.78	0.78	0.78	0.78	0.78
6-m rate (%) pe	0.85	0.27	0.30	0.30	0.30	0.30	0.87	0.87	0.95	1.17	1.17	1.17	1.17	1.17	1.17	1.17
USD/MUR pe	39.25	40.27	40.71	39.88	38.08	37.89	37.40	37.45	38.65	38.08	37.05	36.07	35.96	36.35	36.11	35.50

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

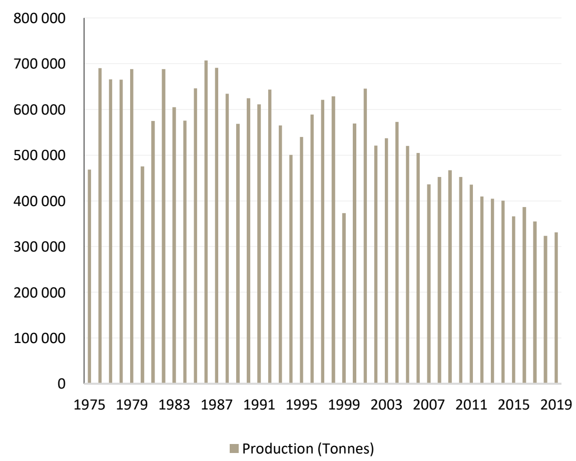
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; Statistics Mauritius

Sugar production



Source: Statistics Mauritius

Balance of payments: widening C/A deficit

The C/A deficit is likely to widen both in nominal terms and as a percentage of GDP in 2020. We expect it to widen to 8.3% of GDP in 2020 and narrow to 7.8% of GDP in 2021.

The trade deficit is likely to widen further, consequently widening the C/A deficit. The trade deficit widened to USD2.4bn in 2019, from USD1.9bn in 2018. We expect it to widen further to USD2.95bn in 2020.

Import demand is likely to fall due to soft domestic demand and subdued construction activity. We suspect that policymakers will only resume attempts to stoke investment spending from 2021 onwards. This is likely to boost import demand a year from now.

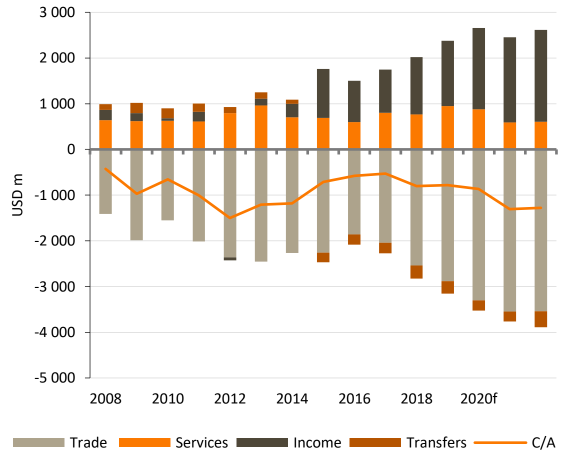
Equally, waning service imports relating to maintenance and repair services, both for transport and travel, are expected to offset the decline on service exports somewhat. Similarly, we expect the oil import bill to shrink due to lower international oil prices. Fuel accounts for roughly 16% of total imports.

Primarily, we expect subdued global demand to suppress exports of goods and services. Tourist arrivals are likely to continue to decline, weakening services exports.

Tourist arrivals fell by a cumulative 13.5% y/y in the 3-m to Mar 20, while earnings were down 3.8% y/y on average in Jan and Feb. For 2020, we expect net services exports to decline significantly.

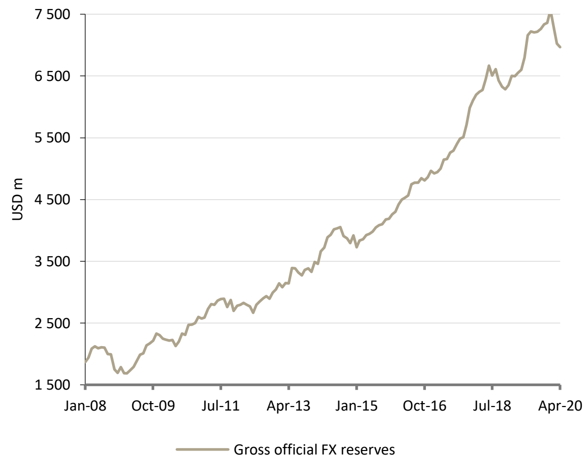
Thus, FX reserves are unlikely to continue rising, as has been the case. Much of that rising trend was due to healthy financial inflows, as the C/A balance was in deficit. We doubt that capital inflows will continue to be robust enough to keep FX reserves on an upward trajectory.

Current account developments



Source: Bank of Mauritius; Standard Bank Research

FX reserves



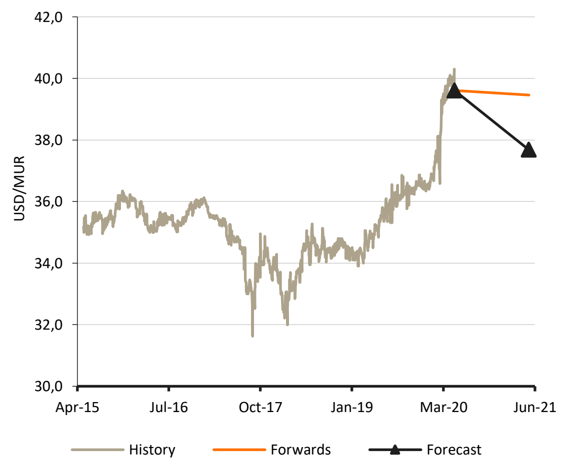
Source: Bank of Mauritius

FX outlook: trade-weighted MUR depreciating

We expect to see USD/MUR rising before falling to 39.68 by year-end. Both measures of the trade-weighted MUR that the BOM calculates depreciated at a faster pace, more so the index based on merchandise trade. The index based on merchandise trade depreciated by 7.9% in 6-m to Apr, and the one based on both merchandise trade and tourism earnings depreciated by 4.7% in 6-m to Apr.

Irrespectively, in the medium term, we do not anticipate the BOM abandoning the practice of managing the MUR through two measures of the trade-weights. This leaves the direction of USD/MUR heavily reliant on the path of EUR/USD. Importantly, Steven Barrow, our G10 analyst, believes that there is a further bias for a potentially weaker EUR over the next 3-m or so.

USD/MUR: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias

We expect headline inflation to average 3.3% y/y in 2020 instead of the 1.6% y/y in our Jan AMR. In 2021, headline inflation is expected at 2.2% y/y. Meanwhile, we expect the MPC to maintain an accommodative policy stance.

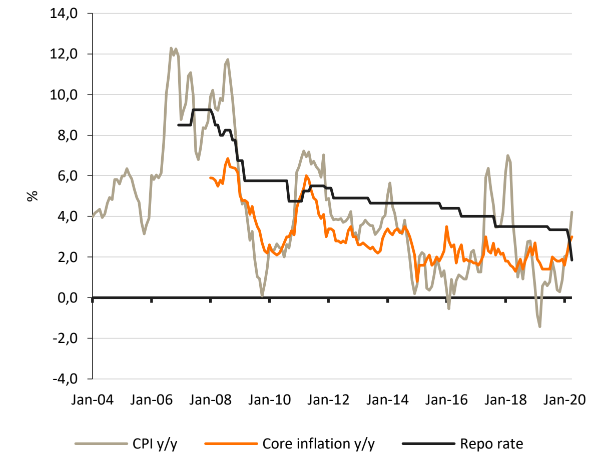
At the last meeting in Apr, the MPC cut the repo rate by 100 bps, to 1.85%, after delivering a 50 bps cut in Mar. In the Mar assessment, the committee acknowledged that inflation would most likely remain subdued on a multi-month basis, averaging 1.5% y/y in 2020. Meanwhile, the risks to growth were tilted to the downside. With economic activity likely to remain unresponsive, an easing bias for monetary policy will persist.

Sure, whilst there is impetus to a certain degree for the MPC to deliver another rate cut, the effectiveness of such a move is doubtful. The MPC is cutting the policy rate in order to boost economic activity. We believe that money market rates are already lower than implied by the policy rate. The interbank rate remains low, even as the BOM mops up excess liquidity from the market.

Inflation in Mauritius accelerated by 4.2% y/y in Apr, from 2.9% y/y in Mar, defying the typical seasonal decline. Headline CPI tends to fall by an average of 1.9% m/m between Apr and Jun, following the seasonal food price increases experienced in Q1 every year. This is probably the reason that the Ministry of Commerce and Consumer Protection implemented measures to enhance consumer protection. Effective from 25 Apr, it introduced price controls on several products such as basmati rice, pulses and cheese, among many others. But given that the MUR depreciated by about 7.6% in the 3-m to Apr, it is likely to have exerted some pressure on inflation. This could be reflected with a lag.

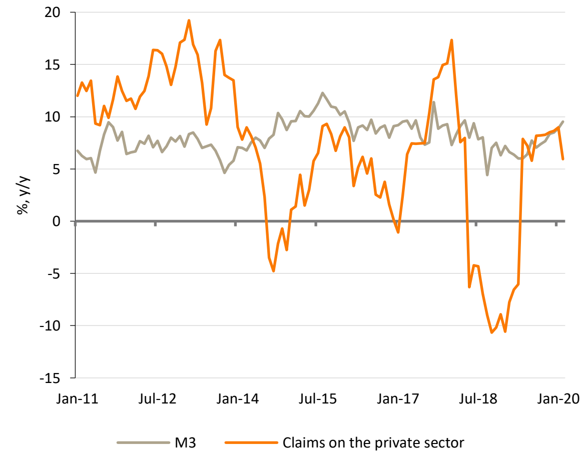
In fact, there is now some evidence of underlying inflationary pressures in the economy. Core inflation rose to 3.0% y/y in Apr, the highest since May 17. Perhaps this is likely to discourage the

Inflation and interest rates



Source: Bank of Mauritius; Statistics Mauritius

Money statistics



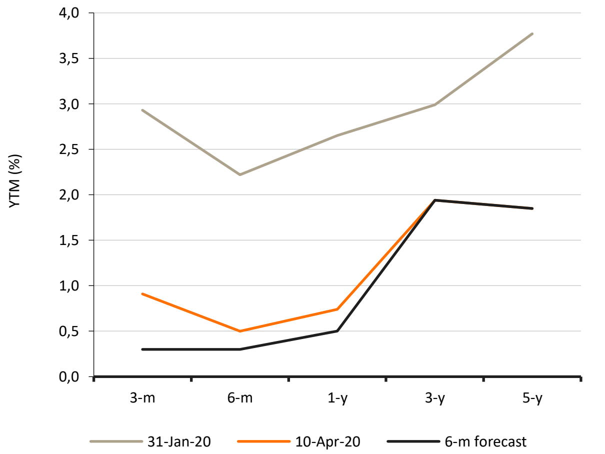
Source: Bank of Mauritius

Yield curve outlook: yields likely to fall further

Yields are likely to fall further over the coming 6-m, due to the easing of the policy stance. Moreover, given the determination to reduce the fiscal deficit, it remains highly probable that T-bill and bond yields will not rise meaningfully this year. Excess liquidity in the money market has ensured that yields remain very low. Of course, T-bill yields have perhaps bottomed out, trading closer to zero from levels above 2.0% in Jan.

We don't anticipate that yields will either rise or fall dramatically from the ranges established after the policy rate cut in Apr. Given the excess liquidity in the market, it seems reasonable to believe that the risks to T-bill yields are biased to the downside. But then again, if the withdrawal of excess liquidity in the money market were to be successful, yields would likely begin to rise again.

Change in yield curve



Source: Bank of Mauritius; Standard Bank Research

Fiscal policy: attempt to contain recurrent expenditure

In a pre-budget circular, the Finance Ministry indicated some guiding principles for the FY2020/21 budgeting process. The key message seemed to centre around a determination to implement an inclusive, high income and a green economy.

The Finance Ministry appears to appreciate the policy challenges it faces, especially in consideration of the pandemic. The ministry acknowledges that the fiscal deficit needs to be reined in, by cutting recurrent expenditure by roughly 10% among other proposals.

It can be deduced from the indicative medium-term estimates that the government is planning for further fiscal consolidation, aiming for a 3.1% of GDP deficit in FY2020/21 and 2.8% in FY2021/22.

However, the government will likely look for a slightly higher fiscal deficit than planned. That said, we still doubt that the government has appetite to push the deficit much higher beyond what is planned.

It appears that there is a general acceptance among policymakers that subdued economic performance will persist due to the COVID-19 pandemic.

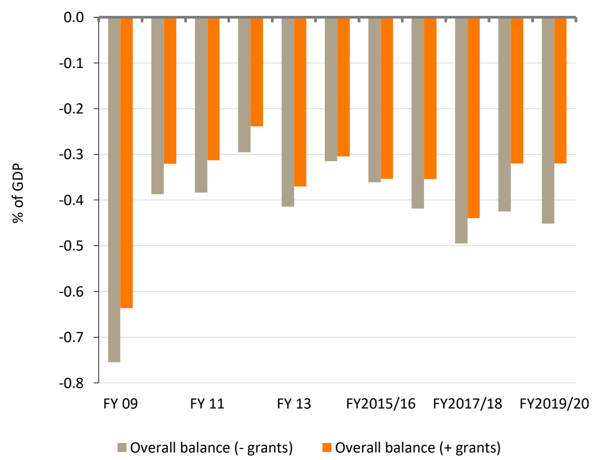
Moreover, the combination of low interest rates on domestic debt, low inflation and a potential economic contraction would suggest that the government has scope to boost spending, primarily funded with increased domestic issuance of paper.

Indeed, the prevalence of excess liquidity in the banking system could easily be addressed by higher issuance of debt.

% of GDP	FY2018/19	FY2019/20
Total revenue	22.3	23.1
Total expenditure	25.5	26.3
- Interest	2.6	2.6
- Wages	6.1	6.2
- Capital expenditure	2.7	3.4
Net lending	1.9	0.5
Overall balance (- grants)	-4.2	-4.5
Overall balance (+ grants)	-3.2	-3.2
Net lending to parastatals	0.2	0.2
Net external borrowing	-0.7	-3.1
Net domestic borrowing	5.4	6.8
Donor support (grants)	1.0	1.3

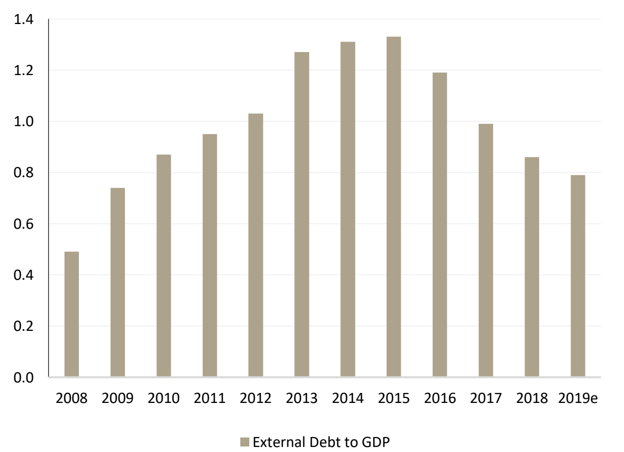
Source: Ministry of Finance and Economic Development

Fiscal deficit



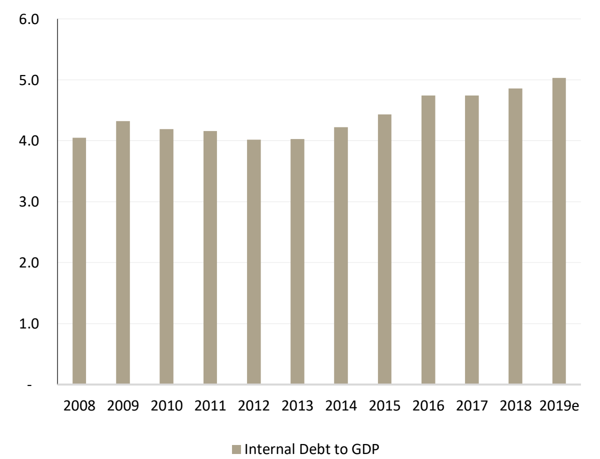
Source: Ministry of Finance and Economic Development

External debt growth



Source: Ministry of Finance and Economic Development

Internal debt growth



Source: Ministry of Finance and Economic Development

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	1.26	1.26	1.26	1.27	1.27	1.27	1.28
Nominal GDP (TND bn)	409.9	434.8	457.2	481.3	498.5	455.6	483.9
Nominal GDP (USD bn)	11.6	12.2	13.3	14.1	14.0	11.5	12.9
GDP / capita (USD)	9 223	9 657	10 503	11 174	11 026	9 047	10 099
Real GDP growth (%)	3.5	3.7	3.8	3.8	3.0	-8.9	4.4
Sugar production (‘000 Tonnes)	366.1	386.3	386.3	323.4	331.1	322.0	331.1
Tourism arrivals (‘000)	1 152	1 275	1 342	1 399	1 542	901	991
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.7	-3.6	-4.2	-4.9	-4.2	-4.5	-3.8
Budget balance (incl. Grants) / GDP (%)	-3.1	-3.5	-3.5	-4.4	-3.2	-3.2	-3.1
Domestic debt/GDP (%)	44.3	49.7	51.7	50.2	54.2	52.5	50.9
External debt/GDP (%)	13.3	14.7	12.9	12.1	10.8	9.1	8.9
Balance of Payments							
Exports of goods and services (USD bn)	5.48	5.21	5.21	5.29	5.57	4.83	5.00
Imports of goods and services (USD bn)	6.74	6.46	6.98	7.22	7.99	7.78	7.93
Trade balance (USD bn)	-1.26	-1.24	-1.77	-1.93	-2.42	-2.95	-2.93
Current account (USD bn)	-0.58	-0.53	-0.80	-0.78	-0.87	-1.31	-1.28
- % of GDP	-4.99	-4.34	-6.06	-5.72	-5.78	-8.27	-7.79
Capital & Financial account (USD bn)	1.15	1.27	2.23	1.35	1.93	0.05	0.12
- FDI (USD bn)	0.33	12.97	9.93	6.99	4.19	4.06	4.37
Basic balance / GDP (%)	-2.14	101.91	68.66	43.91	23.79	23.98	23.90
FX reserves (USD bn) pe	4.26	4.97	5.98	6.35	7.36	6.84	7.29
- Import cover (months) pe	7.1	8.7	9.5	10.5	12.6	11.3	12.0
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	1.3	1.0	3.7	3.2	0.5	3.3	2.2
Consumer inflation (%) pe	1.3	2.3	4.2	1.8	0.9	3.8	2.1
M2 money supply (% y/y) pa	10.62	8.79	9.04	7.73	7.11	9.67	8.57
M2 money supply (% y/y) pe	10.17	9.08	9.27	6.31	8.50	9.73	8.52
BOM Policy rate (%) pa	4.61	4.20	3.83	3.50	3.43	2.10	1.93
BOM Policy rate (%) pe	4.40	4.00	3.50	3.50	3.35	1.85	2.00
3-m rate (%) pe	2.90	2.80	2.40	3.37	2.20	0.53	0.66
5-y rate (%) pe	4.85	3.93	4.25	5.20	5.20	2.50	3.20
USD/MUR pa	35.19	35.63	34.41	34.03	35.69	39.73	37.38
USD/MUR pe	35.85	35.97	33.57	34.30	36.35	39.68	36.25

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

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

Morocco: to rely heavily on IMF assistance

Medium-term outlook: a V-shaped recovery

The shock of the pandemic will incur the sharpest ever contraction of GDP for Morocco, down by 4.1% y/y in 2020, from expanding 2.3% y/y previously. But it then should rebound by 4.7% y/y. We forecast an average rate of 3% in 2022/23.

In a recent report, the Moroccan High Commission for Planning (HCP) estimated that economic growth in Q1:20 decelerated by 0.7% y/y and would contract 6.8% y/y in Q2:20 as the lockdown was extended until May-20. We expect Q3 GDP figures to be as bad, as the closure of the high tourist season will have offset whatever activity there was in other sectors. Bear in mind that because of the earlier drought, agricultural VA was expected to contract in 2020 by nearly 3% y/y, even before the pandemic.

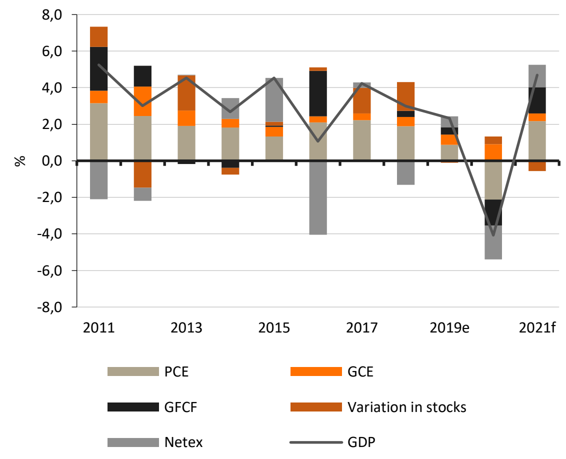
In our base scenario, after an initial surge in household consumption caused by the announcement of containment measures, PCE will be a heavy drag on GDP growth throughout the year as the population's earnings will fall. Investments will be slashed, while exports will suffer from a sharp slowdown in external demand. These three sectors take off around 5.5 ppts from GDP growth this year, with only government consumption rising due to increases in operating expenses. Economic expansion returns next year, helped by a low base effect, and a revival in exports and as harvest yields return to normal. Growth is expected at just over 3% y/y in the following 2-y, matching the average in the past few years.

However, the pandemic could linger or come in waves. Then, the two largest export articles, products of automotive industry and phosphates – both highly dependent on external demand – lead the way to a greater downturn. In this scenario, investments are delayed for longer, thus jeopardising economic growth. The services sector can easily extend losses well into the following year's tourist season if foreign visitors don't return. Then, we'd envisage a contraction of 6% y/y this year, rebounding in 2021, and then growing at around 2% y/y until 2024. A downward effect on prices in this scenario will be relatively small given how well contained inflation is already.

In our bull scenario, industrial output starts surging from the end of 2020 and into 2021 on increased external demand. Lifting travel bans greatly helps the services sector from 2021. This scenario sees the economy contracting 3% y/y in 2020, strongly recovering 6% y/y in 2021 and then averaging 4% in the following 2-y.

Regardless, we expect the central bank to maintain the stability of its currency basket in all three these scenarios.

Composition of GDP by demand



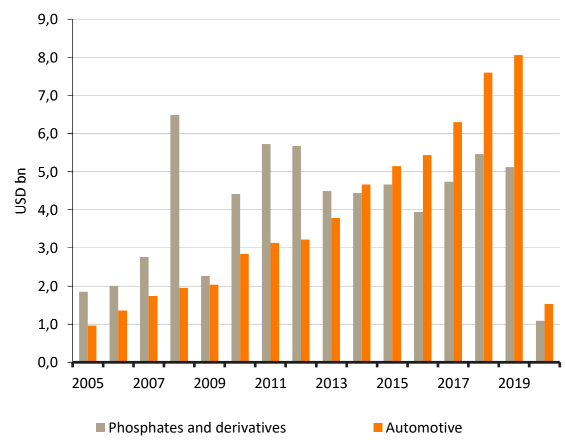
Source: Haut-Commissariat au plan; Bank Al-Maghrib; Standard Bank Research

Contribution to GDP by sector (% of total)

	2014	2015	2016	2017	2018	Q1-3:19
Primary sector	11.7	12.6	12.0	12.4	12.3	11.9
- Agriculture	10.7	11.6	10.9	11.3	11.2	10.8
- Fishing	0.9	1.0	1.1	1.1	1.0	1.1
Secondary sector	26.5	26.1	26.0	26.2	25.9	25.8
- Extraction industry	2.5	2.3	2.0	2.3	2.3	2.1
- Processing industry	16.5	16.1	15.8	15.7	15.7	15.4
- Electricity and water	1.8	2.1	2.5	2.5	2.5	2.9
- Construction industry	5.8	5.5	5.7	5.6	5.4	5.4
Service sector	51.6	49.7	50.3	50.0	50.0	50.5
- Trade	8.3	7.8	8.1	7.9	7.9	7.9
- Hotels & restaurants	2.3	2.1	2.2	2.5	2.6	2.6
- Transport	3.5	3.7	3.7	3.8	3.9	3.9
- Post and telecom	2.4	2.2	2.1	2.0	2.0	1.9
- General gov't	9.5	9.2	9.2	9.2	9.2	9.3
- Other nonfinancial	25.6	24.8	25.0	24.6	24.5	24.7
Taxes	10.2	11.5	11.7	11.5	11.8	11.8
GDP	100	100	100	100	100	100

Source: Haut-Commissariat au plan

Phosphates and automotive exports



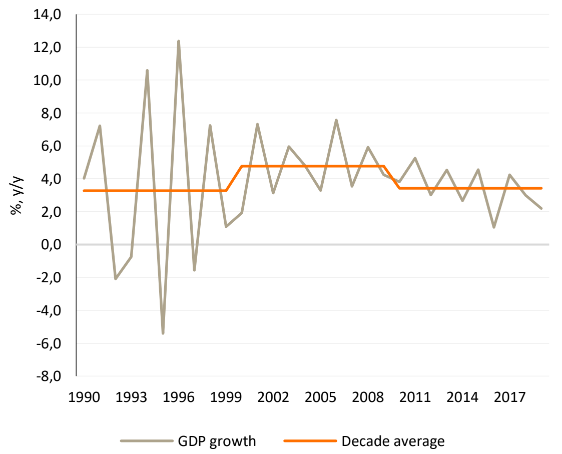
Source: Office des Changes

Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	0.7	-6.8	-7.0	-3.5	1.2	6.3	6.8	4.3	4.0	1.8	1.9	2.3	3.0	3.4	3.8	4.0
CPI (% y/y) pe	1.5	0.4	0.7	0.4	0.7	0.8	1.8	1.8	1.7	1.6	1.4	1.3	1.9	2.4	2.9	3.5
BAM prime rate (%) pe	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.50	2.50	2.50	2.50	2.50
3-m rate (%) pe	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.60	2.60	2.60	2.60	2.60	2.60
2-y rate (%) pe	2.32	2.20	2.20	2.15	2.15	2.20	2.20	2.20	2.20	2.20	2.25	2.25	2.25	2.25	2.25	2.25
USD/MAD pe	10.12	9.98	10.10	9.81	9.54	9.38	9.32	9.26	9.20	9.13	9.07	9.01	8.95	8.78	8.50	8.24
Bull scenario																
GDP (% y/y) pa	0.7	-6.0	-6.0	-2.0	2.7	7.8	8.3	5.8	5.2	3.0	3.1	3.5	3.8	4.2	4.6	4.8
CPI (% y/y) pe	1.5	0.5	0.8	0.5	0.8	0.9	1.9	1.9	1.9	1.8	1.6	1.5	2.3	2.8	3.3	3.9
BAM prime rate (%) pe	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.50	2.50	2.50	2.75	2.75
3-m rate (%) pe	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.65	2.65	2.65	2.65	2.90	2.90
2-y rate (%) pe	2.32	2.20	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.75	2.75	2.75	2.75	3.00	3.00
USD/MAD pe	10.12	9.98	10.10	9.81	9.54	9.38	9.32	9.26	9.20	9.13	9.07	9.01	8.95	8.78	8.50	8.24
Bear scenario																
GDP (% y/y) pa	0.7	-8.5	-9.0	-7.0	-0.8	4.3	4.8	2.3	3.0	0.8	0.9	1.3	1.5	1.9	2.3	2.5
CPI (% y/y) pe	1.5	0.7	0.3	0.3	0.6	0.6	1.7	1.7	1.4	1.3	1.1	1.0	0.9	1.4	1.9	2.5
BAM prime rate (%) pe	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.25	2.25
3-m rate (%) pe	2.05	2.05	2.05	2.05	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	2.30	2.30
2-y rate (%) pe	2.32	2.15	2.15	2.15	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	2.40	2.40
USD/MAD pe	10.12	9.98	10.10	9.81	9.54	9.38	9.32	9.26	9.20	9.13	9.07	9.01	8.95	8.78	8.50	8.24

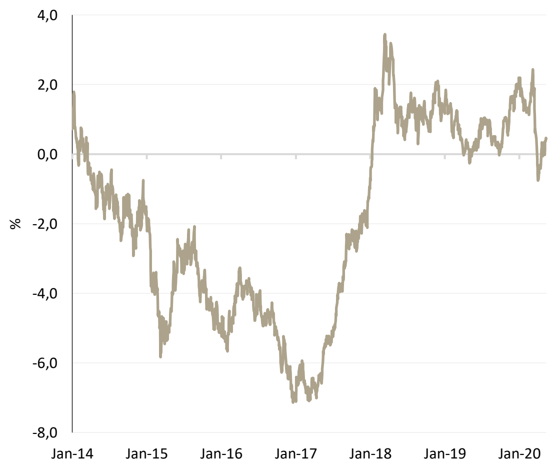
Source: Bank Al-Maghrib; Haut-Commissariat au plan; Office des Changes; Bloomberg; Standard Bank Research

Long-term GDP performance



Source: IMF

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: exports plummet

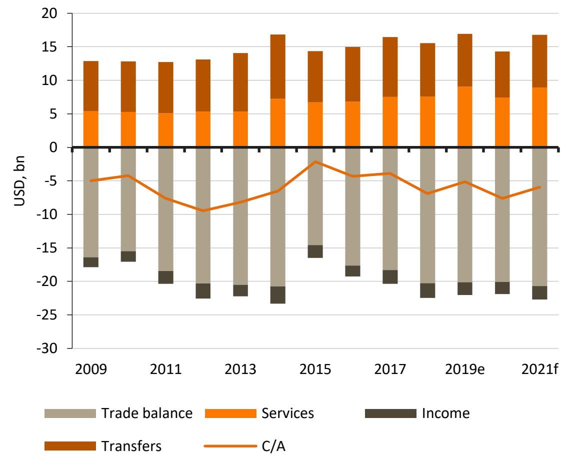
We estimate that the C/A deficit tightened to 4.3% of GDP in 2019, a 1.5 ppts improvement on the previous year. Pre-pandemic, we had expected it to be on course for further tightening. But we now foresee a substantial correction to this. We expect the C/A deficit to widen to 7.0% of GDP in 2020 before narrowing to 4.9% of GDP in 2021, with further tightening in 2022-23.

Recent figures published by Office des Changes give a view of how devastating COVID-19 will be for external trade. While in Jan-Feb both imports and exports were still growing y/y, preliminary data for Q1 already showed goods exports contracting by 9.6% y/y and imports by 3.5% y/y. Sales in the automotive sector, the second-largest export category, fell by over 25% y/y as Renault factories ceased production. On the imports side, the value of imported capital goods fell by 12% y/y. We expect the pace of decrease of imports of goods to lag that in exports through the year, thus rapidly increasing trade deficit. One of the reasons is that purchases of food, such as cereal, would have to continue throughout 2020 due to an earlier drought. In fact, while every other category in import of goods fell in Q1:20, purchases of food products surged 13.6% y/y. This substantially offset the observed quarterly reduction in the energy bill.

Services, which narrowed 6% y/y in Q1:20, will also suffer heavy losses as this year's tourism season can effectively be written off. Equally, remittances from overseas will shrink rapidly in the coming quarters. We expect the C/A deficit to widen to USD7.6bn in 2020, before tightening to USD5.9bn next year on a rebound in exports to Europe and some recovery in the hospitality sector.

The external gap will be financed by a sharp increase in external borrowings, primarily from official creditors. While it will result in external debt creasing by 8% of GDP, it should help keeping FX reserves above USD22bn in 2020, which translates into an

Current account developments



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

Gross international reserves

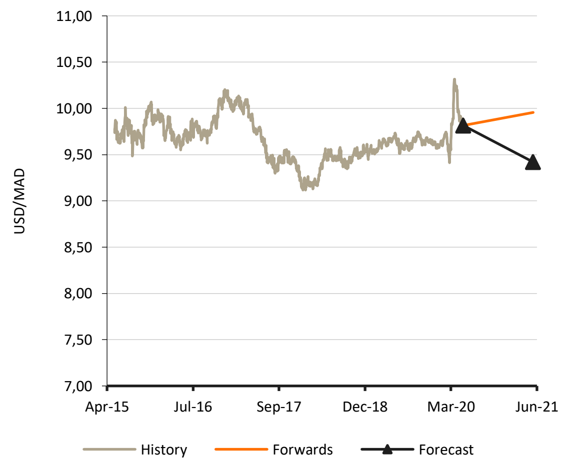
Source: Haut-Commissariat au plan

FX outlook: stability to maintained into 2023

We still see the central bank maintaining the stability of the currency basket (60%EUR + 40%USD), notwithstanding the widening of the basket fluctuation band to +/-5% in Mar. There was a momentary spike in dirham depreciation at the end of Mar, well within allowable band, but since then the currency has returned to its usual level. The central bank hasn't intervened in the FX market for over 2-y, instead relying on ample interbank liquidity and capital restrictions for residents. It is unlikely that the FX basket value will be moved in the next 3-4 years.

Until then, the EUR/USD will determine how the dirham moves against those currencies. Per our G10 analyst's forecasts, we expect the dirham to trade at 9.8 and 9.3 against the dollar by the end of 2020 and 2021 respectively. Against the euro the corresponding figures are expected to be 10.6 and 10.9.

USD/MAD: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: on hold after the recent rate cut

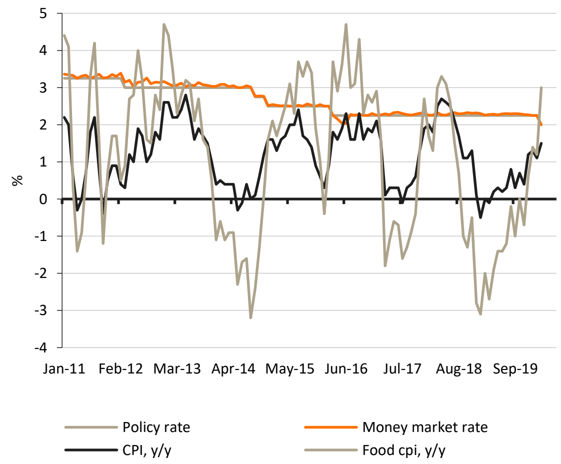
In Mar the BAM cut its main policy rate by 25 bps, to 2%, after keeping it unchanged for 4-y. The move was designed to provide stability to financial sector during the pandemic. For now, the BAM is expected to follow interest rates developments at the ECB, which should keep the policy rate on hold in the next 2-y. Once the economy recovers from the pandemic and shows sustainable growth by 2022, the BAM policy rate might rise to 2.5%.

CPI growth has been accelerating since the start of last year, reaching 1.5% y/y in Mar 20. We see no growing underlying pressures in the economy, as core inflation was a comfortable 0.7% y/y in Mar. In fact, headline CPI increase should be attributed to a surge in unregulated food prices which topped 9.8% y/y in Mar as well as to the unfavourable base effect of other components of inflation.

While prices of fresh food and of some tradable goods may remain high for a bit longer (especially with disruption in the supply chains due to the pandemic), their effects will be countered by other forces. These include a dissipation of a negative base expected to come soon, a sharp reduction in energy costs this year and a fall in prices of other global commodities of which Morocco is a net importer. An unavoidable economic contraction this year will keep core inflation in check. We also note that the latest growth in core inflation was a result of an increase in the transport insurance premium, which effect should dissipate in time. Most likely the authorities will also decelerate growth in regulated product prices to help struggling households, postponing planned increases until the next year.

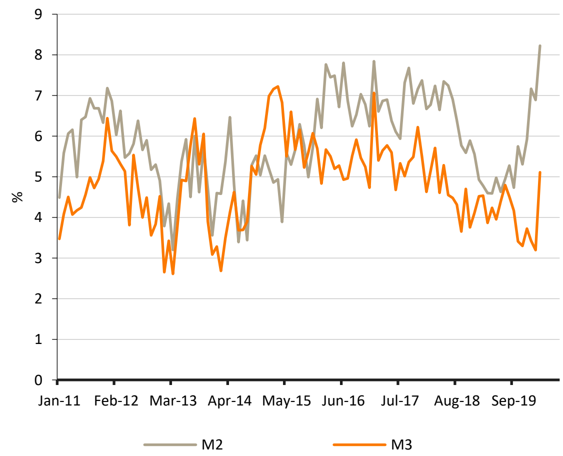
The net effect should see CPI averaging 0.8% y/y in 2020, from 0.3% y/y in 2019. Next year, a revival in domestic demand and a recovery in global energy and in food prices should push inflation to an average of 1.2% y/y. Inflation should remain around 1.5-2.5% y/y in 2022/23.

Inflation and interest rates



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

Money supply growth



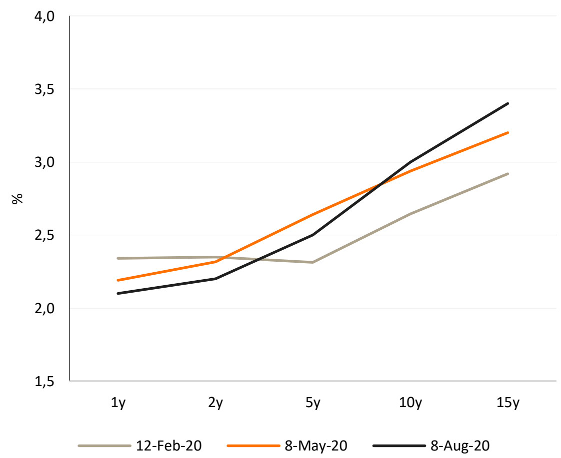
Source: Bank Al-Maghrib; Haut-Commissariat au plan

Yield curve outlook: marginal steepening

We expect Morocco's bond curve to steepen in the next 3-m as the risk premium in the long end edges up. That said, yields will go up only very marginally as liquidity remains plentiful. In fact, the bid-cover ratios at auctions sometimes run into double digits. The situation is unlikely to change because of the government's higher borrowing requirements on the back of the pandemic, since the government is likely secure additional concessional funds from overseas lenders.

The shortest-dated paper at auctions is currently a 1-y T-bill. The largest amounts are typically allocated at 2-y bond auctions. This tenor seems to strike a balance between the Treasury's desire to increase maturity and the banking sector's reluctance to lock in low interest rates. Market expectations that inflation will certainly be contained over that time horizon ensure strong demand for bonds from the Morocco's large banking sector.

Yield curve changes



Source: Ministère de l'Economie et des Finances; Standard Bank Research

Fiscal policy: fiscal deficit is to deteriorate by 2.5% of GDP this year

We estimate that the pandemic will cost Morocco around 2.5% of GDP in 2020, thus widening budget deficit to 6.6% of GDP. The deficit should reduce to -5% of GDP in 2021 and, bar new external shocks, continue tightening towards 3% of GDP in the following 3-y.

The fiscal deficit widened last year to 4.1% of GDP, matching government's plans to increase operating spending to stem discontent in disadvantaged communities as well as accelerate investments. The government embarked on a massive multi-year privatisation program to make those plans possible. In fact, including privatisation, the budget deficit would have tightened in 2019 by 0.2 ppts, to 3.6% of GDP.

The pandemic will now bring a substantial correction to this. For a start, it will be difficult to resume privatisation in the next 2-y. Revenues will drop in most accounts, ranging from lower personal income and corporate taxes to custom duty receipts affected by international trade. The hospitality sector will be hit the hardest, with the National Tourism Confederation estimating a combined loss of tourism revenues close to USD14bn for 2020/22.

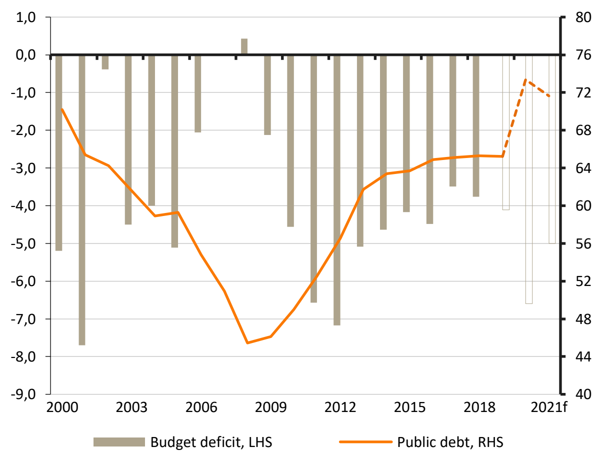
Spending will go sharply up to mitigate social and economic impact of the pandemic. We will see increased transfers and subsidies for targeted households, including cash payments for those that have lost jobs. SME have been granted assistance through tax deferral, subsidised lending and central bank guarantee of 95% of the loan's value. To help cover unexpected expenses, authorities adopted the law that removes the limits that may be borrowed from abroad. As a result, Morocco, for the first time, has drawn on all available money under the existing PLL arrangement with the IMF, which amounts to USD3bn. The loan has no repayments in the first3-y. Increased borrowing could push the country's debt-to-GDP ratio to over 72% in 2020/21, from around 65% last year.

Central government budget, % of GDP

	2016	2017	2018	2019	2020 (Act)
Current Revenue	23.7	24.0	23.4	23.7	24.3
- Tax revenue	20.9	21.2	21.2	20.8	21.5
- Non-tax revenue	2.9	2.8	2.2	2.9	2.8
Expenditure	28.5	28.0	27.5	28.0	28.6
Current expenditure	22.3	21.7	21.6	21.8	22.7
- Wages and salaries	10.3	9.9	9.6	9.7	11.6
- Subsidies	1.4	1.4	1.6	1.4	1.4
- Interest on public debt	2.7	2.5	2.4	2.3	2.4
Capital expenditure	6.3	6.3	5.9	6.2	5.9
Special Treasury accounts balance	0.3	0.5	0.3	0.2	0.5
Budget deficit (excl. grants)	-5.2	-4.4	-4.0	-4.3	-4.0
Grants	0.7	0.9	0.3	0.1	0.2
Overall balance (+grants)	-4.5	-3.5	-3.8	-4.1	-3.8
Change in arrears	0.5	-0.1	0.0	-0.4	1.1
Domestic financing	3.5	3.2	3.9	2.6	1.3
External financing	0.3	0.3	-0.2	1.5	1.2

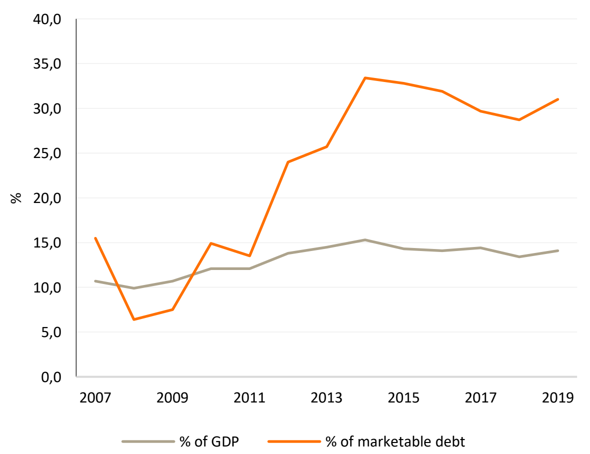
Source: Ministère de l'Economie et des Finances

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



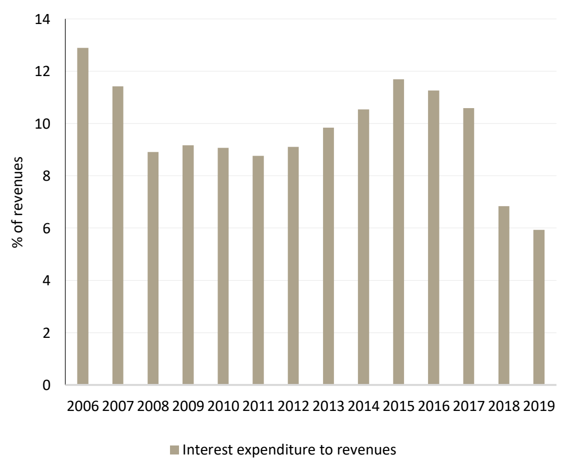
Source: Bank Al-Maghrib; Haut-Commissariat au plan; Standard Bank Research
Note: budget deficit excludes privatisation

Central government external debt



Source: Ministère de l'Economie et des Finances

Interest expenditure



Source: Ministère de l'Economie et des Finances

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	34.1	34.5	34.9	35.2	35.6	36.0	36.3
Nominal GDP (MAD bn)	988	1,013	1,063	1,107	1,144	1,077	1,148
Nominal GDP (USD bn)	101.4	103.3	109.5	117.9	118.9	108.6	121.3
GDP / capita (USD)	2,970	2,996	3,143	3,348	3,342	3,021	3,340
Real GDP growth (%)	4.5	1.1	4.2	3.0	2.3	-4.1	4.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.5	-5.2	-4.4	-4.0	-4.3	-7.0	-5.3
Budget balance (incl. Grants) / GDP (%)	-4.2	-4.5	-3.5	-3.8	-4.1	-6.6	-5.0
General gov. debt / GDP, domestic (%)	49.4	50.8	50.7	51.9	51.1	54.8	53.2
General gov. debt / GDP, foreign (%)	14.3	14.1	14.4	13.4	14.1	18.6	18.5
Balance of Payments							
Exports of goods and services (USD bn)	33.1	34.2	39.1	42.7	43.6	38.1	43.5
Imports of goods and services (USD bn)	41.0	45.0	49.9	55.4	54.7	50.8	55.4
Trade balance, goods and services (USD bn)	-7.9	-10.8	-10.8	-12.7	-11.1	-12.7	-11.8
Current account (USDbn)	-2.1	-4.3	-3.9	-6.9	-5.1	-7.6	-5.9
- % of GDP	-2.1	-4.2	-3.6	-5.9	-4.3	-7.0	-4.9
Capital & Financial account (USD bn)	6.0	6.2	1.8	4.3	5.5	7.0	7.1
FDI (USD bn)	2.7	1.5	1.7	2.8	0.6	0.3	1.4
Basic balance / GDP (%)	0.5	-2.7	-2.0	-3.5	-3.8	-6.7	-3.7
FX reserves (USD bn) pe	22.0	24.3	25.3	23.6	25.3	22.5	24.5
- Import cover (months) pe	6.4	6.5	6.1	5.1	5.6	5.3	5.3
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	1.6	1.6	0.8	1.8	0.3	0.8	1.2
Consumer inflation (%) pe	0.6	1.8	1.9	0.1	1.2	0.4	1.8
M3 money supply (% y/y) pa	6.2	5.3	5.6	4.6	4.1	3.6	4.5
M3 money supply (% y/y) pe	5.7	4.7	5.5	4.1	3.7	2.7	4.6
Policy rate (%) pa	2.50	2.29	2.25	2.25	2.25	2.00	2.00
Policy rate (%) pe	2.50	2.25	2.25	2.25	2.25	2.08	2.25
USD/MAD pa	9.75	9.81	9.71	9.39	9.62	9.91	9.46
USD/MAD pe	9.92	10.19	9.33	9.53	9.57	9.81	9.26

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: long-term still positive despite pandemic

Medium-term outlook: growth still to rely on peace, agriculture, structural reforms

The COVID-19 impact on economic growth will undoubtedly be meaningful, even considering the relatively low number of infections of 137 at the time of writing, with zero fatalities and 44 recoveries. The second month of the state of emergency, declared in aid of social distancing, is fast approaching now, and we don't foresee a full lockdown.

The government should continue to focus on security challenges, peace, and investing in agriculture as key drivers for inclusive growth. Discussions towards an Extended Credit Facility (EFC) with the IMF, expected by December, brings hope for governance and structural reforms.

Nevertheless, the risk of a recession this year has increased as the pandemic has slowed investment, specially the foreign direct investment (FDI) associated with the implementation of the liquified natural gas (LNG) projects, which incurs substantial balance of payments (BOP) and fiscal pressures.

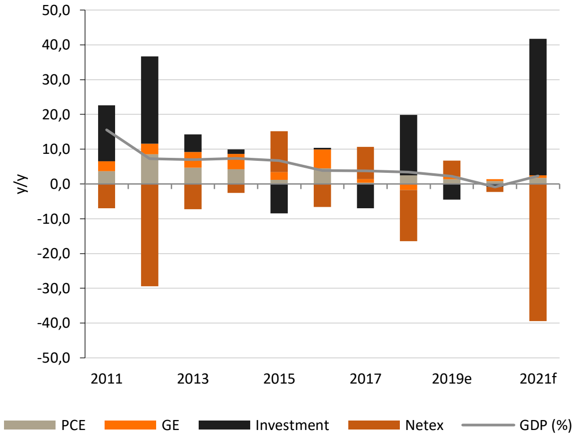
We'd also foresee substantial job losses which would further depress overall aggregate demand, with sentiment already negatively affected by the security challenges in the centre of the country and violence in the north. As a result, fragile disposable incomes dampen the outlook for consumer expenditure (PCE), which together with expected low real growth in government expenditure (GE), remains insufficient to offset the negative impact of the contractions expected in both investment and net exports in real terms.

Our base and bear cases see real GDP contracting by 0.9% y/y and by 2.5% y/y respectively in 2020, with the bull case showing a marginal growth of 1.1% y/y. A recovery will likely follow from 2021, with long-term prospects still positive.

We see growth accelerating beyond 4% from 2022 as LNG implementation for the Coral FLNG and Area 1 LNG projects reaches critical phases of implementation, with the Rovuma LNG project FID expected to have been long achieved by then.

Not even the relatively rapid response from the international donor community to the government's request for a financial support of USD700m seems enough to prevent a recession. The Standard Bank PMI computed by IHS Markit for Apr was below the 50 level for a second month, at an historical low of 37.1, from 49.9 in Mar, mirroring the global fall in output and jobs.

Composition of GDP by demand (%)



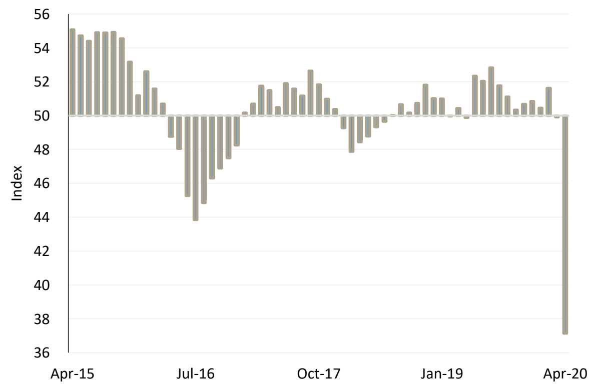
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution to GDP by sector

% of GDP	2017	2018	2019e
Agriculture and fisheries	23.2	23.2	22.9
Extractive industries	6.9	7.3	7.1
Manufacturing	8.0	7.8	7.9
Electricity and gas	2.7	2.5	2.5
Water	0.2	0.2	0.2
Construction	1.8	1.7	1.7
Trade	9.7	9.5	9.5
Transport and storage	6.9	7.0	7.2
Lodging, restaurants	1.8	1.8	1.9
Information and comm.	3.2	3.3	3.4
Financial sector	5.1	5.2	5.3
Real estate	4.8	4.9	5.0
Public administration	6.5	6.4	6.4
Other	19.2	19.2	19.0
Total	100.0	100.0	100.0

Source: Instituto Nacional de Estatística; Standard Bank Research

Purchasing Managers Index



Source: IHS Markit; Bloomberg

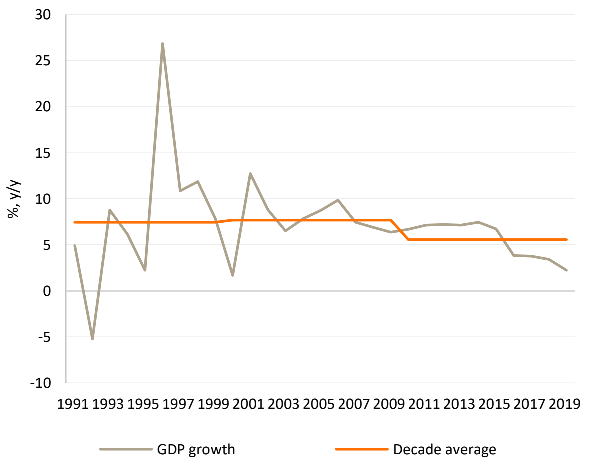
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	1.6	-2.2	-2.0	-0.9	1.3	2.4	3.2	2.3	2.1	5.4	5.7	4.4	6.5	6.3	6.6	6.5
CPI (% y/y) pe	3.1	4.7	7.7	8.4	9.2	8.1	5.5	6.1	8.2	5.8	6.7	6.4	4.6	6.2	6.7	6.5
MIMO rate (%) pe	12.75	11.25	11.25	1125	11.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
3-m rate (%) pe	11.0	9.9	9.9	9.9	9.9	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
6-m rate (%) pe	11.1	10.2	10.2	10.2	10.2	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
USD/MZN pe	66.7	70.6	74.5	75.3	72.2	70.2	68.9	70.3	68.9	69.1	69.3	70.1	69.0	70.7	70.4	69.7
Bull scenario																
GDP (% y/y) pa	1.8	0.8	0.6	1.1	1.6	3.5	3.6	2.9	5.0	5.7	5.2	5.4	7.1	7.3	7.4	7.3
CPI (% y/y) pe	3.1	4.1	6.6	6.3	7.2	6.8	4.2	5.3	7.2	4.8	6.1	5.6	3.7	5.4	5.7	5.4
MIMO rate (%) pe	12.75	11.00	10.75	10.75	10.25	10.25	10.25	10.25	10.25	9.75	9.75	9.75	9.75	9.75	9.75	9.75
3-m rate (%) pe	11.0	9.6	9.2	9.2	9.2	8.8	8.8	8.8	8.8	8.8	8.4	8.4	8.4	8.4	8.4	8.4
6-m rate (%) pe	11.1	9.7	9.5	9.5	9.5	8.9	8.9	8.9	8.9	8.5	8.5	8.5	8.5	8.5	8.5	8.5
USD/MZN pe	66.7	68.1	67.4	66.4	65.0	63.0	61.7	63.1	64.9	65.1	65.3	66.1	65.0	64.7	64.4	63.7
Bear scenario																
GDP (% y/y) pa	1.1	-4.3	-4.4	-2.5	1.5	1.9	2.3	1.9	3.7	4.0	3.9	3.8	5.6	6.1	5.9	5.9
CPI (% y/y) pe	3.1	5.7	9.5	10.9	11.0	10.0	8.1	9.7	10.9	8.8	10.2	8.3	11.1	9.7	8.2	8.1
MIMO rate (%) pe	12.75	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
3-m rate (%) pe	11.0	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
6-m rate (%) pe	11.1	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
USD/MZN pe	66.7	71.5	79.4	80.3	80.3	81.3	81.1	80.7	81.1	81.3	81.5	79.4	80.1	80.9	78.4	81.7

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

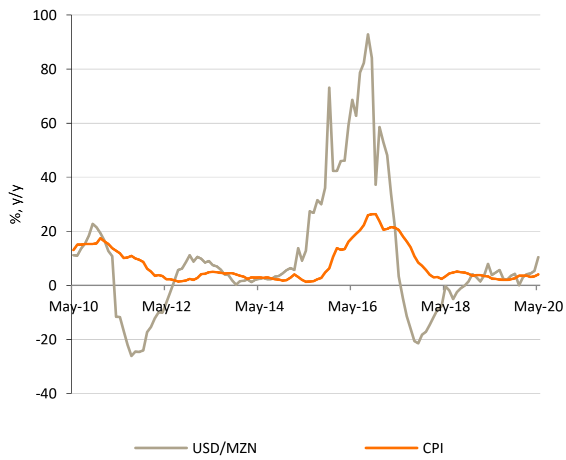
Notes: pa - period average; pe - period end

GDP long-term performance



Source: Instituto Nacional de Estatística; Standard Bank Research

Annualized FX rate change vs annual inflation



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

Balance of payments: fragile and volatile

Pandemic disruptions bring severe BOP pressure to Mozambique this year, with the current account (C/A) deficit likely to rise by 25.6% y/y, to USD3.9bn (or 27% of GDP), due to a sharp decline in exports, this in a year of foreign direct investment (FDI) inflows likely diminishing as the pandemic slows down LNG projects' implementation because of travel restrictions.

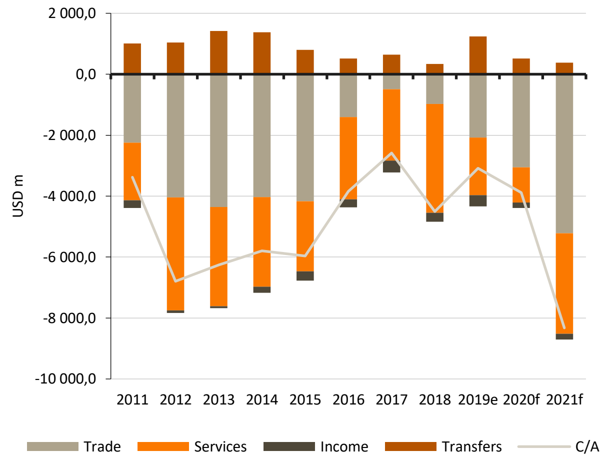
External financial assistance from the IMF and donor community targeted at USD700m will likely ease the impact of the BOP shock but not enough to ease FX liquidity pressures as Central Bank focused on protecting FX reserves, given the increase in BOP risks and fragility.

We don't foresee much further widening of C/A deficit in 2021, as it will likely be originated by progress on the implementation of Rovuma Basin LNG projects which are funded by corresponding FDI inflows, hence not putting pressure on the BOP.

Our expectation is that goods exports fall by 32.6% y/y this year, to USD3.2bn, with services exports down by 30.1% y/y, to USD0.6bn. Goods imports are expected to ease by 8.4% y/y, to USD6.2bn, with services imports likely to fall by 36% y/y, a similar pace of decline experienced in 2019, to USD1.8bn as LNG implementation is restrained. So, the trade balance deficit including services rises by 6% y/y, to USD4.2bn (or 29.3% of GDP).

With net FDI likely to remain subdued at 13.4% of GDP, we'd expect FX gross reserves to fall by 10.9% y/y, or USD432m, to a balance of USD3.5bn at the end of 2020, rising to USD3.8bn next year as the BOP recovers. Gross FX reserves last reported at USD3.8bn in Mar, which represents 5.7 months of import cover, excluding the large projects (LP) imports, or 9.6 months, including the LP imports, will likely receive a temporary boost from the IMF's RCF USD309m disbursement.

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX reserves

Source: Banco de Moçambique; Standard Bank Research

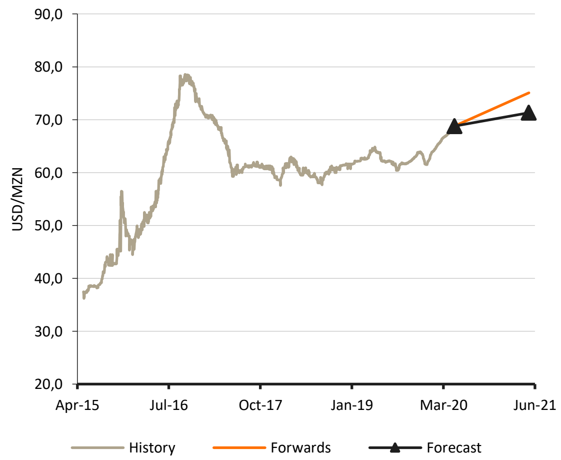
FX outlook: depreciation bias, for now

We see Bank of Mozambique (BOM) smoothing the negative impact of COVID-19 on FX reserves by allowing the FX rate to rise further. In our base scenario, we have lifted further our year-end forecast to USD/MZN75.3 this year.

Trading at USD/MZN68.3 at the time of writing, the pair rose by 11% YTD and by 9.7% y/y. Most likely, BOM will tolerate the rise in the USD/MZN to the extent that inflation pressures remain contained by benign movement in ZAR/MZN. At the time of writing, the ZAR/MZN was trading at 3.7, down by 15% YTD and by 12% y/y.

Over the past few years, the metical has remained relatively stable around USD/MZN60. We see three possibilities; the USD/MZN bubbling around 65 in the bull case; at 70.0 in the base case; and USD/MZN80.0 in the bear case.

USD/MZN: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias remains

At an extraordinary MPC meeting held on 16 Apr, Banco de Moçambique (BOM) cut their main policy interest rate, MIMO, by 150 bps, to 11.25%. The Central Bank also cut by 150 bps both the standing deposit facility interest rate (FPD) to 8.25%, and the standing lending facility interest rate (FPC) to 14.25%.

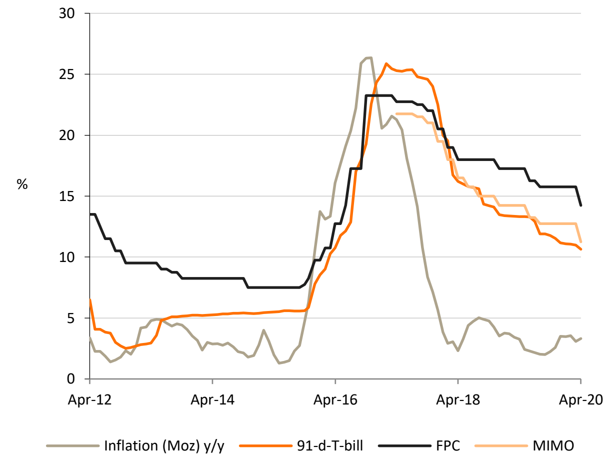
These moves, in response to the pandemic, were despite the BOP risks; the BOM seems confident about external support. Even considering that inflation most likely has bottomed at 3.1% y/y in Mar and will rise, with Apr at 3.3% y/y, the 12-m at 2.7% y/y, would likely rise only slowly on base effects. The BOM seems comfortable that inflation will remain around the 6.6% y/y annual average assumed in the 2020 government budget.

At the first two extraordinary board meetings held in March, in response to the impact of pandemic, BOM intervention focused on measures to supply the market with liquidity and ease the cost of loan restructurings. Reserve requirements coefficients were lowered by 150 bps, easing the local currency coefficient to 11.5% and the foreign currency coefficient to 34.5%. A loan facility of USD500m was made available to commercial banks to support their clients with import requirements. Another focus of BOM intervention was to lower the costs of financial transactions in view of supporting lower income segments and encouraging electronic payments.

There may well be further policy rate cuts. After all, real interest rates remain quite elevated, with commercial banks average prime lending rate currently at 17.9% expected to ease further to below 17% early June as the full 150 bps MIMO rate cut is transmitted.

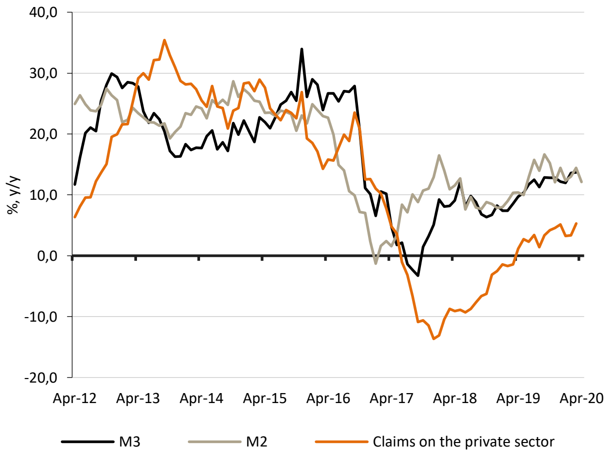
Easing interest rates also likely to support the banking sector which faces an increase in the non-performing loans ratio.

Inflation and interest rates



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

Monetary statistics



Source: Banco de Moçambique; Standard Bank Research

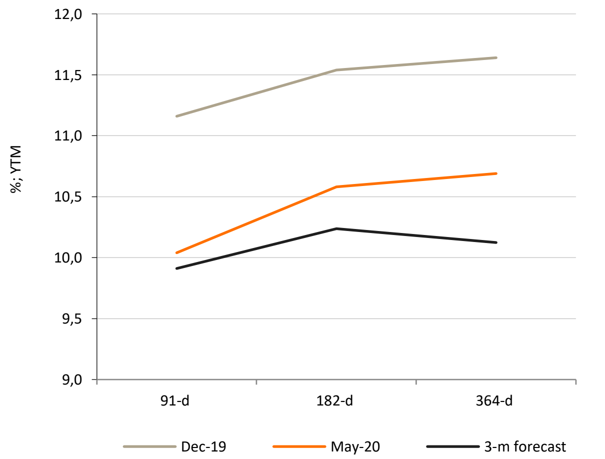
Yield curve outlook: shifting down

At the margin, it still looks highly probable that there will be some downward pressure on yields across the curve this year.

Even considering a larger fiscal deficit, the money market is likely to continue to experience an excess of local currency liquidity and limited investment opportunities which makes government paper an attractive alternative. At the time of writing, T-bill issuance was delivering a yield of 10.04% for 3-m, 10.58% for 6-m and 10.69% for the 364-day.

Government bonds with tenors of 4-year a and 5-year are being issued with a fixed interest rate of 12% for the first 12-m, becoming floating from the second year, indexed to the T-bill interest rate plus a margin. We see the scarcity of fixed rate bonds limiting the development of a longer-dated yield curve.

Yield curve changes



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: no fiscal space

The fiscus now faces substantial risks. In response to the pandemic, the IMF has made available to Mozambique a Rapid Credit Facility (RCF) of USD309m, following a USD15m grant under the Catastrophe Containment Relief Trust (CCRT) to cover the debt service to the IMF from Apr to Oct this year. The European Union has just announced an EUR110m support, with the World Bank and other donors also likely to make contributions towards closing the gap on the USD700m emergency assistance requested by the government.

For the first time in over a decade, the government is targeting a deficit at the current level. Current revenues at MZN225.7bn, or 22.1% of GDP, are lower than recurrent expenditure of MZN228.3bn, or 22.4% of GDP. Investment expenditure falls by 1.1% y/y in nominal terms, to MZN71bn, or 7% of GDP. Adding net lending to SOEs of 0.5% of GDP, it brings overall expenditure to MZN304.2bn, or 29.8% of GDP.

The result is an overall fiscal deficit of 6.7% of GDP. Grants are being targeted at 3% of GDP, with overall fiscal deficit after grants at 3.7% of GDP. Out of a balance of MZN37.1bn from last year´s USD880m CGT (recorded at MZN54.1bn), the government plans to use MZN14.7bn, or 1.4% of GDP, to fund the fiscal deficit. The balance of the deficit is funded by net external borrowings of 1.1% of GDP and net domestic loans of 1.2% of GDP.

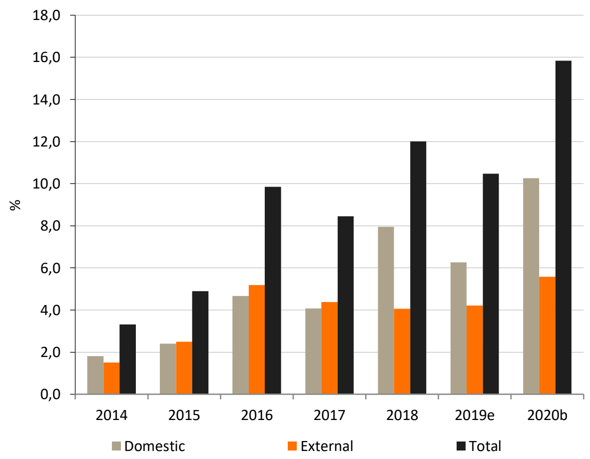
Despite some progress on fiscal reforms and fiscal consolidation measures, Mozambique's debt remains distressed. External debt is estimated at 100% of GDP, with domestic debt to GDP at 20%. The most recent Debt Sustainability Analysis (DSA) from the IMF and World Bank sees Mozambique's debt still in distress, an unchanged assessment from last year. Given that the MAM and Proindicus loans are in a court dispute, they were excluded from the analysis. Debt is deemed to be sustainable when the forecast contribution to government revenue from LNG projects is considered.

Central government budget

	2018	2019	2020
% of GDP	Actual	Actual	Budget
Revenues	24.0	28.6	23.1
Expenditure	29.2	28.4	29.8
Of which current	20.1	20.3	22.4
- Wages	10.9	11.7	12.2
- Interest (external)	1.0	1.2	1.3
- Interest (domestic)	1.9	1.8	2.4
Of which Capital	7.6	7.4	7.0
- Externally financed	3.9	2.7	4.1
- Domestically financed	3.7	4.7	2.9
Overall balance (- grants)	-5.2	0.2	-6.7
Overall balance (+ grants)	-3.2	1.2	-3.7
Donor support (grants)	2.0	1.0	3.0
Net external financing	2.2	2.2	1.1
Net domestic financing	0.4	1.5	1.2
Changes in balances	0.6	-4.9	1.4

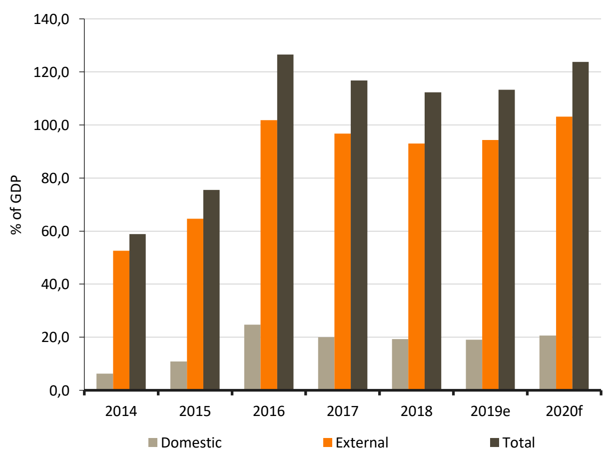
Source: Ministry of Economy and Finance; Standard Bank Research

Interest expenditure to revenues



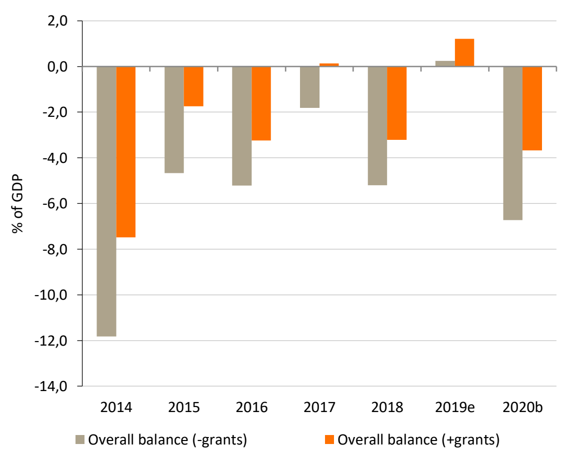
Source: Ministério da Economia e Finanças; Standard Bank Research

Debt to GDP



Source: Ministério da Economia a Finanças; Standard Bank Research

Overall fiscal balance



Source: Ministério da Economia e Finanças; Standard Bank Research

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	25.7	26.4	27.9	28.7	29.5	30.3	31.2
Nominal GDP (MZN bn)	637.8	752.7	840.5	887.8	965.4	1 019.4	1 121.1
Nominal GDP (USD bn)	16.4	11.9	13.3	14.7	15.4	14.4	15.8
GDP / capita (USD)	638	449	477	512	523	474	507
Real GDP growth (%)	6.7	3.8	3.7	3.4	2.2	-0.9	2.3
Coal production (´000 000 MT)	6.6	6.2	11.8	13.1	10.3	8.0	11.2
Central Government Operations							
Budget balance (- grants) / GDP (%)	-4.7	-5.2	-1.8	-5.2	0.2	-6.7	.4,8
Budget balance (+ grants) / GDP (%)	-1.7	-3.2	0.1	-3.2	1.2	-3.7	-2.7
Domestic debt / GDP (%)	10.9	24.7	20.0	19.3	19.0	20.6	20.2
External debt / GDP (%)	64.6	101.8	96.8	93.0	99.1	103.2	102.4
Balance of payments							
Exports of goods and services (USD bn)	4.1	3.8	5.4	6.0	5.6	3.8	4.7
Imports of goods and services (USD bn)	10.6	7.9	8.2	10.5	9.6	8.0	13.3
Trade Balance goods and serv. (USD bn)	-6.5	-4.1	-2.8	-4.5	-4.0	-4.2	-8.5
Current account (USD bn)	-6.0	-3,8	-2.6	-4.5	-3.1	-3.9	-8.3
- % of GDP	-36.4	-32.4	-19.4	-30.6	-20.0	-27.0	-52.7
Capital & Financial account (USD bn)	5.9	3.9	2.5	4.5	3.1	3.9	8.3
- FDI (USD bn)	3.9	3.1	2.3	2.7	2.0	1.9	6.8
Basic balance / GDP (%)	-12.8	-6.3	-2.2	-12.3	-7.1	-13.6	-9.7
Gross FX reserves (USD bn) pe	2.5	2.0	3.3	3.0	4.0	3.5	3.8
- Import cover (months) pe	2.8	3.0	4.8	3.5	5.0	5.3	3.5
- Import cover (m) pe (excl. large projects)	3.7	4.7	7.3	7.1	8.6	9.0	9.3
Sovereign Credit Rating							
S&P	B-	CC	SD	SD	CCC+	CCC+	CCC+
Moody's	B2	Caa3	Caa3	Caa3	Caa2	Caa2	Caa2
Fitch	B	CC	RD	RD	CCC	CCC	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.6	19.9	15.1	3.9	2.8	5.6	7.4
Consumer inflation (%) pe	10.6	23.7	5.6	3.5	3.5	8.4	6.1
M2 money supply (% y/y) pa	23.6	15.0	6.4	10.3	12.4	9.9	10.0
M2 money supply (% y/y) pe	21.7	2.4	12.9	7.9	14.4	8.0	9.8
BOM policy rate (MIMO from 2017) (%) pa	7.77	16.04	21.28	16.19	13.46	11.63	10.67
BOM policy rate (MIMO from 2017) (%) pe	9.75	23.25	19.5	14.25	12.75	11.25	10.25
3-m rate (%) pe	7.8	24.3	22.5	13.5	11.2	9.9	9.0
6-m rate (%) pe	7.3	27.5	22.6	13.5	11.5	10.2	9.3
12-m rate (%) pe	7.6	28.8	23.8	13.2	11.6	10.1	9.2
USD/MZN pa	38.9	63.4	63.2	60.4	62.5	70.9	71.0
USD/MZN pe	45.0	71.2	59.0	61.5	61.5	75.3	70.3

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

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

Namibia: recovery interrupted, recession sticky

Medium-term outlook: stuck in recession

Namibia's recession will likely last this year, with perhaps a recovery next year. Our forecast is for GDP to contract by 2.3% y/y this year but grow by 2.6% y/y in 2021 from what we estimate was a contraction of 2.0% y/y in 2019.

Even though the Namibia Statistics Agency has rebased the GDP series, revising away the recession that it had previously estimated for 2018, there is plenty to suggest that economic activity has been depressed for some time. This will be exacerbated by COVID-19 containment measures and their spill-over disrupting all economic activity.

Before COVID-19, we viewed the economy as on the mend, likely to recover in 2020. The pandemic will delay a recovery but we still see economic growth of 3.0% y/y in 2022 and 2023.

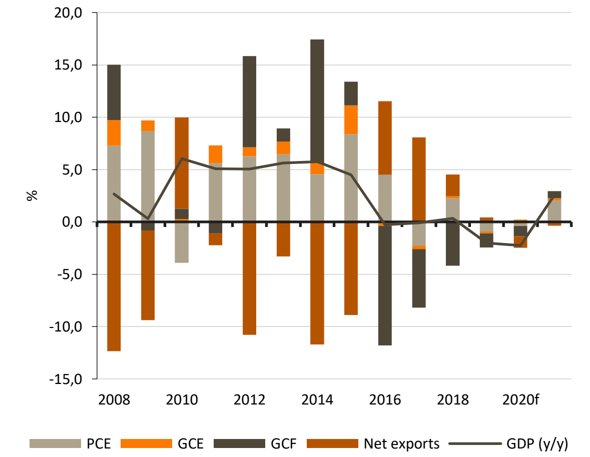
Still, the disruption to economic activity will be far-reaching. Tourism will be hit hard, as will the wholesale and retail sector, with the latter already in recession since 2017. Nevertheless, the pace of contraction in 2019 slowed down, contracting by an average of 3.8% in the first 3q after contractions of 6.8% y/y and 6.3% y/y in 2017 and 2018 respectively.

The Namibian government has been swift in responding to COVID-19 by declaring a state of emergency, restricting the movement of people, and implementing social distancing at a time of just 8 confirmed infections. By the time the state of emergency was lifted there were 8 more infections, with 8 recoveries. The government eased lockdown measures in early May.

The spread of the disease therefore may well be contained, allowing the government room to ease further restrictions. If so, economic activity may stabilise far sooner. However, even in such a bull scenario we'd still expect a contraction of 1.4% y/y in 2020, then growth of 3.3% y/y next year, and thereafter regaining the 5.0% y/y pace of 2010 – 2015 by late-2022.

Our bear scenario sees the government having to reinstitute stricter lockdown measures, not only deepening the economic contraction but also prolonging it. If so, the economy could contract by 5.2% y/y and 4.7% y/y in Q2:20 and Q3:20 respectively, averaging 3.6% y/y for 2020. A recovery may commence in 2021 but likely not top 3.0% y/y growth by 2023.

Composition of GDP by demand



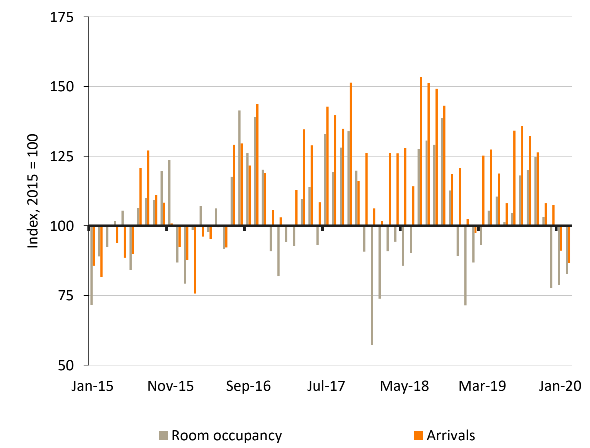
Source: Namibia Statistics Agency; Standard Bank Research

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

Tourism indices



Source: Namibia Statistics Agency

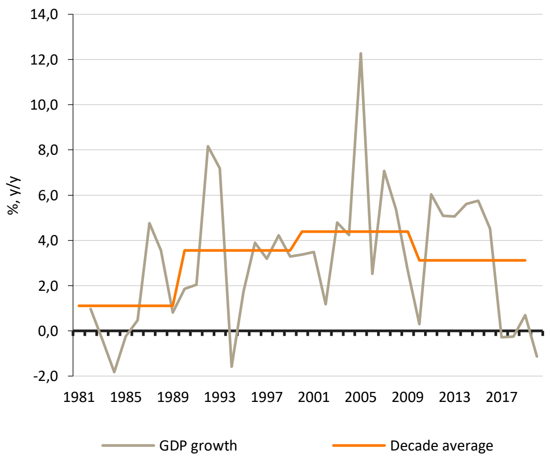
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	-1.7	-4.0	-2.8	-0.8	0.7	3.1	3.6	2.9	2.7	3.2	3.0	3.2	3.4	3.0	2.9	2.7
CPI (% y/y) pe	2.4	2.9	2.8	3.2	3.5	3.7	4.1	4.1	4.7	4.7	4.7	4.7	4.6	4.5	4.8	4.8
Policy interest rate (%) pe	5.25	3.75	3.75	3.75	3.75	3.75	4.25	4.50	5.50	5.75	6.00	6.00	6.00	6.00	6.00	6.25
3-m rate (%) pe	5.20	4.75	4.50	4.25	3.85	3.85	4.45	4.75	5.75	5.90	6.20	6.20	6.20	6.20	6.20	6.20
6-m rate (%) pe	5.60	4.85	4.75	4.45	4.00	4.00	4.65	4.90	5.90	6.00	6.35	6.40	6.40	6.40	6.40	6.40
USD/NAD pe	17.80	18.00	17.25	16.50	16.15	15.80	15.58	15.50	15.55	15.59	15.63	15.67	15.77	15.88	15.99	16.05
Bull scenario																
GDP (% y/y) pa	-1.4	-2.8	-1.6	0.4	1.7	3.6	3.8	4.2	4.4	4.9	4.8	5.0	5.1	4.8	4.7	4.5
CPI (% y/y) pe	2.5	3.4	3.6	4.0	4.3	4.5	4.8	4.9	5.3	5.5	5.2	5.2	5.1	5.0	5.3	5.3
Policy interest rate (%) pe	5.25	4.25	4.00	4.00	4.00	4.25	4.50	5.00	5.50	5.75	6.00	6.00	6.00	6.00	6.00	6.50
3-m rate (%) pe	5.20	5.25	4.75	4.50	4.10	4.35	4.70	5.25	5.75	5.90	6.20	6.20	6.20	6.20	6.20	6.45
6-m rate (%) pe	5.60	5.35	5.00	4.70	4.25	4.50	4.90	5.40	5.90	6.00	6.35	6.40	6.40	6.40	6.40	6.65
USD/NAD pe	17.80	17.30	16.00	15.50	15.38	15.25	15.13	15.00	15.02	15.04	15.06	15.08	15.18	15.29	15.40	15.51
Bear scenario																
GDP (% y/y) pa	-2.0	-5.2	-4.7	-2.6	-0.5	1.4	2.3	2.2	2.0	2.7	2.5	2.7	2.9	2.5	2.4	2.2
CPI (% y/y) pe	2.2	2.3	2.5	2.9	3.2	3.4	3.8	3.9	4.5	4.5	4.5	4.5	4.4	4.3	4.6	4.5
Policy interest rate (%) pe	5.25	4.25	4.25	4.25	4.50	4.75	5.25	5.25	6.00	6.25	6.50	6.50	6.50	6.50	6.50	6.50
3-m rate (%) pe	5.20	5.25	5.00	4.75	4.60	4.85	5.45	5.50	6.25	6.40	6.70	6.70	6.70	6.70	6.70	6.45
6-m rate (%) pe	5.60	5.35	5.25	4.95	4.75	5.00	5.65	5.65	6.40	6.50	6.85	6.90	6.90	6.90	6.90	6.65
USD/NAD pe	17.80	18.30	19.25	18.50	17.85	17.30	16.88	16.50	16.55	16.59	16.63	16.67	16.77	16.88	16.99	17.05

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

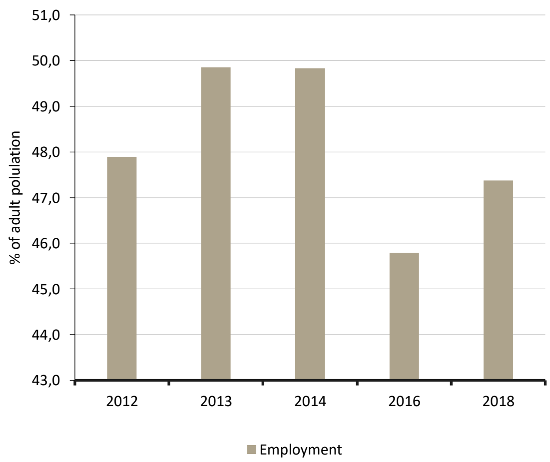
Notes: pa - period average; pe - period end

Long-term growth performance



Source: Namibia Statistics Agency

Employment trends



Source: Namibia Statistics Agency

Balance of payments: C/A deficit widening

After fluctuating at USD2.0bn – USD2.6bn since mid-2017, FX reserves have dropped to USD1.8bn in Mar, covering what we estimate as 5.1-m of imports. They will likely continue declining until Q2:20 when we expect them to reach USD1.6bn, before recovering to end 2020 year at USD1.9bn, covering 5.4-m of imports.

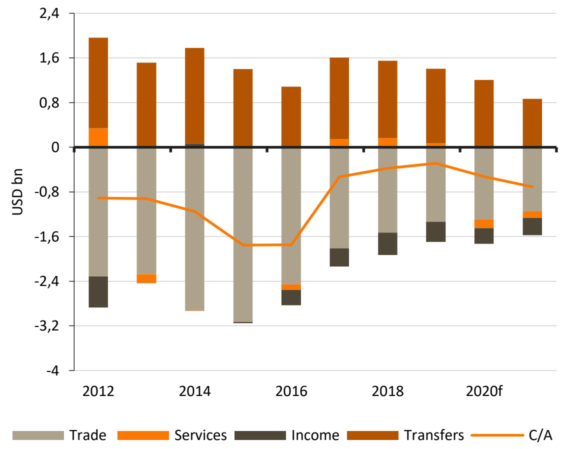
In 2021, we expect them to reach USD2.1bn by year-end, covering about 4.5-m of imports, which still should leave adequate FX reserves to secure the NAD's 1-to-1 link to the ZAR. It should also allow enough FX liquidity to be available to facilitate international transactions.

Transfers are likely to be hit hard by the disruption to economic activity from COVID-19. The containment measures implemented in South Africa indicate that imports there will fall sharply. Hence, the Southern African Customs Union revenue pool will likely drop significantly. Of course, the reduction in SACU revenue payments to Namibia will most likely only be meaningfully lower in 2021 rather than this year. This is especially so since there will probably be downward revisions for this year that will be implemented then.

Hence, the C/A deficit will likely increase to 4.6% of GDP this year and 5.3% of GDP in 2021, from what we estimate was 2.1% of GDP in 2019. While the C/A deficit has declined consistently in the last 4-y, spurred on by a declining trade deficit, the risks are probably weighted to the downside for the C/A balance.

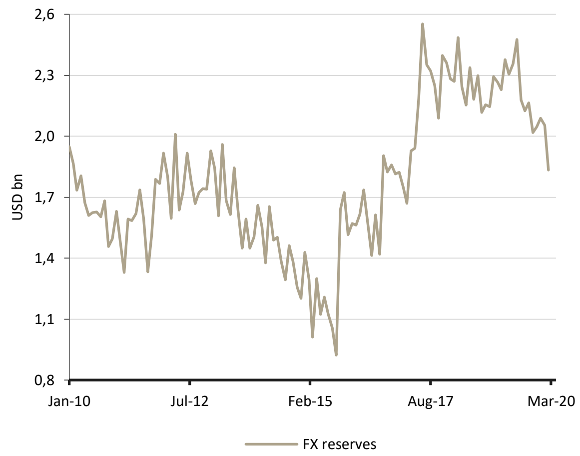
The trade deficit was already declining since 2015 largely due to restrained import demand, understandable, given weak economic activity over that time. The trade balance will likely decline marginally this year. Of course, imports might not drop meaningfully, but exports probably will. Therein lies another downside risk for the C/A balance.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves

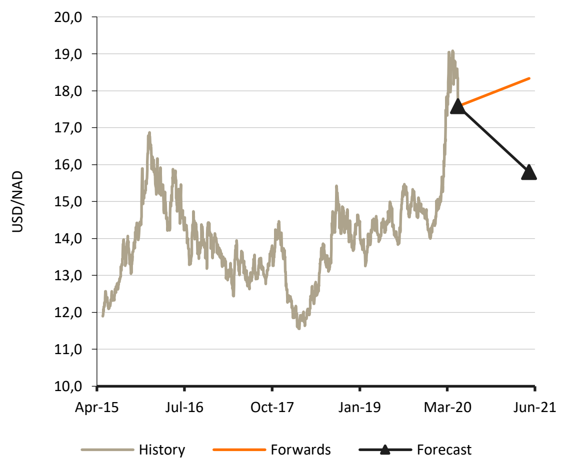


Source: Bank of Namibia

FX outlook: USD/NAD likely headed lower

The 1-to-1 relation between the NAD and ZAR will be maintained in the next 12 – 48 months. Hence, USD/NAD and USD/ZAR will likely be the same over that period. Elna Moolman, our Head of SA Macro and FIC Research, sees USD/ZAR at 16.50 at end-2020 and 15.50 at end-2021. While acknowledging that weaker growth and fiscal metrics will likely weigh on the ZAR well beyond the near term, she believes that the market consensus is too bearish on the ZAR. To be sure, the longer-term recovery of the ZAR depends on traction with credible reforms to improve SA's growth and fiscal prognoses. The outlook for the C/A balance is constructive. The terms of trade are elevated, dividend payments are likely to collapse, and imports will likely shrink. Despite pressure from weaker exports, the C/A deficit is likely to narrow, supporting the ZAR. In the near term, the ZAR will likely receive support from easing in global financial market turmoil.

USD/NAD: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: further easing likely

The bias is for the BON's MPC to ease the policy stance over the course of the year. The bank is likely to match the changes that the South African Reserve Bank's MPC will be making to its own repo rate.

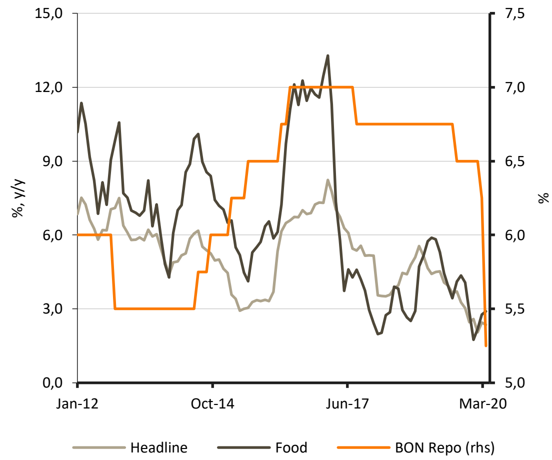
The MPC will likely lower the repo rate by an extra 50 bps. It has already lowered it by 225 bps since the beginning of the year, taking it to 4.25%. In doing, so the BON's MPC mirrored the SARB's MPC. The statement that the MPC released after the Apr policy meeting made it clear that the committee was still concerned about the disruption to economic activity resulting from COVID-19. The committee also stressed the desirability of its policy actions to retain the 1-to-1 link between the NAD and the ZAR.

Headline inflation has been restrained since it fell below the 3.0% y/y lower bound of the target range in Nov. It was 2.4% y/y in Mar, the same as the average of the prior 4-m. We see it remaining mostly below 3.0% y/y this year, averaging 2.7% y/y. It will likely accelerate to between 3% y/y and 4% y/y next year, still below the mid-point of the target range.

Nonetheless, this acceleration, combined with the probable recovery in economic activity in 2021, is likely to persuade the MPC to raise the policy rate. By year-end, the MPC will probably take the repo rate to 4.50%.

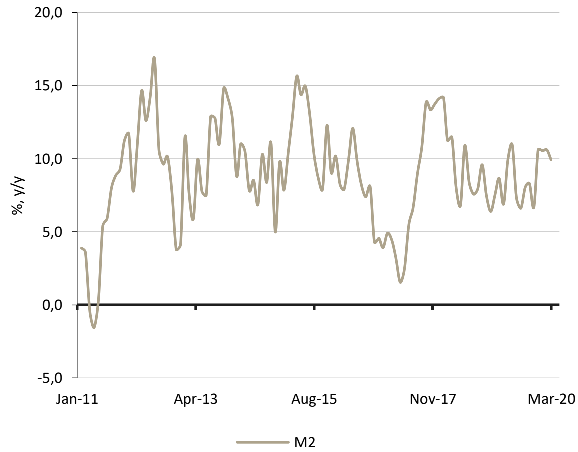
Only the education and the miscellaneous goods and services sub-indices have risen at a pace in excess of 6.0% y/y since the beginning of the year. Food inflation, rising to 2.9% y/y in Mar from 2.8% y/y in Feb and an average of 2.3% y/y in the prior 3-m, has been very subdued. The transport index, rising at an average of 1.2% y/y in Q4:19, has accelerated to a 4.6% y/y pace of increase in Q1:20. Even after taking the depreciation of the NAD into account, it seems likely that the plummet in oil prices will keep fuel prices restrained.

Inflation and interest rates



Source: Bank of Namibia; National Statistics Agency

Money supply growth

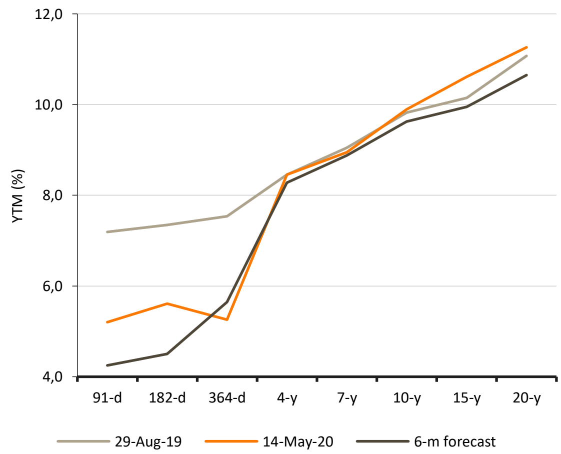


Source: Bank of Namibia

Yield curve outlook: bull-steepening

The BON's easing bias is likely to lead to some bull-steepening of the yield curve over the coming 6-m. The 50 bps worth of reduction of the repo rate that we forecast is bound to drive T-bill yields lower. Given that inflation is subdued, with the likelihood that credit demand will be similarly subdued due to COVID-19, it seems likely that there will be plenty of liquidity that banks will be deploying in the market. Sure, such buying of paper could push bond yields lower as well. However, we anticipate that bond yields will not drop as much as T-bill yields, leading to the steepening of the yield curve that we anticipate. We admit that at times T-bill yields go against the prevailing monetary policy trend. Additionally, the government has made it clear that it will look to source some 70% of its financing needs from the domestic market in the medium term. Hence, Even T-bill yields are unlikely to drop as much as the repo rate.

Yield curve changes



Source: Bank of Namibia; Standard Bank Research

Fiscal policy: spending still restrained

The spread of COVID-19, that prompted the government to declare a state of emergency, also disrupted the budgeting process. The tabling of the FY2020/21 budget, typically in Mar, fell within the period that the government implemented lockdown measures. Hence, parliament was adjourned, only to resume on 19 May. Since then, the Finance Minister invoked a section of the State Finance Act that allows up to 33% of the prior year's appropriation to be spent in the new fiscal year until parliament passes the new budget.

The Finance Minister has struck a conservative tone in the past couple of years, cognisant of the limitations that the government has in implementing fiscal policy. This is unlikely to change anytime soon. Even though among the government's response to COVID-19 was an economic stimulus package, there were clear signs of spending restraint. The stimulus package amounted to a nominal NAD8.1bn, roughly 4% of GDP.

However, a closer examination of this purported stimulus package is revealing. NAD3.0bn of this comprises fast-tracked VAT refunds and NAD800m fast-tracked invoice payments that the government would have paid anyway. These are claims for VAT refunds and goods and services provided to the government that the revenue authority is not contesting, but the actual payments thereof have been delayed somehow. Clearly, this does not amount to new spending, merely speeding up of payments that are due to some businesses. They will undoubtedly ease the cashflow constraints for these businesses. In addition to this, the government instituted a loan guarantee scheme of NAD500m and NAD200m for small non-agricultural businesses and agricultural businesses respectively. Again, no actual spending by the government.

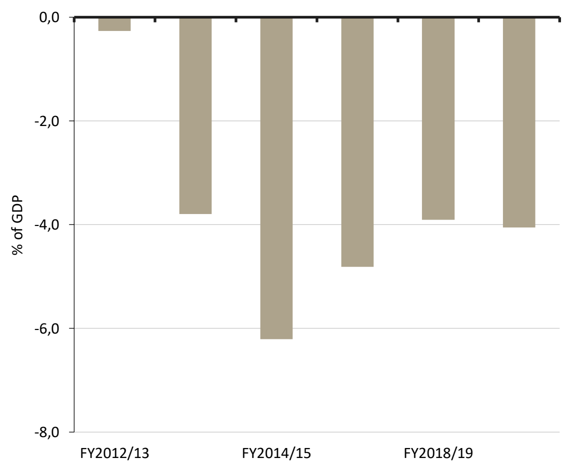
The only components of this package that amount to new spending are NAD400m in a wage subsidy for the hardest hit sectors of the economy and NAD562m in emergency income grants for workers who lost their jobs.

Central government budget

	FY2017/18	FY2018/19	FY2019/20
% of GDP	Actual	Estimated	Budgeted
Total revenue and grants	31.9	29.3	29.4
Total expenditure	36.7	33.2	33.5
- Operational	30.6	27.4	26.3
- Interest	3.0	3.0	3.2
- Development	3.2	2.9	4.0
Budget deficit (excl grants)	-4.8	-3.9	-4.1
Budget deficit (incl grants)	-4.8	-3.9	-4.1
Domestic debt	26.4	28.4	30.9
Foreign debt	14.0	16.6	17.5
Total debt	40.5	45.0	48.4

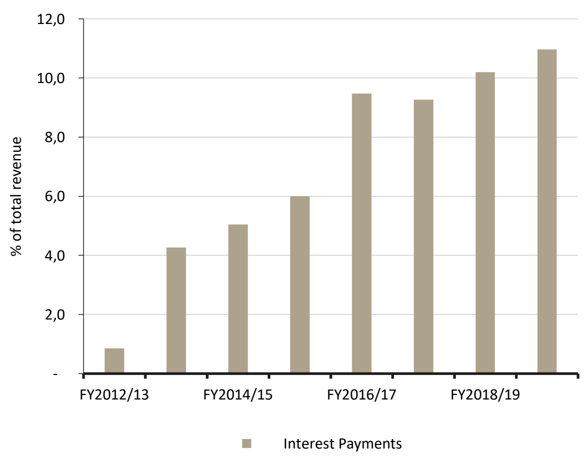
Source: Ministry of Finance

Fiscal deficit



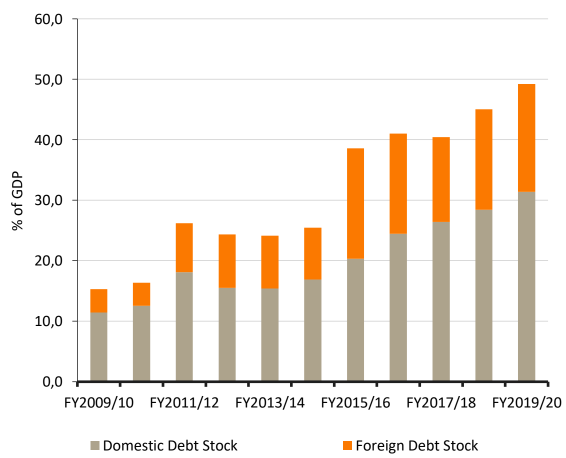
Source: Ministry of Finance

Interest expenditure to revenue



Source: Ministry of Finance

Composition of total debt stock



Source: Ministry of Finance

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	2.2	2.2	2.2	2.3	2.3	2.3	2.4
Nominal GDP (NAD bn)	150.1	166.0	180.6	192.1	195.4	196.2	208.4
Nominal GDP (USD bn)	11.7	11.3	13.6	14.5	13.5	11.3	13.2
GDP / capita (USD)	5 338	5 137	6 175	6 298	5 853	4 905	5 510
Real GDP growth (%)	4.5	-0.3	-0.1	0.3	-2.0	-2.3	2.6
Diamonds ('000 carats)	1 765	1 601	1 650	1 600	1 600	1 725	1 815
Uranium (MT)	3 713	4 132	6 000	6 500	7 650	8 325	8 775
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.2	-8.0	-5.9	-4.8	-3.9	-4.2	-3.6
Budget balance (incl. Grants) / GDP (%)	-6.2	-8.0	-5.9	-4.8	-3.9	-4.2	-3.6
Domestic debt / GDP (%)	16.9	20.3	24.4	26.4	28.4	31.4	33.6
External debt / GDP (%)	8.5	18.3	16.6	14.0	16.7	17.8	18.9
Balance of Payments							
Exports (USD bn)	3.2	3.3	3.8	4.1	3.9	3.0	4.3
Imports (USD bn)	-6.3	-5.7	-5.6	-5.6	-5.2	-4.3	-5.4
Trade balance (USD bn)	-3.1	-2.5	-1.8	-1.5	-1.3	-1.3	-1.1
Current account (USD bn)	-1.8	-1.7	-0.5	-0.4	-0.3	-0.5	-0.7
- % of GDP	-14.9	-15.4	-3.9	-2.6	-2.1	-4.6	-5.3
Financial account (USD bn)	2.1	1.6	0.9	1.3	0.5	0.4	0.8
- FDI (USD bn)	0.4	0.3	0.6	0.8	1.0	0.7	1.4
Basic balance / GDP (%)	-11.7	-12.7	0.3	2.9	5.3	1.6	5.2
FX reserves (USD bn) pe	1.5	1.8	2.4	2.1	2.1	1.9	2.0
- Import cover (months) pe	2.9	3.8	5.1	4.6	4.7	5.4	4.5
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody’s	Baa3	Baa3	Ba1	Ba1	Ba1	Ba1	Ba1
Fitch	BBB-	BBB-	BB+	BB+	BB+	BB+	BB+
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.4	6.7	6.2	4.3	3.7	2.7	3.7
Consumer inflation (%) pe	3.5	7.3	5.2	5.1	2.6	3.2	4.1
M2 money supply (% y/y) pa	12.5	7.4	6.0	9.2	7.8	8.1	10.7
M2 money supply (% y/y) pe	10.5	4.5	13.7	7.8	7.0	8.2	10.3
BON bank rate (%) pa	6.4	6.9	6.9	6.8	6.8	4.1	4.1
BON bank rate (%) pe	6.5	7.0	6.8	6.8	6.8	3.8	4.5
3-m rate (%) pe	7.5	8.9	7.8	7.9	7.7	8.1	7.9
5-y rate (%) pe	10.7	10.2	9.4	9.4	8.9	9.5	9.3
USD/NAD pa	12.8	14.7	13.3	13.3	14.5	17.4	15.8
USD/NAD pe	15.5	13.7	12.4	14.3	14.0	16.5	15.5

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

Notes: pa - period average; pe - period end

Nigeria: looks like a recession

Medium-term outlook: intensify diversification efforts

The Nigerian economy will likely slide into a recession this year, barely 4-y after the last recession induced by the oil price crash in 2016. In truth, growth in Africa's largest economy has been sub-optimal over the last 4-y, recording much slower growth on a purchasing power parity adjusted basis. We expect the Nigerian economy to contract by 3.3% y/y in 2020, before returning to 1.0% growth in 2021 post-pandemic.

An oil price crash shouldn't always spell doom for the Nigerian economy. In fact, were it not for the pandemic, it might have sidestepped an economic recession this year partly because the strong correlation between oil prices and the Nigerian economy has somewhat dissipated in the last 3-y. Some sectors like the construction, manufacturing and real estate sectors, that showed high strong growth in the 4-y to 2015, have struggled for growth despite the recovery in oil prices from 2017. This lends credence to, say, government investment spending that hasn't been particularly strong over the past few years and which could have driven growth in these key sectors despite relatively higher oil prices then. Furthermore, despite a relatively stable currency and buoyant foreign reserves in the past 3-y, growth hasn't been particularly strong and broad-based. In fact, the ICT sector accounted for c.54% of the 2.3% y/y growth recorded in 2019.

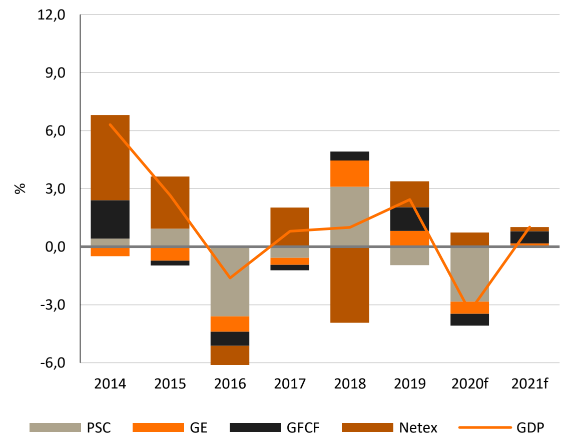
Our base scenario for 2020 assumes the Agriculture and ICT sectors record growth this year, and most other key sectors contract. The trade sector will be one of the worst hit sectors owing to import contraction expected from multi-faceted supply-chain disruptions. There'd have been restrictions to movement of goods and services as a direct impact of the pandemic and also FX liquidity/ depreciation challenges faced by domestic corporates.

With the OPEC+ production cuts, the oil sector is sure to contract this year, with production expected around 1.7m bpd (including condensates), from around 2m bpd in 2019. We see more potential in the gas sector for Nigeria over the medium- to long term given Nigeria's proven gas reserves. The Nigeria LNG train 7 project (due by 2022/2023), along with the completion of the Dangote refinery project around the same period, could send Nigeria towards a 5-6% y/y growth rate in 2023, per our bull scenario.

A more bearish scenario will be one where significant disruption to economic activities owing to Covid-19 related lockdowns persists up until Q4:20 along with FX liquidity challenges. In that instance, we expect the Nigerian economy to contract by 5.5% y/y in 2020 and only returning to growth in 2022.

Ultimately, fiscal authorities would need to intensify

Composition of GDP by demand



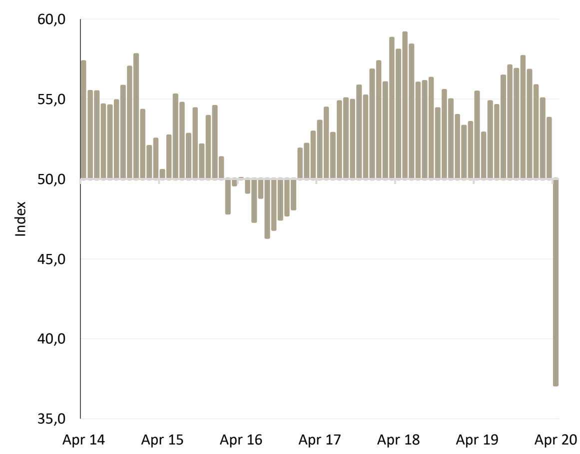
Source: National Bureau of Statistics; Standard Bank Research

GDP by sector (%) contribution

	2010	2015	2016	2017	2019
Agriculture	40.87	17.9	18	25.08	25.16
Mining and Quarrying (Oil)	15.88	7.8	7.7	8.8	8.91
Manufacturing	4.16	9.3	9	9.18	9.06
Electricity, Gas, Steam and Air		0.5	0.6	0.39	0.39
Water Supply, Sewerage, Waste		0.1	0.1	0.16	0.17
Construction	1.99	4.2	4	3.72	3.72
Trade	18.69	18.8	18.9	16.86	16.01
Accommodation	0.5	0.7	0.5	0.89	0.89
Transportation and Storage		1.5	1.5	1.23	1.48
Information and Communication	4.55	14.6	14.7	11.35	13.04
Financial and Insurance	3.56	3.7	3.8	3	3.01
Real Estate	1.74	8.7	8.8	6.85	6.12
Professional and Scientific Services		4.1	4	3.69	3.57
Public Administration		2.8	2.9	2.28	2.06
Education		1.8	1.8	2.2	2.13
Other Services	6.82	2.6	2.6	3.37	3.37
GDP	100	100	100	100	100

Source: National Bureau of Statistics; Standard Bank Research

Stanbic IBTC Purchasing Managers' Index



Source: IHS Markit

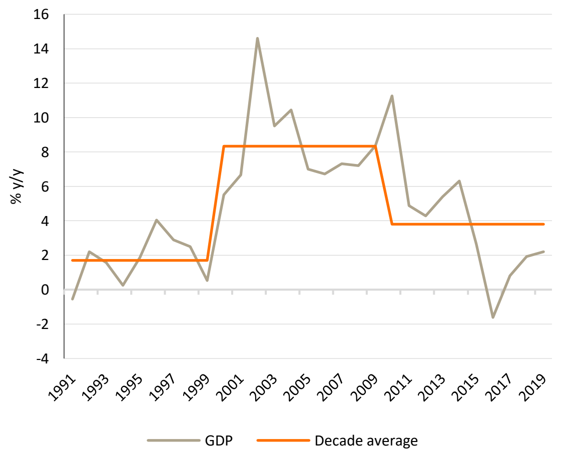
Medium term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	1.9	-4.6	-5.0	-5.5	-4.6	2.2	2.9	3.6	3.6	3.3	2.9	2.6	3.1	3.3	3.2	3.3
CPI (% y/y) pe	12.3	12.4	12.4	11.8	11.9	11.8	12.3	12.5	13.0	13.0	11.7	11.1	11.3	11.5	12.0	12.3
CBN policy rate (%) pe	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.0	13.0	13.0	13.0	13.0
3-m rate (%) pe	3.0	2.1	2.8	3.5	3.1	3.7	3.8	4.0	4.1	4.5	4.6	4.9	4.9	4.4	4.0	3.5
6-m rate (%) pe	4.0	2.8	3.2	3.8	3.5	4.0	4.3	4.5	4.9	5.0	5.0	5.3	5.2	4.9	4.7	3.9
USD/NGN pe	386.5	385.5	388.0	390.0	385.0	390.0	400.0	405.0	410.0	405.0	406.8	410.0	408.0	400.0	405.0	410.0
Bull scenario																
GDP (% y/y) pa	2.8	-0.7	-0.6	-0.6	0.0	3.9	4.1	4.2	5.4	5.5	5.4	5.1	6.3	6.4	6.7	6.8
CPI (% y/y) pe	12.3	12.0	11.8	11.1	11.1	11.1	11.0	11.0	11.5	11.8	11.3	11.0	11.0	11.0	11.5	11.8
CBN policy rate (%) pe	13.5	13.5	13.5	13.5	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	12.5	12.5	12.5	12.5
3-m rate (%) pe	3.0	1.6	2.3	3.0	2.6	3.1	3.3	3.4	3.6	3.9	4.0	4.4	4.4	3.9	3.5	3.0
6-m rate (%) pe	4.0	2.3	2.7	3.3	3.0	3.5	3.8	4.0	4.4	4.5	4.5	4.8	4.7	4.4	4.1	3.4
USD/NGN pe	386.5	375.2	368.0	365.0	365.0	360.0	363.8	365.0	362.1	368.0	365.0	365.0	366.3	362.5	365.8	366.7
Bear scenario																
GDP (% y/y) pa	2.2	-5.8	-8.1	-9.1	-8.6	-1.0	0.7	1.0	1.5	1.7	2.2	2.4	2.7	2.9	3.0	3.2
CPI (% y/y) pe	12.3	13.0	14.6	14.4	14.5	14.2	13.0	12.8	13.3	13.0	12.5	12.2	12.5	12.6	13.1	13.4
CBN policy rate (%) pe	13.5	13.5	13.5	13.5	15.0	15.0	15.0	15.0	15.0	15.0	15.0	14.0	14.0	14.0	14.0	14.0
3-m rate (%) pe	3.0	3.7	4.4	5.1	4.7	5.2	5.4	5.5	5.7	6.0	6.1	6.5	6.5	6.0	5.6	5.1
6-m rate (%) pe	4.0	4.4	4.8	5.4	5.1	5.6	5.9	6.1	6.5	6.6	6.6	6.9	6.8	6.5	6.2	5.5
USD/NGN pe	386.5	395.0	410.8	420.0	450.0	444.5	438.2	440.0	445.3	439.0	446.7	450.0	440.0	445.0	445.5	450.0

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

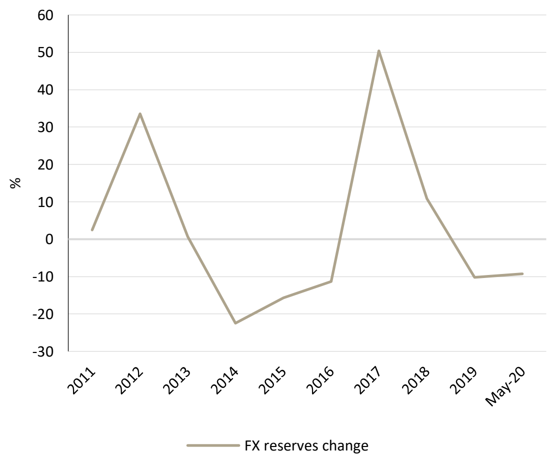
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; IMF; Standard Bank Research

% change in FX reserves



Source: Central Bank of Nigeria; Standard Bank Research

Balance of payments: C/A deficit to persist

From 4.2% of GDP in 2019, we expect Nigeria's C/A deficit at 3.8% of GDP in 2020 amid a contraction in imports and exports.

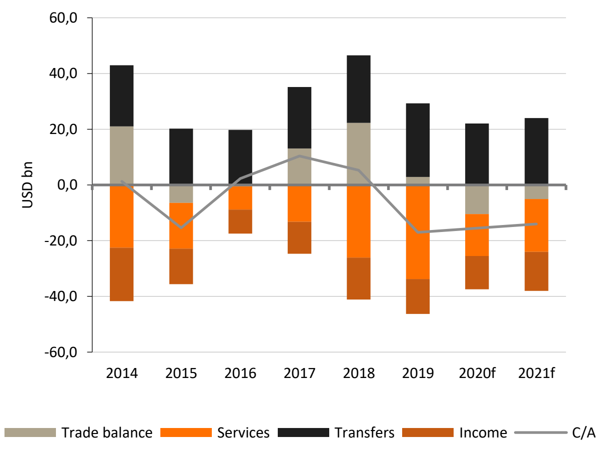
With lower international oil prices, Nigeria's exports are sure to decline significantly this year. In addition to the general decline in oil prices, Nigeria's bonny light crude, which till recently has traded at some USD2/bbl to USD3/bbl premium to the Brent crude price, has been trading at a discount to Brent. Reportedly, Nigeria's oil cargoes have been stuck at sea partly due to the demand shocks brought about by the pandemic. We estimate that oil prices will average between USD25/bbl - USD35/bbl for the rest of this year.

Nigeria's total exports in 2019 amounted to USD65bn (16% of GDP), with oil and gas exports accounting for 84% of the total. 2020 exports could come in at least 45% lower y/y at USD35bn (8% of GDP) despite the currency adjustment from 306 to 360 which should support government oil receipts.

Imports will likely drop in 2020 due to restrictions owing to the pandemic as well as supply chain disruptions from FX liquidity challenges but be still be sufficient to ensure that the C/A balance remains in deficit. Also, much of the rise in imports in 2019 is largely attributable to capital imports related to the big refinery project. In fact, total imports in Q4:19 rose to USD17.2bn (15.7% of Q4:19 GDP), resulting in a negative trade balance of USD1.5bn. We do not expect a recurrence of this magnitude of capital imports in 2020.

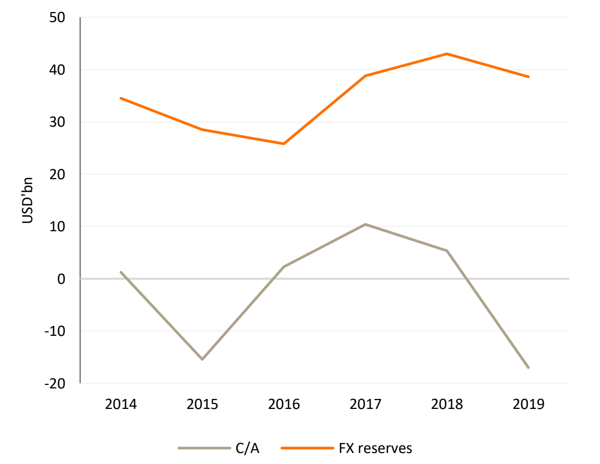
Persistent BOP pressures, both from import demand and foreign portfolio outflows, should see further downward pressure on FX reserves this year. We expect FX reserves at USD31.2bn by year-end, covering just around 6-m of imports. The government's access to external finance will likely be limited to only concessionary sources in 2020 amid the depressed outlook for the global economy as well as for oil prices.

Current account developments



Source: Central Bank of Nigeria; Standard Bank Research

FX reserves and current account

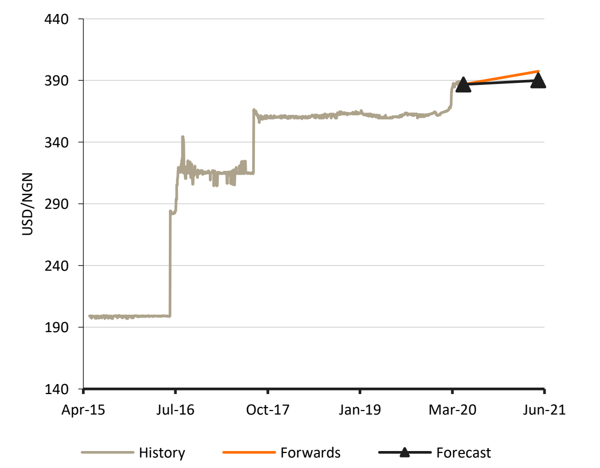


Source: Central Bank of Nigeria

FX outlook: USD/NGN should remain rangebound

After depreciating by some 6% in the IEFX market this year, it is likely that the CBN will want to keep the USD/NGN rangebound for much longer around 380-390. Sure, FX reserves have depleted significantly over the past 10-m from a high of USD45bn in Jun 19 to currently around USD35bn. In truth, the CBN's FX rationing tactics over the past 1-m somewhat stemmed the further decline in FX reserves. We believe that the ability of CBN to ensure the USD/NGN remains rangebound will depend on the assurance of near USD7bn concessionary funding expected from multilateral agencies. Without that, the USD/NGN could depreciate by at least another 5%. Our base case assumes the CBN gets this funding to boost the FX reserves, along with some recovery in oil prices and the global economy over the coming months. Hence, we expect the USD/NGN around 385-390 by year-end.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: defensive mode

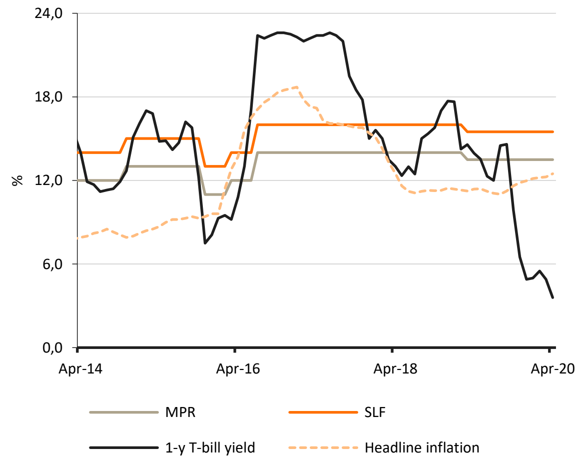
The CBN's monetary policy management is still in part largely targeted at FX stability but that has not been accompanied by increased interest rates this time, compared to 2016/2017. In fact, OMO auction rates have trended downwards consistently for the past 8-m. However, impact of the pandemic has meant that the CBN will also have to consider stimulus measures to keep the economy going, which should normally require some level of liquidity to be built up in the financial system and interest rates being low.

The CBN has managed to be able to keep monetary policy conditions tight through its CRR regime and still keep interest rates fairly low due to the segmentation tactics and heterodoxic measures of the CBN in managing liquidity conditions. The bifurcation of local non-bank domestic players from the OMO market has ensured treasury bill rates remaining low, while the CBN through the enforcement of its loan-to-deposit (LDR) ratio has also ensured lending rates remaining fairly low.

In the CBN's response to the COVID-19 pandemic, a NGN3.5tr stimulus has been announced, NGN1tr of which is expected to be in loans targeted at manufacturing and production across key sectors particularly to companies with backward integration intent. We believe rather than allowing significant build-up of system liquidity, the CBN would direct these funds through its Real Sector Support Facility (RSSF) window with the banks whose interest rates have now been reduced to 5%.

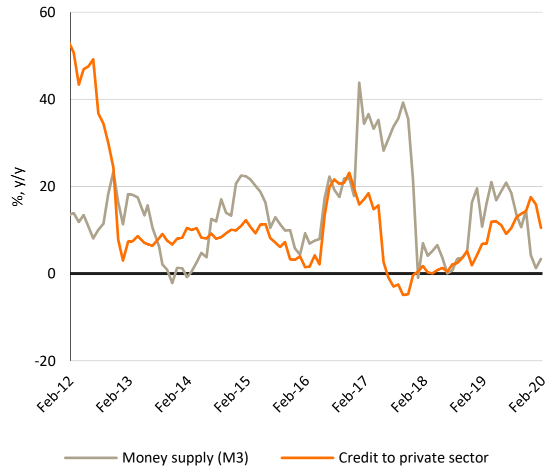
We expect headline inflation to trend still higher in the coming months largely on price increases in both domestic food and imported food inflation. The slight depreciation of the currency amid supply chain disruptions owing to FX illiquidity will likely put pressure on food prices. Furthermore, a further depreciation of the currency more than we expect would pose upside risks. While we expect headline inflation to average 12.3% y/y in 2020, from 11.4% y/y in 2019, we do not expect any adjustments to the monetary policy rate (MPR) in 2020.

Inflation and interest rates



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

Monetary statistics



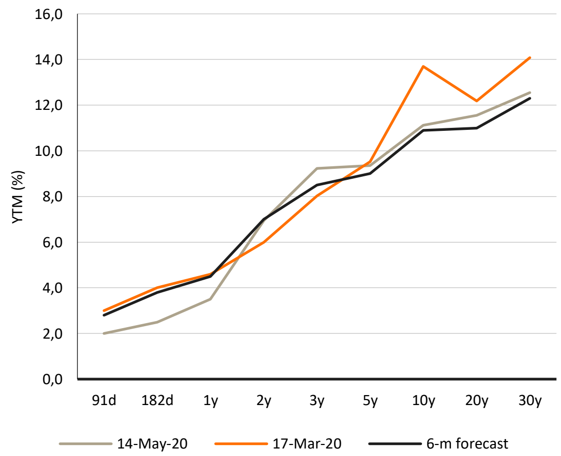
Source: Central Bank of Nigeria

Yield curve outlook: flattish/downward bias despite expected increase in supply of paper

Given the oil price pressures on Nigeria revenues, the fiscal deficit is expected to widen considerably this year. Much of the deficit will be funded by new borrowings. Hence, we expect supply of domestic paper to rise over the coming months. However, the increase in the supply of domestic paper might not necessarily see yields inch higher in this case. Our estimates show that Treasury bill maturities (OMOs inclusive) for domestic investors (including banks) is close to USD17.4bn (NGN6.7tr) over the next 8-m.

Admittedly, a portion of that could be mopped up by the CBN via its CRR policy and perhaps some flow into the equity market. We believe that portion of the fiscal deficit that will be funded by new domestic borrowings would not top NGN2.5tr. Hence, there should be sufficient liquidity to take up any new borrowings from the government. There is therefore scope for

Yield curve changes



Source: Central Bank of Nigeria; FMDQ; Debt Management Office; Standard Bank Research

Fiscal policy: debts rising, revenues nose-diving

Fiscal authorities are currently working on revising the 2020-2022 Medium Term Expenditure Framework and Strategy paper as well as an amendment to the 2020 appropriation act. Sure, the twin shocks of the pandemic and very soft international oil prices will force a significant downward revision to government's revenue expectations for 2020. Oil revenues typically account for c.55% of total government revenues and with an initial oil revenue expectation of NGN2.7tr, the fiscal authorities are now looking an 80% decline from the initial projections. Other non-oil revenue segments are also likely to be revised lower given the general slowdown in economic activity due to lockdowns.

We still see very little room for the government to cut expenditure given that 80% of total expenditure is recurrent (debt and non-debt). Hence, we expect actual fiscal deficit will rise closer to 7% of GDP in 2020.

Nigeria's debt levels will rise in 2020 as the government tries to plug the fiscal hole. However, the government favours more concessionary foreign funding from multilateral and bilateral institutions. This, along with some level of debt relief, could help reduce projected interest expenditure for the year. But, given the expected decline in revenue this year, debt-service to revenue ratio could yet rise towards 80%. This metric, as we have always highlighted, is not sustainable.

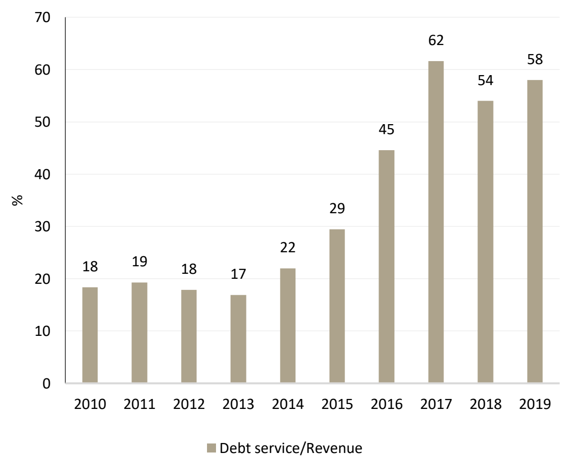
Fiscal authorities may have to suspend some of planned fiscal reforms for the year in a bid to combat both the direct and indirect impact of the pandemic. For instance, the electricity tariff increase that was expected to take effect in Apr has now been suspended. It is unlikely that the tariff increase will still go ahead this year given the depressed consumer environment. The removal of fuel subsidies which were necessitated by lower oil prices would be welcome. It is still left to be seen whether the government will move to fully deregulate the petroleum sector, particularly in view of the big refinery project due to be

Federal Government Budget

	2018	2020	2020
% of GDP			Revised
Revenue	2.3	6.0	2.7
Capital expenditure	2.8	3.0	1.8
Recurrent expenditure	4.9	5.0	5.0
Statutory transfers	0.5	0.4	0.3
Service debt	1.8	2.0	2.0
Supplementary budget	0.0	0.0	0.0
Total expenditure	8.1	8.0	6.8
Oil price assumption (US$/bbl)	51.0	57.0	20.0
Oil production assumption (m bbl)	2.3	2.2	1.7
Exchange rate assumption	305.0	306.0	360.0
External Financing	0.6	1.0	2.0
Domestic Financing	0.6	1.0	1.0
Fiscal deficit	-1.7	-1.9	-4.1

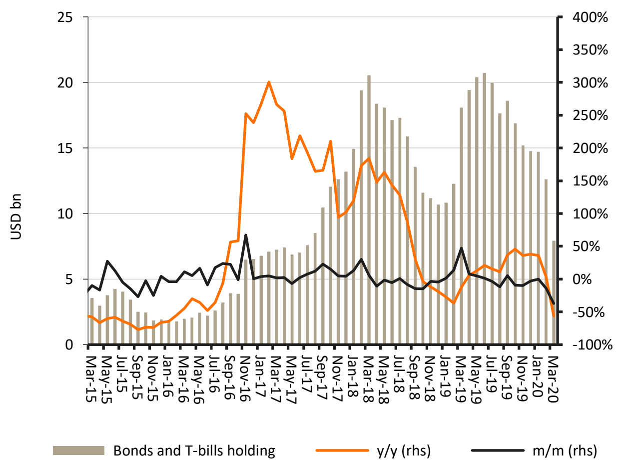
Source: Federal Ministry of Finance; Standard Bank Research

Debt service-to-revenue



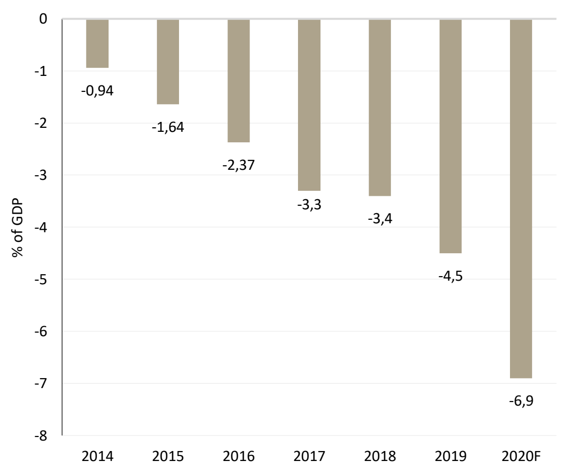
Source: Federal Ministry of Budget and National Planning; Standard Bank Research

Domestic debt held by foreigners



Source: Standard Bank Research

Fiscal deficit



Source: Federal Ministry of Budget and National Planning

Annual Indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	178.6	181.3	182.7	187.5	192.3	197.3	202.5
Nominal GDP (NGNbn)	95177.7	102575.0	113712.0	127762.0	145639.0	158702.8	179461.1
Nominal GDP (USDbn)	481.2	397.9	325.0	352.9	402.7	410.1	454.3
GDP / capita (USD)	2694.3	2195.0	1778.5	1882.5	2093.6	2078.0	2243.8
Real GDP growth (%)	2.8	-1.5	0.8	1.8	2.3	-3.3	1.0
Crude oil production (mbpd) pa	1.9	1.7	1.8	1.8	2.0	1.7	1.8
Central Government Operations							
Budget balance / GDP (%)	-1.1	-2.2	-3.3	-3.4	-4.5	-6.9	-6.2
Domestic debt / GDP (%)	8.3	11.1	11.1	12.9	12.6	14.0	15.3
External debt / GDP (%)	2.0	2.9	5.8	7.1	6.9	9.0	9.5
Excess crude account/SWF (USD bn)	0.0	0.0	2.3	2.0	0.3	0.0	0.0
Balance of Payments							
Exports (USDbn)	45.9	34.7	45.8	63.1	65.0	35.0	45.5
Imports (USDbn)	52.3	35.2	32.7	40.8	62.1	45.5	50.5
Trade balance (USDbn)	-6.4	-0.5	13.1	22.3	2.9	-10.5	-5.0
Current account (USDbn)	-15.4	2.3	10.4	5.3	-17.0	-15.5	-14.0
- % of GDP	-3.2	0.6	3.2	1.5	-4.2	-3.8	-3.1
Financial account (USDbn)	9.4	-5.0	-4.3	3.5	18.1	8.1	17.3
FDI (USDbn)	1.4	1.0	1.0	1.3	0.9	1.1	1.3
Basic balance / GDP (%)	-2.9	1.4	4.1	4.6	4.5	-3.5	-2.8
FX reserves (USDbn) pe	28.5	25.8	38.8	43.0	38.6	31.2	34.5
Import cover (mths) pe	6.5	8.8	14.3	12.7	7.5	6.0	8.2
Sovereign Credit Rating							
S&P	B+	B	B	B	B	B-	B-
Moody’s	Ba3	B1	B1	B2	B2	B2	B2
Fitch	BB-	BB-	B+	B+	B+	B	B
Monetary and financial Indicators							
Headline inflation pa	9.0	15.6	16.6	12.2	11.4	12.3	12.1
All items less farm produce CPI pa	8.2	15.2	13.6	10.6	9.2	10.2	10.5
Food CPI pa	9.9	14.9	19.5	14.5	13.7	14.8	15.2
M2 money supply (% y/y) pa	17.3	14.0	4.2	4.6	15.5	0.9	5.0
M2 money supply (% y/y) pe	19.0	18.4	1.2	16.4	4.2	6.3	10.0
Policy interest rate (%) pa	12.8	13.2	14.0	14.0	13.6	13.5	13.5
Policy interest rate (%) pe	11.0	14.0	14.0	14.0	13.5	13.5	13.5
3-mth rate (%) pe	3.5	14.5	12.5	12.3	3.8	2.0	3.5
1-yr rate (%) pe	7.7	17.0	14.0	17.0	4.4	4.5	5.8
3-yr rate (%) pe	8.6	15.5	14.0	15.2	10.0	7.8	8.5
5-yr rate (%) pe	10.9	15.6	14.4	15.0	10.0	9.0	11.0
USD/NGN pa	197.8	257.8	349.9	362.0	361.7	387.0	395.0
USD/NGN pe	199.3	315.0	362.0	365.0	364.7	390.0	410.0

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; nr — not rated; na — not available

Rwanda: a pandemic disrupts growth

Medium-term outlook: downside risks dominate

The COVID-19 pandemic will have a material impact on Rwanda's economy. First poised to expand by between 8% and 10% y/y in the next 2-y, the pandemic's impact will now see economic growth at likely just 4.0% y/y this year. We see the economy then recovering next year, growing by 6.4% y/y. In our base scenario, we see economic growth rising to around 8.0% y/y in 2022.

The main channels through which the economy is being affected are trade and tourism, but there has been spill-over to almost all other sectors. Due to international travel bans, other key sectors dependent on tourism, and business travel, face rising losses. Moreover, the tourism sector's recovery is likely to lag, even after travel bans are lifted, as tourists are unlikely to return in a hurry. Reportedly, the hospitality industry has approached the government for a bailout.

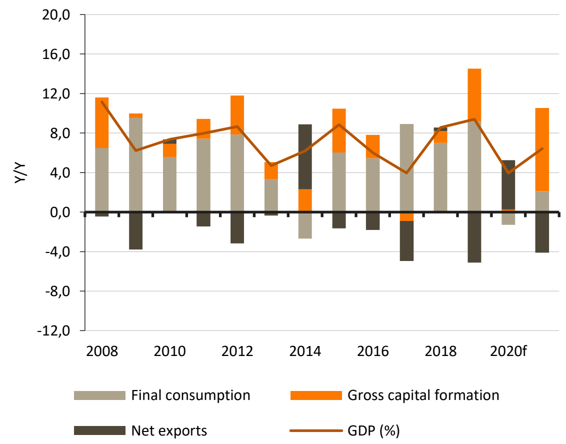
Due to rising fiscal burdens due to the pandemic, public investment is likely to stall, a key factor to undermine growth in the construction sector. In our bear scenario, the construction of the new Bugesera airport project is likely to be cancelled, which is mostly likely to result in a protracted recovery of the construction sector.

Furthermore, global supply chain disruptions have had significant spill-over to import-dependent sectors. The 6-w national hard lockdown has compounded this disruption. Notably, the government eased lockdown conditions at the start of May. The unknown evolution of the pandemic underlines the downside risks to the outlook. Notwithstanding the government's swift response to the pandemic, at this stage it is not clear when and at what level new infections will peak in Rwanda.

In the worst scenario, economic growth reaches 3.25% y/y this year, only recovering to over 7.0% y/y growth by 2023. In this scenario, the speed of the recovery is slower, with key sectors, particularly the business tourism sector, struggling for traction. For the agricultural sector, key downside risks include further unpredictable weather patterns and the relentless regional locust invasion.

In our bull scenario, GDP growth would bottom at just under 4.5% y/y in 2020, then recover strongly to over 8.0% y/y in 2022. This rebound is predicated on a quick resumption of public and private investments which would bolster the economy. This scenario also assumes a timely start of the construction of the Bugesera airport project.

Composition of GDP by demand



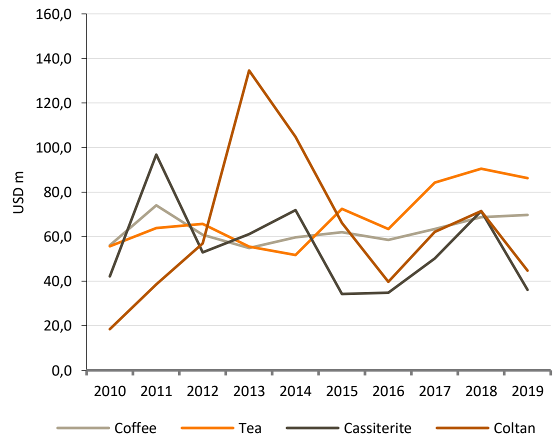
Source: National Institute of Statistics of Rwanda; Standard Bank Research

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

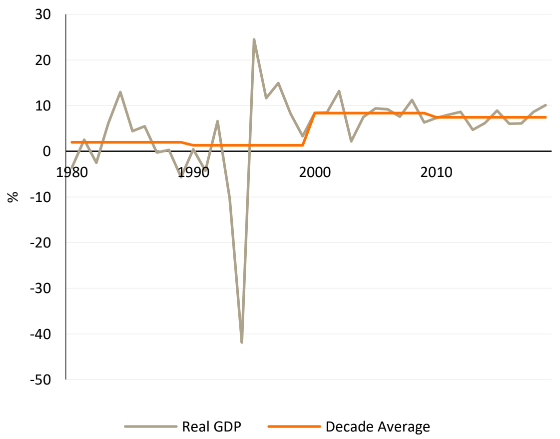
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	6.0	3.5	2.5	4.0	5.2	6.8	7.1	6.8	7.4	7.2	8.4	8.8	8.0	8.1	7.8	7.6
CPI (% y/y) pe	8.5	6.6	6.3	4.4	2.0	2.7	2.7	2.6	4.1	5.4	5.9	7.9	8.1	7.9	7.5	7.6
Policy rate (%) pe	5.0	4.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	5.0	5.0	5.0
3-m rate (%) pe	5.8	6.1	6.4	6.8	7.1	7.7	7.4	6.9	7.1	6.6	6.0	5.9	6.0	5.7	5.3	4.8
6-m rate (%) pe	6.5	6.8	7.1	7.5	7.8	8.4	8.1	7.6	7.9	7.4	6.8	6.7	6.7	6.4	6.0	5.5
USD/RWF pe	935.0	945.4	965.4	981.9	996.7	1011.7	1027.0	1042.4	1058.2	1074.1	1090.3	1106.7	1123.4	1140.4	1154.1	1168.0
Bull scenario																
GDP (% y/y) pa	6.0	4.3	3.3	4.5	6.4	8.0	8.3	8.0	8.5	8.3	9.5	9.9	9.3	9.4	9.1	8.9
CPI (% y/y) pe	8.5	6.3	6.6	4.8	2.4	3.1	3.5	3.3	4.9	6.2	6.6	8.9	9.1	8.9	8.5	8.6
Policy rate (%) pe	5.0	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.5	5.0	5.0	5.0
3-m rate (%) pe	5.8	5.6	5.9	6.3	6.6	7.2	6.9	6.4	6.6	6.1	5.5	5.4	5.5	5.2	4.8	4.3
6-m rate (%) pe	6.5	6.3	6.6	7.0	7.3	7.9	7.6	7.1	7.2	6.7	6.1	6.0	6.3	6.0	5.6	5.1
USD/RWF pe	935.0	940.2	950.1	958.3	965.5	972.8	980.1	987.5	994.9	1002.4	1010.0	1017.6	1025.3	1033.0	1039.2	1045.5
Bear scenario																
GDP (% y/y) pa	6.0	2.5	1.5	3.0	4.0	5.6	5.9	6.0	6.8	6.6	7.8	8.2	7.5	7.6	7.3	7.1
CPI (% y/y) pe	8.5	6.3	5.7	3.9	1.9	2.6	2.6	2.4	4.0	5.3	5.7	7.8	7.9	7.7	7.4	7.4
Policy rate (%) pe	5.0	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	4.5
3-m rate (%) pe	5.8	7.1	6.7	4.9	2.5	3.2	3.2	3.0	4.6	5.9	6.2	8.3	8.4	8.2	7.9	7.9
6-m rate (%) pe	6.5	7.8	7.4	5.6	3.2	3.9	3.9	3.7	5.3	6.6	7.0	9.0	9.0	8.8	8.5	8.5
USD/RWF pe	935.0	953.2	988.5	1018.0	1041.0	1064.6	1088.7	1113.3	1134.3	1155.6	1177.4	1199.6	1219.5	1239.7	1256.1	1272.8

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

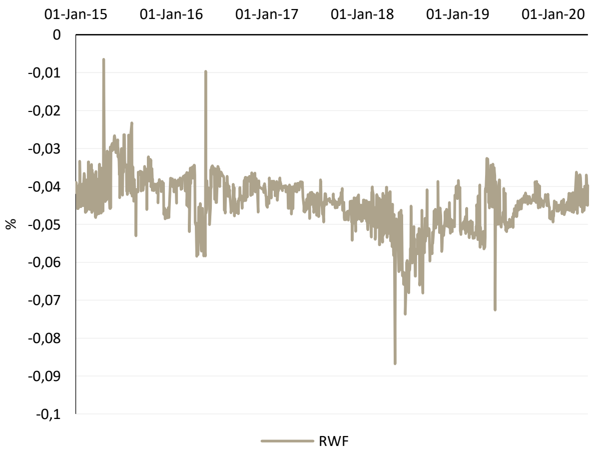
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Source: IMF

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: pressures intensify

External pressures are set to intensify. The C/A deficit is forecast in excess of 15% of GDP for the next 2-y. A sharp reduction in tourism receipts, an immediate impact of the COVID-19 pandemic, has led to an accelerated loss of foreign exchange reserves, increasing upward pressure on the exchange rate.

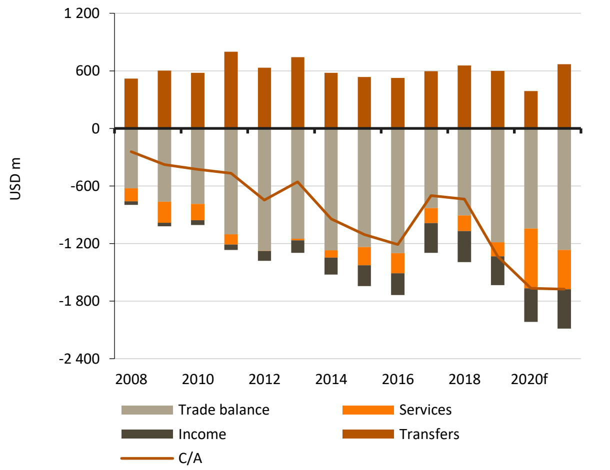
Furthermore, a significant decline in traditional exports – tea, coffee, and minerals – compounds the external pressures. Weak international prices continue to weigh on traditional exports, widening Rwanda's trade deficit.

Regardless, a few factors point to a deceleration of import growth this year and next. Rwanda sources over 20% of its imports from China; supply chain disruptions following factory shutdowns in China are likely to reduce import levels during H1:20. Further, that rate of capital imports is likely to decline as developmental projects stall temporarily. Recall that these projects typically carry a large import requirement, covering machinery and equipment. During 2019, capital imports growth expanded by 17% y/y.

Another factor likely to weigh on the C/A balance is lower net current transfers, since remittance flows are likely to contract owing to the weaker global economy.

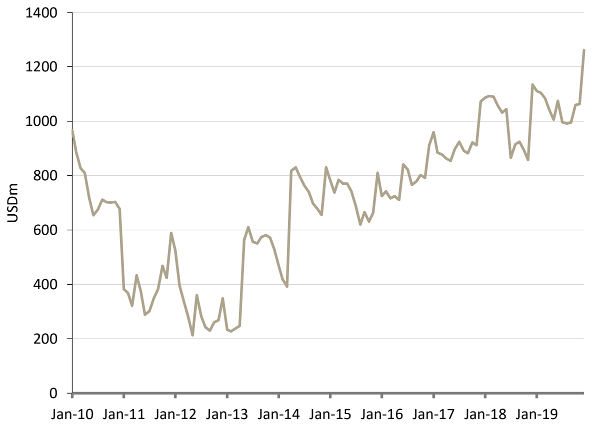
Typically, FDI and government borrowing tend to be the main sources of capital flows. Depressed investment sentiment would weigh on both. Also, weak capital inflows could exacerbate Rwanda's external financing shortfall. In Apr, the government secured USD109m in funding from the IMF to cover urgent BOP support at the onset of the pandemic. As it stands, the bulk of Rwanda's external debt is concessional, which is consistent with Rwanda's debt management strategy.

Current account developments



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

FX reserves



Source: Bloomberg

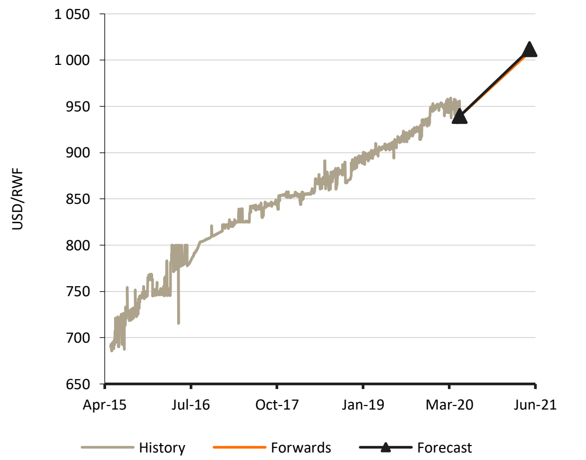
FX outlook: moving up

We see USD/RWF at around 945 at the end of Q2:20 and 965 at the end of Q3:20.

Admittedly, the pair tends to be insulated from changes in global emerging market risk appetite, as portfolio inflows are limited. However, pressure on the exchange rate due to Rwanda's weakening external position is likely to intensify in coming months. The combination of export underperformance, lower levels of remittances, and a reduction in FDI and capital inflows, should be consistent with further currency weakness.

In our bear scenario, we forecast a higher rate of depreciation than the base case, with the USD/RWF ending the year at 1018. To be sure, in this scenario we expect extreme BOP pressures.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: on hold, for now

After having reduced the monetary policy rate by 50 bps at the May MPC meeting, the National Bank of Rwanda's MPC is likely to keep the rate unchanged at 4.5% for the next 4-m.

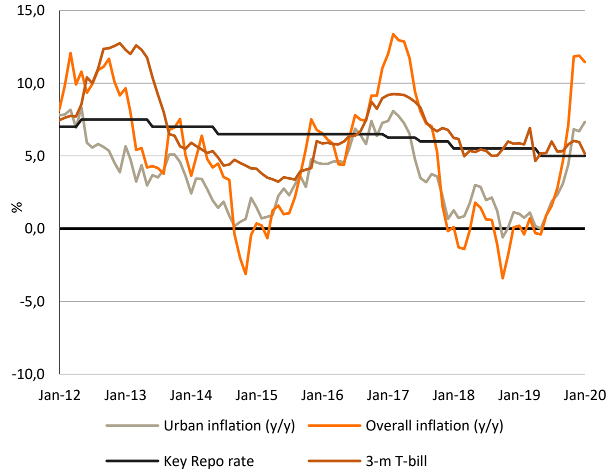
In addition, in Mar the MPC introduced measures to mitigate the impact of the pandemic. Among these, the NBR reduced the reserve ratio on RWF deposits by 100 bps, to 4%, which added around RWF23bn to the financial system, and introduced an extended lending facility for banks experiencing liquidity challenges.

On the back of a significant drop in domestic demand, the NBR revised their inflation forecasts, seeing inflation average 6% y/y in 2020 and 1% y/y in 2021. To be sure, the NBR see inflation decelerating during H2:20.

Underlying inflationary pressures have ticked up, with core inflation rising to 4.6% y/y in Apr, from 4.3% in Mar and 4.5% in Feb. Moreover, urban inflation averaged 8.19% y/y during Q1:20, pulled higher by rising food inflation. Since food accounts for 28% of the urban inflation basket, it has a meaningful impact on the overall price level. We see food inflation elevated over the coming months as unusually heavy rainfall in parts of the country is likely to disrupt the supply of fresh vegetables. Thus, we see headline inflation likely to remain close to the upper end of the NBR's target band of 8.0% y/y for the most of H1:20. We see inflation moderating to 4.45% y/y in Dec 20.

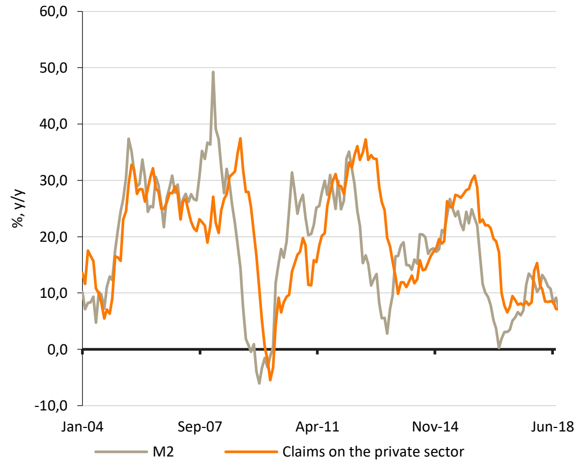
Rwanda Utilities Regulatory Agency reduced petrol prices by 11% and diesel prices by 13%, which should restrain non-food inflation in the near term at least.

Inflation and interest rates



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

Money supply growth



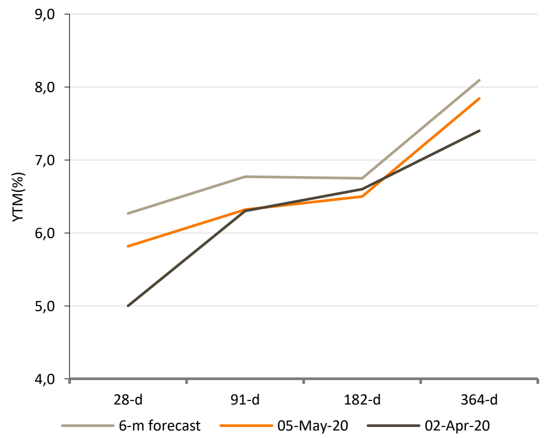
Source: National Bank of Rwanda

Yield curve outlook: still going up

Notwithstanding the NBR's accommodative stance, we see yields rising from current levels. The government's borrowing requirement is likely to be higher than forecast in the FY2019/20 budget review, given that the fiscal deficit is expected to deteriorate considerably due to the pandemic. Fiscal authorities could possibly increase planned domestic bond issuance as well.

Since the start of this year, except for the 181-d T-bill yield, short-term yields have risen. Assessing the trend of RWF yields over last month or so, the 28-d and 364-d T-bill yields have risen sharply, while the middle of the curve flattened out somewhat. In the 5-m to May, yields on 28-d, 91-d and 364-d T-bills are up by 28 bps, 72 bps and 34 bps respectively. Notably, yields on 182-d fell by 49bps during this period.

Yield curve changes



Source: National Bank of Rwanda; Standard Bank Research

Fiscal policy: COVID-19 fallout

The revised FY2019/20 budget presented in Feb did not factor in the impact of the pandemic on public finances. Instead, it was consistent with the government's National Strategy for Transformation, and continued to prioritise capital expenditure, setting aside around 35% of total expenditure for developmental projects.

Now, the pandemic's impact will see public finances deteriorate considerably. The IMF estimates that over the next two fiscal years, revenue losses and increases in public spending could reach 1.9% of GDP and 1.5% respectively.

Notwithstanding strong GDP growth momentum between Jul and Feb, factoring in the impact of COVID-19 on the trade and services sectors, domestic revenue collections should fall short of the RWF1,801tr target. Incidentally, the revised FY2019/20 budget increased the domestic revenue target by 4.3%. We estimate that revenue collections could underperform by as much as 2% of GDP during FY2019/20.

Of course, the uncertainties around the duration and potential spread of COVID-19 will make it difficult to assess the impact particularly on the healthcare component of public spending. For now, the government has budgeted 0.8% of GDP for COVID-19 healthcare-related spending in FY2019/20. Additionally, fiscal authorities are working on a countercyclical fiscal policy package, to contain the economic fallout in the wake of the pandemic and reduce the chance that it causes permanent damage to the economy.

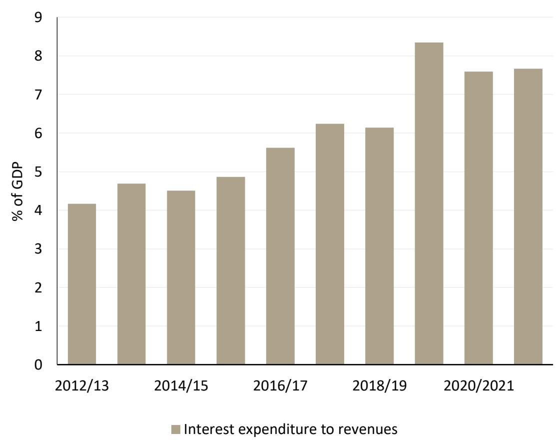
While increases in fiscal deficits are likely to be significant over the next 2 fiscal years, these increases are likely temporary. Still, Rwanda's public debt levels are likely to increase sharply, from already just under 50% of GDP. Nevertheless, the composition of Rwanda's debt stock, which has large concentration of concessional funding, is a credit to the sovereign's balance sheet.

Central government budget

% of GDP	FY2017/18	FY2018/19e	FY2019/20f
Total revenue	23.04	24.02	32.50
Total expenditure	27.21	30.37	35.93
- Wages	4.11	4.26	4.96
- Interest	1.15	1.19	1.83
- Capital expenditure	10.28	11.94	14.49
Overall fiscal deficit	- 4.2	- 6.4	- 3.4
Net domestic borrowing	0.5	0.6	0.4
Net foreign borrowing	3.62	5.72	3.10
Donor support (grants)	2.68	3.05	3.50

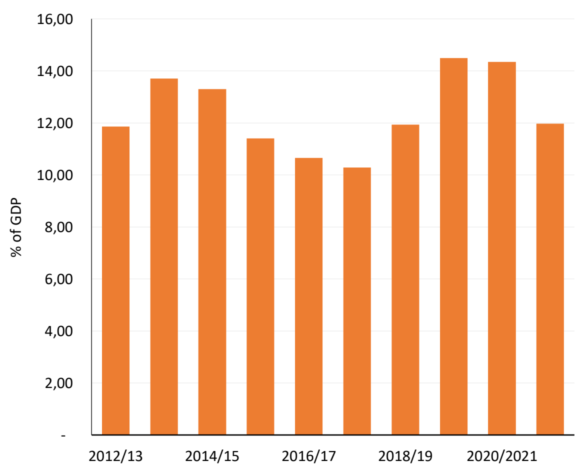
Source: Ministry of Finance and Economic Planning; Standard Bank Research

Interest expenditure



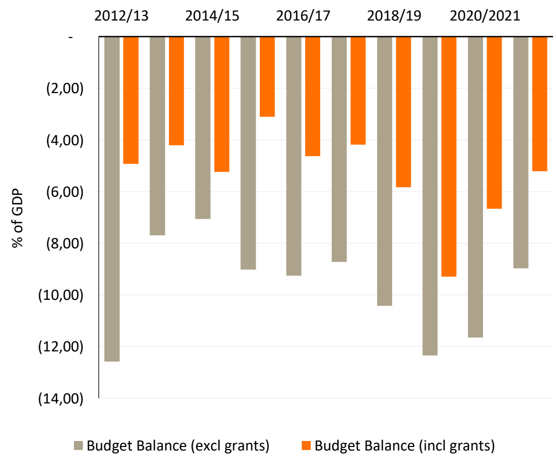
Source: Ministry of Finance and Economic Planning, Standard Bank Research

Development spending



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

Fiscal deficit



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

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	11.8	12.1	12.3	12.6	12.8	12.6	12.3
Nominal GDP (RWF bn)	6 982.0	7 399.0	7 694.0	8 354.0	9 139.0	9 500.0	10 110.0
Nominal GDP (USD bn)	9.8	9.4	9.2	9.6	10.1	9.9	10.0
GDP / capita (USD)	823.4	782.0	747.7	763.9	784.2	789.2	810.2
Real GDP growth (%)	8.9	6.0	4.0	7.8	10.0	4.0	6.4
Coffee production ('000 tons)	18.8	18.9	19.1	21.3	23.1	24.3	25.5
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.2	-3.1	-4.2	-6.4	-3.4	-6.7	-5.2
Budget balance (incl. Grants) / GDP (%)	-7.1	-9.0	-6.8	-9.4	-6.9	-12.0	-9.0
Domestic debt / GDP (%)	8.3	8.8	9.8	10.1	10.5	10.9	9.5
External debt / GDP (%)	28.5	29.7	30.3	31.9	33.2	34.5	35.5
Balance Of Payments							
Exports of goods and services (USD m)	683.7	745.0	1 050.2	1 125.8	1 013.2	1 144.9	1 316.7
Imports of goods and services (USD m)	-1 918.7	-2 045.1	-1 879.4	-2 032.4	-2 200.0	-2 189.5	-2 583.6
Trade balance (USD m)	-1 235.0	-1 300.1	-829.2	-906.6	-1 186.8	-1 044.6	-1 267.0
Current account (USD m)	-1 106.3	-1 211.1	-699.1	-736.6	-1 334.7	-1 666.6	-1 675.0
- % of GDP	-11.3	-12.8	-7.6	-7.7	-13.3	-16.8	-16.8
Financial account (USD m)	1 077.9	1 153.7	776.0	949.0	970.0	805.0	1 050.0
- FDI (USD m)	219.9	218.5	255.0	287.0	330.0	170.0	450.0
Basic balance / GDP (%)	-9.1	-10.5	-4.8	-4.7	-10.0	-15.1	-12.3
FX reserves (USD m) pe	810.0	911.0	1 072.0	1 135.0	1 261.0	870.0	950.0
- Import cover (mths) pe	5.1	5.3	6.8	6.7	6.9	4.8	4.4
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody’s	nr	B2	B2	B2	B2	B2	B2
Fitch	B+	B	B	B	B+	B+	B+
Monetary & Financial Indicators							
Urban consumer inflation (%) pa	2.5	5.7	4.9	1.4	2.4	6.7	2.7
Urban consumer inflation (%) pe	4.5	7.3	0.7	1.1	6.7	4.4	2.6
M3 money supply (% y/y) pa	18.9	9.9	12.2	12.3	13.8	14.7	22.1
M3 money supply (% y/y) pe	21.1	7.5	9.7	16.5	14.9	22.4	21.7
Policy interest rate (%) pa	6.5	6.5	6.1	5.5	5.2	4.6	4.1
Policy interest rate (%) pe	6.5	6.5	6.0	5.5	5.0	4.5	4.0
3-m rate (%) pe	6.0	9.0	6.8	5.8	6.0	6.8	6.9
1-y rate (%) pe	7.6	9.2	7.9	4.6	8.0	9.1	9.2
USD/RWF pa	715.6	783.0	834.3	869.2	907.8	956.9	1 019.5
USD/RWF pe	745.0	822.0	845.0	894.2	935.0	981.9	1 042.4

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

Notes: pa – period average; pe – period end

Senegal: phase 2 implementation of reforms will be slower

Medium-term outlook: should still be robust

The impact of the COVID-19 pandemic will be telling on Senegal's economy in 2020. Economic growth has been quite robust in the past 6-y, averaging 6.5% y/y 2014 – 2018, as the government implemented the first phase of Senegal's development strategy *Plan Senegal Emergent.* Those high growth years were partly supported by a significant increase in public investment spend.

After growing by 5.2% y/y in 2019, we now expect economic growth now to slow to 2.5% y/y in 2020 and then rise sharply to 5.2% y/y in 2021 as the government continues to implement the strategies of phase II of the *Plan Senegal Emergent* (which kicked off in 2019 and should last through 2023). The phase II plan targets robust activity in agriculture and services, while investment spending in the hydro-carbon sector remains strong.

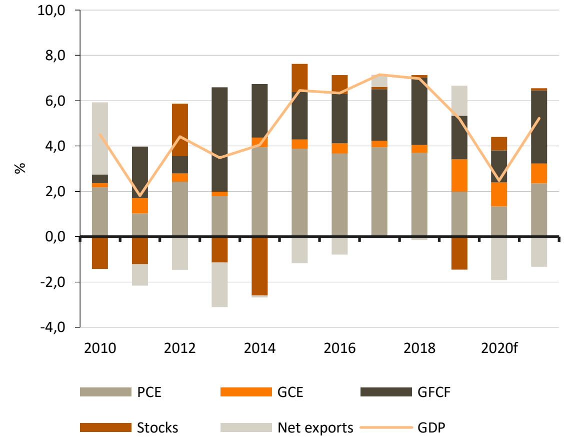
COVID-19 lockdowns will affect the entire economy. Sectors like tourism, transport, construction and retail face stressful times. Associated revenues from tourism that typically account for nearly 5% of GDP will take a hit in 2020 owing to the closure of international borders and movement restrictions.

Government's investment spend for capital expenditure will also decline in 2020 as it tries to focus more on combating the direct and indirect effects of the pandemic. More so, we expect the disruption to global supply chains to affect investment projects. Our base case assumes some level of recovery from 2021. While that should support the near-term growth dynamics, a broader recovery in 2020 is unlikely, particularly as tourism won't recover to say pre-2020 levels until a vaccine has been found.

Lower level of remittances expected in 2020 will affect the demand side of growth through household income and consumption. European countries such as France, Italy and Spain typically account for the bulk of the remittances into Senegal. Those countries have been some of the worst hit by the pandemic. Remittances account for c.10% of the GDP and could well be around sub 5% levels in 2020.

From 2021, we expect robust growth to return if the strain on economies has dissipated. The government could then focus on boosting investment spending again, particularly in the hydro-carbon sector. Hydrocarbon exploration should continue, likely attracting significant investment in the oil and the gas sectors. The Greater Tortue Ahmeyim LNG development, with estimated gas reserves in excess of 15tr cubic feet, is expected to commence producing gas in 2022, spurring growth towards double digits by 2023.

Composition of GDP by demand



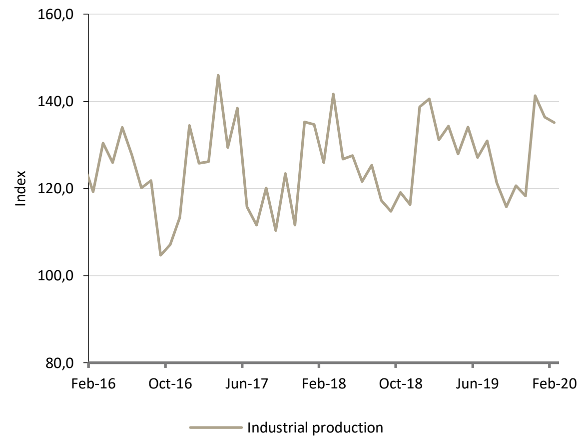
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

GDP by sector (%) contribution

	2013	2015	2017	2019
Agriculture	15.5	15.0	15.5	17.5
Livestock and hunting	4.9	4.8	4.0	3.4
Forestry	1.0	0.9	1.1	0.4
Fishing	2.0	2.0	2.3	1.2
Mining	2.2	2.8	1.6	2.2
Energy/oil products	2.4	2.4	2.3	0.9
Utilities	1.0	1.6	1.5	1.9
Construction	4.5	5.1	5.0	3.0
Manufacturing	8.1	8.5	8.2	7.2
Commerce	16.9	16.5	16.1	13.1
Transport and communications	12.3	12.4	12.7	7.9
Education	4.7	4.5	4.7	4.9
Health	1.5	1.6	2.0	2.2
Other services	15.7	15.8	15.4	19.2
Public administration	7.3	7.1	7.2	11.1
GDP	100.0	100.0	100.0	100.0

Source: Agence Nationale de la Statistique et de la Demographie

Harmonized index of industrial production



Source: Agence Nationale de la Statistique et de la Demographie

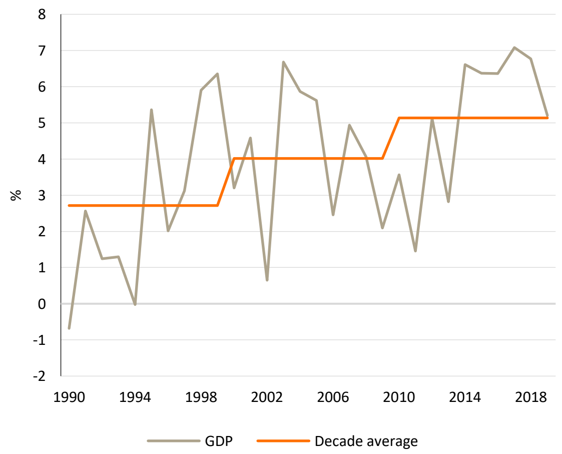
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	4.3	2.1	1.8	1.9	4.5	6.5	4.8	5.0	7.8	7.4	8.2	7.1	8.1	8.5	9.6	10.3
CPI (% y/y) pe	2.6	1.0	1.3	1.2	0.6	0.9	1.7	2.2	1.6	1.7	1.5	1.5	1.8	1.6	1.4	1.4
Marginal lending facility (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0	3.5	3.5	3.5	3.5
USD/XOF pe	596.3	636.9	624.7	596.3	575.4	560.6	546.6	537.7	520.6	508.5	504.6	489.5	504.6	504.6	524.8	524.8
Bull scenario																
GDP (% y/y) pa	5.8	2.8	2.9	3.3	5.8	6.5	6.0	6.2	8.4	8.7	9.0	9.3	10.6	10.9	11.6	11.9
CPI (% y/y) pe	2.6	1.0	0.8	0.9	0.4	0.5	1.0	1.5	1.0	1.2	0.9	1.0	1.1	0.9	0.8	0.8
Marginal lending facility (%) pe	4.5	4.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.5	3.5	3.5
USD/XOF pe	596.3	636.9	596.3	570.4	551.2	546.6	524.8	524.8	520.6	508.5	504.6	504.6	504.6	496.9	504.6	485.9
Bear scenario																
GDP (% y/y) pa	2.1	1.1	0.5	0.8	2.2	3.4	3.0	3.1	3.9	4.3	4.8	5.1	6.7	7.9	8.0	8.8
CPI (% y/y) pe	2.6	1.3	1.5	1.4	1.2	1.8	1.8	2.4	1.9	2.1	2.0	1.8	1.9	2.3	1.9	2.2
Marginal lending facility (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
USD/XOF pe	596.3	636.9	656.0	690.5	728.8	728.8	690.5	690.5	656.0	656.0	624.7	596.3	570.4	570.4	546.6	546.6

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

Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; Standard Bank Research

Historical USD/XOF

Source: Bloomberg; Standard Bank Research

Balance of payments: deficit to widen

We expect the C/A deficit to widen to 8.5% of GDP in 2020 and then decline to 6.6% in 2021. Both exports and imports are likely to contract this year.

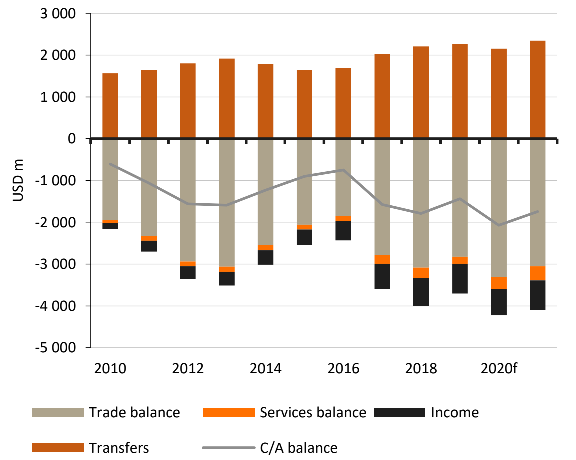
The outlook for growth across the region as well as globally is dim; therefore, export demand will decline, particularly amongst Senegal's major trading partners such as Mali, India, Switzerland, China and Spain. Most of those are still reeling from the impact of the pandemic. Services exports too face a dearth of tourism 2020.

The significant drop in international crude prices could be supportive of imports contraction in 2020. Notably, the significant widening of the C/A deficit over the past 2-y was largely on the account of increased oil imports. Refined petroleum and crude petroleum imports account for a sizeable chunk of total imports.

We therefore estimate the trade deficit to widen to USD3.3bn in 2020 and then reduce slightly to USD3.1bn in 2021 as goods exports and services exports recover.

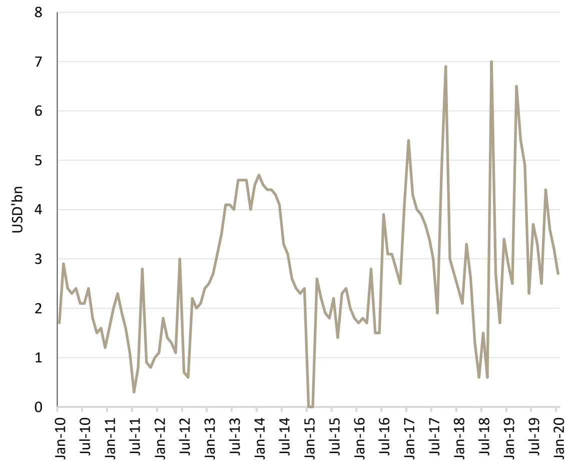
We expect net capital inflows into Senegal will be lower in 2020 amid a significant reduction in remittances. Similarly, official financial inflows are likely to be a predominant source of financial inflows. The government still relies more heavily on external financing of the budget deficit. Of course, most of this financing is concessional. But as the 2021 Eurobond maturity approaches, the government might opt to refinance it.

Current account developments



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

FX reserves



Source: Bloomberg

FX outlook: the XOF remains linked to the EUR

COVID-19 will probably quell talk of reforming the XOF for much of this year as policymakers will be focused on measures to combat the disease. Even over the next 4 years, the XOF will likely remain linked to the EUR. We still foresee much discussion and consultation that needs to occur among members of ECOWAS before the ECO replaces the XOF. In any event, even the UEMOA, which has indicated its intention to rename the XOF as the ECO, has also affirmed maintaining the peg to the EUR at the current level. For practical purposes, it seems likely that the XOF will be pegged at 655.97 to the EUR over the next 3 – 4 years. Our G10 Strategist, Steve Barrow, expects EUR/USD to hover at 1.10 – 1.03, before heading higher next year, so the bias is for USD/XOF to range around 595 – 640 this year. We see it declining further to 537.6 by end-2021, and briefly falling below 500 in 2022.

USD/XOF: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: neutral stance

The BCEAO in response to COVID-19 and a slowdown in economic activity across the region adopted measures to preserve financial stability and inject liquidity.

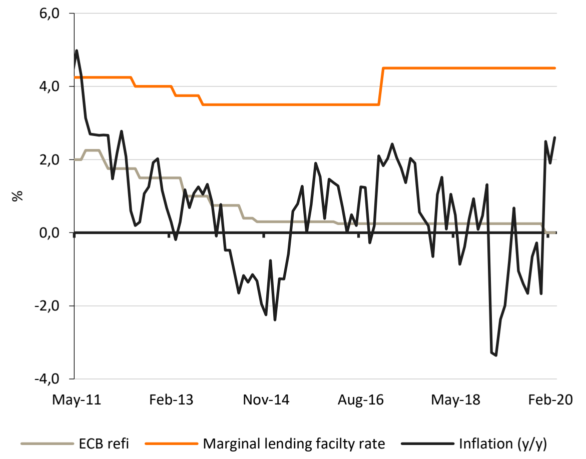
The BCEAO is collaborating with banks to establish a framework to support firms with repayment difficulties, while also encouraging banks to use the special window for refinancing credit granted to small and medium enterprises (SMEs)

The apex bank for the West African States in Mar opted to increase liquidity provisioning to the banks by a weekly amount of CFAF340bn. This increased liquidity injection will help to provide support for corporates and SMEs across the region in a bid to mitigate the impact of the pandemic.

The bank also allocated CFAF25bn to the trust fund of the West African Development Bank (BOAD) in a bid to give direct more concessionary funding to member states. The collateral framework to access the BCAEO's refinancing was also extended to include CFAF1050bnof debt of prequalified companies.

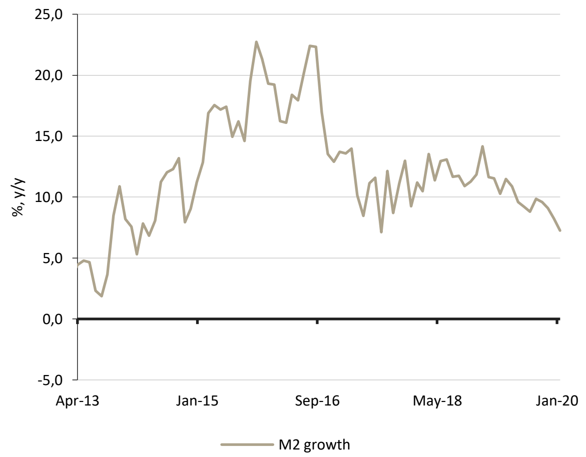
The BCEAO's MPC will likely leave the monetary policy stance unchanged, while maintaining an accommodative monetary stance through easing and liquidity injection over 2020. Inflation although remained subdued throughout the region and could average higher in 2020 at 1.5% y/y.

Inflation and interest rates



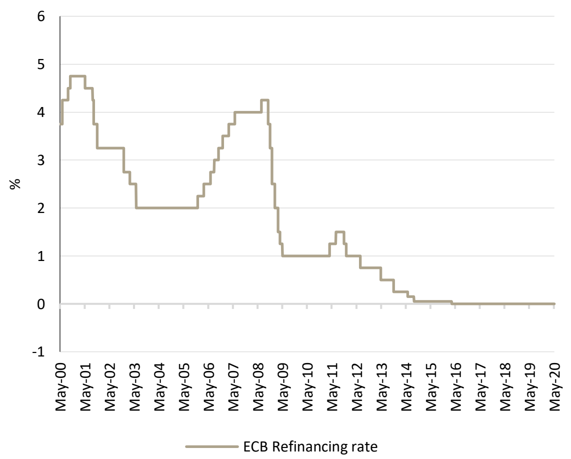
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

Money supply growth



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

Historical ECB refinancing rate



Source: Bloomberg

Capital market outlook

Source: Bloomberg

Fiscal policy: wider deficit

The government can't meet its fiscal deficit target of 3% of GDP this year, particularly with revenues under pressure and debt rising. Debt has tripled in the past 10-y; rising to around 58% of GDP in 2019. The government has had successful Eurobond issuances in 2017 and 2018 to the tune of USD3.3bn. Thankfully, investment spending has increased meaningfully over the period, accompanied by robust growth. However, the rising debt levels are concerning, and it's no surprise that the president was quoted earlier in the year asking for not just debt relief but debt forgiveness due to COVID-19. Senegal has received USD442mn in emergency funding for COVID-19 from the IMF this year under the Rapid Credit Facility (RCF) and purchase under the Rapid Financing Instrument (RFI).

Fiscal policy management will be less conservative. The Executive Board of the International Monetary Fund (IMF) approved a new 3-y Policy Coordination Instrument (PCI) for Senegal. This instrument was targeted at supporting the country's phase II implementation of reforms. Part of the policy thrust of the instrument is to ensure the fiscal deficit stays within the WAEMU convergence criteria of 3% of GDP as well as ensuring transparent management of expected hydro-carbon revenues.

Fiscal authorities have continued to undergo some form of fiscal reforms. For instance, the government reduced energy subsidies in 2019 for petrol and diesel and are now more linked to international oil prices. The petroleum law and the law of local content were also adopted by the parliament in 2019.

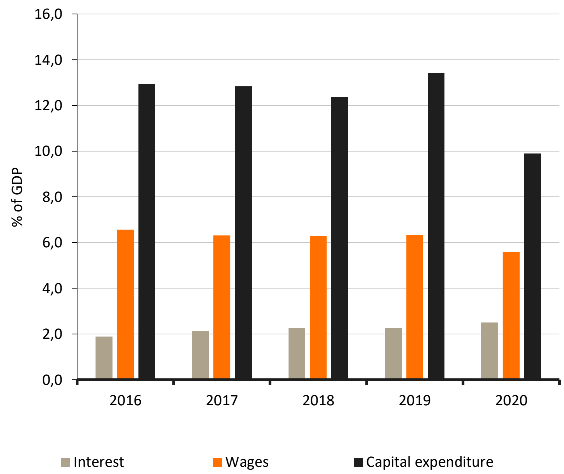
With Senegal's relatively higher tax rates, compared to the rest of the West African region, tax reforms targeted at widening the tax base is a priority. After the pandemic, the IMF's policy coordination instrument will likely help fiscal authorities facilitate those reforms. The government targets a tax-to-GDP ratio of 20% by 2023.

Central government budget

% of GDP	2018		2019	2020
	Budget	Estimate		
Revenue	18.1	16.5	18.5	17.5
Grants	2.2	2.0	1.6	2.2
Expenditure	23.1	22.1	24.0	25.4
- Salaries	4.8	5.2	5.3	5.7
- Interest	1.7	2.0	2.0	2.2
- Capital	10.2	9.4	10.2	10.1
Fiscal deficit (excl. grants)	-5.0	-5.5	-5.5	-7.9
Fiscal deficit (incl. grants)	-2.8	-3.6	-3.9	-5.7

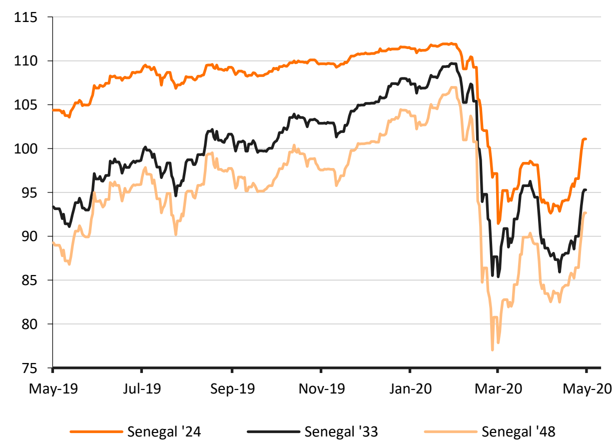
Source: International Monetary Fund; Ministre de l'Economie et des Finances et du Plan

Components of expenditure



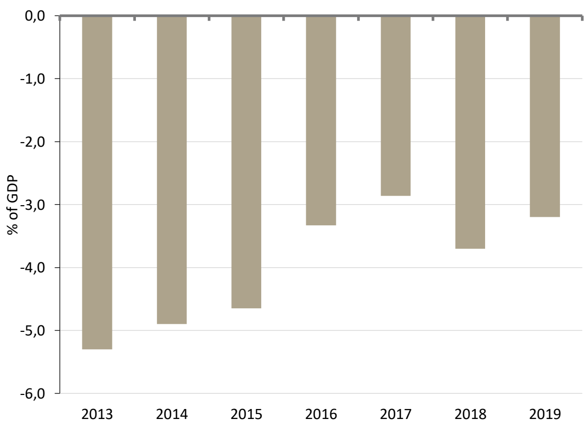
Source: Ministre de l'Economie et des Finances et du Plan

Eurobond prices – mid



Source: Bloomberg

Fiscal deficit



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

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	14.4	14.8	15.3	15.5	15.8	16.3	16.7
Nominal GDP (XOF bn)	10 509	11 252	12 205	13 119	13 857	14 254	15 189
Nominal GDP (USDbn)	17.8	18.1	21.1	22.9	23.4	23.2	27.4
GDP / capita (USD)	1 233	1 223	1 377	1 482	1 486	1 425	1 639
Real GDP growth (%)	6.5	6.3	7.1	7.0	5.2	2.5	5.2
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-7.5	-5.5	-4.9	-5.5	-5.5	-7.9	-6.5
Budget balance (incl. grants) / GDP (%)	-4.5	-3.3	-2.9	-3.6	-3.9	-5.7	-3.3
Domestic debt / GDP (%)	15.7	15.7	18.5	18.5	18.6	18.9	19.2
External debt / GDP (%)	39.5	40.0	40.0	39.0	39.1	39.5	39.9
Balance Of Payments							
Exports of goods (USDbn)	2.7	2.7	3.4	3.7	4.0	2.8	3.9
Imports of goods (USDbn)	-4.8	-4.6	-6.2	-6.8	-6.8	-6.1	-6.9
Trade balances	-2.1	-1.8	-2.8	-3.1	-2.8	-3.3	-3.1
Current account (USDbn)	-0.9	-0.8	-1.6	-1.8	-1.4	-2.1	-1.7
- % of GDP	-5.1	-4.1	-7.5	-7.8	-6.1	-8.9	-6.4
Capital & Financial account (USDbn)	1.2	0.8	1.8	2.7	1.9	1.6	1.7
- FDI (USDbn)	0.4	0.2	0.5	0.5	0.3	0.2	0.3
Basic balance / GDP (%)	-3.1	-2.9	-5.0	-5.5	-4.7	-7.9	-5.4
FX reserves (USDbn) pe	1.9	1.5	2.2	3.1	3.6	3.1	3.0
- Import cover (months) pe	4.8	3.8	4.3	5.5	6.4	6.2	5.3
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	B1	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.2	1.0	1.3	0.5	0.4	0.4	1.3
Consumer inflation (%) pe	1.8	0.7	-0.7	1.3	-1.7	1.2	2.2
M2 money supply (% y/y) pa	16.8	17.5	10.8	12.0	10.0	8.6	11.0
M2 money supply (% y/y) pe	18.7	13.7	9.3	14.1	8.2	8.9	8.9
Marginal lending facility (%) pe	3.5	3.5	4.5	4.5	4.5	4.5	4.5
USD/XOF pa	591.7	621.8	579.3	572.7	591.7	613.5	555.0
USD/XOF pe	609.9	612.0	558.2	580.3	585.7	596.3	537.6

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: pa - period average; pe - period end

Tanzania: growth to slow as services sector suffers setback

Medium-term outlook: somewhat clouded

We now expect GDP growth to decline to 4.5% y/y in 2020, from our previous estimate of 7.0% y/y. Thereafter, we expect a V-shaped recovery, with GDP growth rising 7.0% y/y in 2021.

The broader pandemic impact will weigh on investment spending, personal consumption and net exports. Sure, while other African economies face a double whammy from local restrictions and complications associated with the pandemic, the government hasn't locked down or implemented any curfew despite COVID-19 cases rising.

The tourism sector due to travel restrictions will come to a standstill in 2020. Even domestic tourism cannot fill this void over the coming year.

The agriculture sector could perform better in 2020 due to adequate and widespread rainfall but there are indirect risks that could hamper agricultural commodity exports, such as weaker demand in key source markets and disruptions to global supply chains.

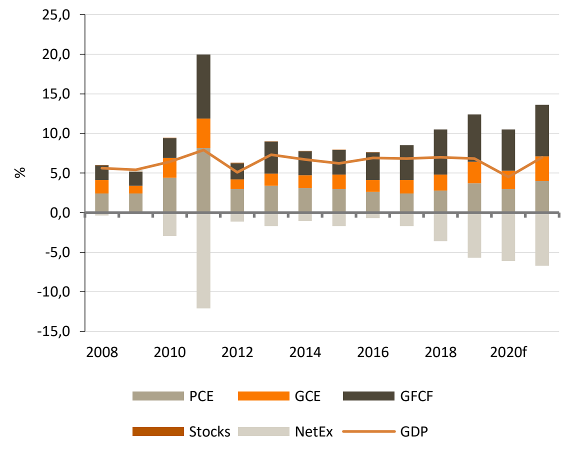
In our bear scenario, we see GDP growth falling to 2.5% y/y in 2020 and thereafter recovering to 4.5% y/y in 2021. Government may eventually be forced to implement stringent lockdown measures as infections spike.

Should infections not dramatically rise in H2:20, we would expect GDP growth to only decline to 6.0% y/y in 2020. In our bull scenario, public investment in infrastructure should continue to underpin GDP.

Bear in mind that the government has been very keen to boost infrastructure spending, especially ahead of the Oct 20 elections. Courtesy of the external funding it has received in FY2019/20, it may indeed be able to sufficiently increase development expenditure.

Our bear case sees GDP growth declining from 2023 onwards due to a delayed trickle-down effect from the public investment in infrastructure. Additionally, in this scenario, the government's relations with donor partners deteriorates further, making it difficult to source concessional funding. This then weighs on development expenditure and weakens private sector economic activity.

Composition of GDP growth by demand



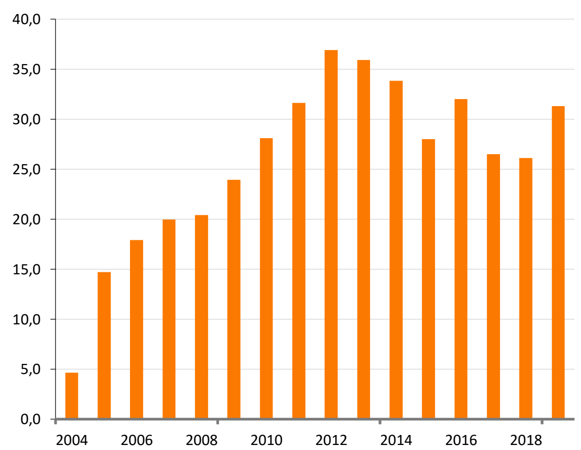
Source: National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2005	2014	2018
Agriculture	29.1	23.0	25.6
Mining & quarrying	4.2	3.4	4.0
Manufacturing	6.6	7.3	8.4
Electricity & gas	2.0	0.9	0.8
Construction	6.7	9.9	13.5
Wholesale & retail trade	9.1	10.2	9.0
Transport & storage	6.0	6.3	7.5
Hotels & restaurants	1.9	1.5	1.3
ICT	2.1	1.8	1.7
Finance & insurance	2.2	4.1	3.6
Real estate	6.6	4.4	2.9
Public administration	8.5	6.6	4.4
Education	3.0	3.3	2.7

Source: National Bureau of Statistics

Production of natural gas (bcf)



Source: Tanzania Petroleum Development Corporation

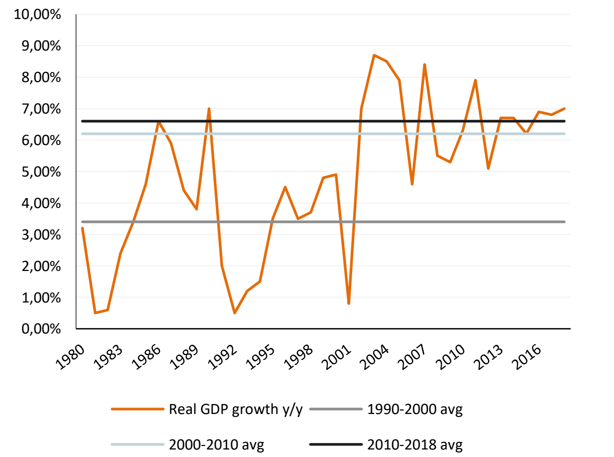
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	6.3	2.8	3.5	5.5	6.5	7.6	7.2	6.8	7.2	7.0	7.3	7.5	7.5	7.5	7.5	7.5
CPI (% y/y) pe	3.4	3.1	3.5	3.8	4.2	4.1	4.6	5.3	5.0	5.2	5.0	4.2	4.6	4.5	4.4	4.8
BOT policy rate (%) pe	7.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
3-m rate (%) pe	3.5	3.3	3.4	3.5	3.5	3.8	4.0	4.2	4.3	4.3	4.5	4.5	5.1	5.1	5.2	5.3
6-m rate (%) pe	4.2	3.7	3.8	4.2	4.3	4.5	4.5	4.9	5.2	5.3	5.3	5.7	5.7	6.1	6.1	6.4
USD/TZS	2310	2315	2330	2350	2380	2370	2390	2400	2440	2420	2430	2440	2480	2470	2480	2470
Bull scenario																
GDP (% y/y) pa	6.5	4.0	6.7	6.9	7.1	7.9	7.5	7.4	7.5	7.5	7.4	7.7	7.6	7.8	8.1	7.9
CPI (% y/y) pe	3.4	2.7	2.9	3.1	3.3	3.0	3.4	3.9	3.6	4.1	4.1	3.5	4.2	4.1	3.7	4.0
BOT policy rate (%) pe	7.0	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
3-m rate (%) pe	3.5	2.9	2.8	2.5	2.6	2.6	2.8	2.8	3.1	3.1	3.2	3.4	3.4	3.5	3.3	3.3
6-m rate (%) pe	4.2	3.8	3.7	3.6	3.6	3.7	3.7	3.9	3.9	4.1	4.1	4.3	4.3	4.5	4.5	4.5
USD/TZS	2310	2310	2310	2320	2340	2330	2330	2330	2360	2360	2350	2350	2380	2380	2370	2370
Bear scenario																
GDP (% y/y) pa	4.0	0.9	2.3	2.8	3.6	5.7	4.2	4.3	5.1	5.3	5.6	5.8	4.9	4.5	4.5	4.4
CPI (% y/y) pe	3.4	4.7	5.5	6.4	5.8	5.7	6.3	6.8	6.2	6.4	6.3	5.7	6.0	6.2	6.4	6.7
BOT policy rate (%) pe	7.0	5.0	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
3-m rate (%) pe	3.5	4.2	5.2	5.8	6.3	6.5	6.7	6.9	7.2	7.2	7.1	7.1	7.2	7.3	7.4	7.5
6-m rate (%) pe	4.2	4.8	5.8	6.4	6.6	7.2	7.3	7.4	7.7	7.8	7.8	8.1	8.1	8.2	8.2	8.2
USD/TZS	2310	2350	2380	2410	2470	2470	2490	2530	2540	2550	2550	2560	2590	2610	2610	2600

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

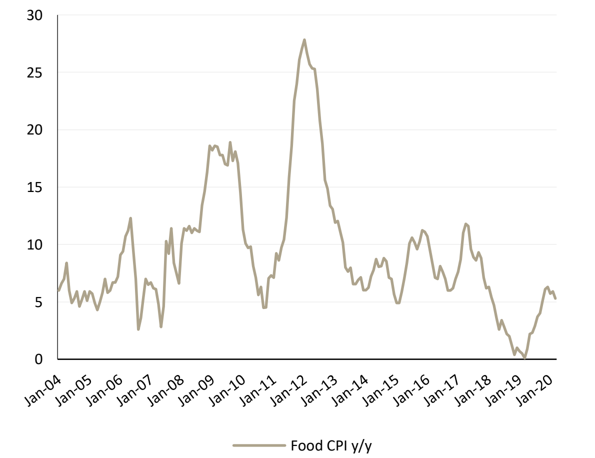
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: World Bank

Food inflation (%) y/y



Source: National Bureau of Statistics

Balance of payments: stable

We see the C/A deficit widening to 3.0% of GDP in 2020 and thereafter narrowing to 2.5% in 2021.

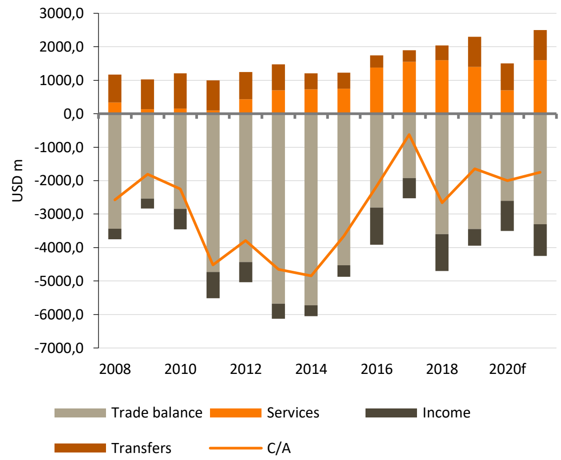
Before the pandemic, we were already expecting a sharp rise in capital goods imports, driven by the increase in public investment in infrastructure ahead of general elections in Oct. As things stand, the government has provided no indication that elections will be postponed. This increase in development expenditure is likely to result in a wider trade balance over the coming year.

However, the precipitous decline in international oil prices will perhaps counterbalance the impact of higher capital expenditure on the import bill. Notably, imports of goods are more than double the amount of service receipts. Moreover, in addition to waning tourism export earnings, transport receipts could also falter due to disrupted global supply chains. Transport companies conduct a vast amount of intra-regional trade by delivering goods that arrive at the port of Dar es Salaam to neighbouring landlocked countries.

Still, mining exports, predominantly gold receipts, could increase over the next 2-y. Interestingly, mining production continues to remain robust despite the pandemic. In fact, both higher international gold prices and increased domestic production should bode well for mining exports over the coming year.

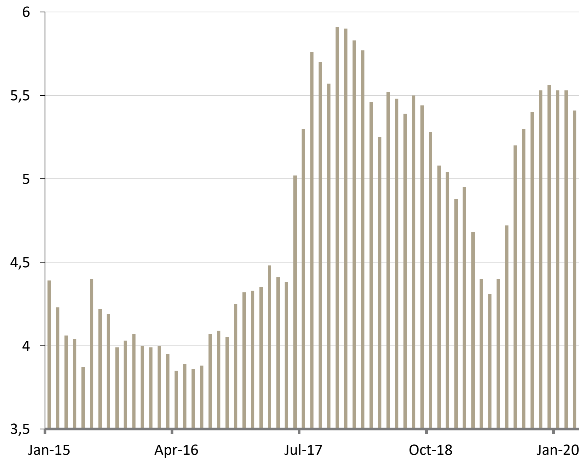
FX reserves rose to USD5.5bn (equivalent to 6.4 months of import cover) in Feb 20 from USD4.3bn (4.2 months) in May 19. Reserves were boosted by the issuance of a commercial syndicated loan in H2:19. But of course, as government expenditure rises ahead of elections, FX reserves will probably gradually decline. Moreover, the outlook for FDI isn't great, due to the lack of pro-business reforms being implemented. Hence, official capital inflows from government external borrowing, will probably have to support the funding of the C/A deficit over the next 2-y.

Current account developments



Source: Bank of Tanzania; Standard Bank Research

FX reserves (USD bn)

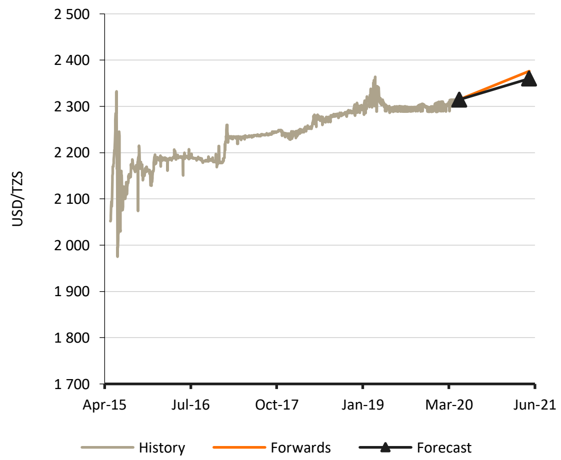


Source: Bank of Tanzania

FX outlook: rangebound

We expect USD/TZS to trade around 2340-2350 by end Dec. The TZS tends to depreciate in Q1 largely due to increased USD demand associated with dividend repatriations. However, in Q1:20, USD/TZS was quite stable likely largely due to increased USD inflows from cashew nut exports in Q4:19. The TZS had come under pressure in Q1:19 as Q4:18 cashew nut exports were subdued. Going forward, export receipts from tobacco, cotton, pulses, sisal and sesame will probably ensure that USD/TZS remains stable until Sep 20. Of course, the obvious risk here is that demand for these agrarian exports falls due to the pandemic. Furthermore, considering that the government is likely to ramp up investment in infrastructure ahead of elections, import demand is likely to rise too. There's always the risk that corporates begin to frontload their USD requirements ahead of elections, creating more TZS pressure.

USD/TZS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: dovish bias

We expect the MPC to continue maintaining an accommodative stance for the remainder of 2020. This may transpire via a moderate cut to the Statutory Minimum Reserve (SMR) ratio, rather than altering the discount rate further.

In May, one month earlier than originally scheduled to meet, the MPC cut the SMR ratio to 6.0%, from 7.0%. In addition to this, the BOT discount rate was also lowered to 5.0%, from 7.0% previously.

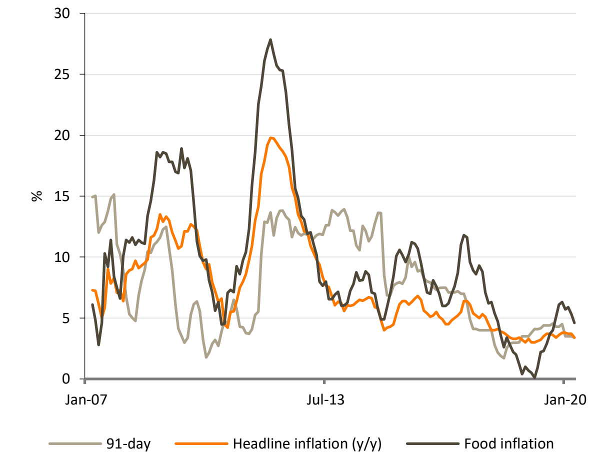
Furthermore, the BOT will also now reduce haircuts on government T-bills to 5.0% from 10.0%, and 20.0% from 40.0% previously, for government bonds. This will essentially make it cheaper for commercial banks to borrow from the BOT, as they now will have to provide less collateral than before.

Weaker growth concerns, exacerbated by the pandemic, will most likely prompt the MPC to gradually lower the SMR ratio further in H2:20. However, we see the committee standing pat in 2021.

In our Jan AMR publication, we had highlighted that the MPC would primarily be focused on the recovery of private sector credit (PSC) growth in assessing whether to alter its stance. This view still holds. PSC growth has struggled to grow by double digits for the better part of the last year. PSC growth eased marginally to 8.0% y/y in Feb 20, from 9.1% y/y in Jan and 9.8% y/y in Oct 19. Notably, due to the weaker domestic demand outlook and enhanced political risks with elections coming up, PSC growth is likely to take longer to recover over the coming year.

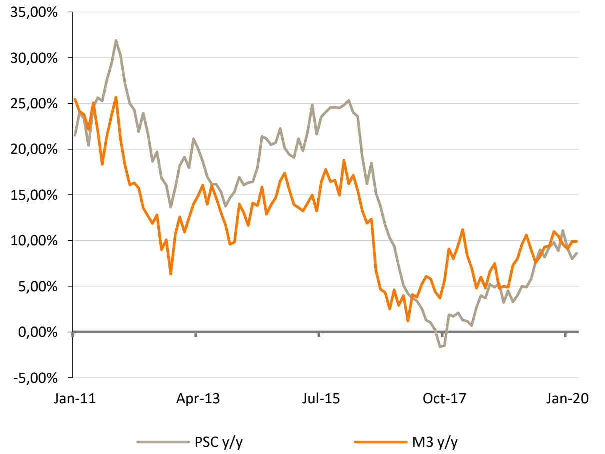
We see headline inflation remaining below 4.0% this year largely due to lower food and fuel prices. Core inflation has also remained subdued below 2.5% y/y in the 4-m to Apr 20. Underlying inflationary pressures should continue to remain benign over the coming year because of weak domestic

Inflation and interest rates



Source: Bank of Tanzania; National Bureau of Statistics

Monetary aggregates

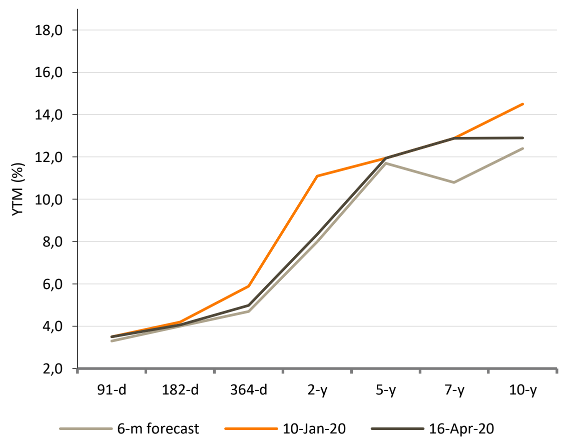


Source: Bank of Tanzania

Yield curve outlook: bull-flatten

We expect the yield curve to bull-flatten over the next 6-m. Despite the bias for an accommodative monetary policy stance, T-bill yields are unlikely to decline materially. Instead, given that the yield curve has become rather steep, we would expect government bond yields to edge lower in H2:20. That said, thin secondary market liquidity and a partially closed capital account will perhaps result in a moderate decline in yields at the longer end of the curve. Moreover, ahead of Oct 20 elections, if the government is forced to overborrow from the domestic market, TZS yields could begin to rise again. This could manifest should the government struggle to receive more funding from external partners, in light of rising expenditure needs. In fact, if arrears owed the private sector are not cleared in H2:20, interbank liquidity could become relatively tight and too place upward pressure on TZS yields.

Changes in the yield curve



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: increased expenditure ahead of Oct

Even before the pandemic, we had already expected the government to adopt an expansionary fiscal stance in FY2019/20 and perhaps even for the most part of H2:20. This view has certainly been reinforced by the additional expenditure requirements that may now arise. Of course, the government will still be keen to continue investing in infrastructure not just ahead elections, but perhaps over the medium term.

In our Jan AMR publication, we highlighted that the government could consolidate public finances in FY2020/21. However, we now would expect the budget deficit to widen all the way through to end 2021.

Crucially, while the pandemic will raise government's near-term expenditure requirements, the negative impact on revenue collections could be slightly more entrenched. Tax revenue collections had begun to pick up somewhat in H2:19. However, the decline in services output due to the pandemic will most likely weigh on tax receipts this year.

Furthermore, the government is still likely to continue upgrading its infrastructure, even after general elections in Oct 20. They have already received commercial financing for the second phase of the Standard Gauge Railway (SGR) project that will connect Dar es Salaam to Morogoro via Makutopora.

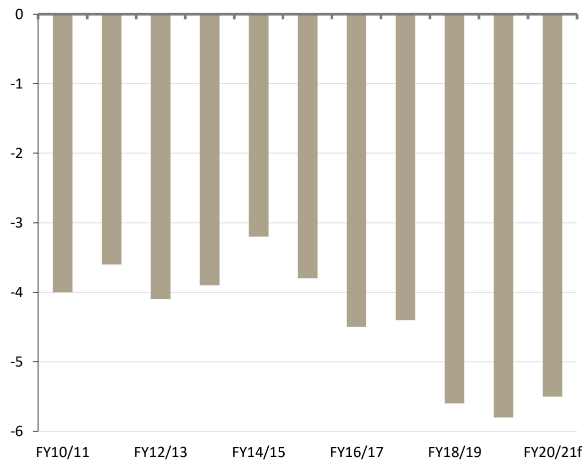
In any case, as we have seen since 2016, the government still faces challenges when it comes to the absorption of the development budget. More recently, this has primarily been due to frosty relations with donor partners. However, the government has instead opted to issue more non-concessional commercial debt in light of these difficulties. While we expect more commercial debt to be issued over the next 2-y, a Eurobond issuance still may not be likely.

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	7.1	8.4
Overall balance (- grants)	-5.6	-5.8
Overall balance (+ grants)	-2	-2.3
Net domestic borrowing	0.9	0.7
Net external borrowing	1.1	1.6
Donor support (grants)	3.6	3.5

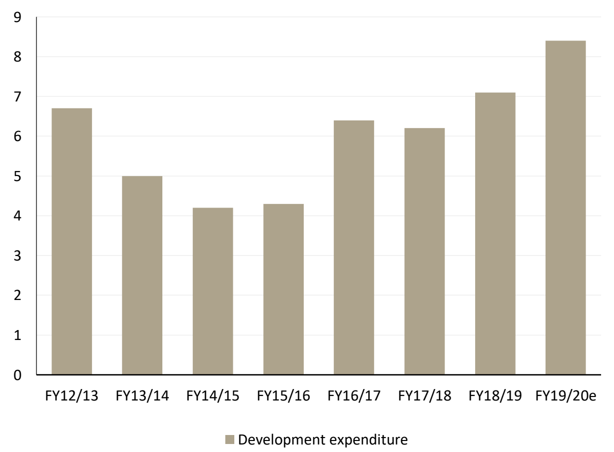
Source: Ministry of Finance

Fiscal deficit excluding grants (% of GDP)



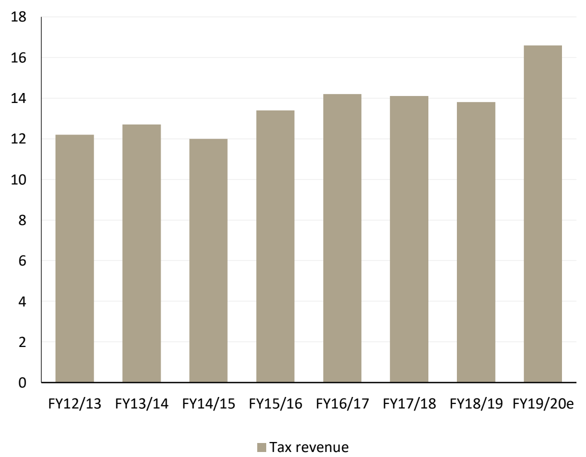
Source: Ministry of Finance

Development expenditure (% of GDP)



Source: Ministry of Finance

Tax revenue (% of GDP)



Source: Ministry of Finance

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	49.9	51.5	53	54.6	56.3	58	59.7
Nominal GDP (TZSbn)	94 349	108 362	118 744	129 364	143 450	155 658	172 340
Nominal GDP (USDbn)	46.3	49.5	53.1	56.7	62.1	66.9	72.3
GDP / capita (USD)	928	961	1 002	1 039	1 103	1 154	1 210
Real GDP growth (%)	6.2	6.9	6.8	7.0	6.8	4.5	7.0
Gold production ('000 Kg)	41.7	44.5	39.5	37.0	48.5	51.5	52.3
Tobacco production ('000 MT)	103.7	104.5	104.9	106.4	108.2	110.5	112.3
Coffee production ('000 MT)	62.1	63.5	63.1	63.9	60.3	61.4	61.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.7	-7.5	-6.7	-7.2	-5.6	-5.8	-6.1
Budget balance (incl. Grants) / GDP (%)	-3.2	-3.8	-4.5	-4.4	-2	-2.3	-2.6
Domestic debt / GDP (%)	9.5	9.9	10.1	9.7	9.9	10.1	10.4
External debt / GDP (%)	29.7	29.5	30.2	31.6	32	32.9	33.5
Balance of Payments							
Exports of goods and services (USDbn)	8.7	9.3	8.5	8.4	9.7	9.2	10.1
Imports of goods and services (USDbn)	12.5	10.7	8.9	10.4	10.9	11.1	11.8
Trade balance (USDbn)	-3.8	-1.4	-0.4	-1.7	-1.2	-1.9	-1.7
Current account (USDbn)	-3.7	-2.2	-0.6	-2.7	-1.6	-2.0	-1.8
- % of GDP	-8.0	-4.3	-1.0	-4.8	-2.6	-3.0	-2.5
Financial account (USDbn)	2.6	1.7	2.1	1.7	2.0	1.9	2.4
- FDI (USDbn)	1.5	0.9	0.9	1.0	0.9	0.7	0.9
Basic balance / GDP (%)	-4.8	-2.6	0.7	-3.0	-1.1	-1.9	-1.2
FX reserves (USDbn) pe	4.0	4.3	5.9	5.0	5.6	4.8	5.4
- Import cover (months) pe	3.8	4.2	5.4	4.9	6.4	5.2	5.4
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	5.8	5.1	5.3	3.5	3.5	3.5	4.6
Consumer inflation (%) pe	6.8	5.0	4.0	3.3	3.8	3.8	5.3
M3 money supply (% y/y) pa	15.3	9.3	5.5	6.7	9.2	9.5	11.3
M3 money supply (% y/y) pe	18.8	2.9	8.0	4.9	9.6	9.1	12.4
BOT discount rate (%) pa	16.0	16.0	11.5	8.0	7.0	5.5	5.0
BOT discount rate (%) pe	16.0	16.0	9.0	7.0	7.0	5.0	5.0
3-m rate (%) pe	9.2	7.1	4.0	3.5	4.5	3.5	4.2
1-y rate (%) pe	18.7	15.8	8.4	9.3	5.9	5.5	6.3
2-y rate (%) pe	16.9	17.7	11.1	10.5	11.1	8.0	8.6
5-y rate (%) pe	17.5	18.0	13.6	12.0	12.0	11.7	12.1
USD/TZS pa	2 038	2189	2237	2281	2311	2326	2 385
USD/TZS pe	2 155	2188	2240	2310	2300	2350	2 400

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

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

Tunisia: likely only a mild recovery, by 2021 at best

Medium-term outlook: services sector a drag

The COVID-19 pandemic will be devastating to the Tunisian economy, having already suffered poor growth preceding it, as GDP growth slowed throughout 2019. Our base case sees growth contracting by 4% y/y in 2020 and recovering in 2021 but only by 2.8% y/y. In the 2-y following, growth will remain subdued around 3.4% y/y by YE:23.

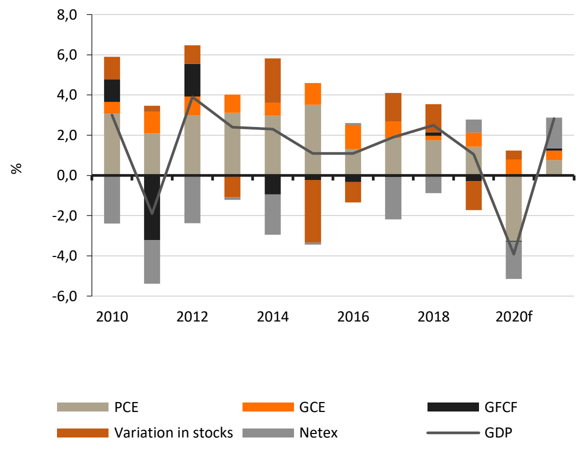
Tunisia started a phased-in lifting of the lockdown on 4 May and plans to complete this by mid-Jun. But this won't help the tourism sector, which, even before the pandemic, authorities had hoped would be a driving force for economic growth. The hospitality sector will miss this year's high season altogether, and most likely next year too, which implies that the lion's share of the services sector, accounting for over 40% of GDP, faces severe strain.

On the demand side, the only positive contribution to GDP in 2020 will come from GCE as the state embarks on a massive economic stimulus programme. Net exports will fall as demand from Europe will decrease, while investment will dry up. PCE will turn sharply negative as households draw on savings. Recovery next year will be only gradual, even after the lockdown has long been lifted, because the production of goods in many sectors first requires importing the necessary components. Hence, Tunisia's fortunes depend on its trading partners, primarily in Europe, which are likely to remain weak. We expect industrial growth to pick up meaningfully only from 2022.

Our bear case assumes an even longer negative effect on tourism. Fearful European tourists continue avoiding Tunisia, and others, most notably from Russia, avoid it due to reduced purchasing power. If this is aggravated by an even more severe slump in demand for Tunisia's goods than is proposed in our base scenario, social tensions worsen, leading the powerful trade unions to disrupt operations in e.g. the energy and phosphate sectors. The state increases spending to calm discontent and reduce its investment programme which is vital for structural reforms. All this could see economic growth of just 1% y/y during 2022/23 and faster dinar depreciation.

In our bull scenario, the recently elected government of technocrats accelerate the pace of reforms to tackle the grey sector of the economy and they manage to increase the tax base. The emphasis is on developing high-value manufacturing, most notably the automotive sector. If global demand for textile and raw materials bounces back and international travel resumes, the economy could expand by 4.5% y/y by 2023.

Composition of GDP by demand



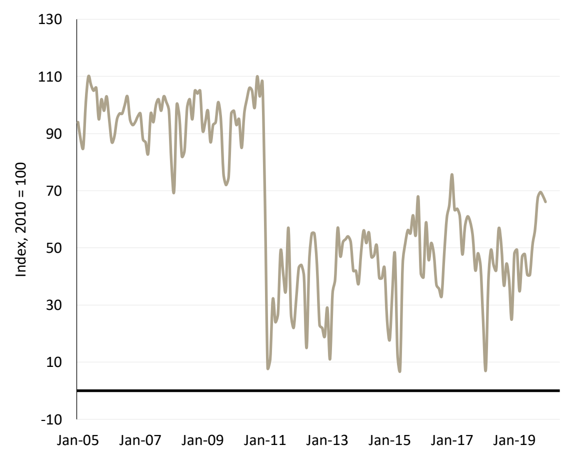
Source: Banque Centrale de Tunisie; l'Institut National de la Statistique; Standard Bank Research

Nominal GDP composition: sector breakdown, %

	2014	2015	2016	2017	2018	2019
Agriculture & Fishing	9.2	10.3	9.4	9.7	10.5	10.4
Manufacturing	15.6	15.3	14.9	15.3	15.2	14.8
- Agro-food industries	2.9	3.2	3.0	3.0	3.0	2.9
- Textile	2.8	2.5	2.5	2.6	2.7	2.5
- Mechanical and electrical	5.2	5.0	5.0	5.4	5.4	5.2
Non-manufacturing	11.3	9.7	9.1	8.4	8.1	8.0
- Oil/natural gas extraction	5.0	3.4	2.7	2.7	3.0	2.8
- Electricity/Gas	1.1	1.1	1.2	0.8	0.4	0.4
- Buildings/Civil engineering	4.4	4.3	4.2	4.0	3.9	3.9
Services	40.3	40.2	40.4	41.3	42.1	42.5
- Hotels	4.3	3.9	3.9	4.1	4.5	4.9
- Trade	8.8	9.4	9.4	9.4	9.4	9.3
- Transport	6.8	6.5	6.6	7.0	7.3	7.0
Financial intermediation	-1.4	-1.4	-1.4	-1.8	-2.0	-2.4
Admin activities	17.9	18.5	19.4	19.6	18.5	19.2
Net taxes	7.2	7.4	8.2	7.5	7.5	7.6
Total	100	100	100	100	100	100

Source: l'Institut National de la Statistique

Extraction of minerals (*)



Source: l'Institut National de la Statistique
(*) Chemical Industry and Natural Fertilizers

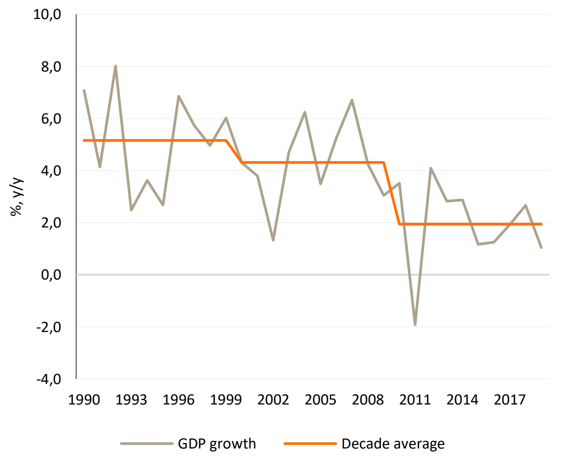
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	-1.9	-6.7	-4.9	-2.0	1.0	4.2	3.6	2.5	3.0	2.5	2.6	2.7	3.0	3.4	3.0	3.4
CPI (% y/y) pe	6.2	4.9	3.7	2.4	3.7	4.9	5.2	5.5	5.0	4.7	4.3	4.0	4.2	4.4	4.6	5.0
BCT prime rate (%) pe	6.75	6.75	5.75	5.75	5.75	5.75	6.25	6.25	6.25	6.25	6.25	6.25	7.00	7.00	7.00	7.00
3-m rate (%) pe	7.35	7.00	6.10	6.20	6.00	6.00	6.30	6.30	6.40	6.50	6.50	6.50	7.25	7.25	7.25	7.25
6-m rate (%) pe	7.40	7.25	6.35	6.45	6.25	6.25	6.55	6.55	6.65	6.75	6.75	6.75	7.50	7.50	7.50	7.50
USD/TND pe	2.88	3.01	3.10	3.05	3.01	3.01	3.04	3.06	3.06	3.06	3.06	3.06	3.07	3.08	3.10	3.12
Bull scenario																
GDP (% y/y) pa	-1.9	-5.5	-3.0	0.0	1.3	5.1	4.0	2.7	3.3	2.8	2.9	3.1	3.8	3.9	4.0	4.5
CPI (% y/y) pe	6.2	5.0	4.3	2.8	4.0	5.0	5.4	5.8	5.3	5.0	4.8	4.5	4.8	5.0	5.1	5.4
BCT prime rate (%) pe	6.75	6.75	5.75	5.75	5.75	6.25	6.25	6.25	6.25	7.00	7.00	7.00	7.25	7.25	7.25	7.25
3-m rate (%) pe	7.35	7.05	6.05	6.05	6.05	6.55	6.55	6.55	6.55	7.25	7.25	7.25	7.50	7.50	7.50	7.50
6-m rate (%) pe	7.40	7.30	6.30	6.30	6.30	6.80	6.80	6.80	6.80	7.55	7.55	7.55	7.80	7.80	7.80	7.80
USD/TND pe	2.88	3.02	3.05	3.00	2.94	2.93	2.94	2.95	2.95	2.94	2.93	2.92	2.94	2.94	2.94	2.94
Bear scenario																
GDP (% y/y) pa	-1.9	-7.7	-5.5	-5.0	1.5	3.8	1.5	1.2	1.5	0.7	1.1	1.5	1.1	1.0	1.2	1.3
CPI (% y/y) pe	6.2	5.0	3.1	1.5	2.2	2.5	3.5	3.5	3.4	2.8	3.3	3.7	3.7	3.8	3.9	3.1
BCT prime rate (%) pe	6.75	6.75	5.75	5.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
3-m rate (%) pe	7.35	7.25	6.25	6.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
6-m rate (%) pe	7.40	7.50	6.50	6.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
USD/TND pe	2.88	3.05	3.10	3.06	3.03	3.05	3.08	3.11	3.12	3.13	3.13	3.14	3.16	3.18	3.20	3.23

Source: Banque Centrale de Tunisie; Institut National de la Statistique; Ministère de l'Economie et des Finances; Bloomberg; Standard Bank Research

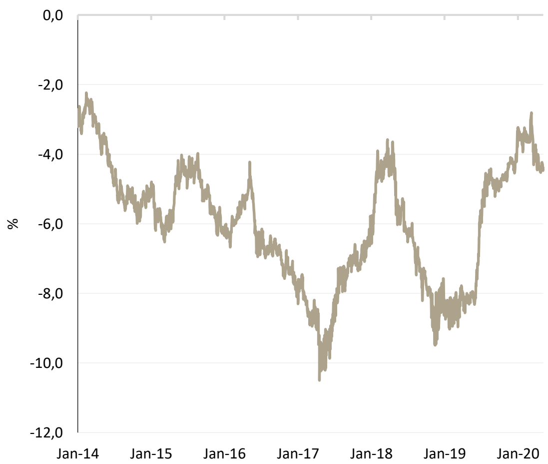
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF, l'Institut National de la Statistique

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: services sector strain

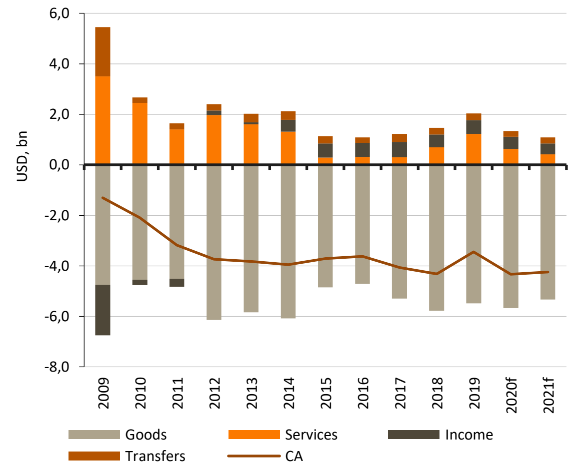
Last year the C/A deficit tightened by 2 ppts, to 8.9% of GDP but this now faces reversal in the coming 2-y due to the pandemic. The deficit will therefore likely widen to 11.4% of GDP in 2020 and 10.6% in 2021, from our previous forecast for 8.2% for both years. A meaningful tightening of C/A deficit, probably to mid-single digits, will come only from 2022 when global trade has normalized.

Preliminary figures for Q1:20 show how the coronavirus has affected trade, as export and imports of goods fell c.11% y/y, from both rising at c.15% y/y the year before. We don't yet have Q1:20 data to estimate the effect on services but it will as severe, and more so as the year progresses. Bear in mind that while shipments of goods should recover in the later quarters as the global lockdown is eased, foreign tourism earnings (comprising c.40% of the services sector) will remain wanting. The services sector will negatively affect the C/A the most.

Despite a massive contraction in trade, the deficit of goods for the year is likely to widen modestly, compared to last year, probably to USD5.7bn in 2020 and to USD5.3bn in 2021, as Tunisia's foreign trade earnings in agricultural products' exports should remain in demand by Europe. Tunisia also stands to benefit from the declining cost of energy imports, as oil prices are very subdued.

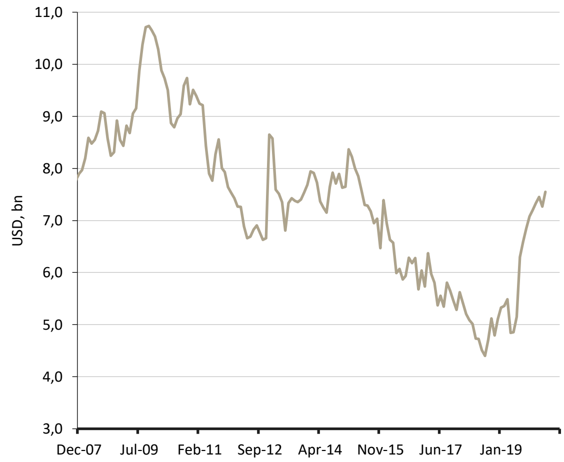
Secondary income is to remain largely unaffected as a contraction in remittances is likely to be offset by increased donor support. In Apr the IMF increased the emergency loan to Tunisia to USD745m to assist with FX pressures, and opened a new program to replace the 4-y EFF that comes to an end in May. The EU came with a EUR250m immediate aid package, and the World Bank and the Gulf States are likely to follow. The import cover ratio therefore is likely to remain largely unchanged, as a fall in FX reserves should be offset by smaller imports.

Current account developments



Source: l'Institut National de la Statistique; Banque Centrale de Tunisie; Standard Bank Research

FX gross reserves



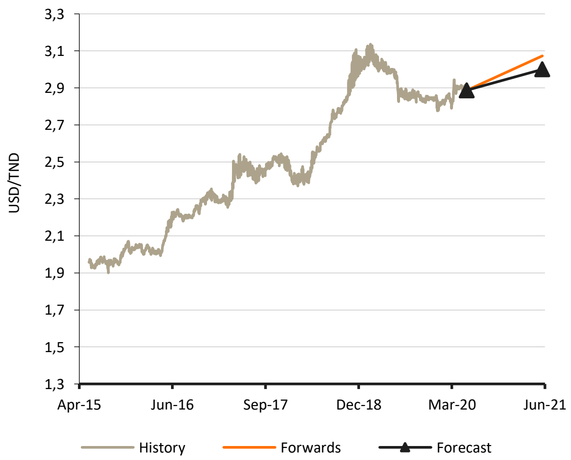
Source: Banque Centrale de Tunisie

FX outlook: to depreciate at 6% p.a.

We retain our earlier forecast for the central bank's currency basket (60%EUR + 40%USD) to depreciate by 6% per annum until the end of our forecast period. Given our inflation expectations, such FX developments should stop the dinar's real exchange rate from rising further. Ideally, we would like to see a faster pace of the dinar depreciation to help with rectifying large external imbalances. However, given uncertain global markets, the BCT, with an eye on a restless population and perhaps with a tacit approval from the IMF, is likely to intervene more often to defend the dinar.

Combining the implied rate of annual depreciation with our G10 analyst's forecast for EUR/USD in our forecast period, the dinar could hover around 3.05 to the USD until the end 2021, and weaken against the euro to 3.3 and 3.6 by YE:20 and YE:21 respectively.

USD/TND: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: further easing expected

Following monetary authorities around the world, Tunisia's central bank (BCT) cut the policy rate in Mar by 100 bps, to 6.75%. But this could prove insufficient given the devastating impact of the pandemic. We now expect a further 100 bps cut in Q3:20.

Headline inflation in Mar increased sharply to 6.2% y/y after steadily falling since May last year. Apart from some uptick in administrative prices, this has been attributable to soaring food prices in Mar. This should prove a likely cause for price increases as people stockpiled for lockdown. Core inflation had continued to decelerate in Mar, to 6.0% y/y, from 6.1% y/y in Feb.

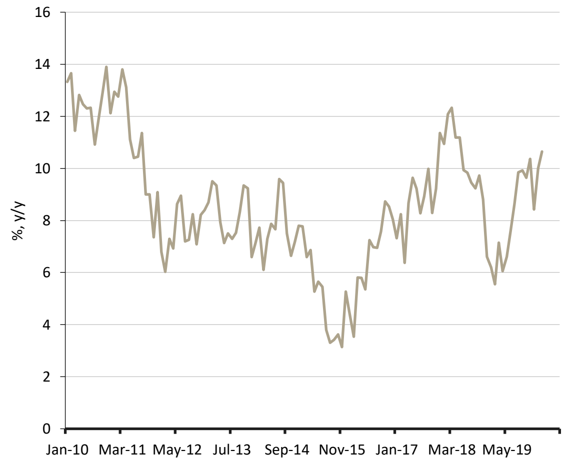
However, headline inflation in the near term may tick up some more, due to disruptions to food supply chains. But strict measures by the government to combat unwarranted price increases are unlikely to help. However, ultimately, it's not the admin measures that will lower inflation but rather a rapid depletion of households' purchasing power as the country comes to a standstill and a record number of Tunisians are filing for unemployment claims. This is being further aggravated by the informal sector (estimated to account for a third of the total employment) which is not covered by unemployment benefits.

That said, we don't expect disinflation. Several measures such as aid to poor families and those who lost jobs, tax reliefs for small companies and postponement of repayment of loans for low-income employees should prevent that. We therefore see inflation closer to 2% y/y by YE:20. Consumer sentiment should improve YE and in 2021 when a rebound in economic activity and rising commodity prices start pushing inflation up. With an eye on such developments, the BCT can choose to hike policy rate in Q3:21 by 50 bps, to 6.25%.

Inflation and interest rates

Source: Banque Centrale de Tunisie

M3 money supply growth



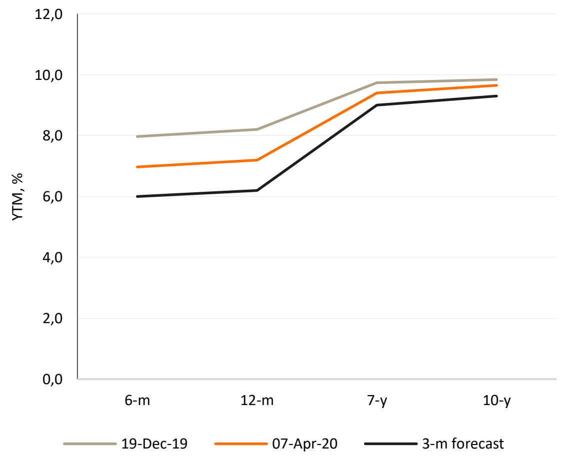
Source: Banque Centrale de Tunisie

Yield curve outlook: bull-steepening

In mid-Apr, Moody's put Tunisia's local currency debt rating (B2) on a negative watch for downgrade, anticipating tightening of liquidity conditions.

We expect the yield curve to bull-steepen over the next 6-m. The short-term interest rates in Tunisia closely track the policy rate. The BCT is likely to cut the rates by another 100 bps in the coming months, which will probably drive 3-m T-bill yields towards to 6%. Bond yields are likely to experience an increase in the risk premium and thus 10-y yields will not fall as much as T-bills. For instance, the bank rate cut of 100 bps in Mar resulted in 10-y yields tightening by 30 bps only, whereas T-bill responded in full. Hence, we expect the 10-y bond yield to decrease to 9.3% in 6-m.

Yield curve changes



Source: Banque Centrale de Tunisie; Standard Bank Research

Fiscal policy: a sharp deterioration in fiscal numbers

Provisional data suggests that Tunisia's budget deficit (excl. grants) is on track to tighten to 3.3% of GDP in 2019, from 4.7% in 2018. But this could be reversed this year given the damage that the pandemic is having on the economy and finances. The fiscal position in 2020 is obscured by the fluid pandemic situation. Loss of revenue however will continue long after the lockdown as unemployment is expected to rise from 15% to 25%.

In its latest report, the IMF forecasts Tunisia's tax revenues to GDP to fall extra 4.5 ppts and non-tax receipts 1 ppt. A large reduction in the fuel subsidies costs as a result of the lower international energy prices will be largely offset by emergency spending on social programmes, with the net effect of reducing current expenditures by 0.5 ppts. The state will have to rely on a massive cut in the capital expenditures, probably to the tune of 3% of GDP. Putting it all together, we probably looking at additional fiscal costs of 2.0% of GDP, which should widen the budget deficit (excl. grants) to 5.3% of GDP in 2020. Donor support should accelerate substantially, to 1% of GDP, not least because Tunisia's market issuance is likely to be curtailed. Consequently, the deficit including grants should come at around 4.3% of GDP. The bulk of financing will come from the EU budget grants and loans from multilateral.

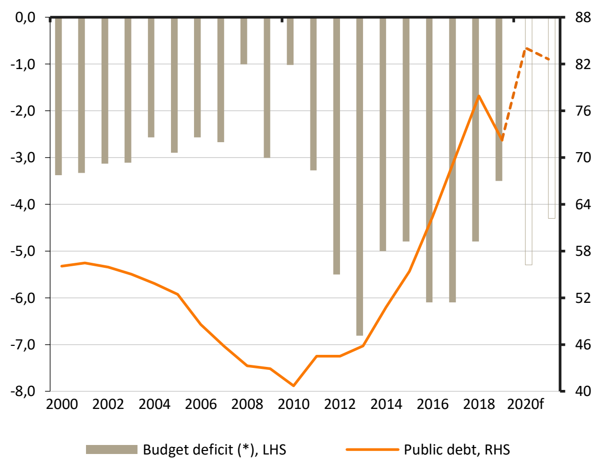
From 2021, as the economy starts growing, government revenues should rise again, while the bill for emergency social spending should diminish. However, the fiscal deficit is likely to last year's only by 2022, at best. Such progress would be hampered by the interest payment account which will surge as a result of much higher debt stock. The latter is likely to increase by 10% of GDP in 2020, to an estimated 84%, and will likely decline only marginally in 2021.

Central government budget, % of GDP

	2015	2016	2017	2018	2019 (prel)	2020 (Act)
Total revenue	23.5	23.5	24.6	26.3	28.2	31.0
- Tax revenue	21.9	20.8	22.0	23.3	25.4	28.0
- Non-tax revenue	1.6	2.7	2.6	3.0	2.8	3.1
Total expenditure and net lending	28.2	29.1	30.7	31.0	31.5	34.4
- Current expenditure	20.3	20.5	22.3	22.5	23.2	24.9
- Wages and salaries	*13.7*	*14.7*	*14.9*	*14.0*	*14.7*	*16.8*
- Subsidies	*3.4*	*2.5*	*3.6*	*4.7*	*4.2*	*3.7*
- Capital expenditure	5.7	6.0	5.9	5.6	5.4	6.1
- Net lending	0.3	0.3	0.1	0.2	0.1	0.1
- Interest payment	1.9	2.2	2.3	2.7	2.8	3.3
Overall balance	-4.7	-5.5	-6.1	-4.7	-3.3	-3.3
Grants	0.3	0.1	0.2	0.2	0.2	0.3
Overall balance (+grants)	-4.4	-5.4	-5.9	-4.4	-3.1	-3.1
Net domestic borrowing	0.7	2.3	0.8	0.5	1.3	0.6
Net external borrowing	4.5	3.2	4.9	3.6	1.8	2.3

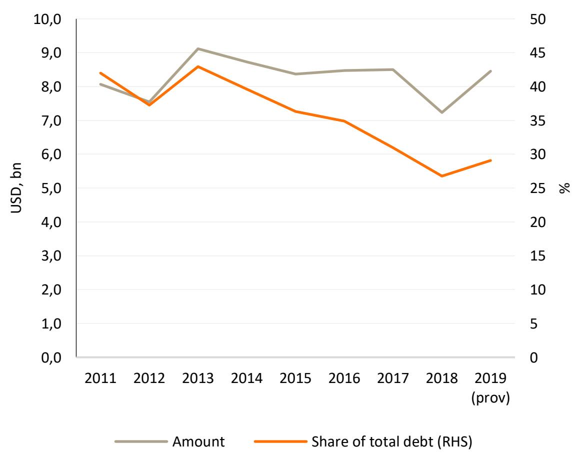
Source: Ministère de l'Economie et des Finances

Budget deficit* and public debt, % of GDP



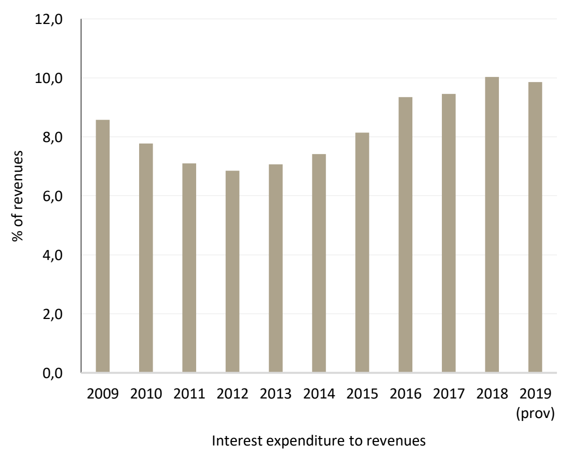
Source: Ministère de l'Economie et des Finances; Standard Bank Research
(*) excluding privatisation receipts, grants and extraordinary revenues

Evolution of domestic debt



Source: Ministère de l'Economie et des Finances

Interest expenditure



Source: Ministère de l'Economie et des Finances

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	11.1	11.3	11.5	11.7	11.8	11.9	12.0
Nominal GDP (TND bn)	84.7	89.8	96.3	105.3	113.8	113.6	121.9
Nominal GDP (USD bn)	42.8	41.2	39.7	39.7	38.8	37.9	40.2
GDP / capita (USD)	3,855	3,642	3,456	3,390	3,290	3,182	3,346
Real GDP growth (%)	1.1	1.1	1.9	2.5	1.0	-3.9	2.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.7	-5.5	-6.1	-4.7	-3.3	-5.3	-4.3
Budget balance (incl. Grants) / GDP (%)	-4.4	-5.4	-5.9	-4.4	-3.1	-4.3	-4.0
General gov. debt / GDP, domestic (%)	20.1	21.7	21.8	20.9	21.0	21.2	20.7
General gov. debt / GDP, foreign (%)	35.3	40.6	48.6	57.3	51.3	62.9	61.9
Balance of Payments							
Exports of goods and services (USDbn)	17.4	16.7	17.6	19.0	19.6	15.5	16.9
Imports of goods and services (USDbn)	-22.1	-21.1	-22.6	-24.1	-23.8	-20.5	-21.8
Trade balance (USDbn)	-4.7	-4.4	-5.0	-5.1	-4.3	-5.0	-4.9
Current account (USDbn)	-3.8	-3.7	-4.1	-4.3	-3.5	-4.3	-4.2
- % of GDP	-9.0	-9.0	-10.3	-10.9	-8.9	-11.4	-10.6
Capital & Financial account (USDbn)	4.1	2.8	3.7	4.3	5.3	3.3	4.5
- FDI (USDbn)	1.0	0.6	0.8	0.9	0.8	0.5	0.6
Basic balance / GDP (%)	-6.8	-7.5	-8.2	-8.5	-6.8	-10.0	-9.0
FX reserves (USDbn) pe	7.4	6.0	5.6	5.1	7.3	6.1	6.5
- Import cover (months) pe	4.0	3.4	3.0	2.5	3.7	3.6	3.6
Sovereign Credit Rating							
S&P	NR	NR	NR	NR	NR	NR	NR
Moody's	Ba3	Ba3	B1	B2	B2	B3	B3
Fitch	BB-	BB-	B+	B+	B+	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.4	3.6	5.3	7.3	6.7	4.5	4.6
Consumer inflation (%) pe	3.8	4.2	6.2	7.5	6.1	2.4	5.5
M3 money supply (% y/y) pa	5.0	6.6	8.8	10.2	7.9	5.3	5.8
M3 money supply (% y/y) pe	5.3	8.1	11.4	6.6	8.4	3.0	8.0
Policy rate (%) pa	4.7	4.3	4.8	6.1	7.55	6.55	5.95
Policy rate (%) pe	4.25	4.25	5	6.75	7.75	5.75	6.25
USD/TND pa	1.96	2.15	2.42	2.65	2.93	3.00	3.03
USD/TND pe	2.03	2.30	2.47	3.05	2.83	3.05	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 investments will be a blow to growth

Medium-term outlook: downside risks

We now expect GDP growth to expand by 2.5% y/y in 2020, from our previous forecast of 6.1% y/y. As with other economies in the East Africa region, the COVID-19 impact will weigh on economic activity. Of course, the longer pandemic endures, the more severe the impact on GDP growth.

In our Jan edition, we were optimistic that GDP growth would recover in 2020, primarily underpinned by higher public investment in infrastructure, i.e. by both pre-election upgrading of infrastructure and the likely rise in ancillary infrastructure expenditure largely associated with the Final Investment Decision (FID) on oil.

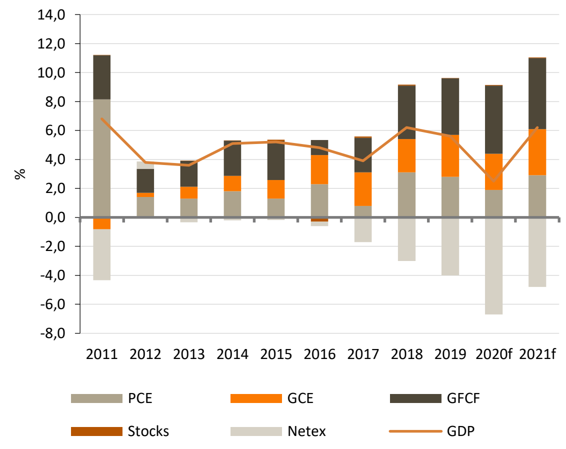
We had anticipated an FID on commercial oil production to be made in H2:20. However, now, due to the pandemic, which has now made it impossible for expatriates working in the oil fields to travel, the FID will probably have to be postponed into H2:21. The international oil price plummet too will now serve as a disincentive for oil firms to finalize the FID. Thus, we see GDP growth recovering to 6.2% y/y only in 2021, boosted by oil-related investments.

Owing to the disruption of the pandemic, output in the tourism, trade, manufacturing, construction and transport sectors is likely to drop sharply in 2020. Uganda's ongoing lockdown has also cut economic activity.

In our bear scenario, we see GDP growth falling by 1.4% y/y in 2020. Here, we'd expect the lockdown extended into Jul 20. This scenario also assumes international oil prices remaining subdued for much longer. Hence, an FID is postponed into 2022. This would subsequently reduce the level of public investment in infrastructure. This scenario also assumes enduring complications from COVID-19. Thus, GDP growth only recovers by 4.1% y/y in 2021. Also, election related anxiety prompts firms to postpone investment decisions, while household consumption also becomes restrained.

Our bull scenario sees GDP growth easing by 4.5% y/y in 2020. Furthermore, favourable weather boosts productivity in the large subsistence agriculture sector. This improvement counteracts the weakness brought about by COVID-19 in other sectors. Moreover, an FID is made in H1:21. This helps GDP growth recover, posting 6.8% y/y by 2021.

Composition of GDP growth by demand



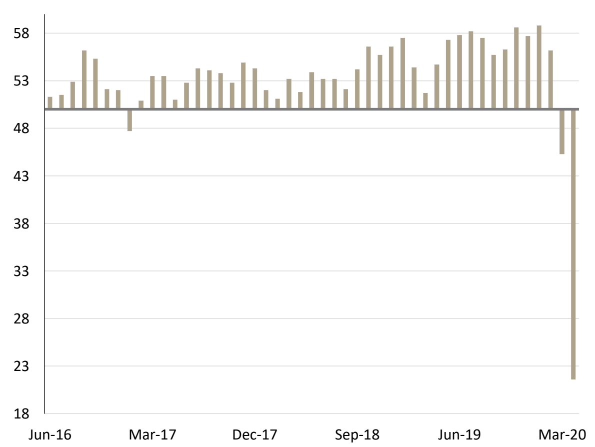
Source: Uganda Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2014	2018
Agriculture	27.1	22.5	21.9
Mining	1.2	1.4	1.6
Manufacturing	8.7	7.8	7.6
Construction	5.5	6.5	6.6
Trade & repairs	13.3	11.6	11.3
Transport	2.6	2.8	2.8
Accommodation & food	2.1	2.4	3.0
ICT	4.2	8.3	10.2
Financial & insurance	2.4	2.8	2.8
Real estate	5.5	5.3	5.4
Public administration	2.8	3.0	3.2
Education	5.3	5.4	5.9

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

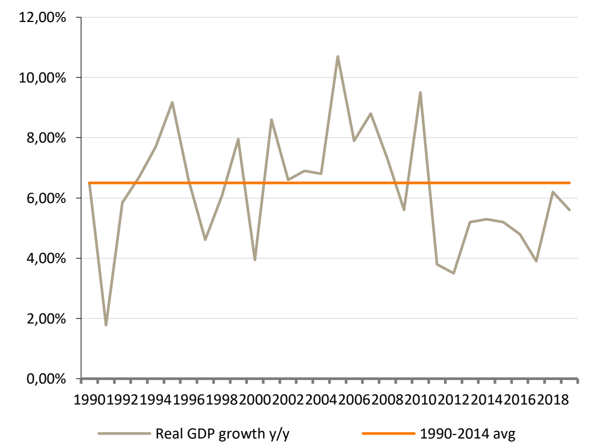
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	5.2	0.8	1.6	2.5	5.1	7.1	5.8	6.6	6.8	6.6	6.6	7.0	7.1	7.1	7.0	7.2
CPI (% y/y) pe	3.0	3.2	3.9	4.6	5.8	4.7	4.9	4.4	4.4	4.8	4.4	5.5	4.8	4.2	3.5	2.6
BOU policy rate (%) pe	9.0	7.5	7.5	7.5	7.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
3-m rate (%) pe	9.2	8.9	9.2	9.5	10.3	10.3	10.4	10.2	10.1	10.1	10.1	10.1	10.0	10.0	10.0	10.0
6-m rate (%) pe	10.8	11.5	12.3	12.5	13.3	13.2	12.8	12.6	12.7	12.3	12.3	12.3	11.9	11.9	11.9	11.9
USD/UGX	3795	3770	3800	3830	3970	4030	4050	4080	4120	4150	4190	4200	4220	4220	4200.0	4190
Bull scenario																
GDP (% y/y) pa	5.5	3.1	4.2	5.1	6.6	6.5	6.8	7.1	7.5	7.1	7.0	7.5	7.8	7.8	7.8	7.8
CPI (% y/y) pe	3.0	2.4	2.8	3.2	3.5	3.2	3.4	3.1	3.2	3.4	2.9	3.6	3.1	2.7	2.2	2.1
BOU policy rate (%) pe	9.0	7.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0
3-m rate (%) pe	9.2	8.7	8.5	8.5	8.9	9.2	9.3	9.3	8.8	8.7	8.7	8.7	8.5	8.5	8.5	8.5
6-m rate (%) pe	10.8	10.9	11.2	11.4	11.8	12.0	12.0	11.9	11.7	11.6	11.3	11.3	10.6	10.6	10.6	10.6
USD/UGX	3795	3730	3730	3750	3800	3830	3850	3900	3910	3930	3950	4000	4070	4060	4060	4080
Bear scenario																
GDP (% y/y) pa	2.5	-0.9	0.8	3.2	2.1	5.2	4.2	4.9	6.3	6.3	6.3	6.3	6.5	6.5	6.5	6.5
CPI (% y/y) pe	3.0	5.4	5.7	6.2	6.9	7.0	6.5	6.4	6.6	6.1	5.8	5.8	5.8	5.7	5.5	5.7
BOU policy rate (%) pe	9.0	8.0	9.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.0	10.0	9.0	9.0
3-m rate (%) pe	9.2	12.9	12.9	12.8	12.9	12.8	12.2	12.0	10.8	10.7	10.5	10.4	10.4	10.4	10.4	10.2
6-m rate (%) pe	10.8	14.8	14.8	14.7	14.9	14.8	14.2	13.5	13.2	13.0	12.5	12.2	12.1	12.1	12.1	12.1
USD/UGX	3795	3990	4100	4150	4280	4280	4200	4200	4220	4240	4250	4250	4220	4210	4190	4190

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

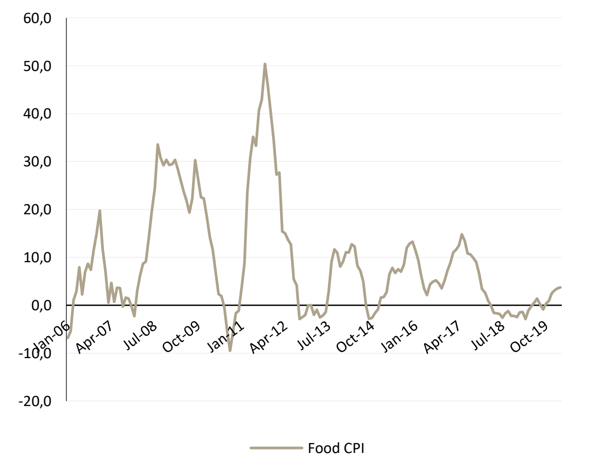
Notes: pa - period average; pe - period end

Long-term GDP growth performance



Source: World Bank

Food inflation (%)



Source: Uganda Bureau of Statistics

Balance of payments: rising FDI

We see the C/A deficit widening to 8.2% of GDP in 2020. Owing to COVID-19, tourism receipts will probably decline further in 2020. In fact, tourist arrivals and earnings were faltering for much of 2019 due to the border closure with Rwanda and also after a foreign tourist was kidnapped near the gorilla trekking area.

Regardless, even if cross-border travel was to resume in H2:20, tourism won't recover then. Furthermore, with elections expected to be held in Feb 21, tourist arrivals would anyway be only a trickle due to greater political risks around that time.

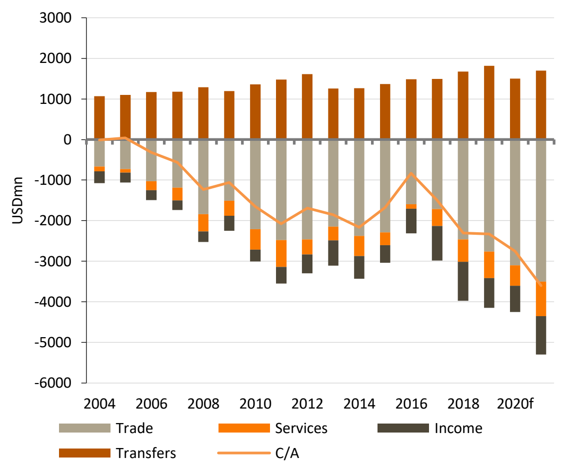
Uganda's gold exports rapidly shot up to USD1.3bn in 2019, from USD515.0m in 2018 and USD417.9m in 2017. If increased safe-haven demand continues to support gold prices, goods exports could be underpinned over the coming year. But FX earnings from gold receipts are barely passed via the domestic interbank market.

Thereafter, we still expect the C/A deficit to widen further in 2021, to 10.2% of GDP, especially if the final investment decision (FID) on oil is made in H2:21, as we expect in our base case. If so, the prerequisite infrastructure spending will most likely increase and thereby widen the trade balance.

We reiterate our view that a wider C/A deficit will probably be funded by an increase in oil-related FDI in 2021. In fact, interestingly, FDI rose notably, to USD1.7bn in 2019 from USD1.3bn in 2018 and USD0.8bn in 2017. More importantly, non-oil related FDI was worth USD1.2bn in 2019.

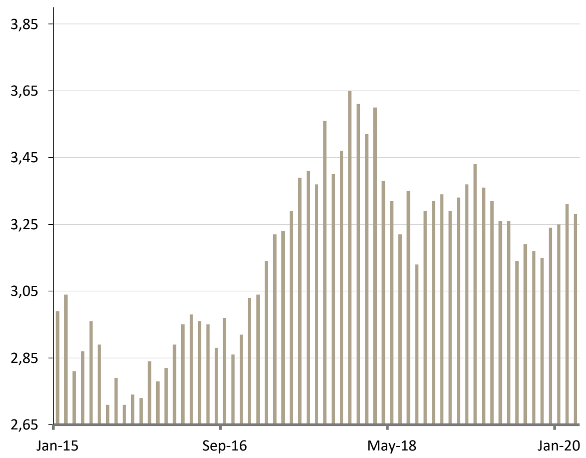
FX reserves have been hemmed in a USD3.0bn - USD3.3bn range since May 18. Perhaps government demand for FX has been elevated, due to both external debt service as well as increasing infrastructure expenditure related to oil. We suspect this is something that will probably persist through to the end of 2021. Of course, postponement of the oil FID further beyond H2:21

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves (USD bn)



Source: Bank of Uganda

FX outlook: weaker UGX bias in the medium term

We see USD/UGX at 3830 – 3850 by Dec 20. The UGX has typically been more responsive to changes in global risk sentiment. So, USD/UGX tends to drift upwards during bouts of worsening global risk aversion. The strength of the USD globally will be key in determining the direction of USD/UGX or perhaps even the pace of movement. Since the beginning of the year, net foreign portfolio investment has also reduced, largely due to global conditions, as real UGX yields are still relatively attractive. But then again, larger C/A deficits will probably remain funded by higher FDI. Hence, even as import demand rises ahead of elections in Feb 21, the wider trade balance may still be sufficiently funded via this avenue. We nevertheless see a bias for a swifter pace of UGX weakness from Q3:20 onwards, as portfolio outflows increase and corporates frontload their FX demand ahead of elections.

USD/UGX: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: near-term accommodative bias

We expect the MPC to cut its key policy rate by a further 25-50 bps before the end of Dec.

To recall, prior to the COVID-19 pandemic, we had priced in a tightening monetary policy bias for H2:20. We had anticipated that pre-election spending and expansionary fiscal policy would have increased underlying inflationary pressures. As the Bank of Uganda's MPC has always acted pre-emptively, we anticipated a gradually hiking of the policy rate in H2:20.

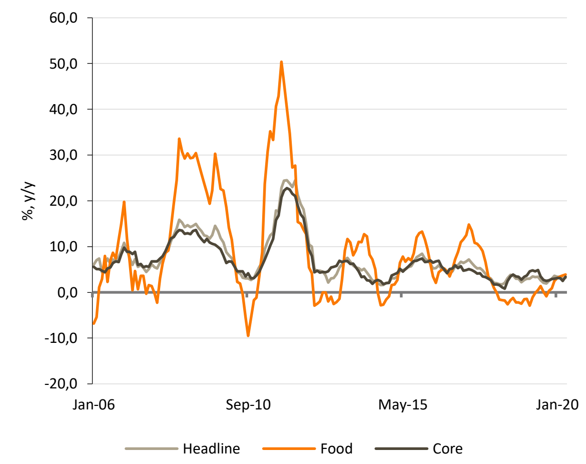
However, despite the slowdown in the economy that has now been compounded by COVID-19, the forward-looking inflation outlook has now improved for H2:20 in addition to weak domestic demand which is likely to curtail core inflation. Declining international oil prices will probably result in a notable reduction in imported inflationary pressures as well.

We expect headline inflation to average 4.3% y/y in H2:20. However, inflation is likely to average 5.3% y/y in H1:21. It is perhaps during this period the MPC could tilt towards being slightly more hawkish. The higher average inflation for 2021 is largely on account of our expectation for a moderate increase in international oil prices and a slightly more robust pace of private sector economic activity.

But, should COVID-19 continue to weigh down economic activity in H2:20, domestic demand will probably not have sufficiently recovered by H1:21 to warrant the MPC turning hawkish.

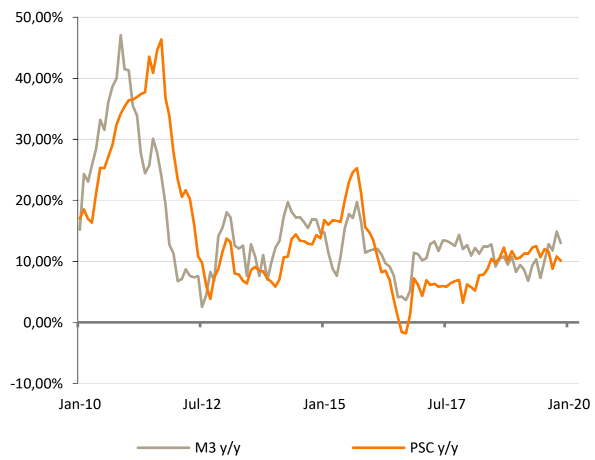
In fact, even if the UGX depreciated due to deteriorating global risk sentiment, the MPC probably won't rush to raise its key policy rate given that weak domestic demand could eventually support the local unit.

Inflation and interest rates



Source: Uganda Bureau of Statistics

Monetary aggregates

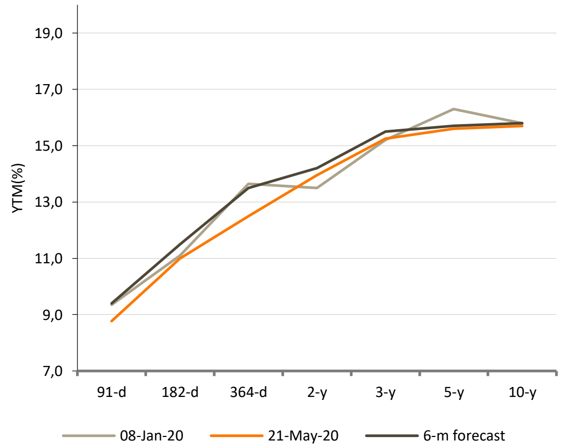


Source: Bank of Uganda

Yield curve outlook: bear-flattening

We see the yield curve bear flattening over the next 6-m. Following the 100-bps cut by the MPC in Apr, T-bill auction sizes were slashed by UGX80.0bn. However, while this may potentially create a bias for a moderate decline in yields at the shorter end of the curve, this may only persist until the end of Jun 20. Thereafter, market focus will shift to the FY2020/21 budget and, more specifically, the domestic borrowing target. At least from a sentiment perspective, the wider market expects the government to adopt both an expansionary fiscal policy stance and also a higher domestic borrowing target to fund this. As things stand, we are inclined to agree with this view. The government tends to increase expenditure associated with security ahead of elections. This view has swayed market sentiment that UGX yields will rise from H2:20 onwards. Of course, it doesn't help that foreign portfolio investors have exited the market which could consequently impact subscription for T-bonds

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: expansionary

We still expect the government to adopt an expansionary fiscal policy stance over the next few years.

Notably, in the near term, public healthcare and social spending will increase. However, thereafter pre-election spending could keep overall expenditure requirements elevated too in H2:20. In fact, even after elections in Feb 21, we'd expect fiscal consolidation to be challenging, considering that the pre-requisite infrastructure for oil production will inflate expenditure.

However, absorption of the development budget has still not been optimal. As at the end of Apr, only 72.0% of the development budget had been absorbed.

On the other hand, the government had only raised 89.9% of their tax revenue collections during this same period under review. Indeed, even prior to COVID-19, economic activity was slacking off in H2:19, now exacerbated by the pandemic's impact.

Still, tax revenue collections to Apr 20 are still higher than the same period in the previous fiscal year. However, against the FY2019/20 budget, the performance has been lagging. Interestingly, the Ministry of Finance attributes this to large tax assessments that they were expecting from a mining and telecommunication firm, but which failed to materialise.

Nevertheless, tax collections in H2:20 will largely depend on the situation with COVID-19. Economic activity will likely remain modest in H2:20, resulting in lower tax revenue collections for the government.

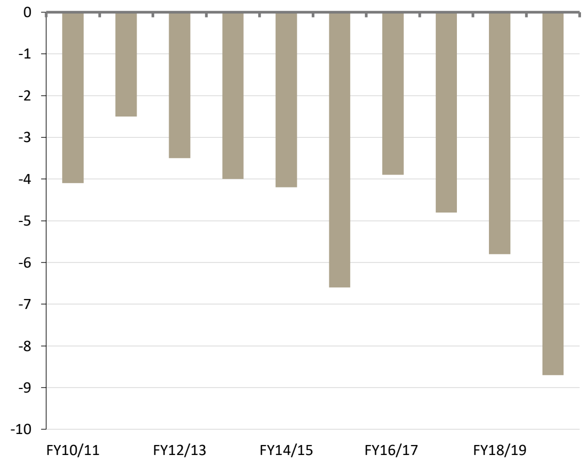
Against this backdrop, if the government is still keen to increase pre-election or oil-related expenditure, they may have to raise both their domestic and external borrowing targets for FY2020/21.

Central government operations

% 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

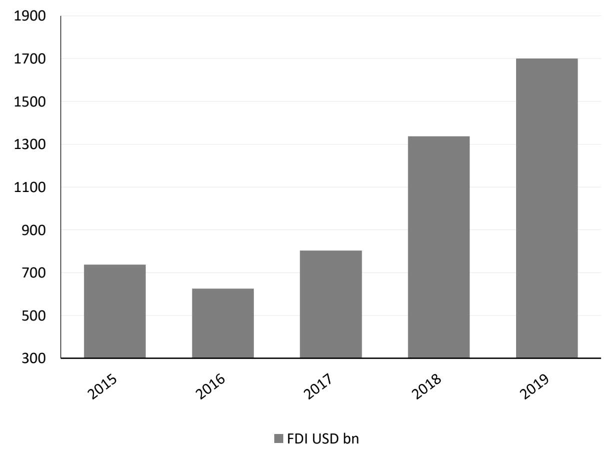
Source: Ministry of Finance

Fiscal deficit incl. grants (%) of GDP



Source: Ministry of Finance

FDI (USD bn)



Source: United Nations Conference on Trade and Development

Development expenditure (UGX bn)

Source: Ministry of Finance

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	35.49	36.56	37.67	38.82	39.8	41.22	42.4
Nominal GDP (UGX bn)	81333	86951	97919	110649	118980	128350	142900
Nominal GDP (USD bn)	24.4	25.3	27.1	29.3	32.2	33.3	35.4
GDP / capita (USD)	687	693	719	755	810	809	836
Real GDP growth (%)	5.2	4.8	3.9	6.2	5.6	2.5	6.2
Coffee production ('000 Tonnes)	221.8	226.5	229.7	225.5	220.5	223.3	227.8
Tea production ('000 Tonnes)	50.7	56.6	75.6	73.8	65.5	68.2	65.1
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.4	-8.0	-4.6	-5.9	-7.3	-10.1	-10.2
Budget balance (incl. Grants) / GDP (%)	-4.2	-6.6	-3.5	-4.8	-5.8	-8.7	-8.9
Domestic debt / GDP (%)	13.1	13.0	13.5	13.9	14.4	14.9	15.2
External debt / GDP (%)	21.4	19.2	19.7	23.5	26.4	28.1	28.8
Balance of Payments							
Exports of goods and services (USD bn)	4.73	4.79	5	5.6	6.1	4.8	5.7
Imports of goods and services (USD bn)	7.33	6.4	7.2	8.65	9.54	8.8	9.9
Trade balance (USD bn)	-2.60	-1.61	-2.20	-3.05	-3.44	-4.00	-4.2
Current account (USD bn)	-1.68	-0.83	-1.49	-2.3	-2.33	-2.75	-3.6
- % of GDP	-6.9	-3.3	-5.5	-7.8	-7.2	-8.2	-10.2
Financial account (USD bn)	1.88	0.87	1.09	1.41	1.77	2.17	2.35
- FDI (USD bn)	0.74	0.63	0.8	1.3	1.7	1.5	2
Basic balance / GDP (%)	-3.9	-0.8	-2.5	-3.4	-2.0	-3.7	-4.5
FX reserves (USD bn) pe	2.84	3	3.65	3.4	3.2	3.6	3.9
- Import cover (months) pe	5.5	5.2	5.1	4.5	4.1	4.3	4.2
Sovereign Credit Rating							
S&P	B	B	B	B	B	B	B
Moody's	B2	B2	B2	B2	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	5.8	5.5	5.4	2.5	2.9	3.6	4.9
Consumer inflation (%) pe	8.7	5.7	3.3	2.2	3.6	4.6	4.4
M3 money supply (% y/y) pa	13.9	8.2	12.9	10.8	11.0	10.2	14.4
M3 money supply (% y/y) pe	11.7	11.1	12.8	8.2	16.0	8.5	15.7
BOU policy rate (%) pa	14.0	14.9	10.5	9.2	9.8	8.0	7.9
BOU policy rate (%) pe	17.0	12.0	9.5	10.0	9.0	7.5	8.0
3-m rate (%) pe	19.50	14.0	8.4	10.4	9.2	9.5	10.2
1-y rate (%) pe	22.30	15.9	9.0	13.2	12.9	13.4	12.9
2-y rate (%) pe	20.10	16.7	11.2	14.9	14.5	14.3	14.1
5-y rate (%) pe	22.30	16.9	12.7	16.5	16.0	15.5	15.1
USD/UGX pa	3 334	3433	3615	3773	3690	3850	4033
USD/UGX pe	3 381	3596	3643	3705	3665	3 830	4080

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

Zambia: debt restructuring on the cards

Medium-term outlook: growth restrained

It looks highly probable that economic growth will be constrained in the medium term, relative to the past 10-y. There is certainly plenty of forecast risk.

Two factors are likely to prove key determinants of economic growth over the coming 3 – 4 years. Firstly, the impact of the COVID-19 pandemic and its uncertain outcome. At the time of writing there were just over 100 confirmed infections in Zambia. There is no way of knowing how widespread it will be before it comes under control and what measures the government will have to employ in order to bring that about. As we have seen with other countries, the disruption to economic activity could be dramatic.

All told, the pandemic's impact may be most severe in the near term, with the economy potentially recovering once the disease has been brought under control. The second key determinant of the medium-term economic growth outlook is the government's debt sustainability. It has indicated a desire to commence negotiations with external lenders, with a view to bringing about voluntary restructuring of external government debt.

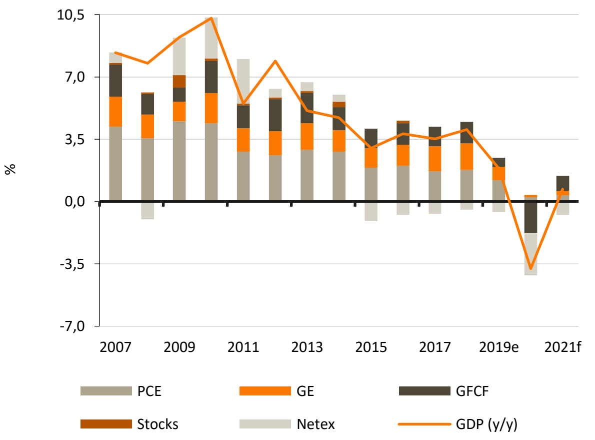
It is highly probable that in the near term, the government will have very limited access to new external financing. Much of this financing was for infrastructural development. Hence, there is likely to be an extended period during which the government will be forced to cut capital expenditure. Indeed, it is likely that it will cut recurrent expenditure too.

The recovery of copper prices to over USD5,000/MT bodes well for copper production and exports. Some mining companies would have been under immense pressure had prices remained around the USD4,600/MT level that they fell to a few months ago. Nonetheless, copper export volumes, while recovering relative to Q3:19, were 12.0% y/y lower in Q1:20.

Among the factors that could result in a more bearish outcome than we anticipate in our base case, is a long and contentious debt restructuring process. If so, the government, which favours voluntary restructuring, would struggle to obtain enough creditors willing to voluntarily restructure debt. Ultimately, it would then probably be forced to default on all external debt, triggering a prolonged restructuring process during which it would have virtually no access to external financing.

However, should the government quickly restructure external debt, and the impact of the pandemic be benign, economic growth might be much better than our base scenario. This would be all the more so, given evidence that agricultural production is improving.

Composition of GDP growth by demand



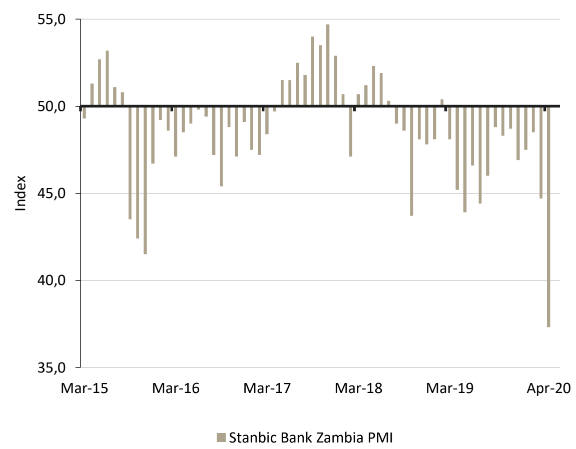
Source: Zambia Statistics Agency; Standard Bank Research

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: Zambia Statistics Agency

Purchasing Managers Index



Source: Stanbic Bank Zambia; Markit

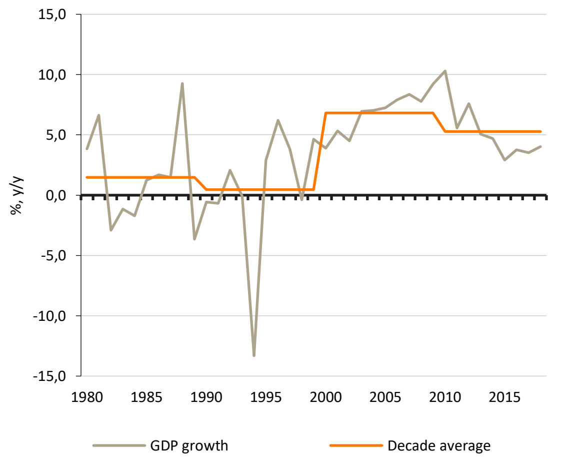
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	-0.4	-4.0	-5.7	-5.0	-2.4	-0.2	2.2	3.2	3.5	2.8	2.3	3.2	3.6	3.1	2.9	3.7
CPI (% y/y) pe	14.0	17.7	17.4	16.8	15.1	10.8	10.4	9.9	8.6	8.3	7.6	7.4	7.4	7.4	7.4	7.8
Policy interest rate (%) pe	11.50	9.25	9.25	9.25	9.25	9.25	9.25	9.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
3-m rate (%) pe	18.0	18.1	18.0	17.5	16.0	15.0	14.5	14.0	13.5	13.0	12.5	11.0	11.0	10.5	11.0	11.0
6-m rate (%) pe	19.5	19.6	19.7	18.9	17.2	16.3	15.7	14.9	14.3	13.8	13.2	11.8	11.5	11.1	11.1	11.1
USD/ZMW pe	18.17	18.90	19.25	19.35	19.30	18.60	18.70	18.60	18.20	17.80	17.50	17.25	16.75	16.25	16.30	16.80
Bull scenario																
GDP (% y/y) pa	0.4	-3.0	-4.1	-3.4	-1.1	1.0	3.1	4.1	4.6	4.3	3.9	4.7	5.4	4.9	4.8	5.1
CPI (% y/y) pe	14.0	17.2	16.9	16.3	14.2	9.9	9.3	8.1	6.2	6.1	5.6	5.4	5.7	5.7	6.5	6.9
Policy interest rate (%) pe	11.50	9.25	9.25	9.25	8.25	8.25	8.25	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
3-m rate (%) pe	18.00	18.10	14.10	12.70	10.40	9.40	8.90	7.00	6.65	6.00	6.40	6.15	7.24	7.04	8.08	8.83
6-m rate (%) pe	19.50	19.60	15.75	14.05	11.55	10.65	10.05	7.85	7.40	6.80	7.00	6.90	7.74	7.64	8.13	8.93
USD/ZMW pe	18.17	17.33	17.68	17.32	16.14	16.87	17.22	17.32	17.27	16.57	16.67	16.57	16.17	15.77	15.47	15.22
Bear scenario																
GDP (% y/y) pa	-1.7	-4.6	-5.9	-3.2	-3.9	-4.9	-7.0	-6.3	-3.7	-1.5	0.9	1.9	2.3	1.6	1.2	2.1
CPI (% y/y) pe	14.0	19.0	18.3	18.7	17.6	13.4	12.9	12.1	10.9	10.2	8.7	8.6	8.4	8.2	7.5	7.8
Policy interest rate (%) pe	11.50	9.25	9.25	9.25	9.25	10.75	10.75	10.75	10.75	10.75	9.75	9.75	9.75	9.75	9.75	9.75
3-m rate (%) pe	18.0	19.4	19.3	19.0	17.7	17.6	17.1	16.6	16.1	15.7	15.2	13.7	13.7	13.2	13.7	13.7
6-m rate (%) pe	19.5	20.9	21.0	20.3	18.8	18.8	18.2	17.4	17.2	16.8	16.2	14.7	14.5	14.1	14.0	14.1
USD/ZMW pe	18.17	20.47	20.82	21.54	20.57	21.18	21.53	21.38	21.33	20.63	20.73	20.63	20.23	19.83	19.53	19.28

Source: Bank of Zambia; Zambia Statistics Agency; Bloomberg; Standard Bank Research; Ministry of Finance and National Planning

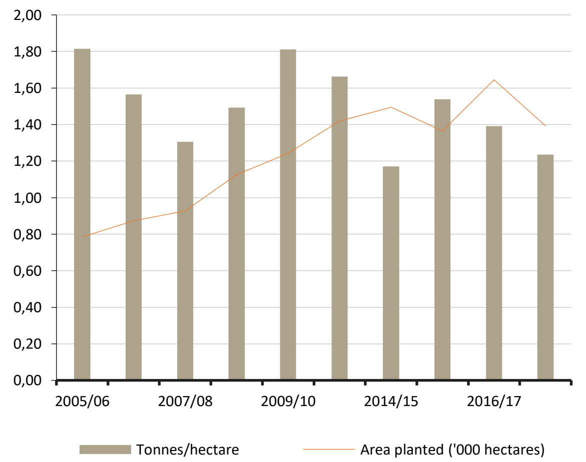
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Zambia Statistics Agency

Maize productivity



Source: Ministry of Agriculture

Balance of payments: near the turning point

How much lower can FX reserves fall from current levels? We reckon not a lot. Since falling to USD1.35bn in Apr 19, FX reserves have been pretty much stuck in a range of USD1.3bn – USD1.4bn. Clearly, the bias has been for FX reserves to fall rather than rise, reflecting fundamental BOP pressures in the economy. Indeed, even having stabilised is rather surprising. So, we see them falling to USD1.1bn in Dec 21.

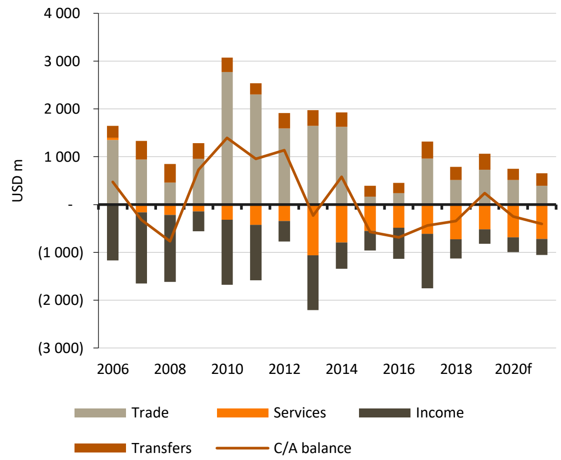
It has been obvious for some time that demand for FX by the government is a key contributor to BOP pressures. Much of this demand has been due to the government's external debt service requirements. We reiterate that the government's budgeted external debt service payments for this year exceeded FX reserves.

Should the government's proposed voluntary external debt restructuring proceed only slowly, then the pressure on FX reserves is unlikely to relent, increasing the very real possibility of default. Curiously, even as debt forgiveness or restructuring for poor countries is being talked about more and more, Zambia doesn't seem to feature prominently in such discussions despite its fiscal challenges having been glaring for so long.

Preliminary data indicates that there was a C/A surplus of 1% of GDP in 2019. It is highly probable that the C/A balance will be negative this year and next. Admittedly, the 2019 numbers show a dramatic reduction in imports, understandable, given lacklustre economic activity. Nevertheless, data revisions could turn the 2019 balance to a deficit.

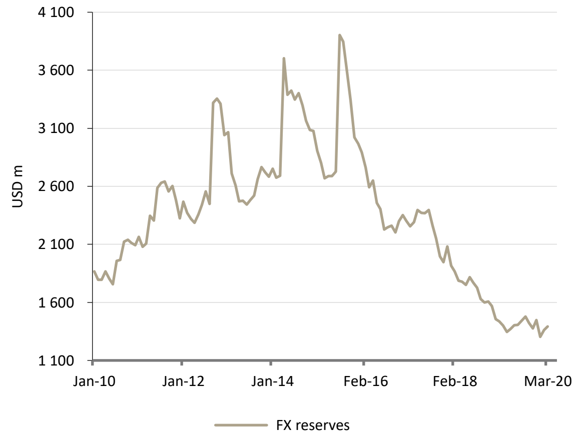
Besides lacklustre goods imports, lower income outflows were responsible for the C/A surplus in 2019. As copper prices rise in coming months, it is likely that the profitability of copper mining companies will improve. As that happens it is likely that income outflows will pick up. This is yet another factor implying a C/A deficit in the coming 2-y.

Current account developments



Source: Bank of Zambia; Standard Bank Research

FX reserves



Source: Bank of Zambia

FX outlook: ZMW depreciation likely to ease

It may well be that the nearly 23% annualised pace of ZMW depreciation since mid-2017 will persist on a multi-year basis, but we don't foresee that. Now that external debt restructuring is on the cards, one source of ZMW depreciation will likely diminish in coming years. Of course, we do not know how long it would take for such restructuring to take place. But, clearly, the longer it takes, the greater the likelihood that the government will default on its external debt. External debt restructuring or default, the upshot would be a reduction of the government's demand for FX. Additionally, with the pandemic having subsided in China, and on track to do so soon in Europe and the United States, copper prices seem poised to remain above USD5,000/MT, thereby supporting copper exports. While still expecting the ZMW to continue depreciating, such depreciation will most likely be at a far more moderate pace than in the past 3-y.

USD/ZMW: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: likely on hold rest of 2020

Following the surprise cut to the policy rate in May, the BOZ's MPC is likely to leave the policy rate unchanged for the remainder of this year. The committee pivoted to addressing risks to growth due to COVID-19.

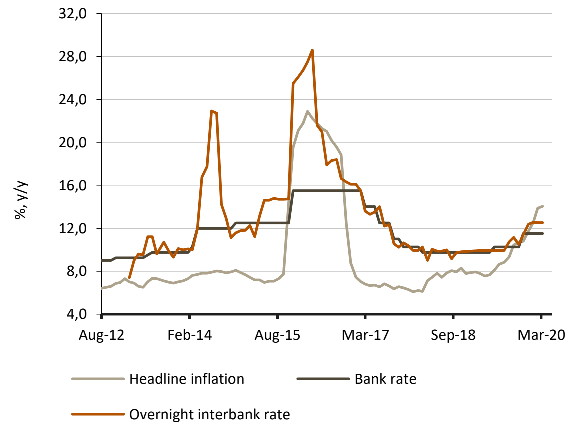
Bear in mind that the committee has been warning quite stridently for some time about fiscal risks. It has been clear for a while that the depreciation pressure on the ZMW has been mostly due to FX purchases by the government for the purposes of servicing external debt. If the government were to make progress in its debt restructuring initiative, then the committee would probably feel sufficiently bold to ease the policy stance, even if headline inflation was still well above the 8% y/y upper bound of the target range.

Headline inflation has exceeded our expectations. Just as in 2016, much of the upward pressure in recent months has emanated from rising food inflation and fuel price increases. Given that international oil prices have collapsed, the latter is clearly an indication of exchange rate passthrough.

Headline inflation was 15.7% y/y in Apr, with the momentum firmly to the upside. It seems highly unlikely though that this momentum can continue for much longer. Anecdotal evidence suggests that rainfall normalised across the country, with some areas receiving above-normal rainfall, such that agricultural production has improved. This should arrest the upward pressure on food inflation.

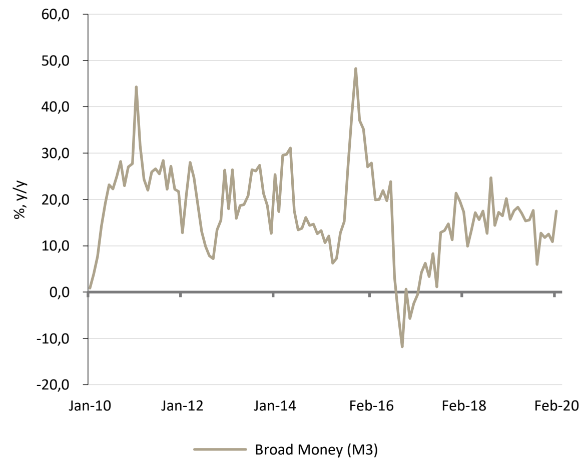
The committee would probably be inclined to tighten the policy stance further if a worst-case scenario, encompassing further depreciation of the ZMW, played out. After all, fiscal concerns seem to have prevented the MPC from providing monetary accommodation in response to the pandemic in a manner matching other central banks.

Inflation and interest rates



Source: Bank of Zambia; Zambia Statistics Agency

Money supply growth

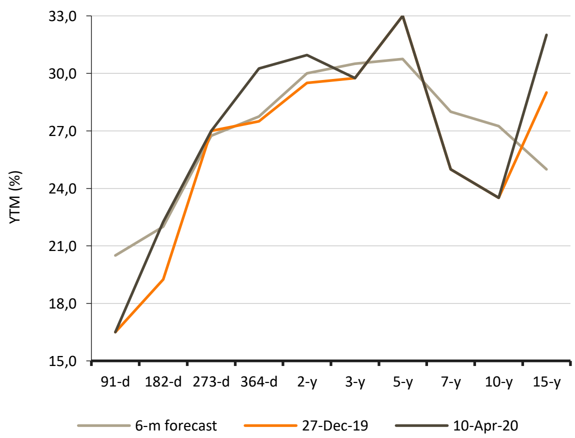


Source: Bank of Zambia

Yield curve outlook: limited yield movements

The supply-demand mismatch in the primary market for paper would ordinarily have exerted some upward pressure on yields across the curve. However, we do not foresee this. Perhaps there will be some marginal increase in T-bill yields in coming months, but even this is doubtful. The government's supply of paper is unlikely to decline meaningfully, nor is there a likelihood for demand to pick up substantially. We are cognisant that the pool of desirable borrowers, from commercial banks' perspectives, could shrink due to COVID-19. However, the BOZ has put in place measures to encourage commercial banks to provide liquidity, whether by restructuring or refinancing existing lending facilities, to entities affected by the pandemic. The BOZ is also providing liquidity to the market via open-market operations. All these measures should ensure adequate liquidity in the market, thereby ameliorating any upward pressure on yields.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: mobilising external resources

The Finance Minister has, yet again, been quoted in the media as saying that the government is looking for IMF financing. Of course, the Fund has made it clear that, given the pandemic, it is willing to provide emergency BOP support, for example via the Rapid Financing Instrument, to member countries that request it. Unlike a regular program, emergency assistance does not come with many conditions.

If the government is, indeed, engaging the IMF for a regular financing programme, then it stands to reason that the government will be forceful in seeking external debt restructuring. After all, the Fund has made it clear that it will not provide financing to the government given that debt is on an unsustainable trajectory. Debt restructuring opens the door though to putting debt on a sustainable trajectory.

Clearly, the government will need more financing to deal with the effects of COVID-19. The government has indicated that it is seeking financing from the likes of the World Bank, African Development Bank and Afreximbank for emergency funding that these organisations are making available to deal with the pandemic.

But there remains a build-up of domestic expenditure arrears. The IMF has characterised these as a manifestation of the inevitable fiscal adjustment which is occurring in a disorderly fashion.

The government has also indicated that it has approached a number of bilateral lenders, specifically G20 countries, to seek rescheduling or postponement of debt service payments for a period to be agreed upon. Essentially, the government is looking for ways for these lenders to contribute to the financing of the gap that has arisen due to COVID-19.

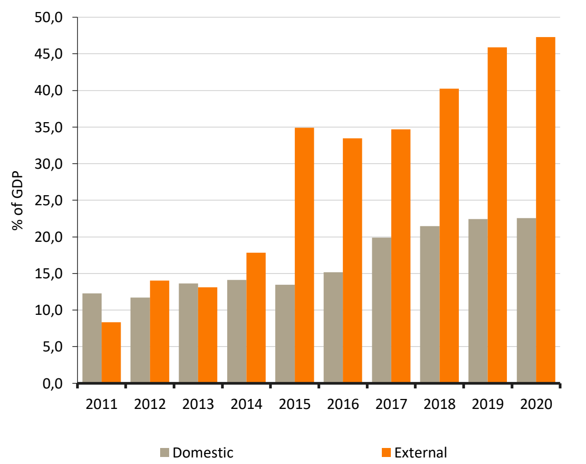
It remains to be seen if the government will be able to access the funds from contracted but undisbursed loans.

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

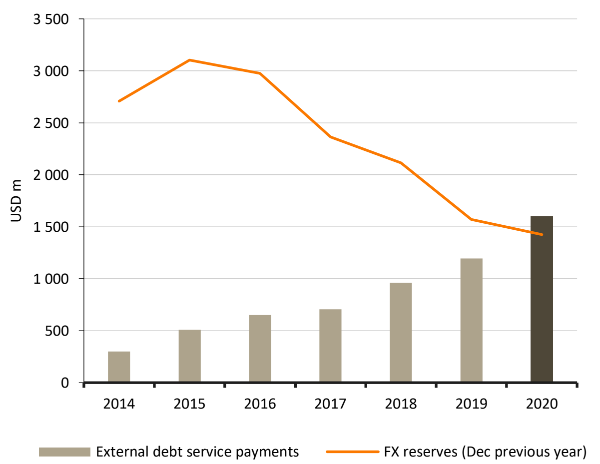
Source: Ministry of Finance and National Planning

Debt to GDP



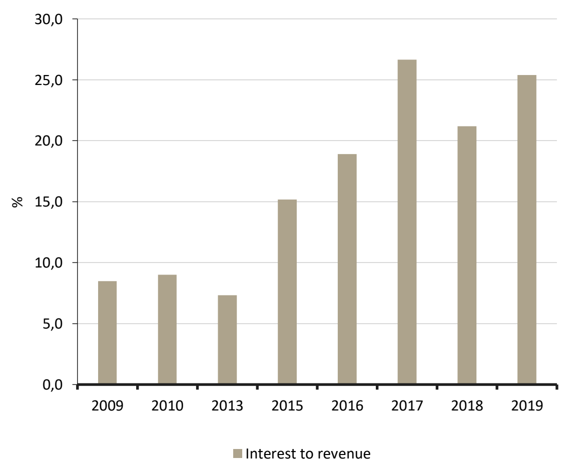
Source: Ministry of Finance and National Planning

BOZ FX transactions and FX reserves



Source: Bank of Zambia

Interest payments



Source: Ministry of Finance and National Planning

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	15.6	16.0	16.4	16.9	17.4	17.6	17.9
Nominal GDP (ZMW m)	183 381	217 225	243 127	271 160	300 962	338 910	381 817
Nominal GDP (USD bn)	19.2	20.8	25.2	24.2	23.1	17.9	20.3
GDP / capita (USD)	1 235	1 302	1 537	1 432	1 327	1 018	1 135
Real GDP growth (%)	3.0	3.8	3.5	4.0	1.9	-3.8	0.7
Copper production ('000 tons)	711	775	755	830	850	875	905
Central Government Operations							
Budget balance / GDP (%)	-9.3	-8.8	-7.7	-6.2	-6.4	-6.2	-5.8
Domestic debt / GDP (%)	13.5	15.2	19.9	21.4	22.6	23.3	23.8
External debt / GDP (%)	34.9	33.5	34.7	40.1	46.3	67.0	52.8
Balance Of Payments							
Goods and services exports (USD bn)	8.2	7.4	9.1	10.0	8.2	8.3	9.1
Goods and services imports (USD bn)	8.6	7.7	8.7	10.2	8.0	8.5	9.4
Trade balance (USD bn)	-0.4	-0.2	0.4	-0.2	0.2	-0.2	-0.3
Current account (USD bn)	-0.6	-0.7	-0.4	-0.3	0.2	-0.2	-0.4
- % of GDP	-3.0	-3.3	-1.7	-1.4	1.0	-1.4	-2.0
Capital and Financial account (USD bn)	0.0	0.3	0.4	-0.1	-0.5	0.0	0.1
- FDI (USD bn)	1.2	0.5	1.2	0.4	-0.2	0.2	0.3
Basic balance / GDP (%)	3.2	-1.0	3.0	0.1	0.1	-0.1	-0.6
FX reserves (USD bn) pe	3.0	2.4	2.1	1.6	1.4	1.3	1.1
- Import cover (months) pe	4.1	3.7	2.9	1.8	2.2	1.9	1.4
Sovereign Credit Rating							
S&P	B	B	B	B	B	B	B
Moody's	B2	B3	B3	B3	B3	B3	B3
Fitch	B	B	B	B-	B-	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	10.0	18.2	6.6	7.5	9.1	16.4	12.0
Consumer inflation (%) pe	21.1	7.5	6.1	7.9	11.7	16.8	9.9
M3 money supply (% y/y) pa	22.0	7.2	7.8	16.3	15.0	20.1	24.8
M3 money supply (% y/y) pe	35.2	-5.7	21.4	16.5	12.5	27.8	24.2
Policy interest rate (%) pa	13.00	15.50	12.31	9.79	10.29	11.50	10.38
Policy interest rate (%) pe	15.50	15.50	10.25	9.75	11.50	11.50	10.00
3-m rate (%) pe	15.0	20.5	9.8	12.0	16.5	18.5	19.0
1-y rate (%) pe	21.5	25.0	16.5	19.5	20.0	21.0	22.0
3-y rate (%) pe	23.5	23.2	18.0	20.0	21.5	22.0	25.0
5-y rate (%) pe	28.0	25.0	18.0	21.0	25.5	22.5	25.5
USD/ZMW pa	9.6	10.5	9.6	11.2	13.0	18.9	18.8
USD/ZMW pe	11.0	9.8	10.0	11.9	14.0	19.4	18.6

Source: Bank of Zambia; Zambia Statistics Agency; Bloomberg; Standard Bank Research; Ministry of Finance and National Planning

Notes: pa - period average; pe - period end

Glossary

For brevity, we frequently use acronyms that refer to specific institutions or economic concepts. For reference, below we spell out these and provide definitions of some economic concepts that they represent.

14-d	14-day, as in 14-d deposit, which denotes 14 day deposit
10-y	10-year
16 Jan 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

Protection of Personal Information Consent

Standard Bank Group, its subsidiaries and associate business units (including Standard Bank Research) have committed to treat the personal information that it collects as private and confidential and has published a comprehensive privacy statement accessible on this link. Should you wish to withdraw your consent to the processing of your personal information kindly email ResearchCompliance@standardbank.co.za

Client:	means, for the purpose of this section, any natural or juristic person acting through their duly authorise representative(s), who has subscribed to or consented to being subscribed to receiving research Services
Personal Information:	means information relating to an identifiable, natural or juristic person, including information relating to race, gender, sex, marital status, nationality, ethnic or social origin, colour, sexual orientation, age, physical or mental health, religion, belief, disability, language, birth, education, identity number, telephone number, email, postal or street address, biometric information and financial, criminal or employment history as well as correspondence sent by the person that is implicitly or explicitly of a private or confidential nature or further correspondence that would reveal the contents of the original correspondence.
Process:	means any operation or activity, whether automated or not, concerning Personal Information, including collection, receipt, recording, organisation, collation, storage, updating, modification, retrieval, alteration, consultation, use, dissemination (whether by means of transmission, distribution or making available in any form), merging, linking, blocking, degradation, erasure or destruction
Research Reports:	means investment research reports, in relation to the Services, prepared by an independent research analyst, non-independent research analyst or strategist who is part of an investment research team in a stock brokerage, global markets desk or corporate and investment bank environment.
Services:	means, *inter alia*, the provision of the Research Reports and other communications and events with respect to equities, market strategy, companies, industries, commodities and countries and associated sales and trading commentary by Standard Bank Research ("SBR")

CONSENT FOR PROCESSING PERSONAL INFORMATION

1.1 The Client acknowledges that:

1.1.1 Applicable laws may at times require SBR to collect the Client's Personal Information;

1.1.2 Personal Information may be collected from public sources;

1.1.3 SBR may be unable to fulfil its regulatory obligations and provide Services to the Client without Processing the Client's Personal Information;

1.1.4 All Personal Information which the Client provides to SBR is voluntarily provided;

1.1.5 SBR shall determine the Services and means of Processing any Personal Information that is provided by the Client;

1.1.6 Personal Information may be processed by SBR and/ or, The Standard Bank of South Africa Limited and/or its associated entities or duly authorised third party service providers.

1.1.7 The Client consents to SBR processing its Personal Information in order to:

1.1.7.1 create and administer the Client's profile as contemplated by regulation;

1.1.7.2 carry out statistical and other analysis to identify potential markets and trends;

1.1.7.3 develop new products and services; and/or

1.1.7.4 any other purpose SBR reasonably believe is required to fulfil its obligations in accordance with regulation or this agreement.

1.1.8 The Client has consented to the Processing of its Personal Information for the purpose of clause 1. 7 above.

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.

1.1.10 SBR will require any third-party service providers to whom the Client's Personal Information is provided to agree to SBR' data privacy principles policy and practices in accordance with the prevailing regulations including data privacy laws.

Disclaimer

This material is non-independent research. Non-independent research is a "marketing communication"

This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Additional information with respect to any security referred to herein may be made available on request. This material is for the general information of institutional and market professionals' clients of Standard Bank Group (SBG) only. Recipients who are not market professionals or institutional investor customers of SBG should seek advice of their independent financial advisor prior to taking any investment decision based on this communication or for any necessary explanation of its content. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendations in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The information, tools and material presented in this marketing communication are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but SBG does not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. The information and opinions contained in this document were produced by SBG as per the date stated and may be subject to change without prior notification Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

SBG or its employees may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. Where SBG designates NON- INDEPENDENT Research to be a "marketing communication", that term is used in SBG's Research Policy. This policy is available from the Research Compliance Office at SBG. SBG does and seeks to do business with companies covered in its non-independent research reports including Marketing Communications. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

SBG has published a Conflicts of Interest Policy that is available upon request which describes the organisational and administrative arrangements for the prevention and avoidance of conflicts of interest. Further disclosures required under the FCA Conduct of Business Sourcebook and other regulatory bodies are available on request from the Research Compliance Department and or Global Conflicts Control Room, unless otherwise stated, share prices provided within this material are as at the close of business on the day prior to the date of the material. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of SBG. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SBG or its affiliates.

SBG believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of this communication were obtained or derived from sources SBG believes are reliable, but SBG makes no representations as to their accuracy or completeness. Additional information is available upon request. SBG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SBG.

The services, securities and investments discussed in this material may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss. Past performance is no guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Some investments discussed in this marketing communication have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make them investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report is issued and distributed in Europe by Standard Advisory London Limited 20 Gresham Street, London EC2V 7JE which is authorised by the Financial Conduct Authority ("FCA"). This report is being distributed in Kenya by Stanbic Bank Kenya ; in Nigeria by Stanbic IBTC; in Angola by Standard Bank de Angola S.A.; into the People's Republic of China from overseas by the Standard Bank Limited; in Botswana by Stanbic Bank Botswana Limited; in Democratic Republic of Congo by Stanbic Bank Congo s.a.r.l.; in Ghana by Stanbic Bank Ghana Limited; in Hong Kong by Standard Advisory Asia Limited; in Isle of Man by Standard Bank Isle of Man Limited; in Jersey by Standard Bank Jersey Limited; in Madagascar by Union Commercial Bank S.A.; in Mozambique by Standard Bank s.a.r.l.; in Malawi by Standard Bank Limited; in Namibia by Standard Bank Namibia Limited; in Mauritius by Standard Bank (Mauritius) Limited; in Tanzania by Stanbic Bank Tanzania Limited; in Swaziland by Standard Bank Swaziland Limited; in Zambia by Stanbic Bank Zambia Limited; in Zimbabwe by Stanbic Bank Zimbabwe Limited; in UAE by The Standard Bank of South Africa Limited (DIFC Branch).

Distribution in the United States: This publication is intended for distribution in the US solely to US institutional investors that qualify as "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended, and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these materials by its acceptance hereof represents and agrees that it shall not distribute or provide these materials to any other person. Any U.S. recipient of these materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this document, must contact and deal directly through a US registered representative affiliated with a broker-dealer registered with the U.S. Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). In the US, Standard Bank Group [SBG} has an affiliate, ICBC Standard Securities Inc. located at 520 Madison Avenue, 28th Floor, USA. Telephone +1 (212) 407-5000 which is registered with the SEC and is a member of FINRA and SIPC.

Recipients who no longer wish to receive such research reports should call +27 (11) 415 4272 or email SBRSupport@standardbank.co.za.

In jurisdictions where Standard Bank Group is not already registered or licensed to trade in securities, transactions will only be effected in accordance with the applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Standard Bank Group Ltd Reg.No.1969/017128/06) is listed on the JSE Limited. SBSA is an Authorised Financial Services Provider and it also regulated by the South African Reserve Bank.

Ferishka Bharuth
+27-11-415-4553
Ferishka.Bharuth@standardbank.co.za

Mulalo Madula
+27-11-415-4552
Mulalo.Madula@standardbank.co.za

Phumelele Mbiyo
+27-11-415-4486
Phumelele.Mbiyo@standardbank.co.za

Fausio Mussa
+258-215-01012
Fausio.Mussa@standardbank.co.mz

Jibran Qureishi
+254-203-638138
Jibran.Qureishi@stanbic.com

Dmitry Shishkin
+44-203-145-6963
Dmitry.Shishkin@standardbank.com

Gbolahan Taiwo
+234 1 422 8290
Gbolahan.Taiwo@stanbicibtc.co.za