AFRICAN MARKETS REVEALED

SEPTEMBER 2020

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Recovering, but not out of the woods

- The worst of the pandemic will arguably be reflected in Q2:20 GDP growth outcomes. Of the countries in our coverage, we see only a handful of economies escaping recession in 2020.
- Economic growth in Q2:20 contracted by 6.1% y/y, 3.3% y/y, and 3.2% y/y in Nigeria, Mozambique and Uganda respectively. The Ghanaian economy too contracted by 3.2% y/y in Q2:20, even worse than the 0.4% y/y contraction that we forecast for our bear scenario in the May edition of this publication.
- The more diversified economies and those with large subsistence agriculture sectors could post mild, yet positive, growth in 2020. Most East African countries fall into this bracket. Egypt too might also avoid a technical recession this year.
- However, Nigeria, Angola, Zambia and even Botswana, being overly reliant on just a few sectors to drive growth, will most likely contract this year. The only question is by how much?
- Tourism-dependent economies will take a hit. We still don't see any meaningful recovery in tourism until a global vaccine is at hand. The weakness in the tourism sector is mostly a BOP problem rather than a growth problem for many African countries. However, the service value chain that relies on a robust tourism sector too, will most likely weigh down growth in these economies.
- Despite leading economic indicators implying an improvement in business confidence and economic activity in H2:20, we ought to remain cautious given the many unknowns of the pandemic. Still, as most authorities have relaxed domestic containment measures and as external demand for exports has recovered, economic activity has picked up, albeit from a trough in Apr. The outlook though is clouded.
- **Fixed income strategy**: as central bank MPCs have eased policy and as global risk appetite has improved, local fixed income markets have rallied since May. Of the markets in our coverage, Uganda, Egypt, Ghana and even Kenya have seen a resumption in foreign portfolio inflows. However, owing to the upcoming elections in Ghana and Uganda, fiscal slippage risks are elevated. Hence, we would wait for better entry levels on both FX and yields. We still favour the Kenya Infrastructure Bonds (KENIBs). Also, given the relative attractiveness of EGP real yields, it may be time to look at those government bonds more closely.
- **FX strategy:** given that we see limited scope for the NGN being devalued, we are comfortable selling the USD/NGN NDFs. We see a higher probability of the CBN providing FX supply to the market without necessarily allowing the NAFEX rate to materially adjust higher. Of course, the CBN would be conscious of providing FX liquidity to investors, that would swiftly exit the market, thereby, compounding external account pressures. However, significantly lower OMO yields present little incentive for foreign portfolio investors to stay in the market. We also remain constructive on the EGP and are still sellers of the USD/EGP NDFs. But for the ETB and AOA, we see value in buying the NDFs given the historical appreciation of the real effective exchange rates, combined with the likely pressure that will manifest from the IMF to allow the exchange rates to adjust.

GDP growth outlook: recovery expected but outlook clouded

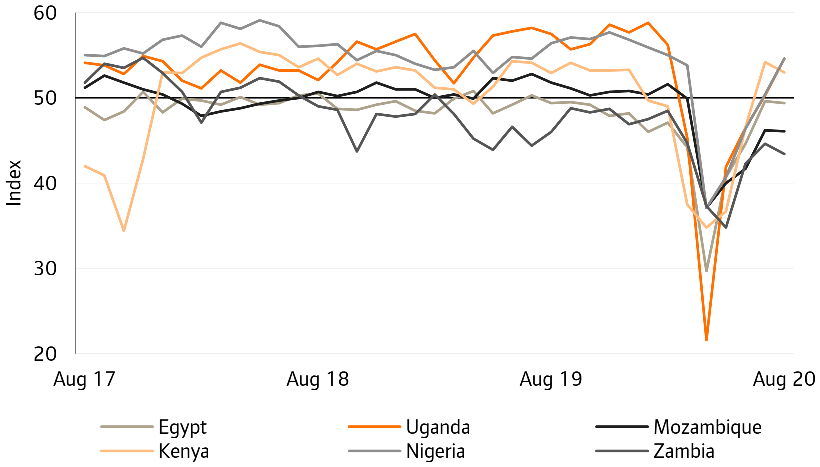
Macroeconomic forecasting inherently comes with its own complexities, now exacerbated by the unknowns of the pandemic. We therefore present a scenario-based analysis to outline the various pre-conditions for our forecasts to be accurate.

The IMF now expects GDP growth in Sub-Saharan Africa (SSA) to contract by 3.2% y/y in 2020, before recovering to 3.4% y/y in 2021. Admittedly, the pandemic has brought about a confluence of factors that have weighed down growth in most economies in our coverage.

The pandemic initially dislocated global supply chains which inevitably disrupted trade and subsequently made it cumbersome for most firms to source raw materials. This has been compounded by public health restrictions and lockdowns. An abrupt halt to cross-border travel has dented tourism-dependent economies, and the sharp slide in oil has spurred external and fiscal pressures for oil-exporting nations.

However, most governments have now begun to ease curfews and lockdowns. So, off a low base, of course economic activity has started to recover. Figure 1 shows that since Jun and Jul, most Purchasing Managers Indexes (PMI) indicate some improvement in business confidence and private sector economic activity.

Figure 1: Purchasing Managers Index



Source: IHS Markit

The IMF turned even more bearish on its outlook for SSA when it reviewed its growth projections in Jun. The expected 3.2% y/y contraction for 2020 is the worst on record since data collection began. Arguably, Q2:20 GDP growth will probably reflect the worst of the pandemic. So far, from the latest available data, GDP growth in Q2:20 has contracted by 6.1% y/y, 3.3% y/y, and 3.2% y/y in Nigeria, Mozambique and Uganda respectively. Notably, economic growth in Ghana and Rwanda contracted by 3.2% y/y and 12.4% y/y respectively in Q2:20. These outcomes were far worse that our bearish scenario estimates.

Even for economies for which we currently don't anticipate a contraction for the full year 2020, it is highly probable that GDP growth would have contracted in Q2:20. Figure 2 shows that while we expect growth in Kenya, Uganda, Tanzania, and Côte d'Ivoire to decline meaningfully from 2019 levels, we don't expect them to contract in 2020.

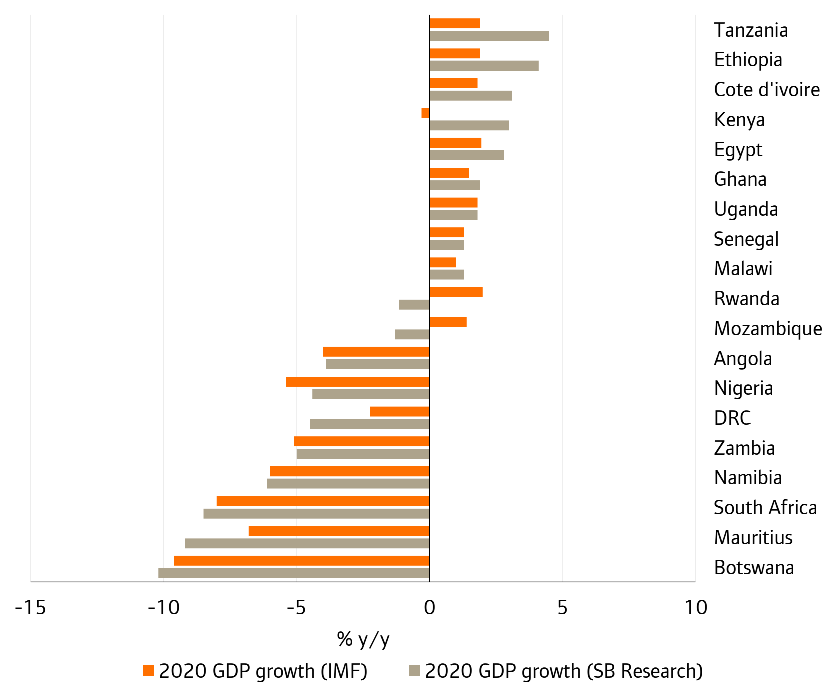
But African countries can't be said to be a one size fits all. Those economies more diversified than others, such as the ones above, will probably be a lot more resilient. But others such as Nigeria, Angola and even Botswana that are heavily concentrated and reliant on one or a few sectors, don't really have a hedging mechanism to weather the storm. All three are set to contract in 2020, it is just a question of how much.

Other economies such as Zambia, Mozambique and even Namibia came into 2020 with longstanding macroeconomic vulnerabilities, now exacerbated by the pandemic. For them, economic growth recovering will be protracted.

It would seem wiser to await Q2:20 GDP outcomes before forecasting 2020 GDP growth for the countries we cover but we choose the more pre-emptive route. Whilst the growth outlook for 2020 would depend on just how poor Q2:20 GDP was, we also ought to appreciate certain idiosyncrasies, in various economies across the continent, that could underpin their resilience despite the pandemic.

For instance, East African economies, being well diversified, also have large subsistence agricultural sectors accounting for nearly a third of economic activity. So, while the dislocation of global supply chains in the immediate aftermath of the pandemic had disrupted commercial agricultural exports, subsistence farming has remained robust.

Figure 2: Standard Bank Research growth forecasts vs the IMF



Source: IMF; Standard Bank Research

Notwithstanding desert locust invasions potentially destroying harvests in the Eastern and Horn of Africa region, the weather has been broadly favourable for the agricultural sub-sector this year. The pandemic hasn't truly affected subsistence farming.

Admittedly, some economies will face severe headwinds associated with lower oil prices. For instance, the Angolan economy has been contracting since 2016. Hence, given the sharp decline in oil prices, structural deficiencies will most likely be exacerbated, which thereby will result in a rather protracted economic recovery path.

To reiterate, other economies that rely on the tourism sector too could suffer. Despite many African economies opting to re-open their international airspace between Jul and Sep, we'd foresee little meaningful pick-up in tourist arrivals until a vaccine is in effect.

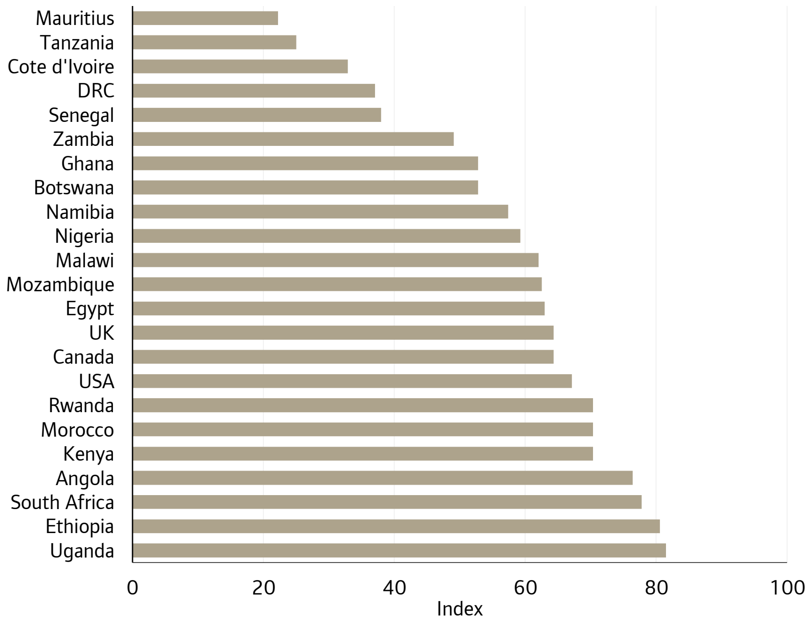
Economic activity should modestly recover from H2:20 as domestic containment measures are lifted and as external demand from key trade partners recovers. However, the damage during Q2:20 could prove protracted. Jobs lost then are unlikely to be restored soon, considering the acute cashflow shortages. Scaling back on wage costs could be a primary strategy to safeguard profitability. One should therefore be most cautious about GDP growth numbers for H2:20 and even H1:21 where significant and favourable base effects would unwind. Critically, the nature of the pandemic crisis still spells a highly uncertain outlook, notwithstanding the recent pick-up in most leading economic indicators from Jun 20.

Has viral testing been adequate?

From the outset here, we must point out that we're neither epidemiologists nor virus specialists. However, arguably any further domestic curfews or lockdowns would present notable downside risks to our economic growth outlook for H2:20 and 2021. Still, our base case scenarios do not factor in recurring lockdowns.

The Oxford Stringency Index in Figure 3 indicates the severity of various countries' public health restrictions. Uganda, Kenya, Ethiopia, Morocco, Rwanda and Angola have had quite stringent restrictions — but Tanzania, Zambia, Senegal, Côte d'Ivoire, Mauritius and Ghana less so.

Figure 3: Oxford Stringency Index



Source: Our World in Data

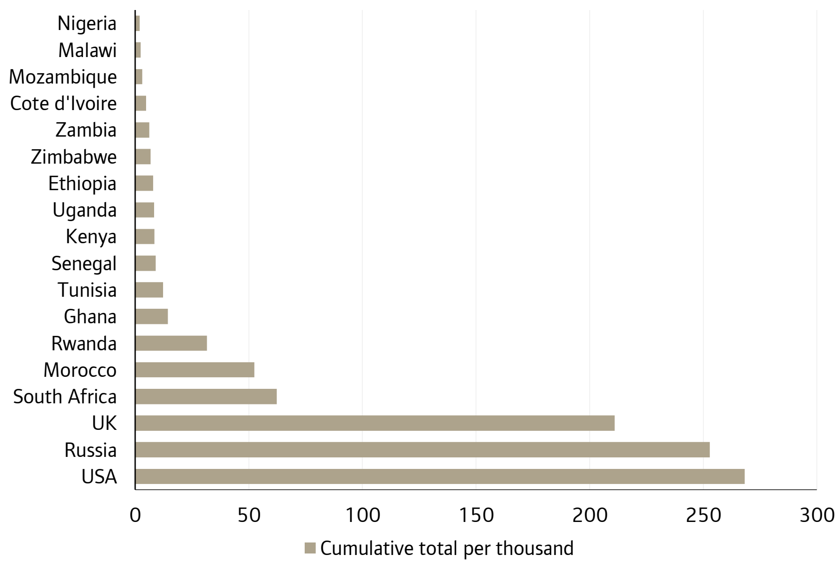
There is confusion about the rate of infection and even fatalities not rising as exponentially on the African continent as elsewhere. Medical experts have suggested that the continent's youthful demographic may be in play here.

However, Figure 4 shows how new infections are a function of the number of samples tested. The more tests, the more cases. Still, the curve has begun to reportedly flatten but the only way to know for sure would be through adequate testing. The Tanzanian government, for instance, hasn't reported new cases since the end of Apr, which could hardly be assumed to be correct.

As at 31 Aug, South Africa had cumulatively conducted 62.3 tests per 1,000 people compared to 1.9, 3.0, 8.3, and 8.4 in Nigeria, Mozambique, Uganda and Kenya respectively. Only Morocco at 52.4 and Rwanda at 31.6 were anywhere close to South Africa, when assessing cumulative Covid-19 tests per 1,000 people. However, comparatively, testing in Africa remains well below advanced economies, as the UK and US have tested 211.0 and 258.3 tests per 1,000 people.

Furthermore, given the weak health infrastructure across most of Africa, the health system may well not withstand a rapid rise in cases. This concern would abide until a vaccine is found. Anecdotal evidence though implies no indications of an overburdened healthcare system. Bed capacity still seems adequate, but this could be a function of the large number of asymptomatic cases. Most Ministries of Health have asymptomatic cases at an average of around 85% of all active cases.

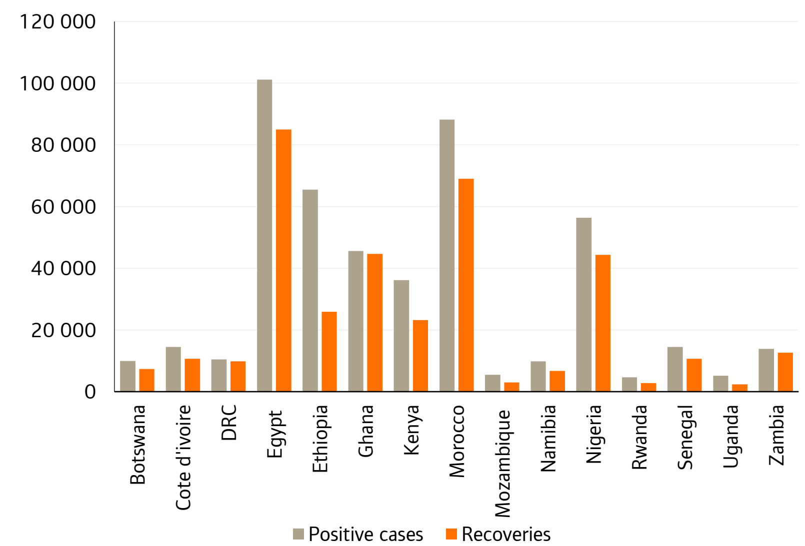
Figure 4: Covid-19 testing



Source: Our World in Data

Indeed, Figure 5 shows the rate of recoveries as notable, perhaps underscoring why the health system hasn't been overburdened. In any case, a health crisis is not the typical economic shock we model as a rule. Hence, a fair degree of uncertainty will persist until there is a medical solution and a widely distributed, and widely accepted one, for Africa.

Figure 5: Covid-19 recoveries



Source: Various Ministry of Health departments; John Hopkins

Fiscal policy: near-term expansionary bias

Policymakers have been expected to do all it takes to mitigate and curb the negative impact from the pandemic on economic growth. Critically, fiscal policies have had to become swiftly expansionary — but at the risk of being downgraded by credit rating agencies. And, many economies lacked healthy fiscal positions even before the pandemic.

The subsequent urgency to raise social and healthcare spending, in addition to the likelihood that fiscal revenues would slide, will probably result in significantly wider fiscal deficits in 2020 and perhaps even in 2021.

For instance, in Botswana, the government has established a Covid-19 relief fund amounting to 1.1% of GDP to fund a wage subsidy of 50% of workers' salaries, for businesses affected by the pandemic. That said, due to the conservative fiscal posture that the government tend to adopt, this wider budget deficit would still predominantly be financed via domestic savings in Botswana.

Already there have been notable revisions in fiscal budgets for some countries. In Ghana, the government now expects the budget deficit to widen to 11.4% of GDP in 2020, from their initial target of 4.7%. They had been keen to maintain a fiscal deficit responsibility rule below 5.0% of GDP over the past 3-y. However, concerningly, they now don't expect to return within this 5.0% threshold until 2024. Of course, with elections coming up in Dec 20, fiscal slippage risks are elevated, and it seems like the consolidation path may be gradual too.

In Egypt, the FY2020/21 budget estimates seem way too ambitious, especially amidst the economic shortcomings induced by the pandemic. This perhaps doesn't come as a surprise, considering that the authorities had already finalized most of their budget estimates by around Mar 20. Therefore, the planned fiscal deficit of 6.3% of GDP for FY2020/21 will probably be revised higher, perhaps before end Sep. Bear in mind that the Egyptian government provided a fiscal support package worth 2.0% of GDP to mitigate the detrimental economic impact. Additionally, the authorities have also provided a raft of tax holidays and the option for the payment of taxes in instalments, for certain affected sectors. The market also remains concerned that military and defence related expenditure would probably have to increase, following parliamentary approval to engage in military action, in neighbouring Libya.

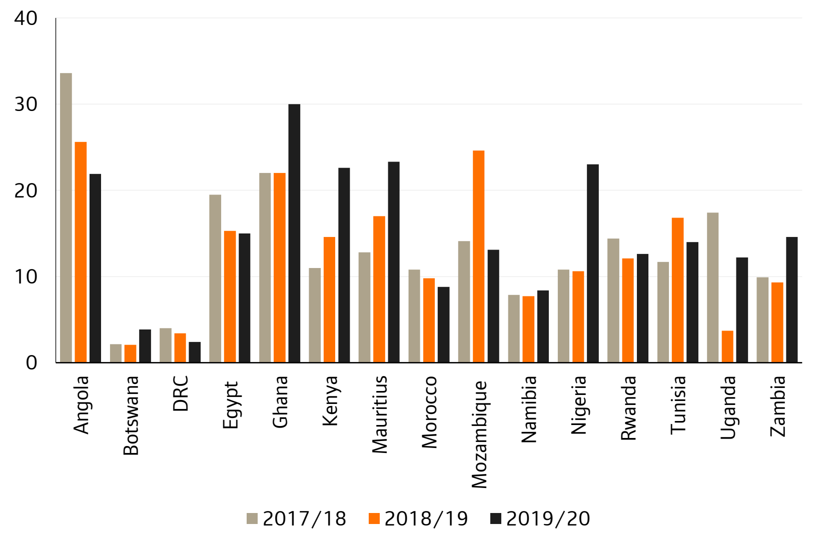
Kenyan authorities too have struggled to consolidate public finances despite the promises of the last 3-y. Covid-19 and the subsequent slowdown in economic activity will perhaps delay such consolidation by at least 1-y. Still, 2021 is a pre-election year and we struggle to see how the government could lower its fiscal deficit at least until 2023. We'd even expect a significant revision to FY2020/21 fiscal estimates in the Budget Review Outlook Paper (BROP) in Oct.

The Zambian government will publish the FY2021 budget earlier this year, on 25 Sep. The FY2020 budget was initially expected to decline to 5.0% of GDP, from an outturn of 6.4% in the previous fiscal year. Hence, notable revisions are likely in the 2020 budget. However, the 2021 budget will perhaps be the more important focus, especially given that the IMF has had reservations on Zambia's management of public finances for the better part of the last 3-y. The Zambian government's request for a Rapid Credit Facility (RCF) from the IMF was not approved due to the debt position being classified as unsustainable by the multilateral agency.

We noted in May both Zambia and Angola as being at risk of a technical default over the coming year or two. The market has seen this as possible for Zambia as far back as two years ago already. However, Zambia has muddled through, even though FX reserves have barely budged. The ongoing external debt restructuring process perhaps bodes well for Zambia, if successful. But we aren't clear if an IMF funded programme would need to be in place for external creditors to agree to a restructuring. Nevertheless, the fiscal position and plans to consolidate will probably be the primary precursor for the IMF to even begin negotiations on a programme. Of course, 2021 being an election year in Zambia, and the recent poor track record on scaling back on public expenditure, implies little fiscal consolidation over the coming year according to us.

In Angola, due to lower oil prices, fiscal and external pressures will increase. However, these pressures should be alleviated by the recent suspension of Angola's debt service from the Paris Club until Dec 20, in addition to the World Bank's Debt Service Suspension Initiative (DSSI). According to media reports, under the DSSI, around USD2.6bn in interest payments could be deferred. Also, based on media reports again, Angola may also benefit from debt restructuring talks with China, with most of this debt contracted on commercial terms. Commercial debt accounts for 80% of Angola's debt stock. The potential savings on debt service owed to China being reported are worth a notable USD22.0bn. Crucially, the revised budget published in Jul indicates a decline in external debt service costs to USD4.5bn from USD7.0bn initially, perhaps reflecting some of these debt service relief initiatives.

Figure 6: External debt service as a percentage of exports



Source: Various Ministries of Finance; Standard Bank Research

Monetary policy: on hold

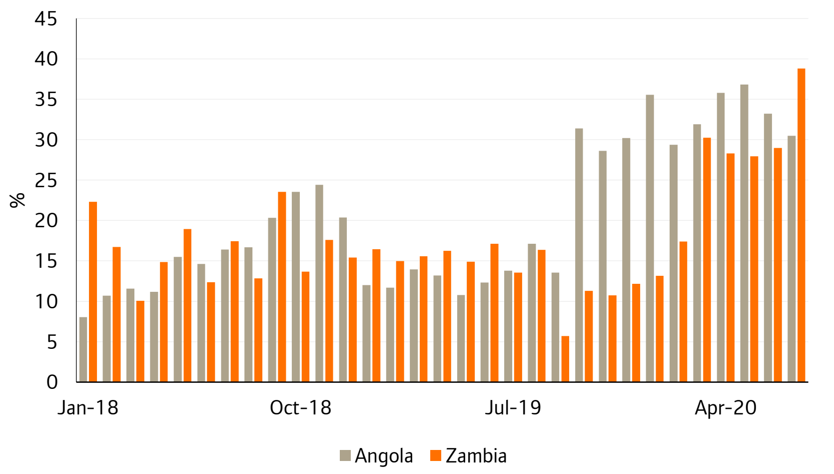
Back in Mar/Apr when the world was looking to policymakers to step in and mitigate the health crisis, there was a stark contrast between the countercyclical support options of African policymakers, compared to advanced economies. In the latter, monetary policy has probably run out of road. However, in African economies, it could be the opposite. There was room to adjust monetary policy, although not sufficient space for expansionary fiscal policies. Most MPCs have cut key benchmark rates and even slashed reserve ratio requirements since Mar. Of the countries from our coverage, it was only the Banque Centrale du Congo's MPC which has hiked rates by a whopping 11 ppts, to 18.5%.

Most MPCs are now expected to remain neutral until H2:21. However, an easing bias will likely persist. There has been a pick-up in economic activity from Jun, albeit from a low base in Apr, which could embolden most MPCs to stand pat. However, in those markets where policymakers are not entirely convinced of an economic recovery, further cuts are still possible, but we'd foresee little scope for that from current levels.

Underlying inflation pressures remain subdued in most economies; the modest recovery in economic activity since Jun won't be sufficient to bring about durable demand-driven inflation pressures. In some countries where core inflation has been edging higher, it's been largely because of higher public transport costs due to social distancing rules. This effect will fade but in other countries such Angola, Zambia, Nigeria, Ethiopia and even Ghana, structural problems abide, resulting in somewhat stickier inflation.

Inflation will probably remain elevated in markets such as Ethiopia where governments continue to monetize deficits. We will also keep an eye on M2 money supply growth or even the monetary base for say Zambia and Angola which look the more prone to be tempted into monetizing their deficits.

Figure 7: Annual M2 money supply growth



Source: Bloomberg, Bank of Zambia

The earlier interest rate cuts in the year continue to split opinion in terms of their effectiveness. Asset quality has deteriorated, thus, cutting rates won't do enough to spur private sector credit growth. But cutting rates and improving liquidity in various interbank markets was perhaps pivotal in avoiding a banking crisis, in our view.

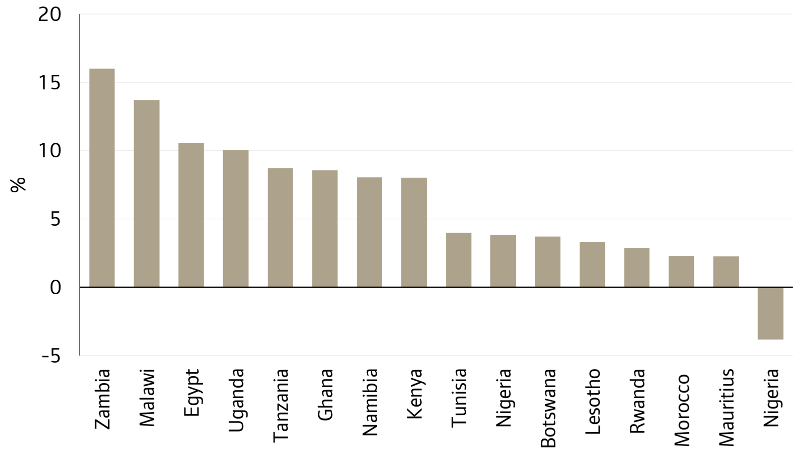
Fixed income strategy: tactical opportunities

Despite the swift transition to expansionary fiscal policies which has also resulted in larger domestic borrowing plans, most local fixed income markets have rallied since May.

In Mar/Apr when portfolio outflows rose due to the acute deterioration in global risk sentiment, local fixed income markets sold off. However, as central banks have eased policy since, local fixed income markets have rallied. Of course, the excess liquidity availed by the looser monetary policy across various economies has largely been channelled towards government paper, rather than extended to the private sector in the form of loans. And so, aggregate demand has weakened, and asset quality for commercial banks has faltered. Hence, local banks mostly prefer investing in government paper despite the expectation of wider fiscal deficits.

We continue to hold the Kenya Infrastructure Bonds (KENIBs) in our shadow portfolio. Moreover, due to elevated fiscal slippage risks ahead of elections in Ghana and Uganda, we prefer to remain somewhat cautious for now and await better entry levels, for both yields and FX. However, the longer end of the curve in Egypt deserves a closer look given the relative appeal of real yields. In Zambia, while its perhaps tempting to potentially explore the 2-5y government bond tenors, we are happy to revisit this trade once there is more clarity on the FY2021 budget and IMF discussions.

Figure 8: Real 10-y government bond yield



Source: Bloomberg; Standard Bank Research

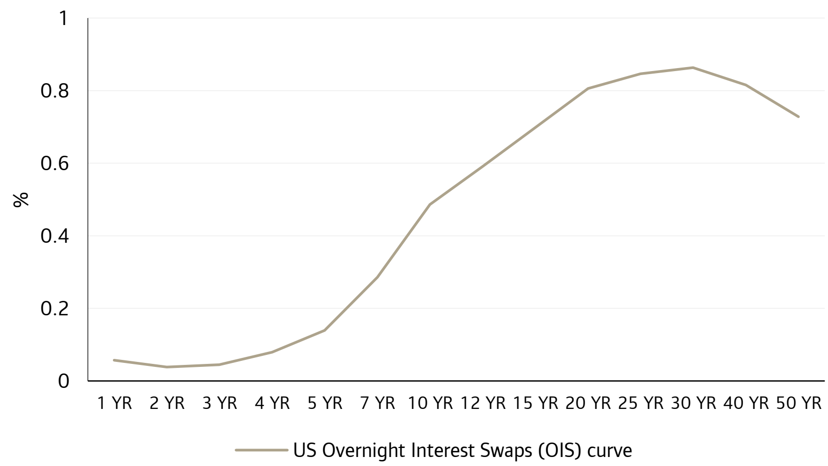
G10 view: global recession; short and deep but with legacy effects

The epicentre of the pandemic-induced recession would have been in Q2:20; the rebound in H2:20 should therefore prove substantial, if not enough to avoid a dramatic fall of near 7% in GDP for the year in advanced countries. Around two-thirds of this decline will likely be made up next year, assuming that major nations can roll out a vaccine in early 2021.

Still, the recovery is likely to be gradual and the legacy effects of the pandemic will persist for years if not decades. Legacy effects could include sharp increases in government and private debt, higher precautionary savings, lower productivity, and more. This would imply that advanced economies will have lost some of their productive potential long after the pandemic is over. Policymakers realise that the support they are providing will have to persist for a long time on the monetary side and scaled back very gradually on the fiscal front. The 2008 global financial crisis (GFC) consensus, such as it is that, seems to imply that governments had tightened fiscal policy too fast in the aftermath of that crisis. They would probably not look to make that mistake again.

Market pricing shows that a very elongated period of low rates is baked into expectations. In the US, Fed Chair Powell has said that rates would stay low for years. The Overnight Interest Swap (OIS) market, for instance, puts this at five-years plus and we don’t see that as too pessimistic.

Figure 9: Low rates for 5-plus years

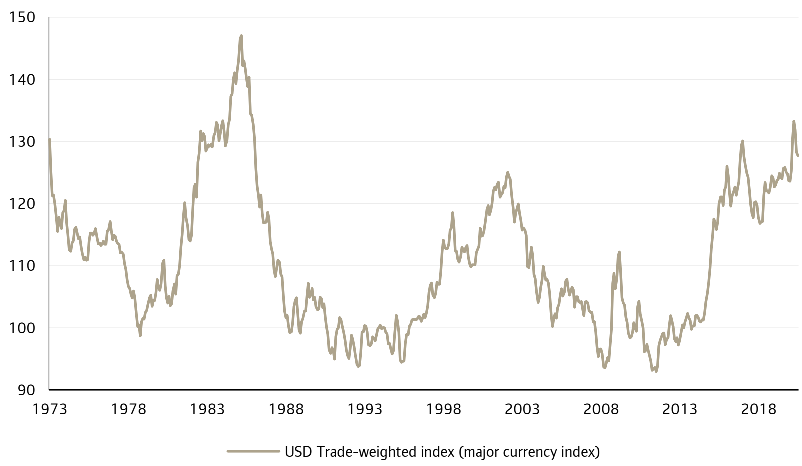


Source: Bloomberg

What's more, the Fed could prove to be the first of the major central banks to hike policy rates. The ECB's lesson from the GFC is to refrain from tightening policy too quickly. Policy rates could therefore stay at zero in the Eurozone for a decade.

Government bond yields will be nailed down by low policy rates, with not even inflated budget deficits likely to lift yields materially. The next significant test of the bull market in government bonds probably won't occur until central banks start to slow their bond purchases. A repeat of the infamous 'taper tantrum' of 2013, when the Fed signalled less bond-buying support, hit emerging markets hard. We don't expect a repeat because investor positioning towards EM assets is lighter and the Fed's recent change to its longer-run monetary policy strategy suggests a greater tolerance for higher inflation and hence extended treasury purchases. In our view, there is unlikely to be a rise in treasury yields that adversely impacts risk assets, such as emerging market bonds and currencies. Could a surge in the value of the dollar do the damage instead? We don't think so. In fact, we expect the dollar to undergo a significant long-run downtrend that sees it lose around a quarter of its value in the coming years against currencies from other advanced nations.

Figure 10: Dollar expected to enter a downtrend



Source: BIS

The dollar tends to undergo multi-year trends; the last being a rally of some 40% against other major currencies which began in 2011. This has left the dollar overvalued. More significantly, downtrends usually occur when the US undertakes significant fiscal easing that exacerbates the country's twin deficit problem, leaving the country more dependent on inflows of capital.

Our sense is that inflows of capital to the US could be compromised by the US's very low rate structure and the way in which the Trump administration has undermined confidence in the US as a dominant global power with its efforts to reverse globalisation and multilateralism. The Covid-19 shock did not lead to a surge in the dollar against other major developed currencies, unlike the GFC, which we think is indicative of the US's declining appeal during times of stress.

If the dollar is proving less attractive in a crisis, we think some of its assets, such as equities, might also be less attractive than previously in periods when global risk aversion is low. US stocks are undoubtedly expensive relative to most other markets, while some other regions, specifically the Eurozone, have seen policymakers take important proactive steps during the Covid-19 crisis, that make their assets more attractive. One example of this is the European Commission's plans to issue euro debt in significant size to pay for Covid-19 aid across the region.

Our call for dollar weakness is not dependent on the outcome of the US presidential election on 3 November. We are assuming a victory for Democrat Party candidate Biden but, should this prove wrong, we suspect that any early lift for the dollar, conditioned on expectations for more US tax cuts, would soon disappear. Indeed, any such cuts during a second term for President Trump, would only exacerbate the US's twin deficit problem and lead to even more weakness for the dollar over the long haul.

The bottom line is that economic and financial market developments in advanced countries should be consistent with a positive backdrop for emerging market assets. Of course, hiccups could occur, such as a second major Covid-19 wave that lifts risk aversion, or a quick end to central bank support from the likes of the Fed. But, at this stage we think the risks of such adverse events are relatively low.

FX strategy: EGP likely to continue shining

Most exchange rates seem to have stabilized, following the sudden deterioration in global risk sentiment in Mar, which resulted in a dampening of confidence and sharp rise in foreign portfolio outflows.

However, as global risk appetite has come around, local units have found some much needed stability. The UGX, EGP and even the GHS have benefited from a resumption in foreign portfolio inflows.

Unfortunately, moral suasion in some markets has effectively compounded USD liquidity shortages. For the non-oil exporting economies, Tanzania, Malawi and Zambia are exhibiting these deficiencies. In Tanzania and Malawi, we don't see a fundamental issue with the Balance of Payments (BOP). Thus, these USD liquidity issues are largely manifesting in the respective central bank's reluctance to supply USD to the market. In Zambia, despite higher copper prices, the dollarization of mining taxes that now ought to be paid directly to the BOZ, is most likely resulting in USD liquidity issues.

Meanwhile, not surprisingly, the outlook for the NGN continues to split opinion, following the external pressures that have transpired, as international oil prices collapsed. We have recommended selling the 12-m USD/NGN NDF, a trade that has since delivered a direct return of 4.4% in USD terms, in our shadow portfolio. Clearly, as advocates for selling USD/NGN NDFs, we see little scope for the CBN to devalue the NGN. We see a higher likelihood of the CBN resuming FX sales to BDCs at current FX levels, rather than allowing the official or the NAFEX rates, to move higher. Indeed, following the resumption of international flights, FX sales resumed, albeit with restrictive conditions to engage in forwards.

Admittedly, even if the CBN was to sufficiently provide FX liquidity to clear the current backlog, they are obviously concerned that most investors will be quick to exit the market straight away. After all, OMO yields are probably too low to embolden portfolio investors to retain their holding in NGN assets. The CBN would probably have to make these yields more attractive to retain foreign holdings in the NGN fixed income market.

Another market where we are happy to sell the NDFs, is for USD/EGP. We recommended this position in May and it has since delivered a direct USD return of 8.0% in our shadow portfolio. Real EGP yields remain very attractive on a relative basis to other markets on the continent. In fact, we get the sense that the Central Bank of Egypt's MPC is advertently looking to maintain attractive real yields by way of retaining foreign portfolio investors invested in government paper. Bear in mind that this offshore investment is currently heavily concentrated at the shorter-end of the curve. We will continue holding this position in our shadow portfolio.

We have been recommending buying NDFs for USD/ETB and USD/AOA. At the time of writing, our ETB trade recommendation had provided a direct USD return of 6.4%, while the AOA trade had lost 0.3%. The ETB is overvalued on a real effective basis and with inflation likely to remain sticky, as the government continues to monetize their deficit, we continue to see an ETB depreciation bias on a multi-year basis. Similarly, for the

AOA, the central bank could temporarily manage the currency in a tight range as the USD linked bond repayments fall due in Q4:20. However, thereafter we suspect that the AOA will begin to depreciate again, driven by both IMF pressure under their programme as well as due to worsening external account shortfalls.

Political calendar

Earlier this year, due to the pandemic, the Ethiopian government postponed elections supposed to be held in Aug to a later date in 2021. However, regional elections were held earlier this month in Tigray, which the government has termed as unconstitutional and illegal. These tensions will only be compounded as the government prepares for elections next year.

Political tensions in Côte d'Ivoire are also heightened. President Outtara's announcement to run for a third term has received mixed reactions. According to the constitution, a two-term limit for the president is permissible. However, the government has argued that since the constitution was reformed in 2016, Outtara's term count should be reset. This decision has already resulted in demonstrations. Of course, given that the post-election violence from 2011 is still very fresh in people's minds, these recent developments will create anxiety for investors.

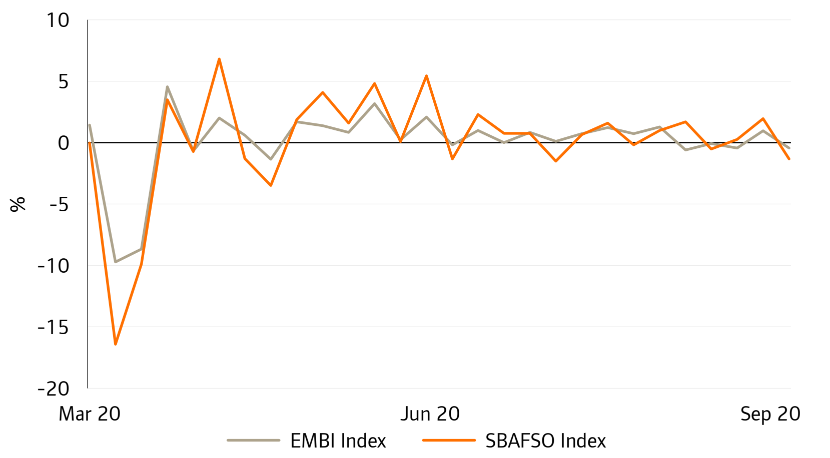
Ghana too is gearing up for elections in Dec, and, judging by history, political stability is likely. The two major parties, the National Patriotic Party (NPP) and the National Democratic Congress (NDC), have over the past 25-y alternated power every 8-y. Even if the elections went the opposition's way, we wouldn't foresee any significant shifts in economic policy especially given the track record of the opposition candidate, a former president.

Elections in Tanzania will be closely watched by the international community. The government has in the recent past been accused by human rights groups of muzzling the opposition and media. Consequently, the government has faced obstacles in sourcing external concessional funding, which has inevitably delayed the implementation of infrastructure projects.

African Eurobonds

African Eurobonds have rallied sharply since May, making it very hard to justify new recommendations at this stage. We benefited from this rally, as we had shifted to a 12% overweight position in our SBAFSO index in May.

Figure 11: Weekly return SBAFSO vs EMBI



Source: Bloomberg; Standard Bank Research

However, with the upcoming US elections, it's perhaps wise to reduce this exposure given the risk that global sentiment could deteriorate in Q4:20. We have therefore opted to re-align our portfolio to a 4% overweight position.

Notably, we have shifted to an underweight position in Côte d'Ivoire and Zambia. We have also reduced our overweight position to 1% from 2% previously for Ghana, Egypt, Kenya, Nigeria, Angola and Senegal.

Our bias favours the hard currency credits of the more diversified economies like Ghana, Egypt and Kenya. However, in markets like Angola and Zambia where there is clearly an elevated probability of default over the near- to medium term, we are keen to reduce exposure. That being said, a further muddle-through, combined with an external debt restructure in Zambia and debt service suspension savings in Angola, could make these two credits outstanding contrarian trades.

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	1.55	1.68	1.67	1.67	1.66	1.66	1.65
CNY/GHS	0.75	0.81	0.82	0.86	0.89	0.92	0.97
CNY/KES	14.53	14.86	15.09	16.07	16.08	16.14	16.26
CNY/MUR	5.09	5.54	5.68	5.87	5.83	5.80	5.75
CNY/ZAR	2.12	2.52	2.46	2.38	2.39	2.40	2.42
CNY/UGX	514.10	535.14	527.78	543.81	549.29	553.96	572.79

Source: Bloomberg Standard Bank Research

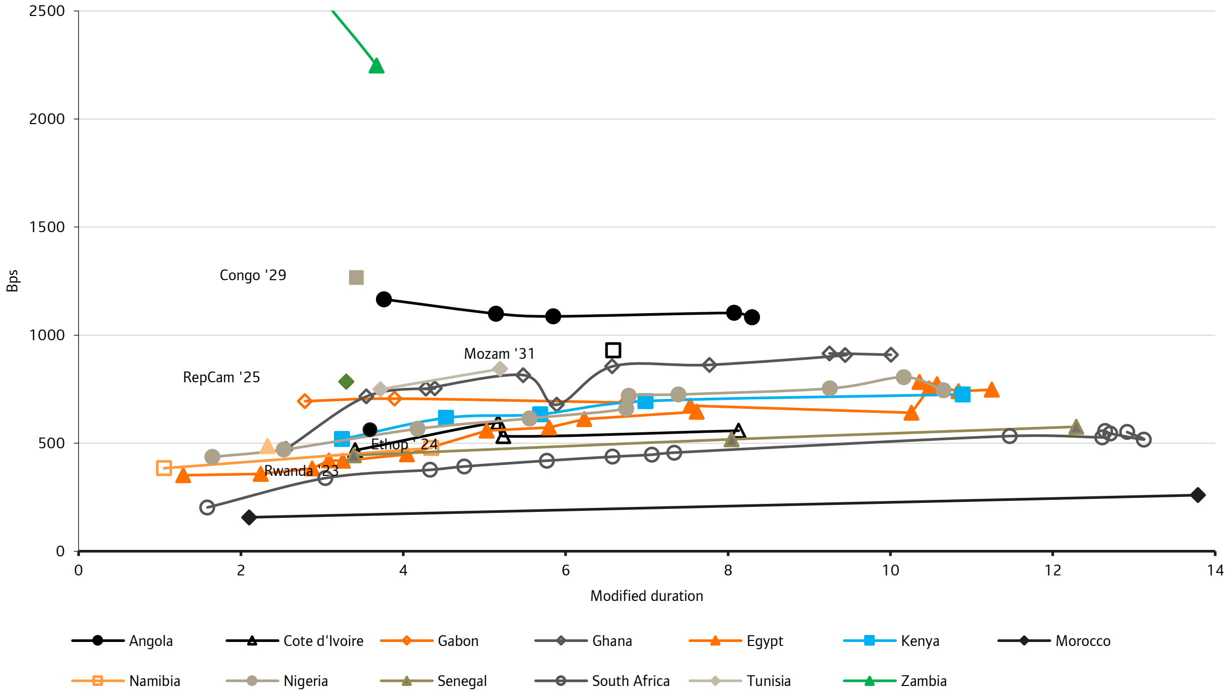
African Eurobonds

					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	Caa1/CCC	91.085	3.8	11.86	1,166	1,153	-1	733	670	0.2	-16.0	-11.3
ANGOL 8.25% 09-MAY-2028	Caa1/	84.610	5.1	11.31	1,099	1,083	2	580	535	0.0	-15.8	-11.4
ANGOL 8% 26-NOV-2029	Caa1/CCC	81.663	5.8	11.25	1,087	1,069	13	570		-0.6	-18.0	
ANGOL 9.375% 08-MAY-2048	Caa1/	81.529	8.1	11.62	1,103	1,081	0	455	421	0.1	-19.0	-14.7
ANGOL 9.125% 26-NOV-2049	Caa1/CCC	80.610	8.3	11.43	1,083	1,061	-2	439		0.2	-18.4	
REPCAM 9.5% 19-NOV-2025	/B	105.136	3.3	8.01	784	772	13	300	228	-0.3	-0.2	4.9
REPCON 3% 30-JUN-2029	/CCC	77.418	3.4	12.84	1,266	1,245	2	518	541	0.1	-5.4	-2.9
EGYPT 6.125% 31-JAN-2022	B2/B+	103.247	1.3	3.64	351	332	-7	121	93	0.2	3.1	5.2
EGYPT 5.577% 21-FEB-2023	B2u/B+	104.274	2.2	3.71	358	349	2	126	75	0.0	3.3	6.4
EGYPT 4.55% 20-NOV-2023	B2u/B+	101.668	2.9	3.98	383	375	1	157		0.0	2.6	
EGYPT 6.2004% 01-MAR-2024	B2u/B+	105.843	3.1	4.35	419	411	-1	184	103	0.1	1.8	6.4
EGYPT 5.75% 29-MAY-2024	B2u/B+	104.734	3.3	4.34	418	409	3			0.0		
EGYPT 5.875% 11-JUN-2025	B2/B+	104.889	4.0	4.70	448	440	-5	163	93	0.2	2.6	7.4
EGYPT 7.5% 31-JAN-2027	B2/B+	108.410	5.0	5.89	558	548	6	185	126	-0.3	2.1	6.9
EGYPT 6.588% 21-FEB-2028	B2u/B+	102.764	5.8	6.12	573	564	1	161	123	-0.1	3.3	6.9
EGYPT 7.6003% 01-MAR-2029	B2u/B+	106.847	6.2	6.53	612	599	7	172	131	-0.4	2.7	6.7
EGYPT 7.0529% 15-JAN-2032	B2u/B+	100.253	7.6	7.02	645	634	14	191		-1.0	0.4	
EGYPT 7.625% 29-MAY-2032	B2u/B+	102.497	7.5	7.30	674	661	14			-1.1		
EGYPT 6.875% 30-APR-2040	B2/B+	97.033	10.3	7.15	641	628	5	166	128	-0.6	0.8	5.1
EGYPT 8.5% 31-JAN-2047	B2/B+	102.077	10.5	8.30	753	742	11	206	161	-1.2	-2.5	2.6
EGYPT 8.7002% 01-MAR-2049	B2u/B+	102.104	10.6	8.50	773	762	17	212	171	-1.7	-3.1	1.6
EGYPT 8.875% 29-MAY-2050	B2u/B+	103.026	10.4	8.59	784	771	15			-1.5		
EGYPT 7.903% 21-FEB-2048	B2u/B+	96.757	10.8	8.20	740	731	11	201	163	-1.2	-2.5	1.8
EGYPT 8.15% 20-NOV-2059	B2u/B+	98.157	11.2	8.31	747	740	0	202		-0.1	-2.9	
ETHOPI 6.625% 11-DEC-2024	B2/B	103.011	3.6	5.81	562	553	1	256	178	0.0	-0.4	4.5
GABON 6.375% 12-DEC-2024	/CCC	97.972	2.8	7.09	694	684	42	356	176	-1.1	-2.0	6.4
GABON 6.95% 16-JUN-2025	Caa1/CCC	98.735	3.9	7.27	706	696	31	308	158	-1.1	-2.0	6.9
GABON 6.625% 06-FEB-2031	Caa1/CCC	95.252	6.7	7.33	688	674	16			-1.0		
GHANA 7.875% 07-AUG-2023	B3/B	107.993	2.6	4.86	473	463	1	154	136	0.0	3.3	5.6
GHANA 8.125% 18-JAN-2026	B3/B	102.807	3.5	7.35	716	705	15	257	214	-0.4	0.8	4.6
GHANA 6.375% 11-FEB-2027	B3/B	93.921	4.4	7.78	753	743	25			-1.0		
GHANA 7.875% 26-MAR-2027	B3u/B	99.289	4.3	7.76	752	740	17	264	214	-0.7	-0.2	4.3
GHANA 7.625% 16-MAY-2029	B3/B	95.133	5.5	8.50	815	801	21	267	237	-1.1	-1.3	2.3
GHANA 10.75% 14-OCT-2030	B1/BB-	123.515	5.9	7.17	678	661	-5	185	160	0.3	2.4	5.4
GHANA 8.125% 26-MAR-2032	B3u/B	93.219	6.6	9.00	855	837	22	269	246	-1.3	-2.7	0.6
GHANA 7.875% 11-FEB-2035	B3/B	89.914	7.8	9.20	862	847	16			-1.2		
GHANA 8.627% 16-JUN-2049	B3/B	89.337	9.4	9.74	907	889	15	245	231	-1.3	-4.3	-1.9
GHANA 8.95% 26-MAR-2051	B3u/B	91.744	9.2	9.81	915	896	17	243	212	-1.5	-3.8	0.3
GHANA 8.75% 11-MAR-2061	B3/B	89.379	10.0	9.81	909	895	15			-1.4		
IVYCST 5.375% 23-JUL-2024	Ba3/B+	101.802	3.4	4.85	467	459	2	226	164	0.0	0.4	4.2
IVYCST 2.5% 31-DEC-2032	/B+	97.234	5.2	6.28	596	574	0	203	176	0.0	1.3	4.2
IVYCST 6.375% 03-MAR-2028	Ba3/B+	103.821	5.2	5.66	532	523	-2	171	118	0.1	2.6	7.1
IVYCST 6.125% 15-JUN-2033	Ba3/B+	99.629	8.1	6.17	558	546	1	149	92	-0.1	3.0	8.8
KENINT 6.875% 24-JUN-2024	/NR	105.117	3.2	5.35	519	509	-9	210	156	0.4	1.5	5.2
KENINT 7% 22-MAY-2027	B2u/B+	102.670	4.5	6.43	617	605	-8	214	179	0.4	1.2	4.6
KENINT 7.25% 28-FEB-2028	B2u/B+	103.171	5.7	6.70	633	622	-3	228	153	0.2	-0.4	5.7
KENINT 8% 22-MAY-2032	B2u/B+	103.929	7.0	7.46	694	681	4	201	148	-0.2	0.5	5.8
KENINT 8.25% 28-FEB-2048	B2u/B+	102.081	10.9	8.06	726	717	2	169	119	-0.4	0.8	6.7
MOROC 4.25% 11-DEC-2022	/BBB-	105.535	2.1	1.70	157	148	-7	93	80	0.2	2.8	4.1
MOROC 5.5% 11-DEC-2042	/BBB-	128.304	13.8	3.63	260	268	1	86	52	-0.4	7.6	10.4
MOZAM 5% 15-SEP-2031	Caa2u/	85.428	6.6	9.74	929	917	-5	312		0.4	-4.9	
REPNAM 5.5% 03-NOV-2021	Ba2/BB	101.651	1.1	3.97	384	361	-20	224	187	0.3	1.5	3.5
REPNAM 5.25% 29-OCT-2025	Ba2/BB	101.045	4.3	5.01	478	468	3	210	153	-0.1	0.5	4.6
NGERIA 5.625% 27-JUN-2022	B2/B	101.906	1.6	4.49	436	423	2	217	185	0.1	1.6	3.8
NGERIA 6.375% 12-JUL-2023	/B	103.987	2.5	4.84	470	461	10	206	156	-0.2	1.7	4.8
NGERIA 7.625% 21-NOV-2025	B2/B	107.604	4.2	5.89	566	556	6	185	178	-0.2	2.4	4.3
NGERIA 6.5% 28-NOV-2027	B2/B	99.965	5.6	6.50	615	604	7	181	168	-0.4	2.4	4.6
NGERIA 7.143% 23-FEB-2030	B2/B	100.590	6.7	7.06	660	646	12	161	165	-0.7	3.6	4.5
NGERIA 8.747% 21-JAN-2031	B2/B	107.524	6.8	7.68	719	705	9	173	190	-0.7	3.0	3.0
NGERIA 7.875% 16-FEB-2032	B2/B	100.514	7.4	7.81	725	713	9	177	194	-0.6	2.3	2.1
NGERIA 7.696% 23-FEB-2038	B2/B	95.438	9.3	8.19	753	738	12	185	196	-1.1	0.5	0.2
NGERIA 9.248% 21-JAN-2049	B2/B	104.734	10.2	8.79	805	792	11	190	183	-1.1	-0.3	1.1
NGERIA 7.625% 28-NOV-2047	B2/B	93.425	10.7	8.23	745	734	7	168	170	-0.8	1.3	1.3
RWANDA 6.625% 02-MAY-2023	/B+	103.959	2.3	4.99	486	476	-10	222	254	0.3	1.4	1.8
SENEGL 6.25% 30-JUL-2024	Ba3/	105.692	3.4	4.62	444	436	7	248	192	-0.2	-0.6	2.8
SENEGL 6.25% 23-MAY-2033	Ba3/	103.984	8.0	5.77	518	507	5	145	86	-0.5	3.1	9.0
SENEGL 6.75% 13-MAR-2048	Ba3/	100.796	12.3	6.68	576	576	5	117	71	-0.7	4.9	10.5
SOAF 5.875% 30-MAY-2022	Ba1/BB	106.127	1.6	2.15	202	188	-16	84	64	0.3	3.0	4.6
SOAF 4.665% 17-JAN-2024	Ba1/BB	103.502	3.0	3.54	338	329	7	160	177	-0.2	2.2	2.6
SOAF 5.875% 16-SEP-2025	Ba1/BB	108.377	4.3	4.00	376	368	-5	163	154	0.2	2.1	3.5
SOAF 4.875% 14-APR-2026	Ba1/BB	103.276	4.8	4.21	392	385	-4	157	144	0.2	2.5	4.1
SOAF 4.85% 27-SEP-2027	Ba1/BB	101.630	5.8	4.57	419	411	-5	172	157	0.3	1.5	3.1
SOAF 4.3% 12-OCT-2028	Ba1/BB	96.565	6.6	4.82	437	428	-4	170	156	0.2	1.4	3.0
SOAF 4.85% 30-SEP-2029	Ba1/BB	98.994	7.1	4.99	447	439	-4	154		0.2	2.2	
SOAF 5.875% 22-JUN-2030	Ba1/BB	105.812	7.3	5.11	456	449	-1	162	155	0.1	1.5	2.6
SOAF 6.25% 08-MAR-2041	Ba1/BB	100.723	11.5	6.18	533	529	-1	179	190	0.0	-2.3	-4.1
SOAF 5.375% 24-JUL-2044	Ba1/BB	89.628	12.6	6.21	527	528	-3	170	194	0.1	-2.0	-5.7
SOAF 6.3% 22-JUN-2048	Ba1/BB	97.378	12.6	6.50	556	557	1	189	202	-0.3	-3.9	-6.4
SOAF 5.65% 27-SEP-2047	Ba1/BB	90.442	12.7	6.40	545	546	-3	181	197	0.2	-3.0	-5.9
SOAF 5% 12-OCT-2046	Ba1/BB	85.148	13.1	6.15	517	520	-1	182	196	-0.1	-3.5	-6.3
SOAF 5.75% 30-SEP-2049	Ba1/BB	90.475	12.9	6.48	551	553	-5	179		0.4	-3.0	

Continue on the next page

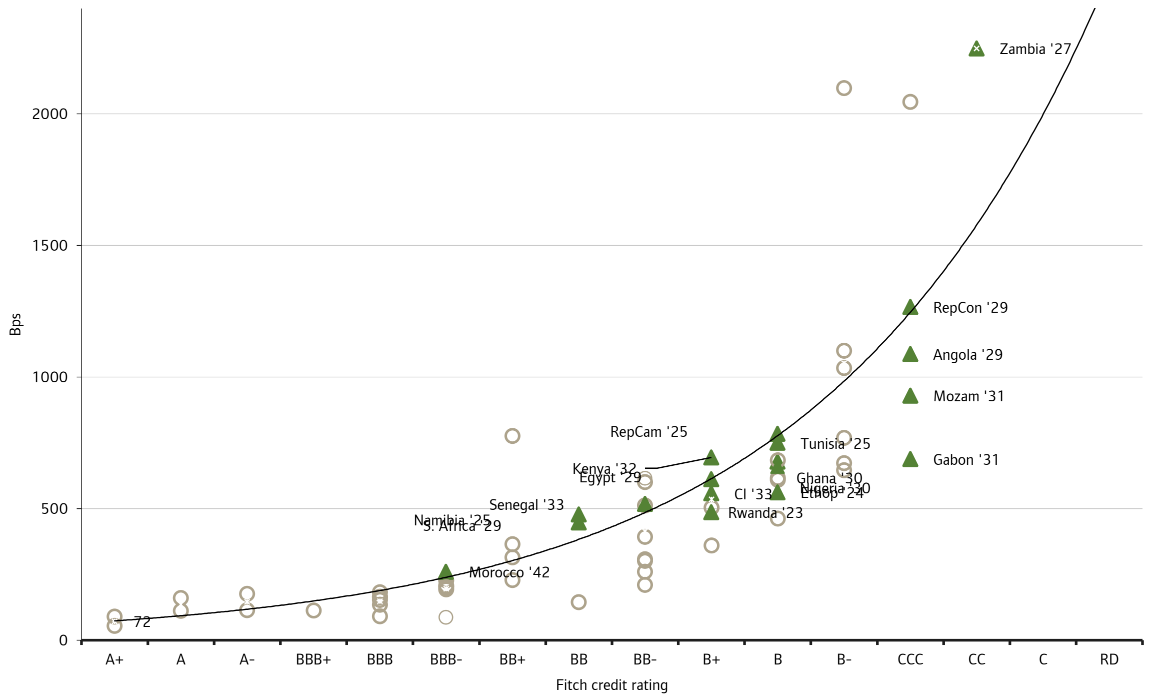
African Eurobonds (continued)													
Name	**Moody's/Fitch**	**Mid Price**	**Mod Dur**	**Yield, %**	**Over UST**	**Z-Spread**	**1 wk**	**YTD**	**12mths**	**1 wk**	**YTD**	**12mths**
BTUN 5.75% 30-JAN-2025	**B2 *-/B**	**92.907**	**3.7**	**7.69**	**749**	**741**	**15**	**191**	**100**	**-0.5**	**3.7**	**10.1**
BTUN 8.25% 19-SEP-2027	B2 *-/WD	97.360	5.2	8.77	844	832	-3	201	148	0.1	3.1	8.4
ZAMBIN 5.375% 20-SEP-2022	/CC	57.251	1.6	37.76	3,764	3,755	-135	1810	1959	2.8	-10.3	-8.4
ZAMBIN 8.5% 14-APR-2024	/CC	56.461	2.4	28.84	2,871	2,859	-58	1099	1189	2.0	-9.0	-5.5
ZAMBIN 8.97% 30-JUL-2027	/CC	56.967	3.7	22.67	2,248	2,231	-51	720	771	2.3	-7.1	-5.0
SB Africa Eurobond (incl. SA)	B+		6.5	7.53	710	687	5	230	209	-0.2	-1.0	2.0
SB Africa Eurobond (excl. SA)	B+		6.2	7.94	752	729	6	241	213	-0.3	-1.4	2.4

Figure 12: African sovereign USD bonds (spread over US Treasuries versus modified duration)



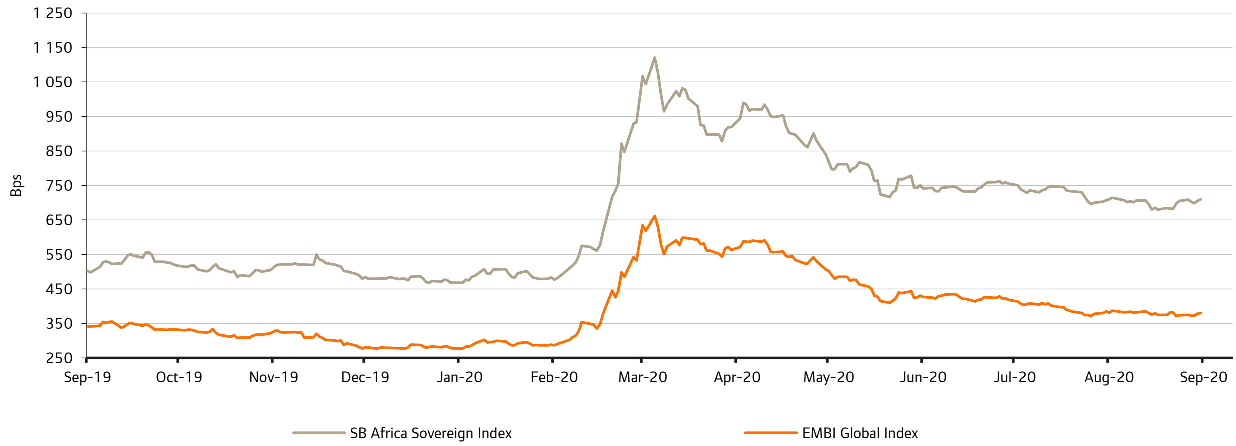
Source: Bloomberg; Standar Bank Research

Figure 13: African and broader EM bonds (spread over US Treasuries versus credit rating)



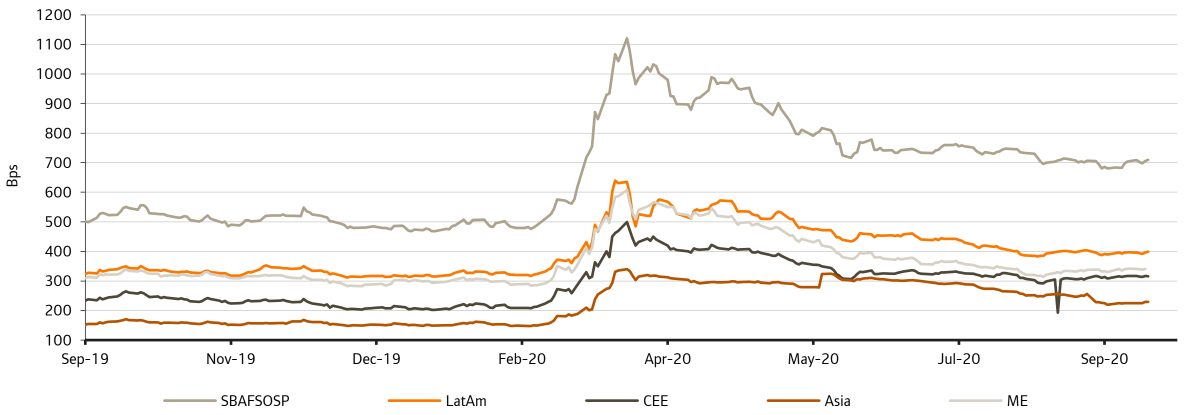
Source: Bloomberg; Standard Bank Research

Figure 14: Spread over UST: SB African Eurobond index vs EMBI Global



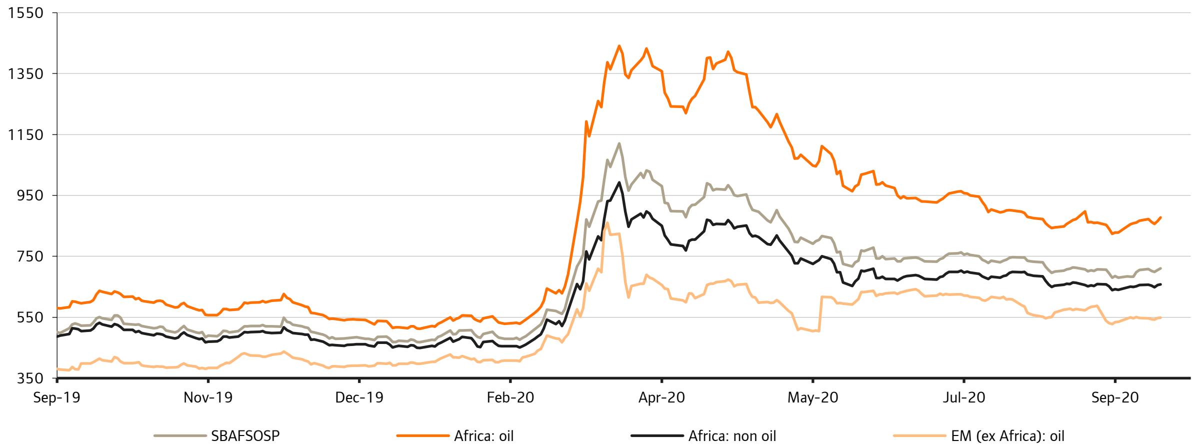
Source: Bloomberg; Standard Bank Research

Figure 15: UST spread: African sovereign Eurobonds vs other regions



Source: Bloomberg; Standard Bank Research

Figure 16: Africa oil credits vs EM oil credits



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
Zambia: buy ZAMGB '26	18-Nov-16	24.50	9.81	32.47	19.93	-3.0
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	14.44	15.76	72.7
Egypt: sell USD/EGP 12-m NDF	28-May-20	14.92	15.87	10.09	15.75	8.1
Nigeria: sell USD/NGN 12-m NDF	22-Jun-20	18.06	387.80	17.71	385.75	4.6
Ethiopia: buy USD/ETB 24-m NDF	06-Aug-20	12.10	35.42	14.83	36.70	6.3
Kenya: buy KenGB '31	24-Aug-20	11.24	108.00	11.12	108.04	1.8
Angola: buy USD/AOA 12-m NDF	09-Sep-20	26.15	620.75	24.30	622.17	-0.3

Source: Bloomberg; Standard Bank Research

Angola: progress on structural reforms and diversification

Medium-term outlook: pandemic uncertainty, and a cloudy oil sector

Angola faces both the pandemic's uncertain outcome as well as poor prospects of definitively escaping the prolonged recession now dating back to 2016.

All of our growth scenarios factor in the risk of a prolonged recession, after the temporary resumption of growth, as well as Angola's high dependency on the oil sector, maturing oil fields, low investment, persistent FX liquidity pressures, and resurging sovereign debt.

The oil sector is the largest contributor to the supply of FX liquidity, accounting for 96% of goods exports, over 50% of government revenues, and around 30% of GDP.

In his inaugural speech in 2017, President João Lourenço focused on fighting corruption, implementing economic reforms, and improving governance and decentralization as his cabinet's top priorities.

The first three assessments of the IMF structural program that was approved in 2018 was broadly positive. Still, given the BOP and fiscal challenges, some changes to the original program are expected. Nonetheless, the IMF has just approved an immediate disbursement of USD1.0bn, which represents an increase of USD765m to the original program.

In any case, the government's laudable progress on structural reforms is unlikely to incur immediate economic growth.

Despite ambitious privatizations and import substitution programs, execution remains hostage to poor investor sentiment, both domestic and external.

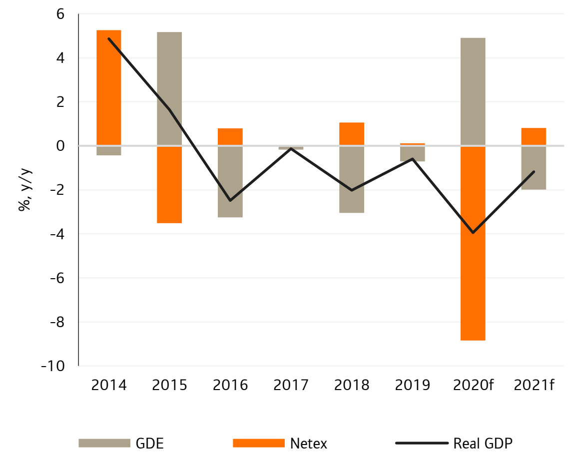
Angola has a low number of Covid-19 infections, at 3,400 confirmed cases, when the world count has now breached 29 million.

Despite travel restrictions and social distancing, the decline in oil output was immaterial. OPEC data shows that Angolan oil output came at 1.266 mbpd in Aug, from 1.275 mbpd in Jul, after closing 2019 at 1.373 mbpd and 2018 at 1.473 mbpd.

Angola's FX liquidity pressures come from the combination of the collapse in oil prices and sovereign debt pressures, with a negative impact on the entire economy.

Our base case sees the economy contracting by 3.9% y/y this year and by 1.2% y/y in 2021. Improvements in net exports (Netex) next year won't be robust enough to offset the negative impact of subdued General Domestic Expenditure (GDE) on low personal consumer spending, a tighter government budget, and subdued private investment.

Composition of GDP by demand (ppts)



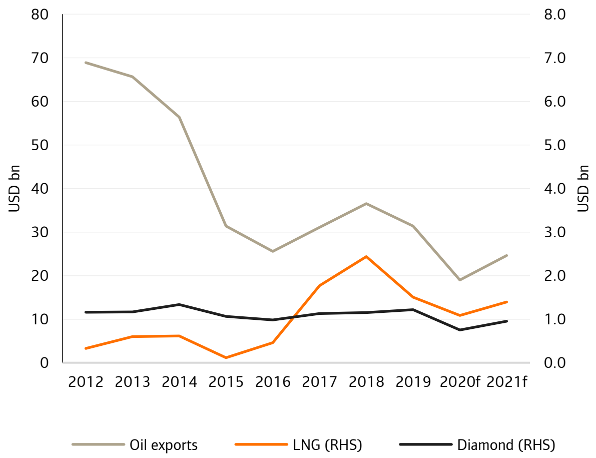
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010	2015	2019
Agriculture	3.8	4.3	4.7
Fisheries	1.6	2.5	2.0
Oil and Gas	43.0	38.1	31.3
Mining and Quarrying	2.0	1.8	1.9
Manufacturing	3.3	3.4	4.3
Electricity and Water	0.5	0.7	1.0
Construction	7.7	9.8	11.4
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	5.7
Public administration	8.9	8.7	8.1
Other	9.1	7.4	10.4
Total	100.0	100.0	100.0

Source: Instituto Nacional de Estatística de Angola

Principal exports



Source: Banco Nacional de Angola; Standard Bank Research

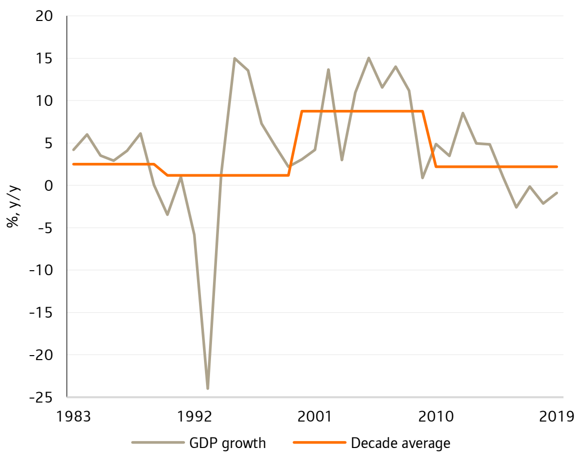
Medium-term economic growth scenarios

	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	-1.8	-5.7	-4.4	-3.9	-1.8	-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	22.6	24.2	26.2	25.4	24.0	23.0	21.1	21.9	22.0	20.8	18.5	16.2	14.9	15.0	16.1
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	17.5	18.5	16.0	16.0	16.5	16.5	16.0	16.0	16.0	16.0	15.0	15.0	15.0	15.0
6-m rate (%) pe	16.5	17.5	18.5	19.5	17.0	17.0	17.5	17.5	16.5	16.5	16.5	16.5	15.5	15.5	15.5	15.5
USD/AOA pe	536.7	578.9	630.3	688.7	726.6	766.5	808.6	853.1	892.1	932.8	975.4	1025.0	1056.1	1088.1	1132.1	1166.4
Bull scenario																
GDP (% y/y) pa	-1.8	-4.8	-3.0	-3.2	-0.8	1.5	2.8	1.2	3.1	3.9	2.6	3.3	-0.3	-0.9	-0.1	-0.5
CPI (% y/y) pe	19.6	22.6	23.3	23.3	21.9	20.0	19.2	18.8	19.5	19.6	18.6	16.5	14.5	13.4	13.2	13.4
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	14.5	13.5	13.5	13.5
3-m rate (%) pe	15.0	16.0	17.5	16.0	16.0	16.0	16.0	16.0	15.5	15.5	15.5	15.5	14.5	14.5	14.5	14.5
6-m rate (%) pe	16.5	17.5	18.5	17.0	17.0	17.0	17.0	17.0	16.0	16.0	16.0	16.0	15.0	15.0	15.0	15.0
USD/AOA pe	536.7	578.9	624.3	662.5	696.8	733.0	771.0	811.0	845.5	881.5	919.1	958.2	948.3	1011.2	1038.7	1067.0
Bear scenario																
GDP (% y/y) pa	-1.8	-6.9	-6.8	-5.2	-4.1	-3.0	-2.1	-3.1	1.1	1.9	0.8	1.2	-5.3	-3.7	-2.1	-3.7
CPI (% y/y) pe	19.6	22.6	24.6	27.5	27.2	26.4	25.5	23.4	24.3	24.5	23.1	20.5	17.9	16.5	16.3	16.5
BNA rate (%) pe	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.0	15.5	15.5	15.5	15.5	15.5	15.5
3-m rate (%) pe	15.0	16.0	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
6-m rate (%) pe	16.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
USD/AOA pe	536.7	578.9	642.3	722.4	766.6	813.5	863.3	916.2	966.5	1019.7	1075.7	1134.9	1190.2	1248.3	1309.2	1373.0

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

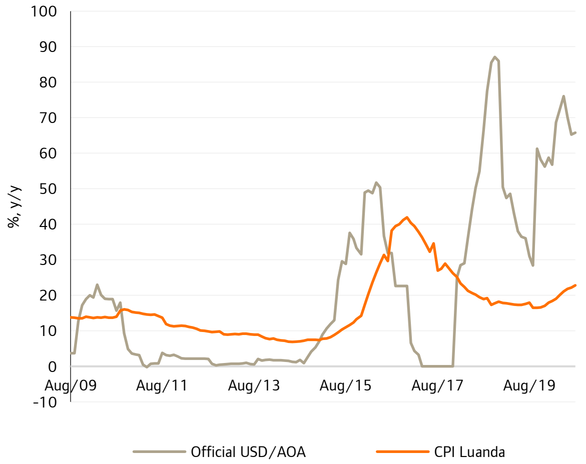
Notes: pa - period average; pe - period end

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: mounting pressures

We revise upwards our current account (C/A) deficit forecast for 2020 to USD2.3bn, or 4.2% of GDP, from USD9.2bn previously, as import demand seems well contained and average oil prices are above our initial expectations.

We see the value of goods and services exports at USD 21.4bn this year, from USD35.2bn recorded in 2019. If goods and services imports should decline to USD18.5bn, from USD22.3bn last year, the trade surplus eases materially to USD3.0bn, from USD12.9bn in 2019.

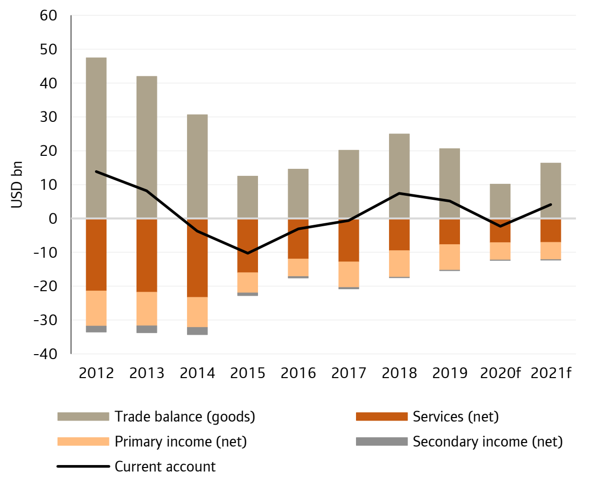
The BOP adjustment is likely to remain painful as we expect the BNA to continue to capitalise on substantial progress being already made through ongoing structural reforms towards a free-floating exchange rate regime. This aims to eliminate the FX backlog and protect FX reserves by moving away from an administrative setting.

Despite the cloudy outlook for the oil sector, we expect net Foreign Direct investment (FDI) inflows to turn positive at USD3.8bn next year as some of the planned FDI in the oil sector for 2020 gets delayed into 2021. The government may also sweeten fiscal conditions to attract further FDI.

We expect gross FX reserves to fall to USD 12.3bn next year, with an import cover ratio of 8.1-m. FX reserves data, which is now reported daily, shows a gross balance of USD 14.3bn as at 14 Sep, which is USD 2.9bn lower than the Dec 2019 close of USD17.2bn.

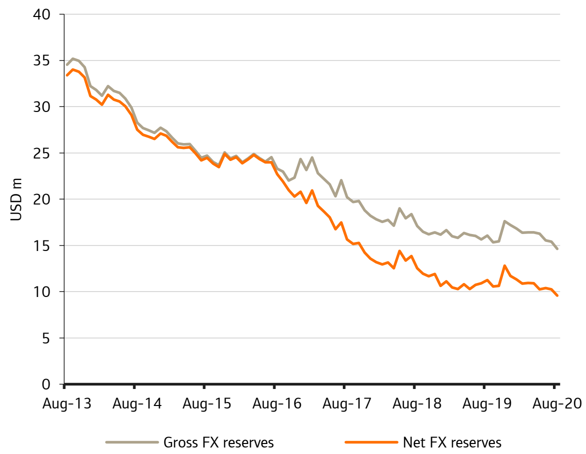
The pressure on FX reserves reflects both the negative impact of the oil price collapse and mounting sovereign debt service pressures. The total amount of external debt service relief Angola might receive from China remains uncertain. The revised government budget for 2020 assumes a 36.3% decline in external debt service to AOA2,895.3bn, from AOA4,548.6bn.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves



Source: Banco Nacional de Angola; Standard Bank Research

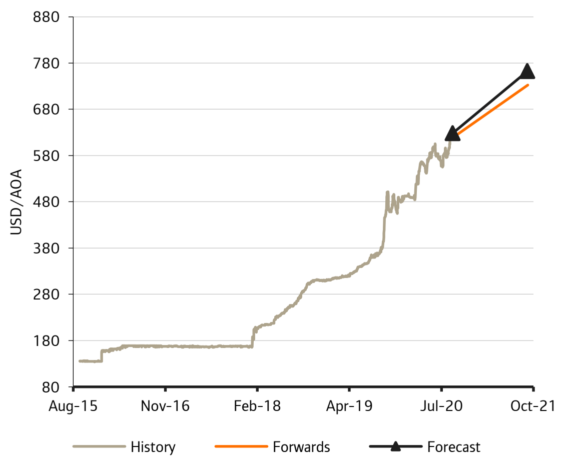
FX outlook: kwanza depreciation bias maintained

After appreciating in Jun and Jul, the AOA resumed its depreciation trend and will likely continue to do so. We now lift our USD/AOA year-end forecast to 688.7, which represents an annual increase of 42.8% y/y, from 56.3% y/y in 2019 and 86% y/y in 2018.

The USD/AOA pair was trading at an official level of 622.2 at the time of writing, up by some 29% YTD, or 64.6% y/y. FX houses' average was at 638.4, or 2.6% higher than the official level. Most FX transactions outside the banking system seem to be taking place at the parallel market rate, which is trading at an average of 800.0, or 28.6% higher than the official FX rate.

We see a large amount of USD-linked bonds denominated in local currency, in excess of USD2.5bn maturing in Q4:20, which could aggravate FX liquidity pressures.

USD/AOA: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: real interest rates still negative

The macroeconomic adjustment in Angola, which took shape in 2018 with concrete steps towards the liberalization of the FX market, are eroding purchasing power as inflation continues to rise.

After easing to 16.9% y/y in 2019, inflation will likely accelerate to 26.2% y/y by year-end before moderating to 21.1% y/y next year. The 12-m average is expected at 22.4% y/y this year and at 23.8% y/y next year. Clearly the upside risks for inflation prevent the MPC from policy rate cuts.

Given the multitude of economic pressures, indeed we don't expect the BNA to hike policy rates. Our policy rate forecast still stands at 15.5%, which would push real interest rates further into negative territory due to rising inflation.

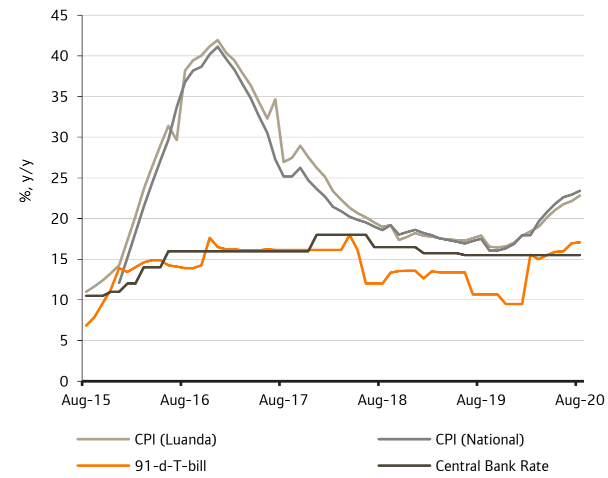
Keeping policy rates on hold provides some relief to both business and households with poor balance sheets and subdued disposable income, due to the four-year recession.

As structural reforms progress and the interest rate transmission mechanism improves, we may see interest rates playing a more meaningful role in the BNA's monetary policy mix. For now, liquidity management, both in local currency and foreign currency, seems to be the BNA's focus because it affects the FX rate which has an important passthrough to inflation.

As per National Statistics data, national inflation was 23.4% y/y in Aug, from 22.9% y/y in Jul, in line with our expectations. This mainly reflects rising m/m growth, which rose to 1.8% m/m in Aug, from 1.7% m/m in Jul, due to monthly increases across various categories of the CPI basket, including food prices.

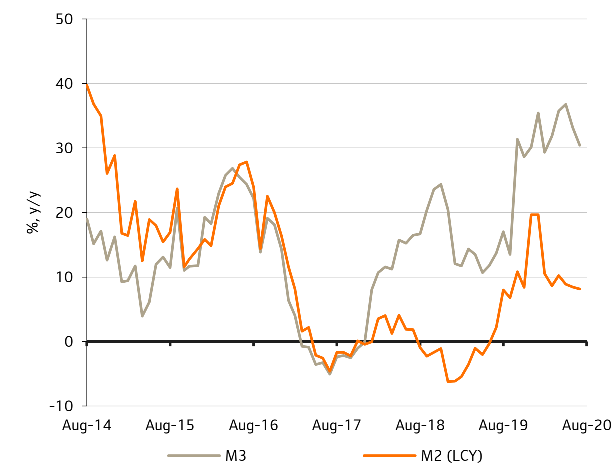
Additionally, the expected implementation of fuel subsidy reforms, presents notable upside risks to our current inflation outlook.

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: upward pressure

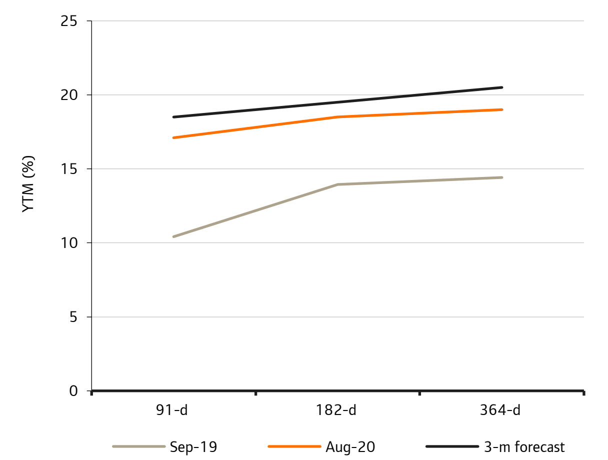
We still see upward pressure on yields across the curve.

Even considering that the government will likely increase the domestic supply of paper, thanks to a larger fiscal deficit, it looks like the government may encourage investment in longer tenors to help ease short-term debt pressure.

Latest data available reported as at Jul indicates that the T-bill stock was down by 56.5% y/y, to AOA218.8bn (USD353m). Aug data shows a 16.5% m/m decline government bonds stock, or a 3% y/y growth, to AOA9,140.1bn (USD14.7bn).

The large concentration of local currency bond repayments that offers protection against USD depreciation during Q4:20, will likely maintain upward pressure on the yield curve.

Changes in the yield curve



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

Fiscal policy: inevitable return of fiscal deficits

The magnitude of the oil price shock this year forced a government budget revision in Jul for the fiscal year ending Dec 2020. We therefore would expect Angola returning to twin deficits this year: the BOP C/A deficit and the fiscal deficit.

The revised budget targets a fiscal deficit of 4% of GDP, from a surplus of 1.3% of GDP targeted in the original budget. Average oil prices for the year are assumed at USD33/bbl, from USD55/bbl initially. The government sees oil GDP contracting by 7% y/y this year, with non-oil GDP contracting by 2.1% y/y.

We noticed a substantial downward revision in the nominal GDP assumption, down by 24.3% to AOA31.9tr (cUSD71.6bn), from AOA42.1tr (c54.2bn), which results in a substantial deterioration in the debt to GDP and debt service to GDP ratios.

Revenues fall by 29%, compared with the original budget to AOA6,126.3bn or 19.2% of GDP. Overall expenditure is cut by 8.6% to AOA7,392.6bn or 23.2% of GDP, which results in an overall deficit of 4% of GDP, after surpluses in the previous two years.

Public debt, which includes selected SOE debt, is expected to reach a debt to GDP ratio of 123.8% this year, from 85.7% in 2019. The budget revision sees a 10.1% decline in domestic debt service to AOA4,629.2bn (c.USD7.5bn at current FX rate) and a 36.3% decline in external debt service to AOA2,895.3bn (c.USD4.5bn at current FX rate). The overall debt ratio to revenues rises to 122.8%, from 86.7% in 2019.

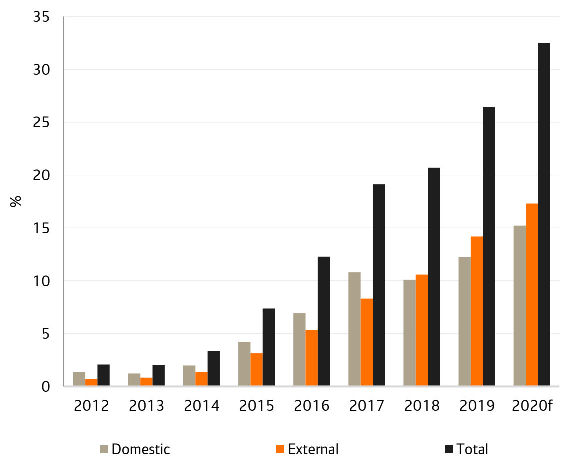
Uncertainty on the outcome of debt restructuring talks with China poses a large risk in our fiscal assessment. Furthermore, we see growing fiscal revenues outside the oil sector as an important element of ongoing structural reforms. Notably, this has already led to the implementation of the VAT of 14% from Oct 2019.

Central government budget

	2018	2019	2020
% of GDP	Actual	Estimate	Initial budget
Revenues	22.9	21.3	19.2
- Oil	14.5	13.0	9.3
Expenditure	20.8	20.5	23.2
- Wages	6.0	6.6	6.8
- Interest	4.7	5.6	6.2
- Capital	4.6	3.7	4.6
Overall balance (commit.)	2.1	0.8	-4.0
Changes in balances	-2.8	-3.7	0.0
Overall balance (cash)	-0.7	-2.9	-4.0
Net domestic financing	-2.2	0.4	-0.4
Net external financing	3.0	3.2	4.4

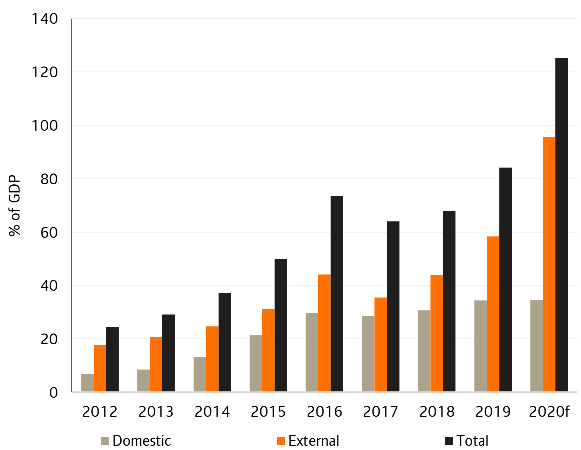
Source: Ministry of Finance; Standard Bank Research

Interest expenditure to revenue



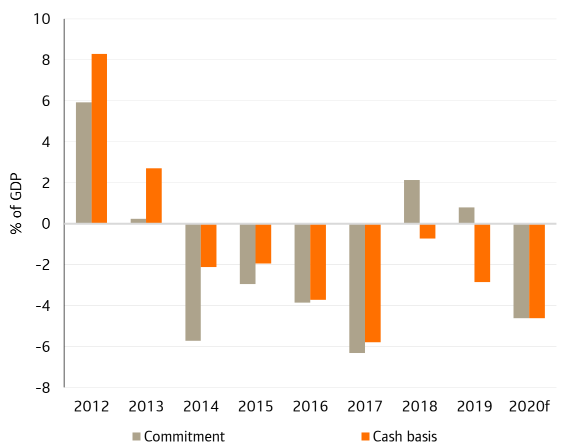
Source: Ministério das Finanças; Standard Bank Research

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	25 627.7	30 517.5	31 894.7	40 020.8
Nominal GDP (USD bn)	114.8	100.6	122.1	101.4	83.6	54.2	51.7
GDP / capita (USD)	4 314.5	3 661.7	4 308.6	3 465.1	2 772.1	1 742.2	1 607.9
Real GDP growth (%)	1.6	-2.5	-0.1	-2.0	-0.6	-3.9	-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	51	56
Diamond production ('000 Q)	8 205	7 934	9 753	7 993	8 535	6 900	6 812
Central Government Operations							
Budget balance (commitment) / GDP (%)	-3.0	-3.9	-6.3	2.1	0.8	-4.0	-3.6
Budget balance (cash basis) / GDP (%)	-2.0	-3.7	-5.8	-0.7	-2.9	-4.0	-3.6
Domestic debt / GDP (%)	21.4	29.7	28.5	30.7	34.4	30.1	23.6
External debt / GDP (%)	31.2	44.2	35.5	44.0	58.4	93.7	103.0
Overall public debt/GDP (%)	52.6	73.8	64.1	74.7	92.9	123.8	126.6
Balance of payments							
Exports of goods (USD bn)	34.4	28.3	35.6	41.4	35.2	21.4	27.7
Imports of goods (USD bn)	-38.0	-25.7	-28.3	-25.9	-22.3	-18.5	-18.3
Trade Balance	-3.5	2.6	7.3	15.5	12.9	3.0	9.3
Current account (USD bn)	-10.3	-3.1	-0.6	7.4	5.1	-2.3	-4.1
- % of GDP	-8.9	-3.1	-0.5	7.3	6.1	-4.2	7.9
Capital & Financial account (USD bn)	8.4	5.3	-4.3	-8.2	-3.2	-0.1	-6.0
- FDI (USD bn)	10.8	-0.5	-8.7	-6.5	-1.7	-2.6	3.8
Basic balance / GDP (%)	-1.6	2.2	-4.0	-0.8	2.3	-4.5	-3.7
Gross FX reserves (USD bn) pe	24.4	24.4	18.2	16.2	17.2	14.2	12.3
- Import cover (months) pe	7.7	11.4	7.7	7.5	9.3	9.2	8.1
Sovereign Credit Rating							
S&P	B+	B	B-	B-	B-	CCC+	CCC+
Moody's	Ba2	B1	B2	B3	B3	Caa1	Caa1
Fitch	B+	B	B	B	B	CCC	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa		30.4	30.4	19.7	17.1	22.4	23.8
Consumer inflation (%) pe	12.1	41.1	23.7	18.6	16.9	26.2	21.1
M2 money supply (% y/y) pa	11.0	20.9	-0.9	16.2	17.3	29.1	18.1
M2 money supply (% y/y) pe	11.8	14.4	-0.1	20.4	30.2	22.2	14.8
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	18.5	16.5
6-m rate (%) pe	15.0	24.1	20.2	17.1	12.0	19.5	17.5
12-m rate (%) pe	12.6	24.7	23.9	19.0	14.7	20.5	18.0
USD/AOA pa	120.0	163.7	165.9	252.9	364.8	588.1	774.8
USD/AOA pe	135.3	165.9	165.9	308.6	482.2	688.7	853.1

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: mining and tourism hard hit

Medium-term outlook: 2021 recovery possible

We now revise our GDP growth forecast to -10.2% y/y for 2020, from -11.8% y/y, then 6.3% y/y in 2021 in anticipation of the government stimulating economic growth via its Economic Recovery and Transformation Plan (ERTP). The government forecasts an 8.9% y/y contraction in 2020, from 13.1% y/y previously.

In Q1:20, GDP growth improved to 2.6% y/y, from 1.6% y/y in Q4:19. In 12-m to Mar, GDP growth had slowed to an average of 2.6% y/y, compared to 4.5% y/y in 12-m to Mar 19, due largely to an average contraction of 6.1% y/y in 12-m to Mar in the mining sector.

Waning global demand for diamonds and disrupted sight sales saw the mining sector contract; in Q2:20, De Beers production in Botswana plummeted by 68% y/y partly due to the lockdown from 2 Apr to 18 May. However, the mining sector was granted essential-service status, but some mines had halted production before resuming in mid-May.

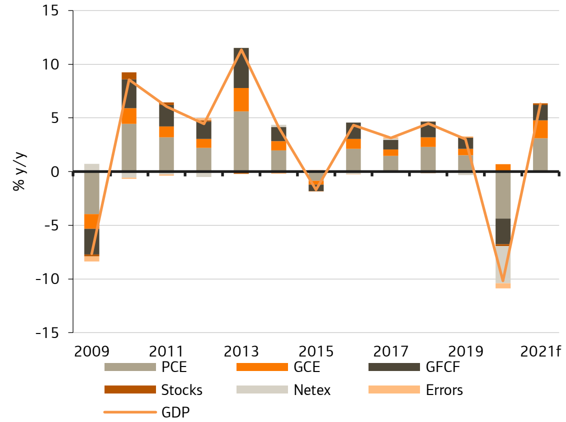
Diamond exports should improve now that lockdowns and other forms of economic restrictions have been eased. However, we doubt that a recovery will be meaningful, as luxury spending is likely to remain subdued globally. This would crimp GDP growth and government revenue in Botswana, as diamond exports comprise over 80% of total exports and the overall mining sector accounts for over 30% of government revenue. Indeed, the government is eager to diversify the economy and reduce reliance on the mining sector.

We expect some recovery from Q3:20 but intermittent lockdowns if Covid-19 cases were to spike, presents downside risks to our growth outlook.

There is no indication that global tourism will recover soon. Though the United Nations agency for tourism has found that 53% of all destinations worldwide have eased travel restrictions, tourists may be reticent to travel before a vaccine is in effect.

However, a timely vaccine may see our bullish growth scenario play out, with the economy contracting by 5.3% y/y in 2020 and thereafter expanding by 8.9% y/y in 2021.

Composition of GDP growth by demand



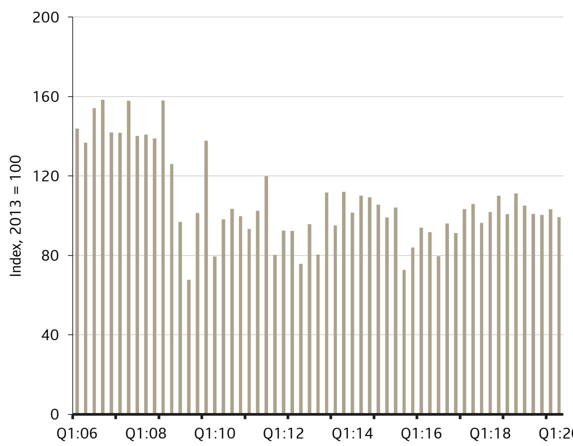
Source: Statistics Botswana; Standard Bank Research

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

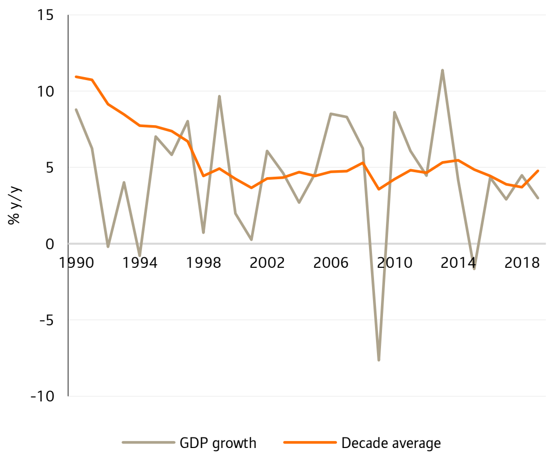
Medium-term economic growth scenarios

	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	2.62	-30.41	-13.76	0.85	1.66	12.72	6.66	4.14	4.49	5.24	4.34	4.47	4.12	4.17	4.70	4.48
CPI (% y/y) pe	2.19	0.89	1.02	1.23	1.47	3.06	3.08	3.14	3.16	3.16	3.02	3.04	2.97	2.98	2.98	3.01
Bank rate (%) pe	4.75	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	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	11.81	11.57	11.37	11.24	11.11	10.97	10.84	10.88	10.92	10.95	10.99	10.03	10.10	10.18	10.23
Bull scenario																
GDP (% y/y) pa	2.62	-30.41	2.00	4.65	5.16	14.92	9.26	6.34	6.19	6.94	6.04	6.27	5.62	4.17	4.70	4.48
CPI (% y/y) pe	2.19	0.89	1.32	1.43	1.97	3.76	3.88	4.34	5.06	5.06	5.22	4.94	4.87	4.28	3.78	3.71
Bank rate (%) pe	4.75	4.25	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	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	11.81	10.87	10.56	10.51	10.46	10.42	10.37	10.40	10.44	10.45	10.46	9.48	9.51	9.54	9.59
Bear scenario																
GDP (% y/y) pa	2.62	-30.41	-17.06	-2.95	-1.84	10.52	4.06	1.94	2.79	3.54	2.64	2.67	2.62	4.17	4.70	4.48
CPI (% y/y) pe	2.19	0.89	-0.28	-0.07	-0.03	1.26	1.08	1.84	1.96	1.96	2.52	2.54	2.47	2.28	2.28	2.21
Bank rate (%) pe	4.75	4.25	4.25	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	11.81	12.27	12.18	11.97	11.75	11.53	11.31	11.35	11.39	11.46	11.52	10.58	10.68	10.82	10.87

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

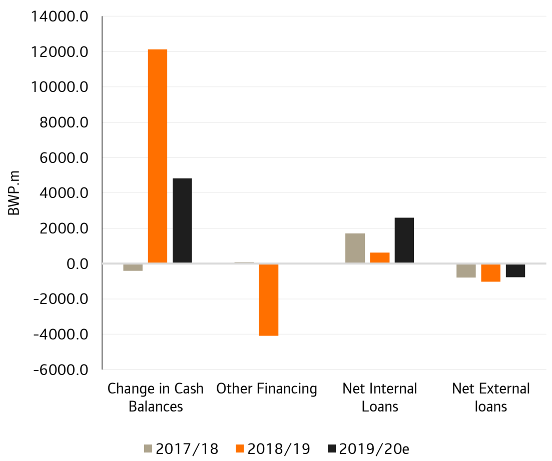
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Statistics Botswana

Budget financing



Source: Ministry of Finance

Balance of payments: dull diamond exports

The widening of the C/A deficit could be deeper than expected. We now forecast the C/A deficit at 13.2% of GDP, from 10.3% of GDP previously and 7.5% of GDP in 2019. We then expect the C/A deficit to narrow to 10.2% of GDP in 2021 as global demand recovers.

The trade balance deteriorated over 2019 and H1:20, with the trade deficit widening over fivefold. The main reason was dull diamond exports. Exports fell by 45.8% y/y in that time, with diamond exports down 49.6% y/y in H1:20 due to weak global demand and domestic economic restrictions.

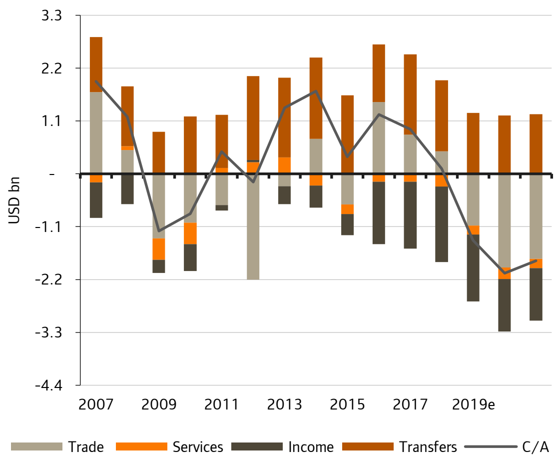
In the medium term, global demand for diamonds is likely to remain subdued, while imports will probably recover somewhat. Therefore, the trade balance will remain under pressure.

The global growth slowdown implies that tourism and diamond export earnings will weaken. Thus, we expect the C/A deficit position to persist over the medium term. In 2021, the C/A deficit will be attributable to lethargic SACU transfers. Still, diamond and tourism export receipts should recover and improve the BOP.

FX reserves have continued trending downwards. Even though FX reserves rose to USD5.5 in Jul, from USD5.4bn in Jun, Jul culminates in a 21.1% y/y decline and a substantial decline from c.USD6.2bn in Jan.

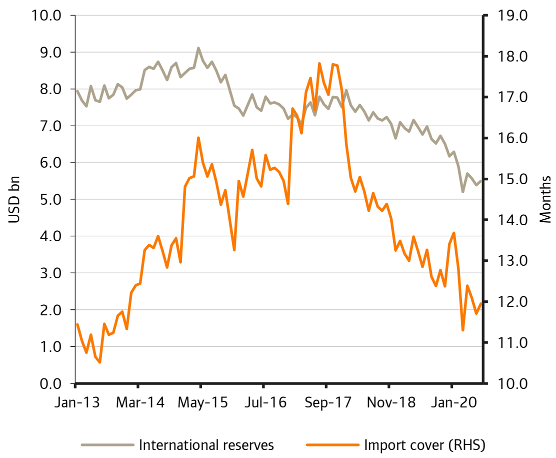
With imports averaging more than USD300m per month and exports growing slowly, the decline in FX reserves will probably persist in 2020.

Current account developments



Source: Bank of Botswana; Standard Bank Research

FX reserves



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

FX outlook: ZAR as guiding force

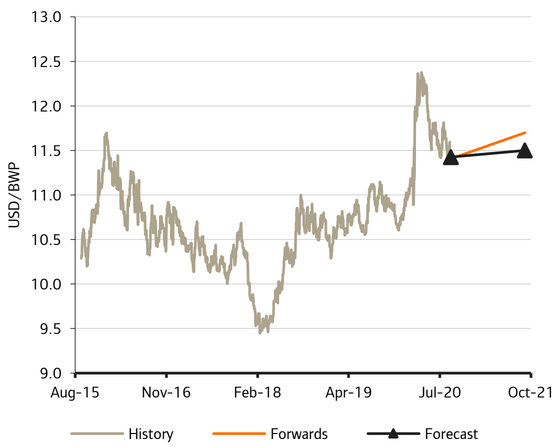
The deterioration of the BOP is unlikely to induce the BOB to change its FX policy. After all, FX reserves remain adequate, covering about 11-m of imports according to our estimates.

Still, the BWP has been volatile over some months now, along with the ZAR which holds a weight of 45% in the currency basket to which the BWP is pegged.

The market may remain jittery as the pandemic and potential second waves linger. Still, there was liquidity support during the first wave, and our G10 analyst foresees the same should a second wave hit; similar liquidity support should prevent another incidence of USD strength.

The BWP should firm against the USD in the next 6-m. USD/ZAR is likely to end the year at 16.50, putting USD/BWP at 11.37.

USD/BWP forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still accommodative

We revise our average headline inflation forecast to 1.6% y/y in 2020 and 2.4% y/y in 2021, from 2.8% y/y and 3.1% y/y respectively. Headline inflation eased to 0.9% y/y in Jul, from 2.4% y/y in May, attributable to the downward revision in petrol and diesel prices by BWP1.63 and BWP1.40 respectively in Jun.

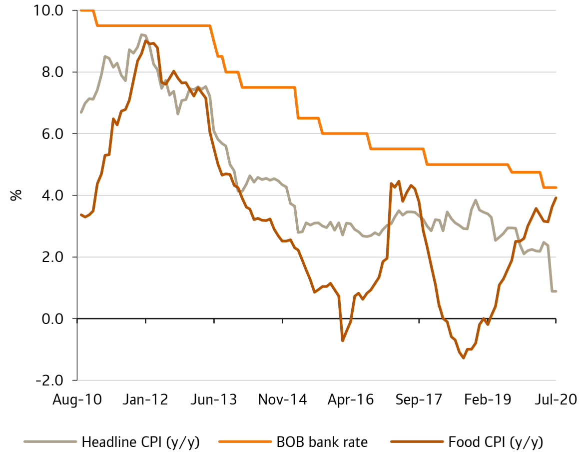
We expect the Bank of Botswana's MPC to remain accommodative in the medium term. Inflation should remain benign, with limited domestic demand pressures and limited imported price pressures over the medium term. Broad money supply grew by 7.5% y/y in May, from 10.9% y/y in Apr and 13.2% y/y in May 19. Perhaps M3 money supply growth will start to pick up over the medium term as domestic demand begins to rise gradually, further supported by the accommodative monetary policy stance.

The policy rate currently stands at 4.25%, after a cut of 50 bps in Apr. We expect the policy rate to be left unchanged until year-end, considering that the MPC expects inflation to revert to the 3% -6% y/y objective target range in the medium term (Q3:21). Meanwhile, expansionary fiscal policy is expected to complement the current monetary policy stance in order to instigate an economic recovery. But if growth should remain weaker than we currently envisage, the MPC may cut its key policy rate by a further 25 bps.

Headline inflation is likely to average 1.1% y/y in H2:20, before rising marginally to 1.7% y/y in H1:21 and 3.1% y/y in H2:21. We expect the deflationary trend in the transport component to continue this year but subside in 2021 due to unwinding base effects. Transport inflation contracted to -0.1% y/y in May and further to -6.94% y/y in Jul.

BWP strength against the ZAR, together with low underlying inflation amongst trade partners, has thus far kept imported inflation muted.

Inflation and interest rates



Source: Bank of Botswana; Statistics Botswana

Money supply

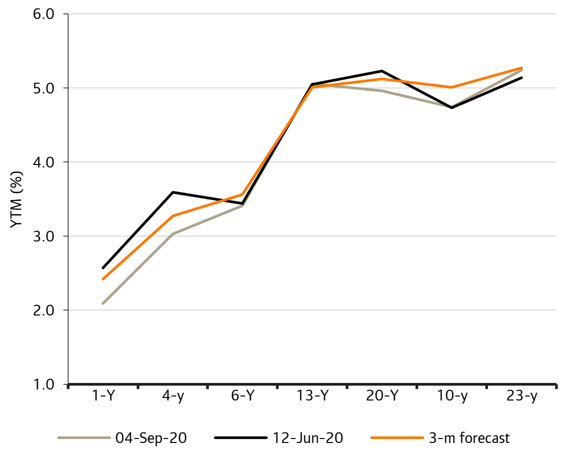
Source: Bank Botswana; Standard Bank Research

Yield curve outlook: may inch up

Yields have trended lower this year at the short end of the curve as inflation remains subdued and domestic demand for government securities strong. Historically, the government has been quick to reject expensive bids. However, with pressure mounting on the fiscal balance, we expect that the government may now have less room to reject aggressive bids, which should reduce the downward pressure on yields over the coming year.

We expect the BOB to increase domestic debt auction sizes more than it did in the previous fiscal year. The government will likely have to issue larger amounts of local debt to cover the financing needs for the projected budget deficit and further fulfil the government's developmental initiatives under its Economic Recovery and Transformation Plan.

Change in yield curve



Source: Bank of Botswana; Standard Bank Research

Fiscal policy: Economic Recovery and Transformation Plan

In the first 2-m of this fiscal year, the government raised 27% less revenue at BWP10.7bn, compared to the BWP14.5bn collected in the first 2-m of FY2019/20. Simultaneously, expenditure rose by 1.4% y/y.

Revenue collections are expected to remain low, dragged down by mineral revenues which account for over 30% of total government revenue. The pandemic's impact on the SACU customs pool revenue will likely reflect from FY2021/22, considering that SACU disbursements adjust for forecast errors with a lag.

With the government's plans to complement the short-term economic relief package through its Economic Recovery and Transformation Plan, the fiscal deficit is likely to be elevated in the next few years. The relief package consists of various interventions, ranging from a wage subsidy costing up to BWP1.bn to government loan guarantees amounting to BWP1bn. And now the focus has shifted to post-pandemic economic recovery measures put in place by both the BOB and the Ministry of Finance as they look to mitigate the pandemic's impact.

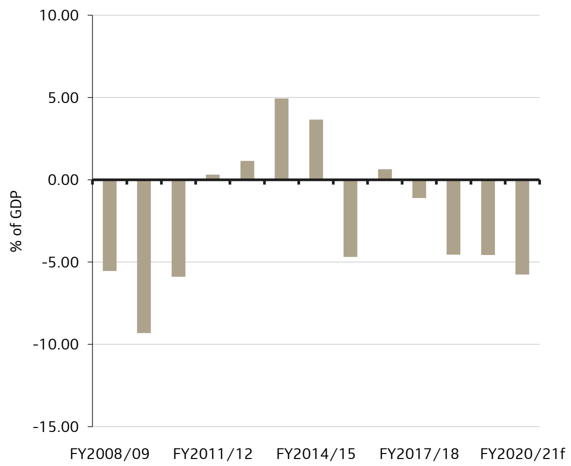
We foresee a significant increase in funding requirements over the next few years. The Ministry of Finance will explore a range of different funding options. Perhaps the first option being the expansion of the domestic bond issuance program. In addition, the government is likely to also look at other various revenue-raising mechanisms. This may also include improved tax administration, and perhaps not ruling out the possibility of new taxes too.

Central government budget, % of GDP

	F2018/2019	FY2019/2020	FY2020/21
Total revenue	27.1	33.7	24.9
Total expenditure	31.6	38.1	30.4
Recurrent	24.0	28.7	28.4
- development	-4.5	-4.4	-5.5
Overall balance (+ grants)	-4.5	-4.6	-5.8
Overall balance (- grants)	-4.5	-4.4	-5.5
Net domestic borrowing	-0.7	-0.9	-0.9
Donor support (grants)	0.0	0.2	0.2

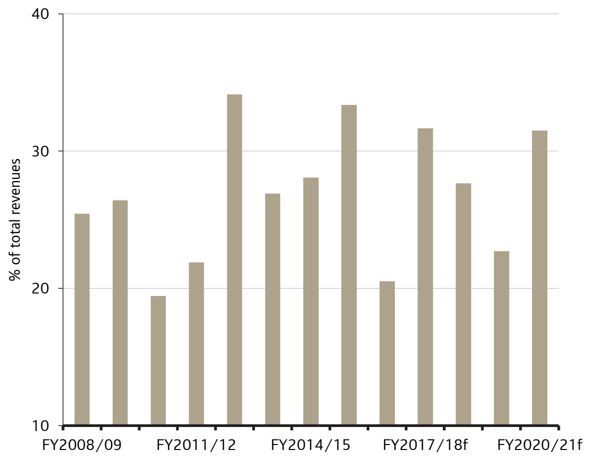
Source: Ministry of Finance, Statistics Botswana, Bank of Botswana, Standard Bank Research

Fiscal balance



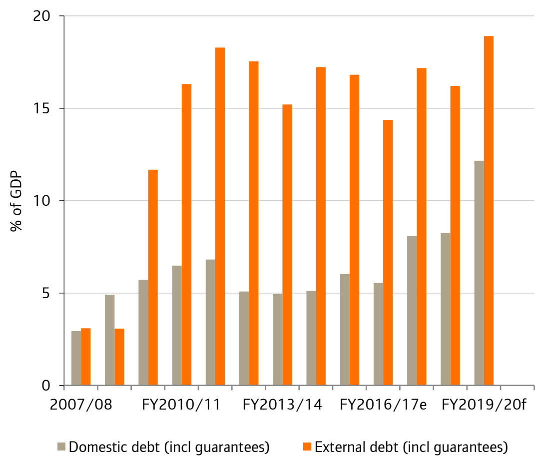
Source: Ministry of Finance, Statistics Botswana, Bank of Botswana, Standard Bank Research

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	180.3	195.9
Nominal GDP (USD bn)	14.31	15.73	17.48	18.65	18.37	15.61	17.68
GDP / capita (USD)	6 892	7 537	7 944	7 992	7 731	6 520	7 329
Real GDP growth (%)	-1.6	4.3	2.9	4.5	3.0	-10.2	6.3
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	-4.4	-5.5
Domestic debt / GDP (%)	6.0	5.6	8.1	8.3	12.1	7.7	7.7
External / GDP (%)	16.8	14.4	17.2	16.2	18.8	13.4	13.4
Balance of Payments							
Exports of goods and services (USD bn)	6.2	7.5	6.1	6.5	5.2	3.6	3.8
Imports of goods and services (USD bn)	6.8	6.0	5.2	6.0	6.3	6.2	6.3
Trade balance (USD bn)	-0.6	1.5	0.8	0.5	-1.1	-2.7	-2.6
Current account (USD bn)	0.36	1.23	0.93	0.11	-1.38	-2.07	-1.81
- % of GDP	2.0	7.8	5.3	0.6	-7.5	-13.2	-10.2
Capital & Financial account (USD bn)	-1.28	-0.98	-1.25	0.36	-0.42	0.12	0.11
- FDI (USD bn)	0.18	-0.03	0.26	0.20	0.22	0.19	0.12
Basic balance / GDP (%)	3.8	7.7	6.8	1.7	-6.4	-12.0	-9.6
FX reserves (USD bn) pe	7.5	7.2	7.5	6.7	6.2	4.06	4.58
- Import cover (months) pe	13.3	14.4	17.2	13.2	13.4	8.8	10.0
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	3.05	2.83	3.29	3.23	2.80	1.58	2.38
Consumer inflation (%) pe	3.04	2.87	2.90	3.45	2.20	1.23	3.11
M3 money supply (% y/y) pa	18.62	7.67	3.44	4.34	11.10	8.07	7.76
M3 money supply (% y/y) pe	19.88	5.39	2.72	8.31	8.00	8.66	8.40
BOB Policy rate (%) pa	6.75	5.75	5.38	5.00	4.88	4.50	4.25
BOB Policy rate (%) pe	6.00	5.50	5.00	5.00	4.75	4.25	4.25
6-mnth rate (%) pe	1.17	1.01	1.30	1.60	1.80	2.00	1.92
5-yr rate (%) pe	5.46	4.30	4.07	4.40	4.20	4.50	4.50
USD/BWP pa	10.20	10.85	10.31	10.21	10.74	11.55	11.08
USD/BWP pe	10.89	10.66	10.23	10.72	10.60	11.37	10.84

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

Notes: pa – period average; pe – period end

Côte d'Ivoire: growth recovery could be swift, if no unrest

Medium-term outlook: civil unrest a risk

Growth is set to slow to its lowest level since the 2011 recession that had followed civil unrest after the 2010 elections. Across the region, however, lockdowns have now been eased, allowing for a likely swift growth recovery in H2:20. Indeed, official numbers have shown the spread of Covid-19 to be moderate and the number of deaths relatively small.

We forecast economic growth of 3.1% y/y in 2020, followed by a swift recovery to 7.4% y/y in 2021, should there be no civil unrest. Elections are set for Oct 20. President Ouattara's decision to run for a third time has incurred some civil unrest and push-back from opposition candidates, which, if aggravated and extended, could constrain the economic recovery we anticipate.

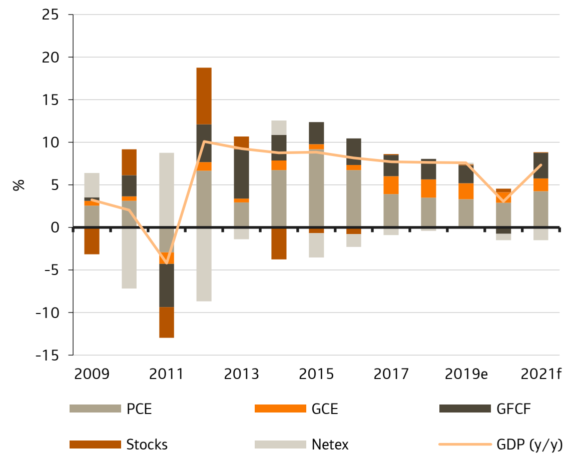
While the political participants are still mostly the same as during 2010 elections, the political environment has changed since then and a repeat of the post-electoral crisis of 2010/2011 is therefore unlikely because 10-y ago, the country was still reeling from the aftermath of the civil war, but power has since been centralised and the country has been stable.

Our base case assumptions are informed by a less disruptive electoral process in Oct. As concerns around the Covid-19 pandemic dissipate without recourse to further containment measures, investment spending and private sector capital expenditure, could pave way to the swift recovery we foresee.

President Ouattara will go to the polls in Oct against the backdrop of significantly higher economic growth over the past 8-y, with growth averaging 8.5% y/y over the period, coupled with periods of economic and political stability. Of course, his staying in power would bode well for growth dynamics in the medium term.

Our bearish scenario considers a postponement of the Oct elections, with civil unrest dampening investor confidence and sentiment. If so, economic growth could slide to 0.6% y/y in 2020 before recovering to 5.4% y/y in 2021.

Composition of GDP by demand



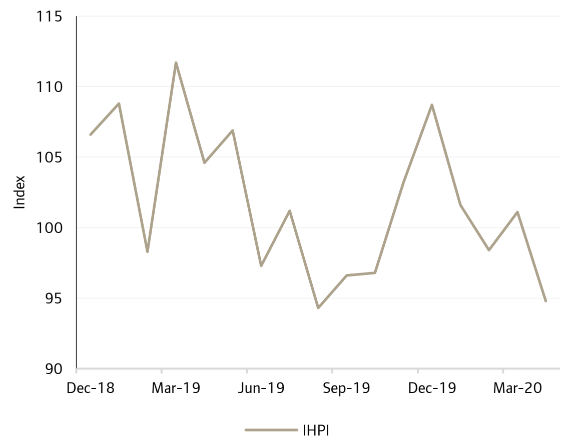
Source: Institut National de la Statistique; Standard Bank Research

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
Agro processing	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



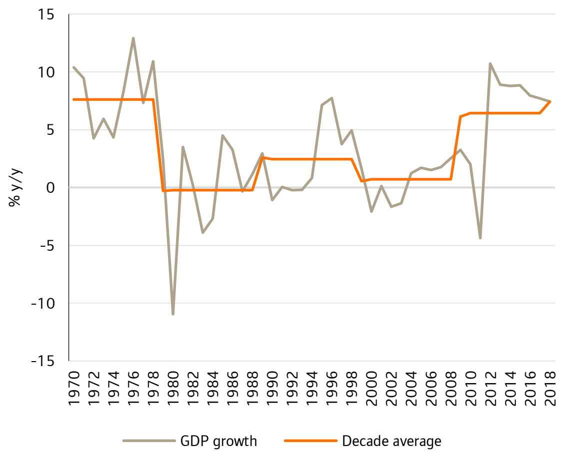
Source: Institut National de la Statistique

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	3.8	1.2	2.5	4.7	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	1.7	2.3	1.6	1.8	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	584	561	538	525	505	547	505	521	508	486	490	505	505	525	525
Bull scenario																
GDP (% y/y) pa	3.8	3.5	5.0	7.5	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	2.0	2.8	3.1	3.3	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	584	547	525	512	490	525	486	521	508	475	482	505	497	505	486
Bear scenario																
GDP (% y/y) pa	3.8	-1.8	-1.0	1.5	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	1.5	1.0	1.1	1.4	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	584	656	690	729	729	690	690	656	656	625	596	570	570	547	547

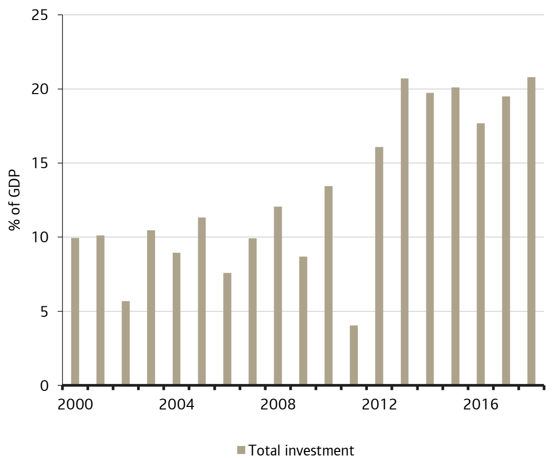
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; Bloomberg; Standard Bank Research

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 2.8% of GDP in 2020, before narrowing to 1.7% of GDP in 2021. However, further containment measures would further disrupt economic activity. External demand from China, Europe and other neighbouring countries was mostly restricted in H1:20 due to border closures. Flows from Europe and China alone account for more than 50% of total goods trade for Côte d'Ivoire.

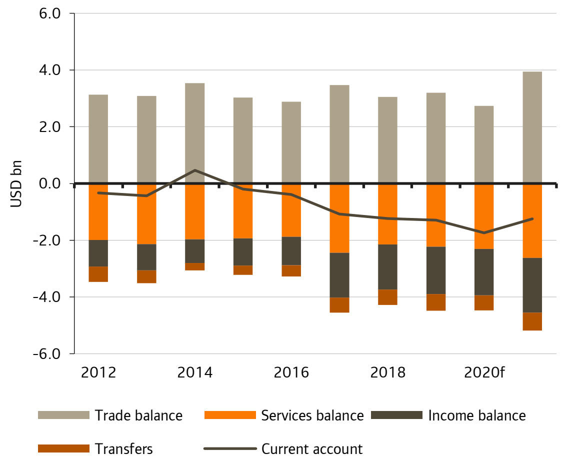
However, with infections now abating, external demand and exports may well recover well before import demand does this year. We see the trade surplus recovering in 2021, thereby reducing the C/A deficit.

Foreign direct investment will probably be limited this year owing to the pandemic's impact on global business confidence and activity. Also, political uncertainty ahead of the Oct 20 elections could depress private sector investment until after the elections. Hence, private financial inflows could be inadequate to finance the C/A deficit.

Of course, external concessional financing should not be hard to secure. Earlier in the year, the IMF disbursed a total of USD886.2m under the Rapid Credit Facility and the Rapid Credit Line.

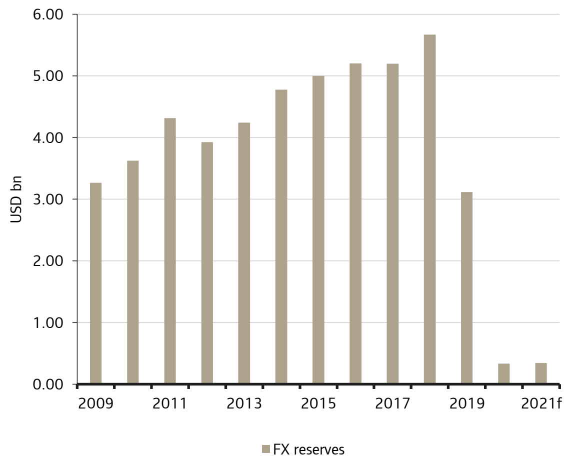
The Ivorian government too has sought more financing from the likes of the World Bank, African Development Bank, primarily for health-related expenditure. Nevertheless, FX reserves are likely to slide sharply this year.

Current account developments



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

FX reserves



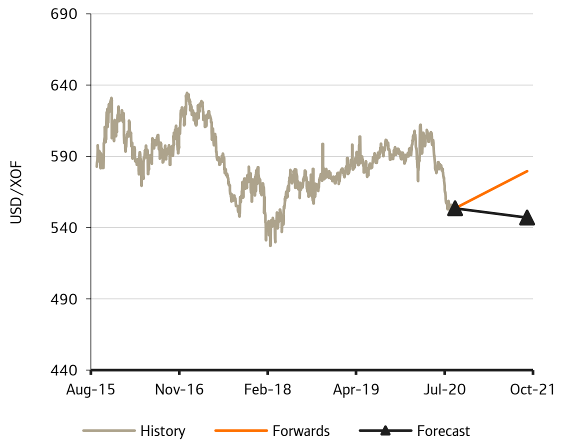
Source: Bloomberg; Standard Bank Research

FX outlook: we expect no changes to the euro peg in 2020

Talks around the renaming of the XOF to ECO will likely stall this year as policymakers across the UEMOA are confronted with the pandemic. Even if a renaming of the currency went ahead, the peg with the euro will likely remain over the next few years as many consultations and discussions between the ECOWAS members are still needed before a firm agreement would be possible. All 15 countries would need to meet the different convergence criteria and/or some of the convergence criteria would need to be relaxed for full adoption to take place.

Our G10 strategist forecasts EUR/USD at 1.22 in the next 3-m, before heading higher next year, so the bias is for USD/XOF to be closer to 537 by year-end.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still accommodative

The monetary policy response from the BCEAO to the adverse impact of the pandemic has been swift and accommodative over the past 6-m. Most measures particularly target increasing banking system liquidity across the region and credit to corporates and SMEs, most hit by the pandemic. By extending the types of collateral eligible to refinancing, the BCEAO has widened the refinancing window for corporates and individuals.

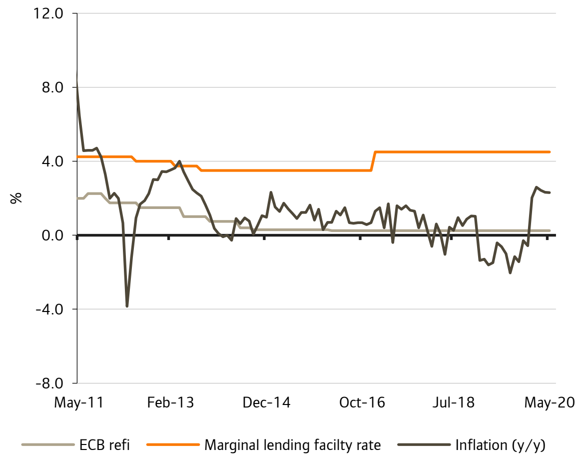
Earlier in the year, the apex bank for the West African States in Mar opted to increase liquidity provisioning to the banks by a weekly amount of XOF340bn. This should support corporates and SMEs across the region in a bid to mitigate the impact of the pandemic. Credit to the economy increased by 2.0% y/y in July.

The BCEAO's MPC will likely leave the monetary policy stance unchanged, instead maintaining an accommodative stance through easing and liquidity injections in 2020.

The committee has responded to the pandemic by imploring the public to rely on electronic means of making payments. It also took measures to ease liquidity challenges that businesses in the region might be facing.

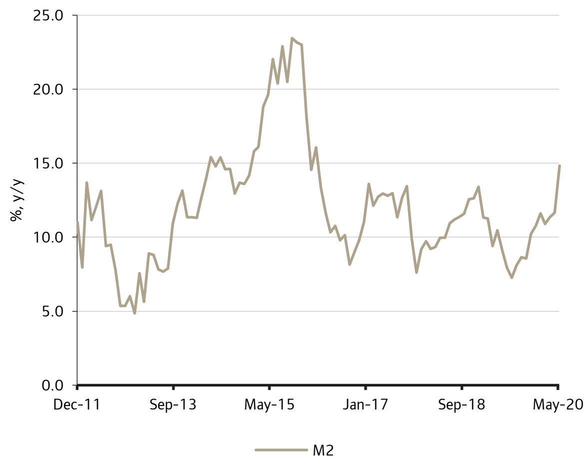
Although inflation will probably be subdued, supply-side distortions owing to the pandemic have pushed inflation higher over the past few months, with inflation averaging 2.3% y/y between Jan 20 and May 20. We now see inflation ending this year at 1.6% y/y, averaging 2.2% y/y. It will likely hover below 2.0% y/y in 2021, ending that year at 1.7% y/y.

Inflation and interest rates



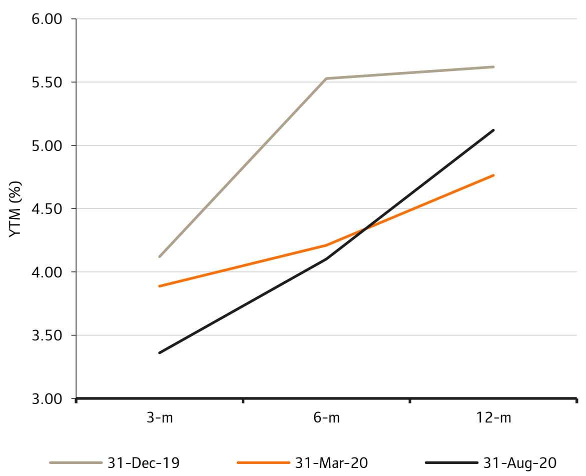
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; European Central Bank

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

The level of fiscal consolidation achieved over the past few years under the IMF's ECF and EFF support is not feasible this year given the disruptive nature of the pandemic to government finances. The fiscal deficit may rise to 5.0% of GDP in 2020, higher than the regional convergence criteria of 3.0%. Not surprisingly, the heads of states in the UEMOA region already decided to suspend the regional convergence criteria for 2020. The government seeks to return to a fiscal consolidation path, with the aim of returning below the convergence criteria from 2021.

The government is faced with significant fiscal pressures in 2020 arising from fast declining tax revenues and higher expenditure, mostly health related amid support for the poor and the vulnerable households of country. The government admits considerable risks to its fiscal projections. However, if revenue turned out worse than projected, the government may be able to adjust some spending lines.

While it is reasonable to expect spending cuts to public investment projects in a bid to contain the deficit, election-related expenditure could keep the deficit wider.

In financing the deficit, the government will have to rely on foreign concessional sources. Earlier in the year, authorities had secured IMF financing under the RCF and RFI agreement to the tune of USD886.2m. The IMF expected that this will prompt additional donor support from other concessional sources. Debt-to-GDP is expected to rise above 40.0% in 2020 amid increasing foreign borrowing.

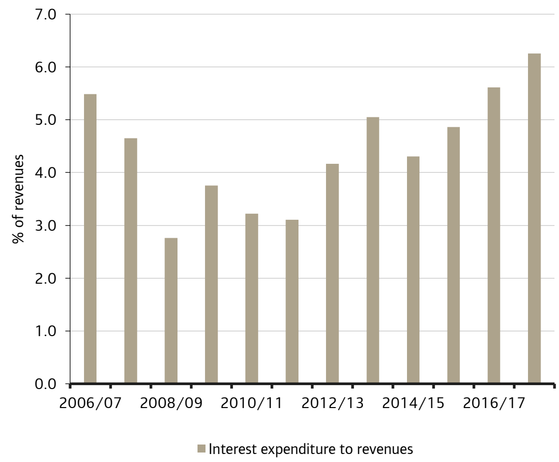
In a debt sustainability analysis reports, the IMF and World Bank still judged the risk of external debt distress as moderate. The IMF anticipates the fiscal deficit returning to the pre-crisis level once the crisis has abated. However, the IMF has reiterated that under its baseline scenario, the ratio of external debt service to revenue remains close to breaching the threshold in the medium term.

Central government budget

	2018	2019	2020
Tax revenue	12.0	12.0	11.5
Non-tax revenue	1.9	1.9	1.7
Grants	0.9	0.8	0.9
Total expenditure	17.8	17.0	19.1
Recurrent expenditure	10.6	12.7	14.7
- Of which: interest due	1.3	1.5	1.9
- Of which: wages	5.0	4.9	4.8
Capital expenditure	5.1	4.3	4.4
Budget deficit (incl. grants)	-2.9	-2.2	-5.0
Budget deficit (excl. grants)	-3.8	-3.0	-6.0
Domestic financing	-1.9	0.4	-0.7
External financing	4.1	1.5	2.3

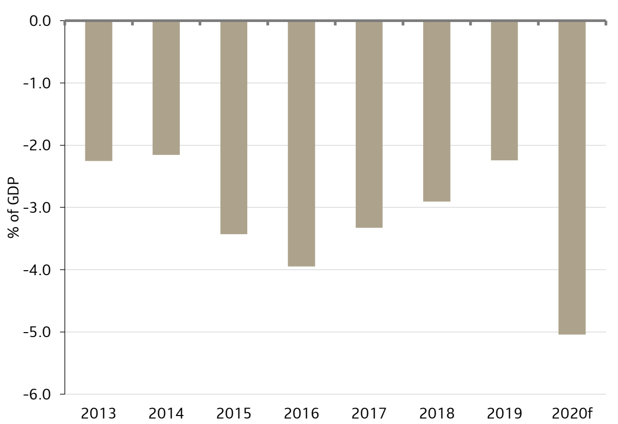
Source: Ministère de l'Economie et des Finances

Interest expenditure



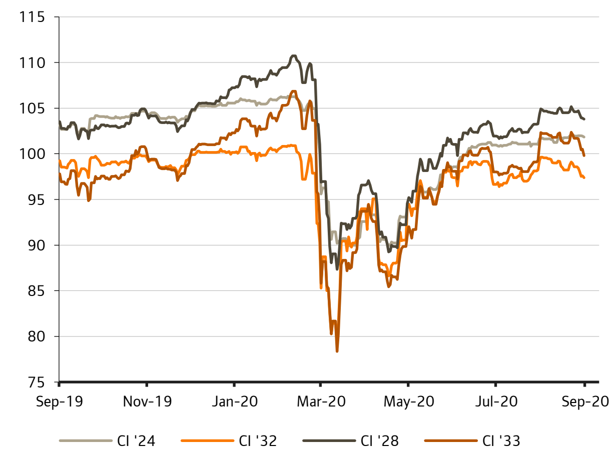
Source: Ministère de l'Economie et des Finances

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	29 995	32 848	34 981	36 810	40 214
Nominal GDP (USD bn)	33	33.7	50.9	59.5	70.5	64.6	77.3
GDP / capita (USD)	1 374	1 403	2 038	2 378	2 713	2 467	2 929
Real GDP growth (%)	8.8	8.2	7.7	7.7	7.6	3.1	7.4
Oil production (m bbl)	8.5	10	11	11	13	15	15.5
Cocoa production (m tonnes)	1.8	1.6	1.8	1.8	2	2.4	2.3
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-4.3	-5.6	-4.2	-3.8	-3	-6	-3.5
Budget balance (incl. grants) / GDP (%)	-3.4	-3.9	-3.3	-2.9	-2.2	-5	-2.7
Domestic debt / GDP (%)	16.4	19.3	14.3	12.2	12.1	10.6	9.4
External debt / GDP (%)	21.4	23.8	19.2	22.9	26.1	30.4	30
Balance of Payments							
Exports of goods (USD bn)	11.2	10.2	12.2	12	12.2	11.4	14.5
Imports of goods (USD bn)	-8.2	-7.4	-8.8	-8.9	-9	-8.6	-10.5
Trade balance	3	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	-2.1	-2.1	-1.8	-2.8	-1.7
Capital & Financial account (USD bn)	0.4	0.3	1.1	1.7	-1.3	-1	1.3
- FDI (USDbn)	0.5	0.5	0.3	0.6	-0.6	-0.4	-0.7
Basic balance / GDP (%)	0.8	0.4	-1.5	-1.1	-2.7	-3.5	-2.5
FX reserves (USD bn) pe	5	5.2	5.2	5.7	3.1	0.3	0.3
- Import cover (months) pe	7.3	8.5	7.1	7.6	4.2	0.5	0.4
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	2.2	1.9
Consumer inflation (%) pe	1.4	0.7	1.1	1	-0.6	1.6	1.7
M2 money supply (% y/y) pa	20.3	11.2	11.8	11	9.4	14.4	14.5
M2 money supply (% y/y) pe	18.2	11	9.2	13.4	10.8	15.6	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	588.8	552.5	495.9	569.5	520.1
USD/XOF pe	609.9	612	564.2	546.6	468.5	537.6	504.5

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: government finances under further pressure

Medium-term outlook: weak prospects

Even before the pandemic, we had forecast economic growth to slow in 2020 because of the suspension of copper and cobalt production at large mines. Disruptions due to the pandemic now compound this.

Our base case proposes a contraction of -4.5% y/y this year, with any kind of recovery only likely next year. In fact, we'd expect to see economic growth recovering to over 5.0% y/y only after 2024.

Nonetheless, the copper mining sector should benefit from higher copper prices. However, further investment into the extractive sector will likely slow while the global economy is this uncertain. In fact, long-term growth in this sector too seems uncertain. The extractive sector contributes around 29% to GDP but the ancillary impact of this sector's performance on GDP growth is meaningful. Depressed mineral production would spill over into the wider economy, affecting the fuels, chemicals, machinery and transportation sub-sectors.

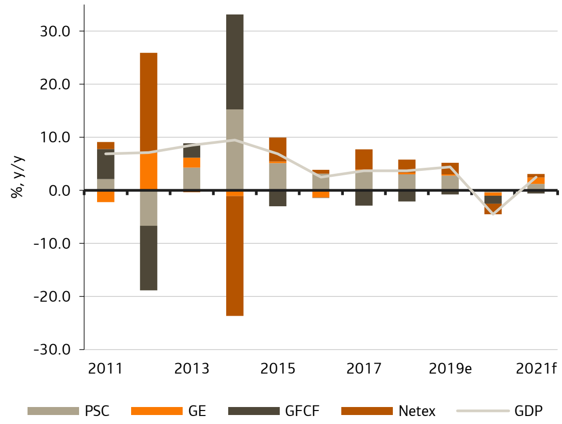
The duration of the pandemic poses a large risk to economic activity. Infections now exceed 10,000 but the peak is unknown. Furthermore, should there be a second wave of infections, it is unclear if the government would reimpose even more stringent lockdown measures.

Our bearish scenario sees growth contracting by -6.5% y/y, then recovering to above 4.0% y/y only by 2024. This scenario is consistent with the government being unable to prevent a further deterioration of fiscal and external balances. The government's external funding conditions hardly improve, and pressures on the balance of payments intensify. This causes a sharp correction in the currency. Currency weakness passes through to inflation, pushing inflation markedly higher than in our base case scenario. While 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 too.

Our bull case proposes a strong economic recovery from 2022. After contacting by 3.7% y/y in 2020, GDP growth recovers more swiftly than we have currently priced into our base case scenario. In the near term, the economy's growth prospects are still diminished by the weaker performance of the extractive sector. Existing fiscal constraints will likely prevent the government from contributing meaningfully to the economy in the short term.

Still, continued engagement with the IMF could over time become a catalyst in repairing relationships with the wider donor community, which could see aid inflows resume.

Composition of GDP by demand



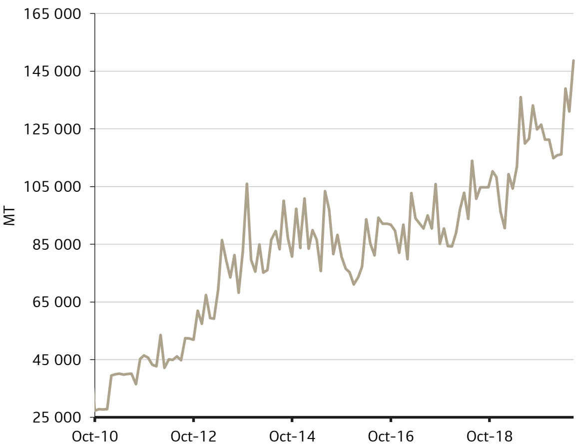
Source: Banque Centrale du Congo; Standard Bank Research

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

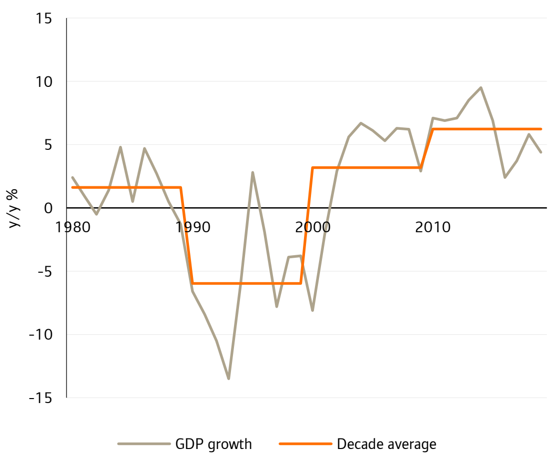
Medium-term economic growth scenarios

	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	3.2	3.2	3.2	3.2	4.0	4.0	4.0	4.0
CPI (% y/y) pe	7.1	15.3	23.7	29.8	28.9	30.8	25.7	16.5	11.7	10.0	11.1	13.8	12.9	8.2	6.1	5.9
Policy rate (%) pe	7.5	18.5	18.5	18.5	18.5	21.0	21.0	21.0	15.0	15.0	15.0	15.0	15.0	11.0	11.0	11.0
3-m rate (%) pe	6.5	8.3	16.0	17.0	19.0	24.0	18.0	18.0	17.3	15.3	13.5	10.2	9.3	8.4	7.2	7.4
USD/CDF pe	1707.0	1861.0	1972.7	2061.4	2127.4	2167.4	2208.1	2249.7	2266.5	2283.5	2294.9	2306.4	2317.9	2323.7	2329.6	2335.4
Bull scenario																
GDP (% y/y) pa	-3.7	-3.7	-3.7	-3.7	4.0	4.0	4.0	4.0	4.6	4.6	4.6	4.6	4.8	4.8	4.8	4.8
CPI (% y/y) pe	7.1	15.3	23.2	23.8	22.9	19.8	18.7	12.5	9.7	8.0	9.1	11.8	10.9	6.2	4.1	3.9
Policy rate (%) pe	7.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5	15.0	15.0	15.0	11.0	11.0	11.0	11.0	9.0
3-m rate (%) pe	6.5	8.3	15.8	16.5	18.5	23.5	17.5	17.5	16.8	14.8	13.0	9.7	8.8	7.9	6.7	6.9
USD/CDF pe	1707.0	1861.0	1926.1	1974.3	2023.6	2074.2	2100.2	2126.4	2142.4	2158.4	2174.6	2190.9	2196.4	2198.6	2200.8	2203.0
Bear scenario																
GDP (% y/y) pa	-6.5	-6.5	-6.5	-6.5	1.3	1.3	1.3	1.3	2.5	2.5	2.5	2.5	3.4	3.4	3.4	3.4
CPI (% y/y) pe	7.1	15.3	25.7	31.8	32.9	40.8	37.7	28.5	21.7	24.0	21.1	18.8	16.9	12.2	10.1	9.9
Policy rate (%) pe	7.5	18.5	18.5	18.5	18.5	25.0	25.0	25.0	25.0	25.0	19.0	19.0	19.0	15.0	15.0	15.0
3-m rate (%) pe	6.5	8.3	16.9	17.9	19.9	24.9	18.9	18.9	18.2	16.2	14.3	11.1	10.2	9.3	8.1	8.3
USD/CDF pe	1707.0	1861.0	1991.3	2130.7	2258.5	2394.0	2537.6	2588.4	2640.2	2693.0	2746.8	2774.3	2802.0	2830.1	2858.4	2886.9

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: in crisis

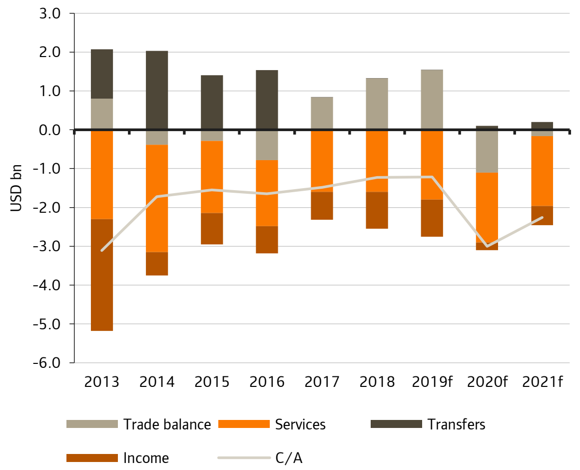
The DRC's balance of payments position is set to deteriorate further. Since mineral exports account for over 90% of exports, any disruptions in exports would intensify external stress. FX reserves have on average have been declining over the past year, which also points to underlying BOP pressures. At the end Jul, FX reserves had reached USD836.1m, consistent with 2 to 3-w of import cover.

Critically, the BCC's financing of the government's budget, in some instances in foreign currency, compounds pressure on FX reserves. The government's continued reliance on the BCC for USD funding increases the country's external vulnerabilities, since FX reserves are already meagre. While the government has also started buying FX from mining companies to bolster FX reserves, flows from mineral exports may dwindle. Cumulatively, cobalt exports have declined by 27% y/y, to 38k tons at end Jun. Copper exports reached 148.68k tons in the 6-m to Jun, rising by 14% y/y.

The C/A deficit will likely widen to 6.5% of GDP in 2020. A decline in cobalt exports typically is followed by a decline in imports required for cobalt processing, which would limit the deterioration in the trade balance. However, imports required for the containment and treatment of the viral outbreak should keep import demand elevated. Of course, there is a chance that current transfers would recover, should aid inflows increase.

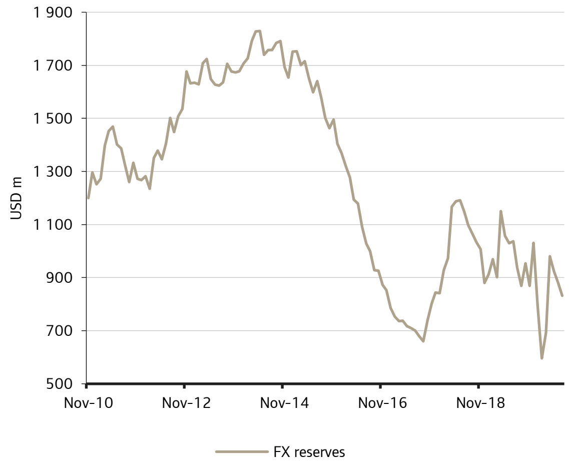
FDI is not likely to increase significantly over the next 2-y. FDI tends to be concentrated in the extractive sector. However, the increasingly uncertain global outlook is likely to slow investment in this sector. Critically, the government's access to external finance remains constrained, raising the likelihood that financial inflows will be inadequate for the country's external financing needs. Of course, insufficient financial inflows could exacerbate the external funding gap.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves



Source: Banque Centrale du Congo

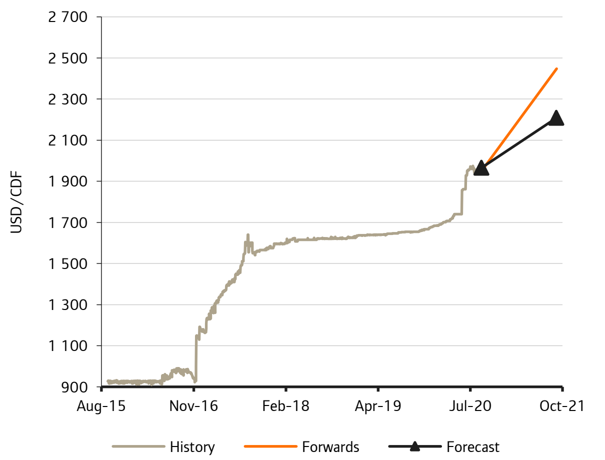
FX outlook: upside risk

We expect USD/CDF to end Q3:20 at 1,972 and Q4:20 at 2,061. Considering external pressures, CDF depreciation seems inevitable this year. That said, the pace of CDF depreciation against the USD has moderated, only rising by 0.7% m/m in Aug, compared with 1.53% m/m in Jul and 9.79% m/m in Jun.

Regardless, should the pace of currency depreciation pick up again, which is consistent with our bearish scenario, the pair could end 2020 at 2,130 and 2021 at 2,588.

However, the magnitude or timing of depreciation is uncertain. Notably, the government's continued reliance on the central bank to finance the budget could precipitate a series of devaluations, posing meaningful upside risk to the outlook.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: on hold, for now

The BCC is likely to leave the policy stance unchanged over the next 4-m after increasing the policy rate to 18.5% from 7.5%. Recall that in Mar, the MPC had reduced the policy rate to 7.5% from 9% to support the economy at the onset of the pandemic.

The effectiveness of the credit channel of monetary policy is limited by the weak transmission mechanism. If there were to be further hikes, the MPC would have to move the rate by large increments, matching Aug's policy hike, for it to be effective.

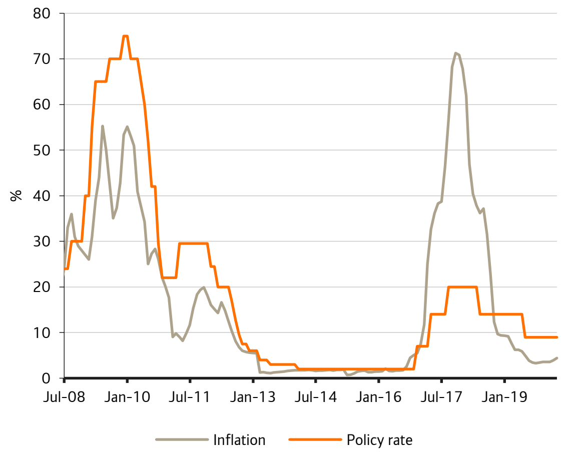
A depreciating currency and mounting inflationary pressures motivated the MPC to hike rates in Aug. According to the BCC, at the end of Aug inflation reached 19.7% y/y. We see inflation rising to 23.7 % y/y at the end of Sep, then reaching 29.8% y/y by year-end.

One factor that could have driven inflation higher is the increased pace of currency depreciation during Q2:20. Since the currency stabilized, weekly inflation has decreased, reaching 0.13% w/w at the end of Aug. While the currency has stabilized, we acknowledge that further currency weakness could push inflation up in the coming months.

Another factor that probably put upward pressure on inflation is excessive money creation by the BCC. As the government struggled to secure financing for its fiscal deficit during H1:20, the government relied on the BCC to provide financing. Since we don't expect a material improvement in the government's financing conditions, the BCC could come under increasing pressure to provide additional financing to the government, Of course, this underscores upside risks to the outlook.

Our bear case sees inflation at around 31.8% y/y by year-end.

Inflation and interest rates



Source: Banque Centrale du Congo; Standard Bank Research

Broad money supply growth

Source: Reuters; Standard Bank Research

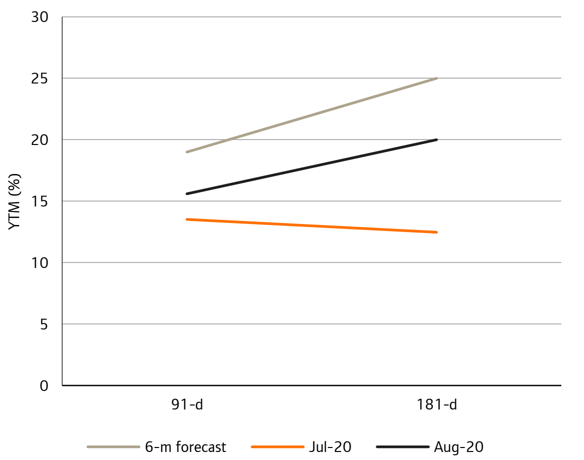
Yield curve outlook: yields on the rise

The Ministry of Finance (MOF) reactivated the treasury bond market in Oct last year. For now, the MOF issues 91-d and 181-d T-bills but has plans to start issuing 364-d T-bills too.

We expect yields, across the curve, to rise further. Recall that risks are tilted to the upside for the inflation outlook, so there is a chance that yields may rise further from current levels. Moreover, the government's financing pressures could push yields higher too.

During Q3:20, the MOF plans to raise CDF325m. By early Sep, the government had raised around 35% of its target. Rising from 9.7% in early Jul, yields on the 91-d T-bill reached 17.75% in Sep. During Q3:20, the government also issued more 91-d T-bills, compared with 181-d T-bills. Yields on 181-d bills reached 20%, from 12.47% in Jul.

Yield curve changes



Source: Ministry of Finance; Standard Bank Research

Fiscal policy: financing pressures evident

It is likely that the revised FY2020 budget will only be passed at the next parliamentary session which begins this month. Earlier this year, the Council of Ministers recommended that the FY2020 budget should be reduced by at least 35% to CDF12.0trn due to the expected impact of the pandemic.

Pressures on fiscal revenues have been extreme. While the FY2020 budget indicated that the government expects its financing conditions to improve factoring in grants and budget support funding, the government has had to rely on the BCC to provide financing. The Office of the Prime Minister confirmed that the government is in talks with the IMF for a new programme. Should the government secure additional financing from the IMF, that would most likely ease financing pressures.

Typically, the government's financing constraints necessitated that it executed budgets on a cash basis. However, executing the budget on a cash basis this year may be unrealistic considering the impact COVID-19 has had on public finances. However, the president has committed to tightening fiscal policy, to prevent further reliance on the BCC for financing.

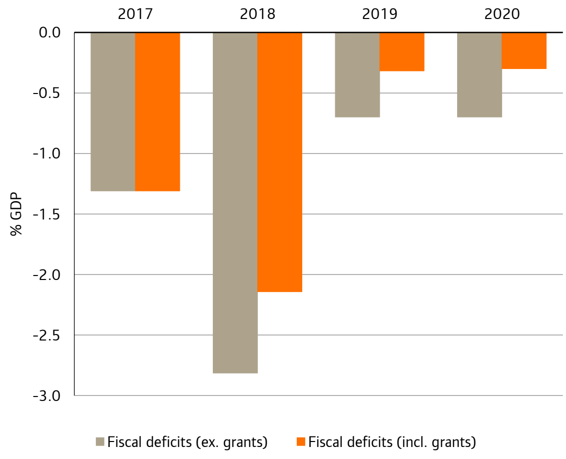
The FY2020 budget forecast a deficit of CDF846.5bn (excluding grants), which by our estimates is around 0.9% of GDP. Even if the government reduces expenditure, it's likely that the budget deficit for FY2020 could be much wider than the government's initial budget, given expected revenue underperformance. In fact, FY2020 budget revenue projections seem too optimistic, even if these forecasts were predicated on structural reforms that improved revenue collection. Recall that large mine closures indicated that taxes from the extractive sector would most likely shrink this year.

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	-0.9
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

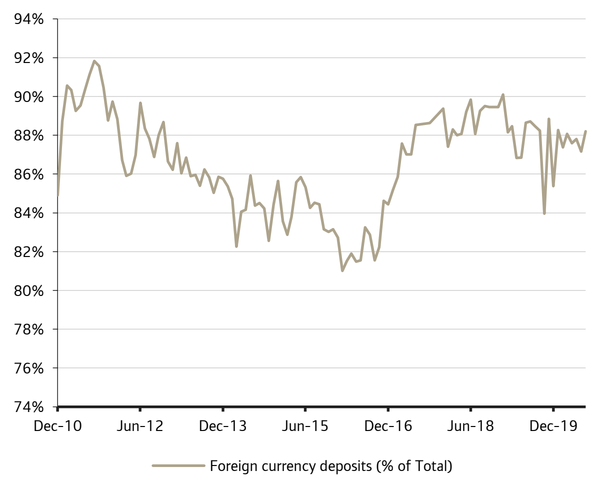
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Fiscal deficit



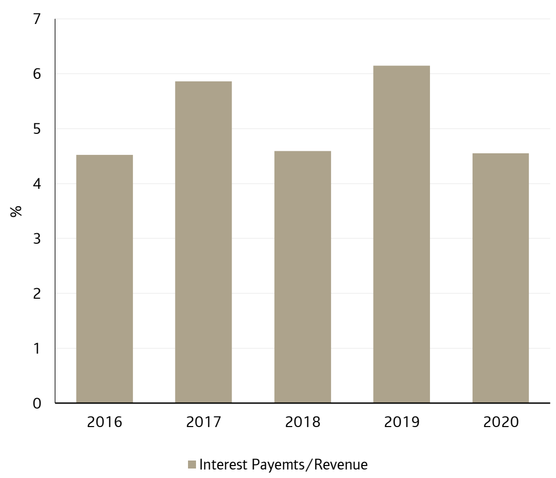
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

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	46.0	51.5
GDP / capita (USD)	465.4	436.0	458.3	520.7	545.4	489.7	542.4
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	-6.5	-4.4
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	-3.5	-1.3
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	17.0	26.2
Headline inflation (%) pe	2.1	25.0	46.8	7.7	3.9	29.8	16.5
M3 money supply (% y/y) pa	12.1	9.0	43.4	16.7	14.3	30.2	18.6
Policy bank rate (%) pa	2.0	4.5	18.5	14.0	10.3	15.8	20.4
Policy bank rate (%) pe	2.0	7.0	20.0	14.0	9.0	18.5	21.0
7-d rate (%) pe	0.3	4.2	15.1	1.0	0.0	3.0	5.6
USD/CDF pa	925.8	1 037.1	1 503.0	1 617.4	1 625.2	1 900.5	2 188.1
USD/CDF pe	925.0	1 165.0	1 595.0	1 625.0	1 667.6	2 061.4	2 249.7

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

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

Egypt: growth is holding up

Medium-term outlook: relatively resilient

We now see GDP growth at 2.8% y/y in 2020, from our previous expectation of just 1.5% y/y. Furthermore, contrary to our earlier expectation where we only expected GDP growth to exceed 5.0% y/y in 2023, we now expect the economy to expand by 5.2% y/y in 2021.

As disrupted global supply chains had dislocated trade earlier this year, Egypt's industrial sector would have been disrupted too. However, since Jun, there's been a noticeable improvement in most leading economic indicators as economic activity has started to recover.

However, the tourism sector will take much longer to recover due to the abrupt cessation of cross-border travel. Our base case expects little improvement in this key sector until at least H2:21. Despite the resumption in international flights in Jul, international tourist arrivals remain subdued.

The government has eased domestic containment measures since Jul, giving the broader services sector a much-needed boost, especially with subdued international tourist arrivals. The government has also lifted the partial curfew imposed back in Mar and has now re-opened cinemas, cafes, hotels, and museums. The further relaxation in domestic restrictions will continue to underpin a gradual recovery in economic growth.

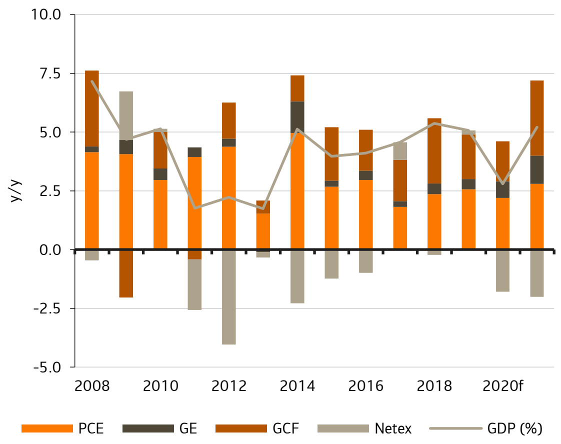
The authorities will also further ease restrictions during Sep and have implemented requirements for all international arrivals to have a Covid-19 negative test certificate.

Indeed, the PMI, which had collapsed to 29.7 in Apr before recovering to 44.6 and 49.4 in Jul and Aug respectively, shows that economic activity and business confidence is picking up while external demand too is improving.

Before the pandemic hit, the Egyptian economy was gaining growth momentum thanks to the implementation of various macroeconomic reforms. This, in addition to the already diversified nature of this economy, convinces us that despite the pandemic, economic growth will not contract in 2020. While Q2:20 GDP growth will probably reflect the worst of the pandemic's impact on economic activity, GDP growth still expanded by 5.0% y/y in Q1:20.

In addition to the increase in pro-poor spending, other government incentives, such as the credit guarantee schemes for the tourism and aviation sectors, should support the economic recovery as of H2:20.

Composition of GDP growth by demand



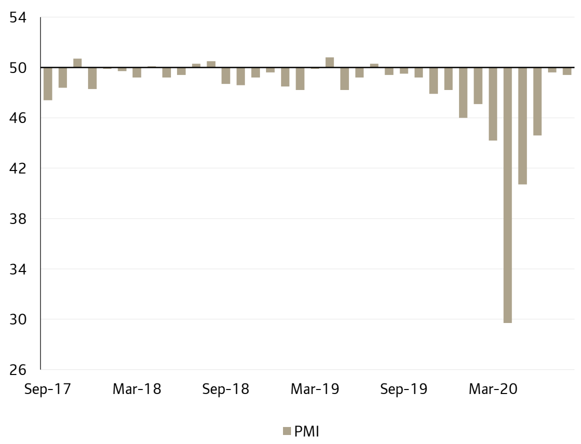
Source: Ministry of Planning; Standard Bank Research

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
- Petroleum 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: IHS Markit

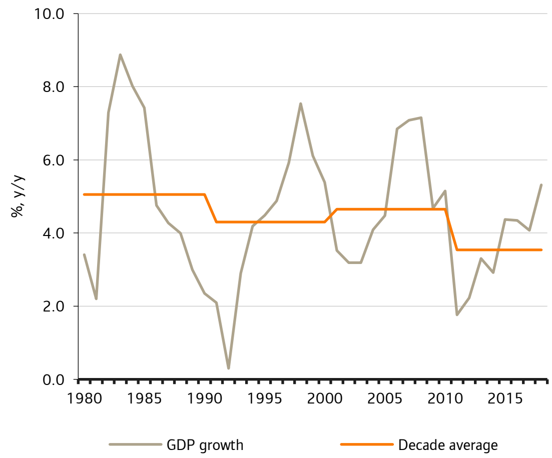
Medium-term economic scenarios

	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	5	0.2	2.7	3.2	4.5	5.9	5.1	5.4	5.1	5.5	5.7	6.1	5.8	6.2	6.1	5.7
CPI (% y/y) pe	5	5.6	3.8	3.1	4.5	5.2	8.2	8.6	8.7	8.8	8.6	8.5	8.3	8.3	9.2	9.5
BOG prime rate (%) pe	10.25	10.25	10.25	10.25	10.25	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	12.6	12.91	12.4	12.3	12.3	12.4	12.4	12.6	12.2	12.2	12.1	11.9	12	12	12.1	12.15
6-m rate (%) pe	13.3	12.89	12.5	12.45	12.4	12.6	12.6	12.8	12.6	12.5	12.5	12.2	12.1	12.15	12.2	12.2
USD/EGP pe	15.75	16.15	15.75	15.6	15.4	15.6	15.85	16	16.15	16.25	16.2	16.35	16.3	16.5	16.75	16.9
Bull scenario																
GDP (% y/y) pa	5	3	5.5	6	7	8.7	7.6	7.9	7.9	7.6	7.8	8.4	7.6	7.5	7.3	7
CPI (% y/y) pa	5	5.6	2.5	2.6	3.2	3.7	4.8	5.1	4.9	4.9	5.4	5.5	5.3	5.2	5.7	6.1
BOG prime rate (%) pe	10.25	10.25	9.75	9.75	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
3-m rate (%) pe	12.6	12.91	12.1	11.7	11.7	11.6	11.6	11.5	11.4	11.5	11.5	11.6	11.5	11.4	11.6	11.6
6-m rate (%) pe	13.3	12.89	12.2	12.1	11.9	11.8	11.8	11.7	11.7	11.7	11.8	11.8	11.7	11.6	11.7	11.8
USD/EGP pe	15.75	16.15	15.55	15.35	14.95	15.25	15.4	15.55	15.7	15.9	15.85	16.15	16.1	16.3	16.55	16.7
Bear scenario																
GDP (% y/y) pa	5	-3.1	1.5	2.2	0.1	2.4	3.4	4.1	3.8	4.7	4.9	5.4	5.1	5.5	5.4	5
CPI (% y/y) pa	5	5.6	4.5	5.5	6.3	6.9	9.8	10.4	10.7	10.7	10.6	10.4	10.1	9.8	9.9	10.2
BOG prime rate (%) pe	10.25	10.25	10.25	10.25	10.25	10.25	10.5	10.75	10.75	10.75	10.75	10.75	10.75	10.75	10.75	10.75
3-m rate (%) pe	12.6	13.2	13.5	13.8	13.8	14.1	14.1	14.3	14.4	14.3	14.4	14.2	14.2	14.1	13.9	13.9
6-m rate (%) pe	13.3	13.3	13.7	13.8	13.9	14.3	14.3	14.4	14.4	14.5	14.5	14.6	14.5	14.4	14.4	14.2
USD/EGP pe	15.75	16.15	16.1	16.15	16.2	16.28	16.38	16.45	16.6	16.78	16.78	16.73	16.68	16.75	17	17.15

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

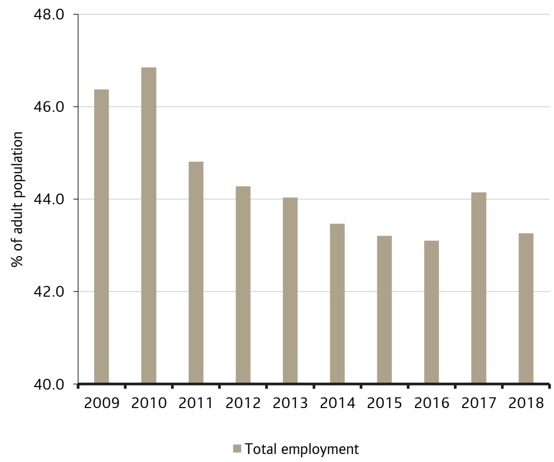
Notes: pa - period average; pe - period end

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: C/A deficit to widen in 2020

We see the C/A deficit widening to 6.3% of GDP in 2020, before narrowing to 4.4% in 2021.

Notably, service receipts are likely to falter from Q2:20, probably only recovering by H2:21. Crucially, this view depends on a global vaccine being secured by H2:21, which should boost travel receipts. While a weaker tourism sector isn't likely to weigh down the economy singlehandedly, it may have a more profound, and negative, impact on the BOP. Travel receipts account for around 52% of total service receipts, with the balance comprising transport inflows associated with the Suez Canal.

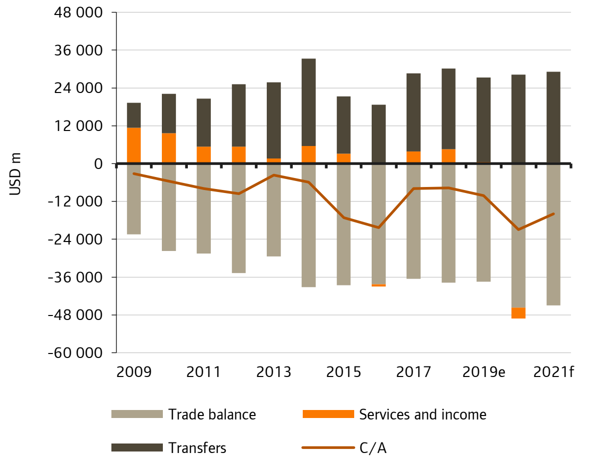
Interestingly, despite the impact of the pandemic, Suez Canal revenues increased to USD1.91bn in the 4-m to Apr 20, compared to USD1.87bn during the same period in the previous year. Service exports eased to USD5.08bn in Q1:20, from an average of USD6.73bn in H2:19. This downward trend will likely continue next year, primarily due to travel receipts.

Diaspora remittances rose, to USD7.87bn in Q1:20, from an average of USD6.70bn in H2:19. However, because of weaker global growth, remittances are likely to decline in 2020 and thus weigh on net current transfers.

Moreover, the slowdown in economic activity in 2020 will curb consumer import demand, while the decline in international oil prices could ease the petroleum import bill (which accounts for around 19% of the total import bill). However, the sharp decline that we envisage in service exports could dwarf the potential easing in imports of goods over the coming year.

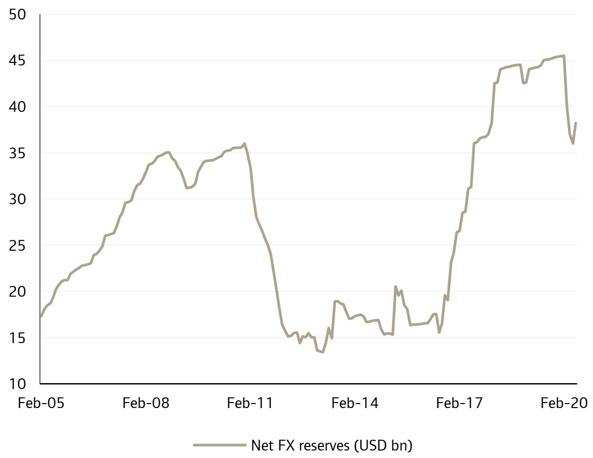
Nevertheless, multilateral and bilateral funding will predominantly aid in financing the wider C/A deficit in 2020.

Current account developments



Source: Central Bank of Egypt

Net FX reserves (USD bn)



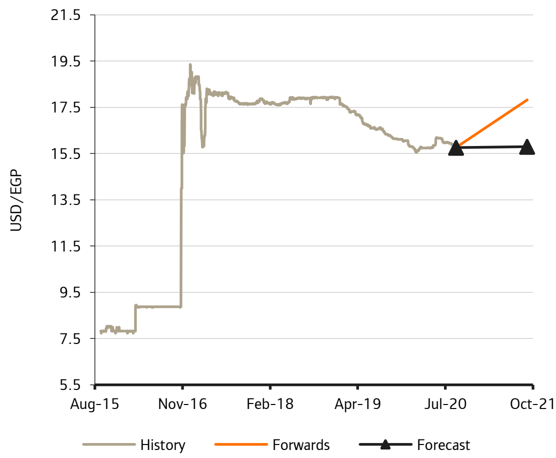
Source: Central Bank of Egypt

FX outlook: EGP appreciation bias

We still see an appreciation bias for the EGP in H2:20, and we expect the USD/EGP pair to fall to 15.60 by end Dec 20. The pair was relatively stable during the deterioration in global risk sentiment, resulting in an increase in portfolio outflows earlier this year. Foreign holdings of T-bills declined to EGP111.4bn in May 20, from EGP310.6bn in Jan and EGP149.3bn in Mar.

The pair's stability in Mar/Apr had initially concerned investors, with many thinking that the EGP could be overvalued or relatively rich. However, from Jun, foreign portfolio investment picked up. Thus, it's no surprise that gross FX reserves recovered to USD38.2bn in Jun 20, from USD36.0bn in May, even though a large part of this rise in FX reserves was due to multilateral support. Importantly, real EGP yields remaining elevated and relatively attractive supports our view that the EGP could appreciate into Q1:21.

USD/EGP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: an easing bias, but likely neutral

With real EGP yields still quite elevated, one would expect an accommodative bias. Perhaps the MPC has been hesitant to ease its policy stance further because of its overly cautious outlook on inflation. Indeed, we don't see the MPC changing its policy stance in our base case and therefore we'd expect a neutral stance.

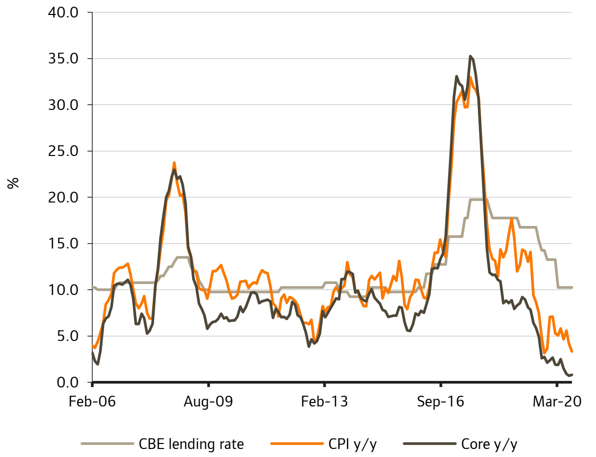
Besides concerns about inflation potentially rising, the MPC seems aware of the enhanced concentration risk at the shorter-end of the EGP yield curve with respect to the amount of foreign portfolio investment holdings. The committee could therefore be wary of loosening its policy stance as that may spur increased foreign portfolio outflows.

We reiterate that the CBE's bearish inflation outlook has been prompting the bank to keep real rates elevated. Headline inflation declined to 4.2% y/y in Jul, from 5.9% y/y in Apr and 7.2% y/y in Jan. Core inflation too eased to 0.7% y/y in Jul, from 2.6% y/y in Jan and 6.4% y/y in Jun 19.

We see headline inflation rising to 3.8% y/y in Sep as base effects unwind and the 19% increase in power prices is fully implemented. But, thereafter, we expect headline inflation to decline to 3.1% y/y by Dec 20 before rising to 4.5% y/y in Mar 20 and 5.2% y/y in Jun 21.

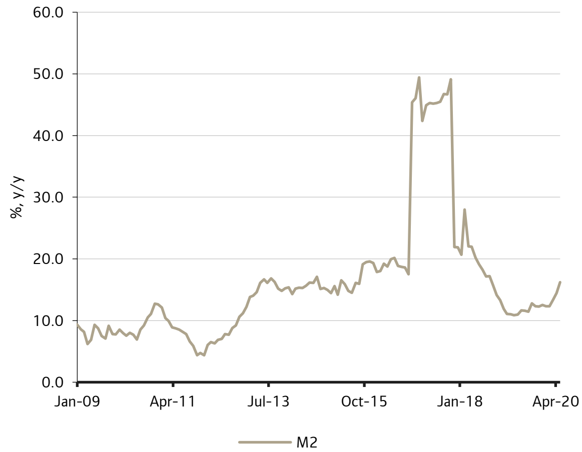
Crucially, should economic growth take longer to recover from the pandemic, the MPC might very well cut the key policy rate further, especially if underlying inflationary pressures remain contained.

Inflation and interest rates



Source: Central Bank of Egypt

Monetary supply growth



Source: Central Bank of Egypt

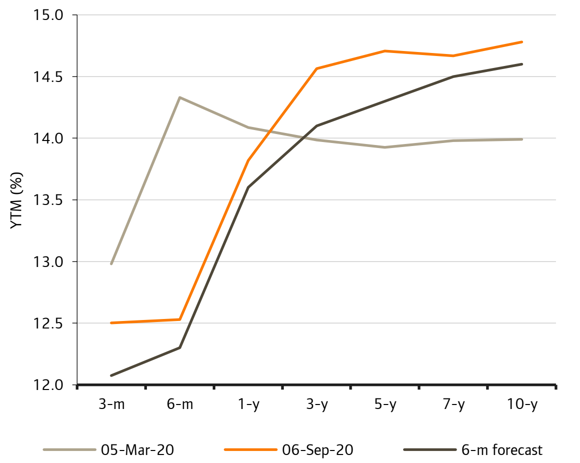
Yield curve outlook: a bull-steepening

We expect the yield curve to bull-steepen over the coming year, with T-bill yields likely to fall more meaningfully than government bond yields. Yields at the longer end of the curve have risen by some 120-130 bps since the end of Apr. However, T-bill yields have remained quite steady during this period.

Demand for paper mainly at the shorter end of the curve will probably remain robust, underpinned by both excess domestic liquidity and increased offshore appetite. Furthermore, the monetary policy easing bias, likely to persist over the coming year, will probably also ensure that yields edge lower rather than rise.

However, because of growing fiscal concerns primarily due to the government's decision to take military action in neighbouring Libya, bond yields will probably not decline over the coming year. Hence, the yield curve will probably steepen during this period.

Changes in the yield curve



Source: Central Bank of Egypt; Standard Bank Research

Fiscal policy: likely revisions to the FY2020/21 budget

The FY2020/21 budget estimates were finalized in Mar/Apr. The planned fiscal deficit of 6.3% of GDP in FY2020/21, from 7.2% in the previous fiscal year, now seems too ambitious.

As the pandemic's impact on public finances becomes clearer, a revised FY2020/21 budget in Sep now seems inevitable.

Government revenues are likely to be severely impacted by the pandemic. Additionally, some of the stimulus measures to mitigate the negative impact of the pandemic weren't factored into the initial FY2020/21 budget deficit. The government had provided a fiscal support package worth 2.0% of GDP. As of Jul, half of this package had already been allocated and disbursed.

Authorities also gave tax holidays and the option to pay taxes in instalments to certain sectors affected by the pandemic. Nevertheless, the government still sees tax revenues rising to EGP964.8bn, from EGP856.6bn.

Also, following parliamentary approval to deploy military troops in neighbouring Libya, there is an obvious risk that government expenditure will have to rise further, compared to the original planned budget.

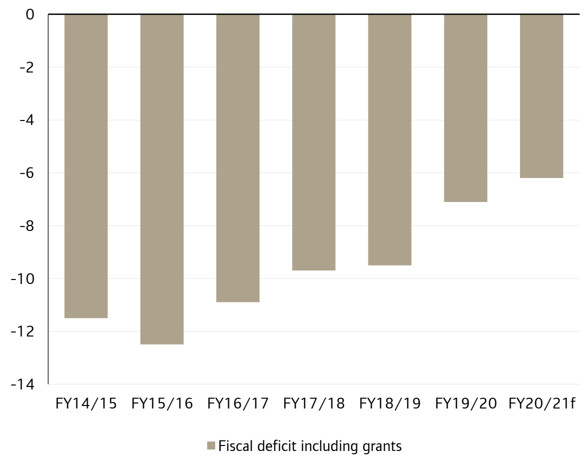
The government's external borrowing target is around USD5-7bn in FY2020/21. Crucially, first priority will be given to concessional loans. However, the government hasn't completely ruled out returning to the Eurobond market should global risk conditions improve.

Central government budget

% of GDP	FY2017/18	FY2019/20	FY2020/21
Total Revenue	21.5	21.8	23.2
Grants	0.0	0.1	0.0
Total Expenditure	31.0	28.9	29.4
Wages and salaries	6.2	5.8	5.8
Interest payments	9.8	11.0	9.8
Subsidies	8.6	6.3	5.7
Overall balance (- grants)	-9.6	-7.2	-6.3
Overall balance (+ grants)	-9.5	-7.1	-6.2

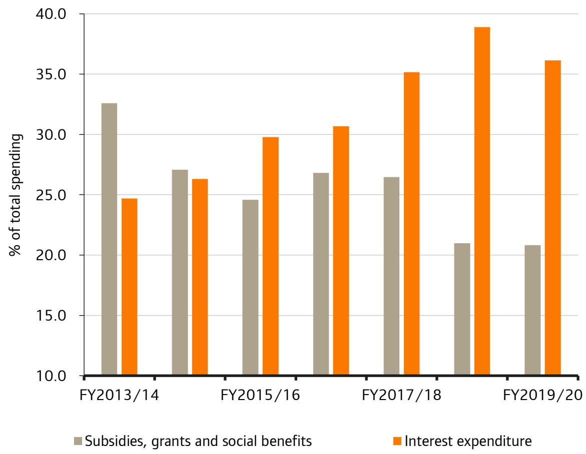
Source: Ministry of Finance

Fiscal deficit incl. grants (% of GDP)



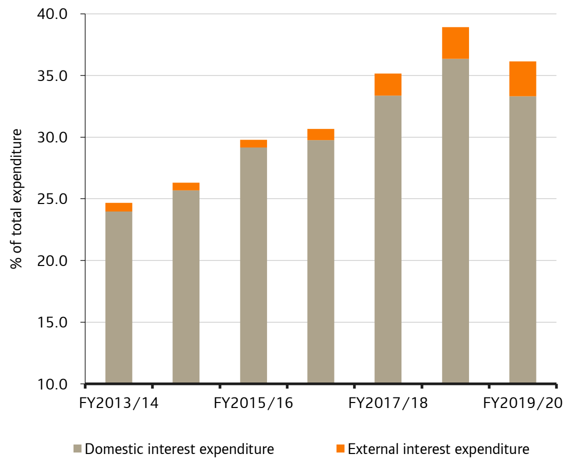
Source: Ministry of Finance

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	2.8	5.2
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 (%)	-11.5	-12.5	-10.9	-9.7	-9.5	-7.1	-6.2
Budget balance (excl grants) / GDP (%)	-12.5	-12.6	-11.2	-9.8	-9.6	-7.2	-6.3
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	-7.68	-10.21	20.94	-15.93
- % of GDP	-5.73	-13.35	-4.00	-3.25	-3.38	-6.29	-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	0.06	-0.73	-4.89	-1.91
FX reserves (USD bn) pe	16.45	24.27	37.00	42.55	45.42	39.50	44.80
- Import cover (mths) pe	2.84	4.26	6.32	6.69	6.90	5.45	5.60
Sovereign Credit Rating							
S&P	B-	B-	B-	B	B	B+	B+
Moody's	B3	B3	B3	B3	B2	B2	B2
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	4.40	6.60
Consumer inflation (%, y/y) pe	11.05	23.30	21.87	11.98	7.07	3.10	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	9.88	9.75
CBE overnight lending rate (%) pe	10.25	15.75	19.75	17.75	13.25	10.25	10.25
3-m rate (%) pe	11.18	18.92	18.77	19.50	16.20	12.30	12.60
1-y rate (%) pe	11.35	19.32	18.50	19.80	16.30	13.70	13.90
5-y rate (%) pe	13.17	16.72	15.73	18.80	14.70	14.50	14.80
USD/EGP pa	7.70	10.06	17.97	17.87	16.60	15.81	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; Bloomberg; Ministry of Finance; Standard Bank Research

Notes: pa - period average; pe - period end

Ethiopia: infrastructure development supporting growth

Medium-term outlook: infrastructure focus

It is still plausible that GDP growth will be dominated by investment spending over the medium term. We maintain our GDP growth forecast for 2020 at 4.1% y/y and 4.3% y/y for 2021.

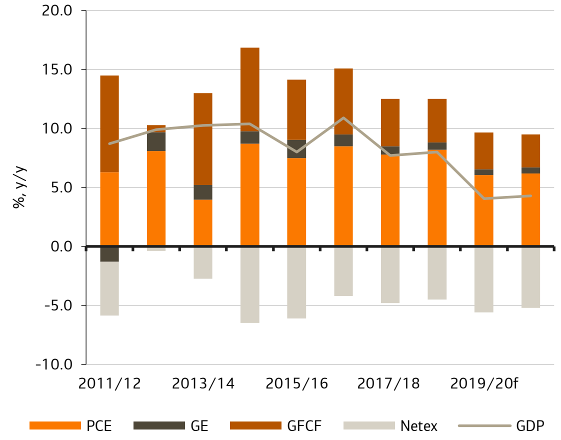
In FY2020/21, out of the ETB293.7 federal budget, the government budgeted around ETB160.3bn for capital expenditure, implying that the public investment in infrastructure will persist and dominate as a key driver for economic growth in the medium term. Thus, the construction sector will probably continue to propel economic growth over the next few years. Its contribution to GDP raced to 18.4% in 2019, from just 1.7% in 2016. Indeed, this sector has recorded stellar growth of over 15% y/y since 2004.

The agriculture sector will continue to contribute the most. Interestingly, in FY2018/19, the share of agriculture to GDP shrunk to 33.8%, from 34.9% in FY2017/18 and 44.6% in FY2010/11. However, we still see growth in this sector remaining subdued, after averaging 3.7% y/y in the past 2-y, from the 5.2% y/y average in the 5-y before. Critically, the desert locust invasion poses a severe threat to Ethiopian farmers. According to a survey conducted by the Food and Agriculture Organization of the United Nations (FAO), desert locusts resulted in a loss of about 2.0% of the estimated total cereal production for 2019/2020.

Perhaps the electricity and water sub-sector will post some growth too. In the Q3: 2019/20, electricity exports increased by 9.0% y/y. Electricity generation rose 6.7% y/y in that time due to higher production from hydropower sources which grew by 5.4% y/y and wind sources by 2.2% y/y. The improvement in domestic electricity generation could unlock further economic potential, considering that reliable and cheaper electricity could support various sectors. But downside risks to GDP growth over the next couple of years could arise from numerous factors. The performance of goods exports remains weak and FX shortages persist, and the impact on growth is likely to linger. Especially this year, the key sectors that provide FX to the market are being hardest hit by the pandemic, particularly the transport sector which accounts for roughly 45% of total exports. Furthermore, Ethiopian Airlines contributes substantially towards government revenues and job creation, implying further fiscal and private consumption pressures, as global travel falters.

Our bear case scenario sees the economy contracting by1.2% y/y in 2021 as it takes longer to recover from the confluence of factors weighing down growth in 2020. This could be exacerbated by the pandemic, in addition to desert locusts decimating the agrarian sector for much longer.

Composition of GDP by demand



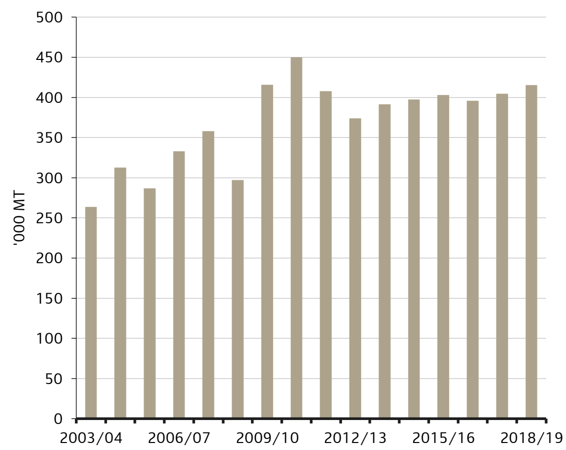
Source: National Bank of Ethiopia; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010/11	2015/16	2018/19
Agriculture, hunting, fishing and forestry	44.6	37.2	33.8
Mining and quarrying	1.4	0.4	0.1
Manufacturing	4.0	6.0	5.6
Electricity and Water	1.0	4.3	0.7
Construction	4.0	1.7	18.4
Wholesale and retail trade	14.5	0.8	13.4
Hotels and restaurants	3.6	16.5	2.5
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

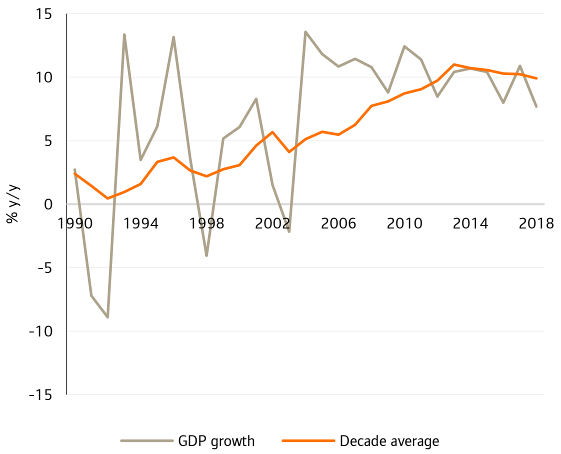
Medium-term economic growth scenarios

	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	21.60	19.66	19.37	18.05	16.81	12.29	12.29	11.79	11.93	11.81	12.00	12.25	12.45	12.36	12.48
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	6.60	6.60	6.44	6.44	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60
6-m rate (%) pe	7.70	6.84	7.11	7.11	7.70	7.70	7.70	7.70	7.70	7.70	7.70	7.70	7.70	7.70	7.70	7.70
USD/ETB pe	32.80	35.18	36.77	38.56	40.44	42.42	44.49	46.66	47.93	49.23	50.57	51.95	53.37	54.82	56.31	49.28
Bull scenario																
GDP (% y/y) pa	4.10	4.10	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	21.60	19.96	19.57	18.55	17.51	13.09	13.49	13.69	13.83	14.01	13.90	14.15	13.75	13.16	13.18
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	6.60	6.60	6.59	6.59	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
6-m rate (%) pe	7.70	6.84	7.26	7.26	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85
USD/ETB pe	32.80	35.18	36.57	38.25	40.04	41.92	44.24	46.51	47.78	48.98	50.37	51.75	53.17	54.62	56.11	49.08
Bear scenario																
GDP (% y/y) pa	4.10	4.10	-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	21.60	19.36	19.17	17.55	16.11	11.49	11.09	9.89	10.03	9.61	10.10	10.35	11.15	11.56	11.78
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	6.60	6.60	6.29	6.29	6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.45
6-m rate (%) pe	7.70	6.84	6.96	6.96	7.55	7.55	7.55	7.55	7.55	7.55	7.55	7.55	7.55	7.55	7.55	7.55
USD/ETB pe	32.80	35.18	36.97	38.87	40.84	42.92	44.74	46.81	48.08	49.48	50.77	52.15	53.57	55.02	56.51	49.48

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

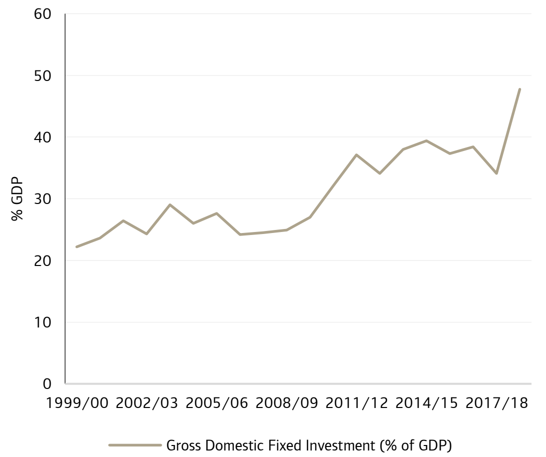
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; National Bank of Ethiopia

Domestic fixed investment



Source: National Bank of Ethiopia

Balance of payments: C/A to narrow slightly

The C/A deficit is still likely to narrow to 4.6% of GDP in 2020 and thereafter to 4.4% in 2021, from an estimated 4.7% of GDP in 2019.

In Q3 of FY2019/20, goods imports declined by 4.2% y/y, and services imports dropped by 8.3% y/y. The decrease in goods imports was largely attributable to a 9.6% y/y drop in fuel imports.

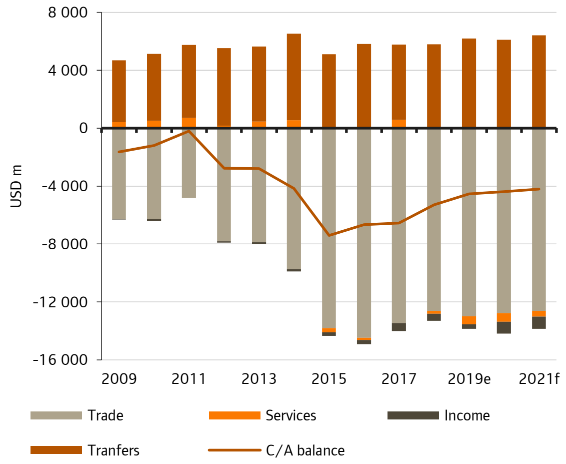
The goods and services import downward trend is likely to continue due to lower international oil prices. Oil prices have plunged attributable to subdued global demand. Brent crude prices have so far dropped by roughly more than 30% YTD at the time of writing.

Thus, it is still likely that there will be a reduction in overall imports for the year. Perhaps the reduction will be small, considering rising investment spending. This may increase imports of machinery, factory and transport equipment. Therefore, the trade deficit is unlikely to narrow meaningfully.

Moreover, the reduction in imports will also probably be restricted by a widening gap between demand and supply for wheat. According to the Ministry of Agriculture, wheat consumption is growing at a rate of 9.0% y/y. Meanwhile, local production is increasing at only 7.8% y/y. Moreover, the ongoing infestation of desert locusts poses a profound risk to food security, which could increase the governments' food importation requirements over the coming year.

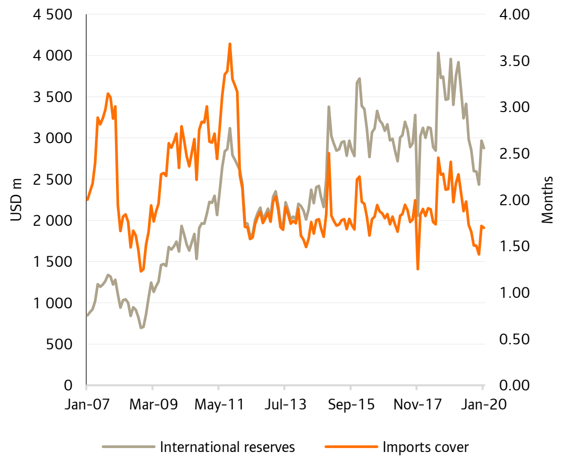
We expect export receipts from both the tourism and transport sector to remain subdued this year. But considering that imports are nearly 3.0 times larger than the value of exports, the potential decrease in imports is still likely to outweigh declining exports.

Current account developments



Source: National Bank of Ethiopia

FX reserves



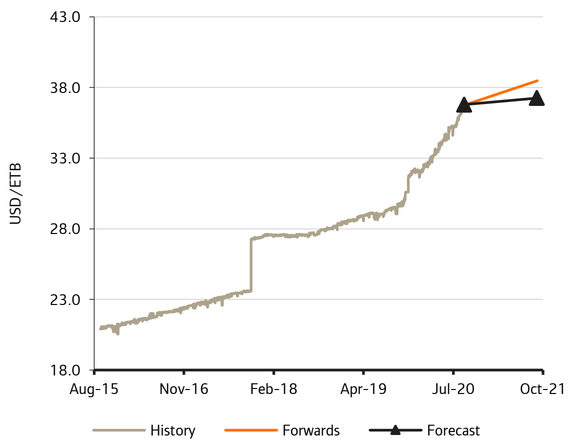
Source: Bloomberg

FX outlook: further USD/ETB upside

The ETB is likely to weaken in the medium term, possibly ending the year at 38.56. Both the IMF-induced devaluation and real effective fundamentals could drive this.

The IMF expects the government to shift to a flexible exchange rate regime as part of the Extended Credit Facility (ECF) and Extended Financing Facility (EFF) programme. Authorities seem to agree and there are plans to transition into a more market-determined ETB. According to media reports, the NBE governor Yinager Dessie alluded to plans to move to a new key central bank benchmark rate and a floating currency by 2023, implying further depreciation in the medium- to long term. Over the past decade, Ethiopia has been conducting reforms aimed at transforming the economy into a more market-oriented one — but the lack of liberalisation of the financial sector and weak export growth remain challenges in boosting FX liquidity.

USD/ETB: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: accommodative bias persists

We revise our average headline inflation forecast to 21.27% y/y in 2020, from16.1% y/y. We also revise our 2021 average headline inflation forecast to 14.84% y/y, from 12.2% y/y.

We still expect the NBE to adopt an accommodative monetary policy stance in 2020 in response to the pandemic despite the upside pressure on inflation.

The NBE has provided ETB15bn in liquidity to private banks to facilitate debt restructuring and prevent bankruptcies. It has also provided ETB33bn of additional liquidity, specifically to the Commercial Bank of Ethiopia.

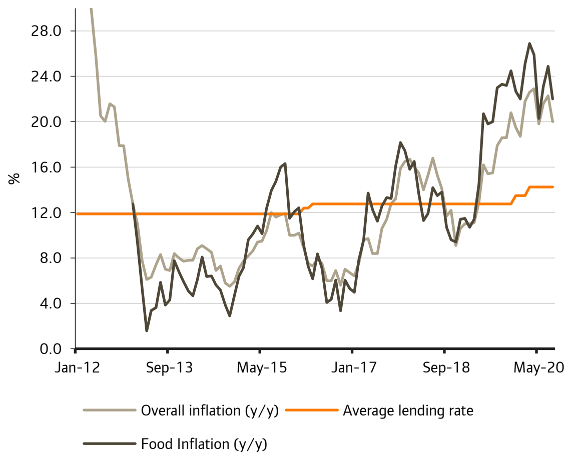
In line with the IMF Extended Credit Facility (ECF) and Extended Financing Facility (EFF) programme, the NBE is still likely to resume a tight policy stance after the pandemic crisis. Perhaps the sharp upswing on headline inflation could abate. So far, headline inflation averaged 21.2% y/y in the first 8-m this year, compared to 13.9% y/y same time last year.

Still, there are many factors that could prevent inflation pressures from abating. Notably, economic restrictions could continue to disrupt supply chains and the ongoing desert locust infestation could induce food insecurity due to shortages of food items and subsequently create price increases.

Moreover, the persistent monetization of the fiscal deficit could make it challenging for the NBE to lower inflation. After all, claims on government continued to rise steadily, rising by 22.3% y/y in Q3:FY19/20, compared to the 15.1% y/y growth, during the same period last year. This is largely attributable to direct advances being made to the government.

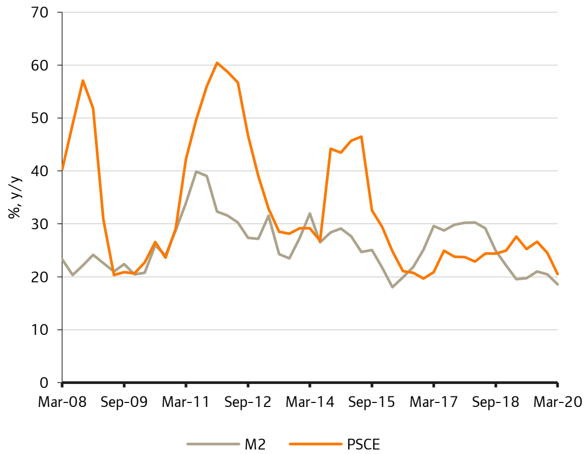
More importantly, while the government could continue to monetize the deficit in 2020, the IMF is likely to sway the authorities from such policies after the pandemic.

Inflation and interest rates



Source: National Bank of Ethiopia

Monetary aggregates



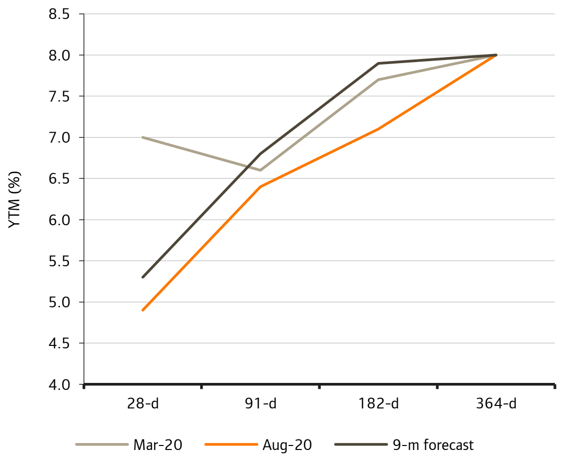
Source: National Bank of Ethiopia

Yield curve outlook: neutral, with upside bias

The NBE's monetary policy framework relies on money supply targeting. Thus, interest rates play an insignificant role in its policy operations. But the government is likely to borrow from the domestic market, with the budget targeting to source ETB77.0bn domestically. Crucially, if direct advances to the government are continued, T-bill issuances could remain limited, of course at the expense of stickier inflation. Considering that the government still largely relies on direct financing that the NBE extends, we doubt that monetary and fiscal policy developments will play a meaningful role in the trajectory for ETB yields.

Even though the fiscal deficit has widened, our core view is that there is no impetus for yields to change meaningfully over the coming 6-m, especially considering that the government does not usually rely on issuing T-bills and bonds to finance the deficit.

Change in yield curve



Source: National Bank of Ethiopia

Fiscal policy: rising capital expenditure

Parliament approved an ETB476bn budget and an ETB293.7bn federal budget for FY2020/21. This is an expansion of around ETB40.5bn, compared to the budget appropriated in the previous fiscal year, along with the supplementary budget.

Of the total budget, capital expenditure represents about 33.7%, while recurrent expenditure makes up around 28.0%. The remainder is allocated for subsidies to regions and support to achieve Millennium Development Goals.

The Ministry of Finance expects 63.9% of the budget to be funded through domestic revenue, with domestic borrowing accounting for about 16.4%.

According to our estimates, the budget deficit for FY2020/21 is equivalent to 3.4% of GDP, from 4.2% in FY2019/20. The 4.2% of GDP includes the ETB48.6bn supplementary budget. Interestingly, domestic borrowing will most likely be favoured to external borrowing for deficit financing. The government plans to finance 61.8% of the budget domestically.

The pandemic caused a sharp increase in the fiscal deficit in FY2019/20 and partly in FY2020/21. Thereafter, the government will likely return to a contractionary fiscal policy stance from FY2021/22, in line with the IMF programme.

In FY2019/20, total public debt outstanding was US54.9bn, or 51.4% of GDP. Of the total outstanding debt, 47.8% was domestic debt. Interestingly, despite limited sources of domestic financing, deficit financing from domestic sources has increased closer to 50%.

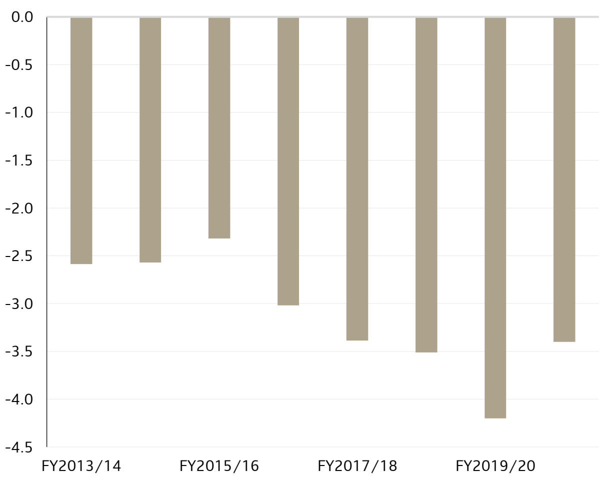
Crucially, domestic debt consists largely of direct advances from the central bank. By Q3:FY2019/20, direct advances to the government reached ETB214.2bn, equivalent to a 22.3% y/y increase.

Central government budget

% of GDP	FY2019/20	FY2020/21
total revenue	9.0%	9.3%
tax revenue	6.8%	7.3%
current expenditure	4.8%	3.6%
capital expenditure	4.8%	4.3%
regional transfers	4.3%	4.7%
total expenditure	13.2%	12.7%
Deficit excl grants	-4.2%	-3.4%
net external borrowing	1.2%	1.3%
net domestic borrowing	1.7%	2.1%

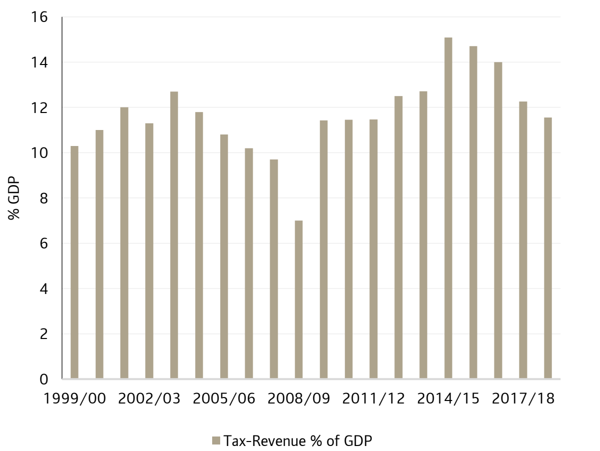
Source: Ministry of Finance

Fiscal deficit excl. grants (%) of GDP



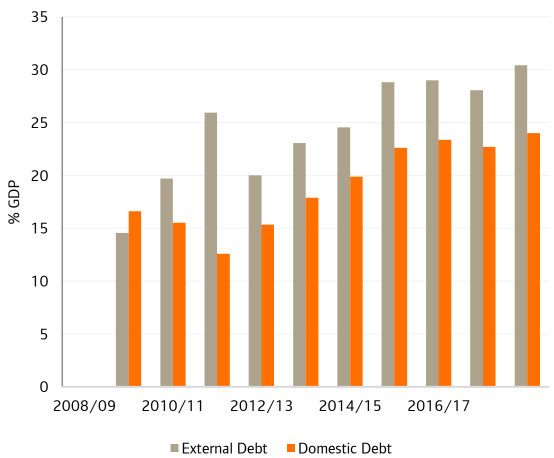
Source: Ministry of Finance

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 (ETB bn)	1332.0	1568.1	1832.6	2202.4	2696.2	3 290	3740
Nominal GDP (USD bn)	66.3	74.3	81.8	84.4	96.0	94.6	87.3
GDP / capita (USD)	743.9	814.7	882.9	896.4	1003.7	974.0	884.9
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	-4.2	-3.4
Budget balance (incl. Grants) / GDP (%)	-2.0	-3.0	-3.4	-3.5	-2.8	-3.1	-2.2
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	3.3	3.4	3.2	2.8	2.7		
Exports (USD bn)	6.0	6.1	6.3	7.1	7.7	7.6	7.1
Imports (USD bn)	19.8	20.6	19.7	19.7	20.7	20.4	19.7
Trade balance (USD bn)	-13.8	-14.5	-13.5	-12.6	-13.0	-12.8	-12.6
Current account (USD bn)	-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 (USD bn)	7.8	6.6	6.9	6.2	4.8	3.8	3.9
- FDI (USD bn)	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	-2.2	-1.8
FX reserves (USD bn) 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	1.8	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	20.75	15.63
Consumer inflation (%) pe	10.0	6.7	13.2	10.6	19.5	19.4	12.29
M2 money supply (% y/y) pa	24.8	21.2	29.6	26.6	20.2	23.9	18.4
M2 money supply (% y/y) pe	21.7	25.1	30.2	22.2	26.0	24.2	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	22.0	24.2	27.7	29.4	34.8	42.8
USD/ETB pe	21.2	22.4	27.6	28.3	32.0	38.6	46.7

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

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

Ghana: economy set to see first recession in decades

Medium-term outlook: steady recovery

The Covid-19 pandemic will undoubtedly alter the trajectory of Ghana's hard-won macroeconomic gains over the last 4-y. Significant investments into the oil sector were largely responsible for strong growth over that period. However, with oil sliding this year, those investments will surely dwindle and affect Ghana's oil production as well as related revenues. The significant disruption to economic activity in Q2:20 which saw the industry and the services sector contract by 5.7% y/y and 2.6% y/y respectively looks sure to send the economy to its first recession in many decades. We now expect the economy to contract marginally by 0.3% y/y in 2020 and recover to a 4.7% y/y growth in 2021.

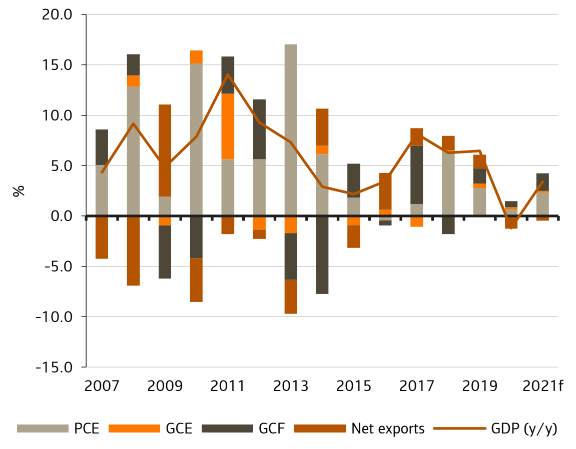
Following the momentous dip in GDP growth in Q2:20 (-3.2% y/y), considerable economic recovery (q/q) should materialise in Q3:20 and Q4:20 as containment measures were gradually eased. However, coming off a high growth base in 2019, the expected recovery will not prove sufficient to avoid a technical recession. Although new Covid-19 infections are still being recorded in Ghana, they are much less than during the Q2:20 peak. Death rates have been low and recovery rates high, giving the government room to keep easing lockdown restrictions.

The recent re-opening of airspace for international travel too should aid a recovery in the services sector of the economy in Q4:20. The ICT sector will sustain its strong growth this year, given its increased relevance during the pandemic. This sector had maintained high double-digit growth in the last 2-y, growing by 47% y/y in 2019 and 74% y/y in Q2:20. This, and election spending potentially spurring aggregate demand, inform our base case forecasts.

Our bear case sees a 1.8% y/y economic contraction this year as the services sector will be slower to pick up. In this scenario, the government would find it hard to arrest a widening fiscal deficit, triggering significant portfolio outflows that would lead to a faster depreciation of the GHS than in our base scenario.

In our bull case, GDP growth could come in at 1.1% y/y, then recovers strongly to over 7% 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. Even with the elections in Dec, the process should go unhindered as election violence and civil unrest are unusual in Ghana. The two major parties – the National Patriotic Party (NPP) and the National Democratic Congress (NDC) – have over the past 25-y alternated power every eight years. The incumbent will be contesting these elections against a very strong macro-economic backdrop, with a 7% y/y average growth rate in the last 3-y. Even if the elections favoured the opposition, we'd not foresee any significant shifts in economic policies, particularly given the track record of the opposition candidate being a former president.

Composition of GDP by demand



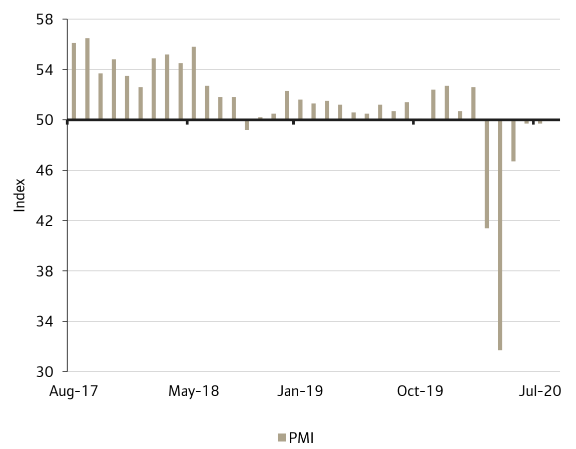
Source: Ghana Statistical Services; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2017	2018
Crops	14.6	13.5	13.2
- Cocoa	1.7	1.3	1.3
Livestock	3.7	3.7	3.6
Mining and Quarrying	13.6	13.9	17.0
- Oil and gas	5.8	7.8	8.2
Manufacturing	12.4	12.0	11.7
Construction	9.1	9.1	7.8
Trade	11.2	10.0	9.4
Hotels and Restaurants	3.9	3.7	3.5
Transport and Storage	6	5.8	5.4
Financial services	5.1	5.0	4.1
Public administration	3.7	3.1	3.0
Education	4	3.5	3.5

Source: Ghana Statistical Service

Purchasing Managers Index



Source: Markit; Bloomberg

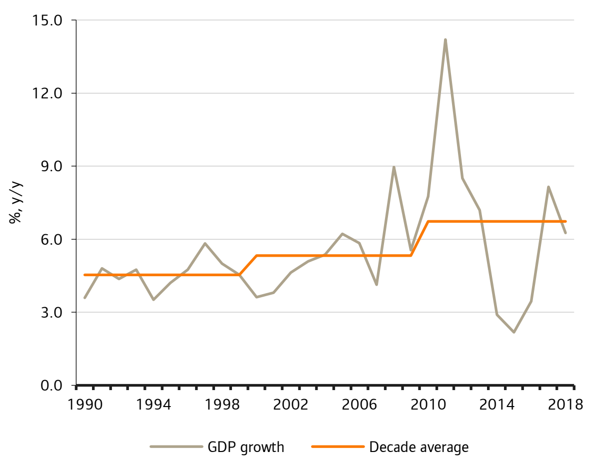
Medium-term economic growth scenarios

	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	4.9	-3.2	-2.2	-0.9	0.6	8.6	5.3	4.4	5.2	5.2	5.4	5.0	5.6	7.2	6.5	6.5
CPI (% y/y) pe	7.8	11.0	10.8	11.5	11.9	8.5	8.1	7.7	7.6	7.6	7.0	6.9	6.9	7.2	7.5	7.9
BOG prime rate (%) pe	14.50	14.50	14.50	14.50	14.50	13.50	13.50	13.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
3-m rate (%) pe	14.72	15.29	14.01	14.55	14.80	14.55	14.40	14.30	14.25	13.55	13.25	13.25	13.25	13.25	13.25	13.25
6-m rate (%) pe	15.18	15.54	14.04	14.62	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	5.78	5.82	5.97	6.15	6.43	6.52	6.60	6.85	7.04	7.14	7.23	7.35	7.68	7.84	7.95
Bull scenario																
GDP (% y/y) pa	4.9	-3.2	0.6	2.2	4.1	10.8	7.9	6.6	6.9	6.9	7.1	6.8	7.1	7.2	6.5	6.5
CPI (% y/y) pe	7.8	11.0	9.5	10.2	10.4	6.8	6.1	6.4	6.3	6.3	6.5	6.4	6.4	6.5	6.8	7.1
BOG prime rate (%) pe	14.50	14.50	14.50	13.50	13.50	12.50	12.50	12.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
3-m rate (%) pe	14.72	15.29	13.90	14.23	14.48	14.23	13.90	13.80	14.10	13.40	13.10	13.10	13.10	13.10	13.10	13.10
6-m rate (%) pe	15.18	15.54	13.95	14.30	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	5.78	5.72	5.81	5.75	5.93	6.27	6.45	6.70	6.79	6.94	7.03	7.15	7.48	7.64	7.75
Bear scenario																
GDP (% y/y) pa	4.9	-3.2	-4.9	-4.0	-0.9	6.5	3.8	2.9	2.7	2.7	2.9	3.3	3.9	4.5	4.7	5.0
CPI (% y/y) pe	7.8	11.0	11.1	11.7	12.3	9.3	8.8	9.0	9.5	9.4	9.3	8.8	8.9	8.5	8.3	8.6
BOG prime rate (%) pe	14.50	14.50	16.00	16.00	16.00	15.00	15.00	15.00	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
3-m rate (%) pe	14.72	15.29	14.23	14.98	15.23	14.98	14.73	14.63	14.50	13.80	13.50	13.50	13.50	13.50	13.50	13.50
6-m rate (%) pe	15.18	15.54	14.26	15.05	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	5.78	5.88	6.12	7.30	7.58	7.67	7.95	8.00	7.99	8.09	7.98	8.30	8.53	8.58	9.00

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

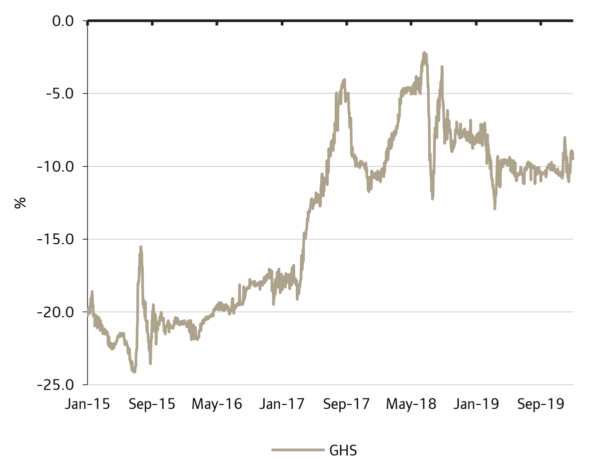
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Ghana Statistical Service

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: buoyant, on capital inflows

The C/A deficit is likely to swell to 4.4% of GDP in 2020, from 2.9% in 2019, because of a likely and notable decline in exports as well as a rising non-oil import bill. Thereafter, we expect the C/A deficit to narrow to 3.1% of GDP in 2021 as mineral exports should recover to further support the trade balance.

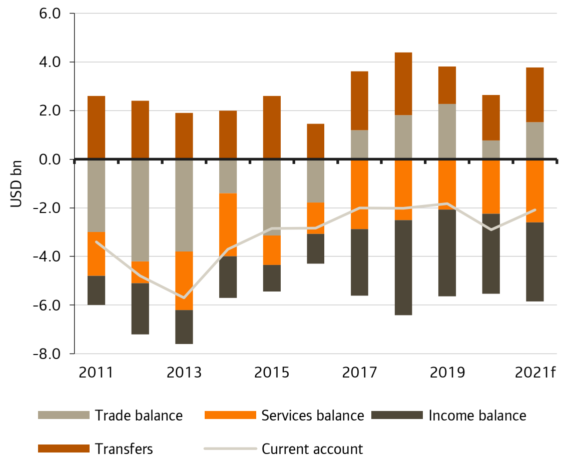
Ghana has maintained a positive trade balance in the past 3-y, averaging USD1.8bn in that time. Although we do not expect a negative trade balance for FY20, it is likely that the trade balance will decline considerably, to USD0.8bn in 2020. Trade numbers in Q2:20 are already showing a significant decline in exports because of reduced external demand and international oil prices being sharply down.

Whilst oil imports have declined due to lower oil prices, non-oil exports have risen, forcing negative trade balances in May and Jun. However, with the moderate pick-up in economic activity in Q3 and Q4, external demand should improve. Hence, total exports will likely recover in Q4:20.

Official flows into the financial account will probably prove to be more than sufficient to fund the expected C/A deficit, leaving the BOP in a healthy position. While foreign direct investments will dwindle due to the pandemic, the government was able to secure external financing via a USD3bn Eurobond issuance much earlier in the year. Furthermore, the government received USD1.0bn in emergency BOP support via the IMF's Rapid Credit Facility. FX reserves have been buoyant this year, rising above USD10bn in Feb before declining to USD9.2bn in Jun. An exacerbation in foreign portfolio outflows ahead of the Dec elections owing to fiscal slippages probably remains the most notable downside risk to FX reserves.

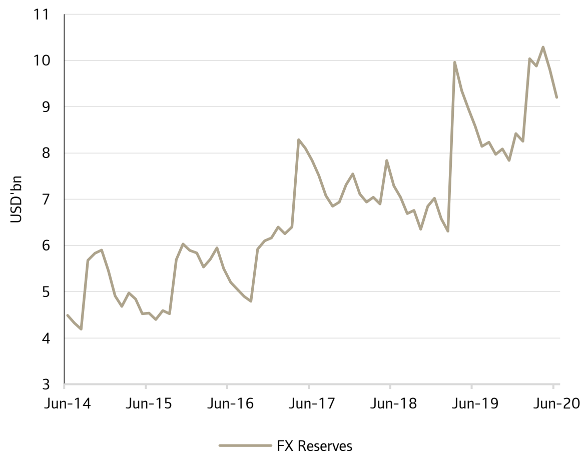
Irrespectively, FX reserves could still very well close the year above USD8bn, as mining flows and the typical cocoa syndication loans should support interbank liquidity, reducing the expected support from the BOG.

Current account developments



Source: Bank of Ghana; Standard Bank Research

FX reserves



Source: Central Bank of Ghana

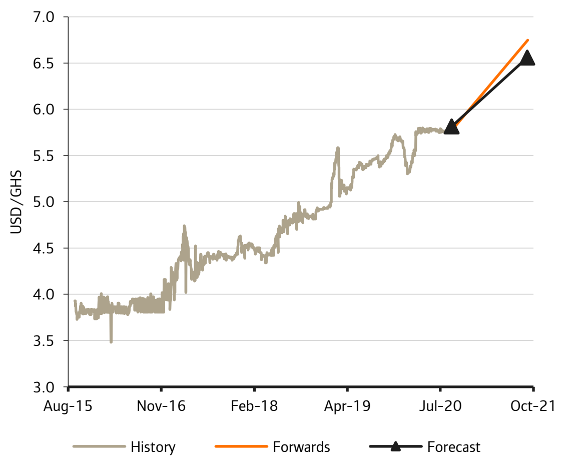
FX outlook: cautious depreciation bias in FY20

GHS depreciation this year will fall short of the 10% y/y average decline recorded in the last 5-y. The USD/GHS pair has been more resilient this year than African peers amidst significant capital outflows occasioned by the pandemic. The combination of a diversified export base, robust FX reserves and reduced trade and import activity seems to have supported the pair.

The big risk to the GHS is significant coupon repatriations and sell-offs from foreign portfolio investors ahead of the elections. Fiscal slippage risks will be elevated ahead of the elections, and the recently announced revised budget won't ease concerns.

We have a cautious depreciating bias for the USD/GHS over the next 4-m, as robust levels of FX reserves and the potential for stronger mining flows into year-end, could keep the pair below our 5.97 period-end forecast for FY20.

USD/GHS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: easing bias but inflation still tops target

It is highly unlikely that there will be changes to the BOG's monetary policy stance this year. While the uptick in inflation, to above the BOG's target band of 6%-9%, might imply tightening, the critical importance of spurring economic growth should dispel any such action.

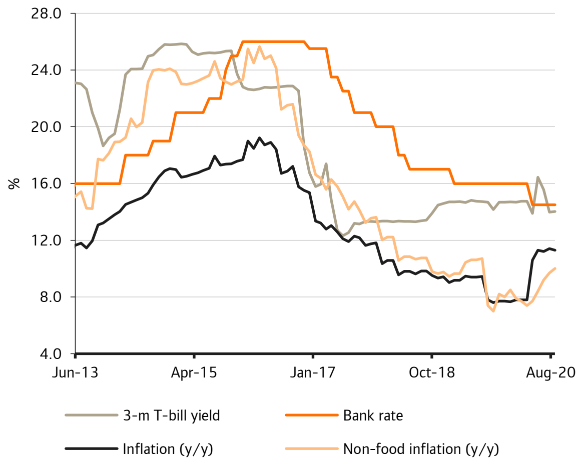
The MPC's response to the pandemic has been swift, lowering the MPR by 150 bps to 14.5% much earlier in the year, whilst also reducing the primary reserve requirement and capital adequacy ratios to 8.0% and 11.5% respectively. All these measures were geared towards increasing banking system liquidity to enhance the level of support for corporates and SMEs reeling from the impact of the pandemic.

Easing stances tend to be inflationary, particularly with the flow of money supply. Money supply (M2) had risen by 20% y/y as at May 20, a stark contrast from the receding trend during Q4:19. Perhaps demand-driven inflation pressures could be muted this year, given the reduction in aggregate demand, in the aftermath of economic disruption due to the pandemic. It's not however helpful that the BOG has embarked on a GHS10bn (3% of GDP) fiscal deficit monetisation programme for which it already sought approval from parliament. We estimate that the BOG has bought government securities to the tune of GHS7.5bn already this year.

Higher food inflation was initially responsible for the big spike in headline inflation in Apr. Indeed, this was largely due to supply disruptions owing to the pandemic containment measures. However, non-food inflation, which accounts for c.57% weighting in the CPI basket, rose to its highest level in 12-m, at 9.9% in Aug 20, amid higher transport costs.

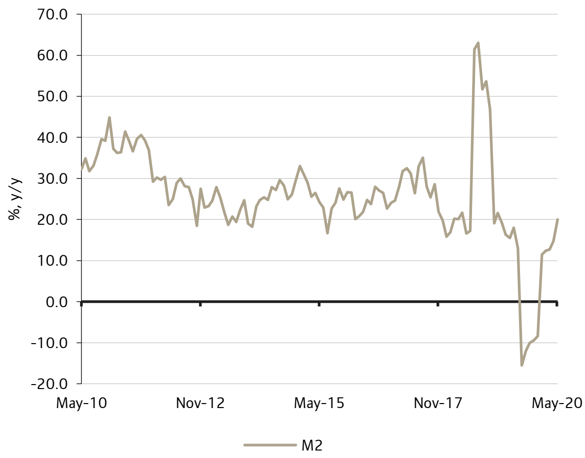
We believe that headline inflation will remain in double digits this year owing to base effects. We expect headline inflation to average 10.3% y/y in 2020.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

Money supply growth



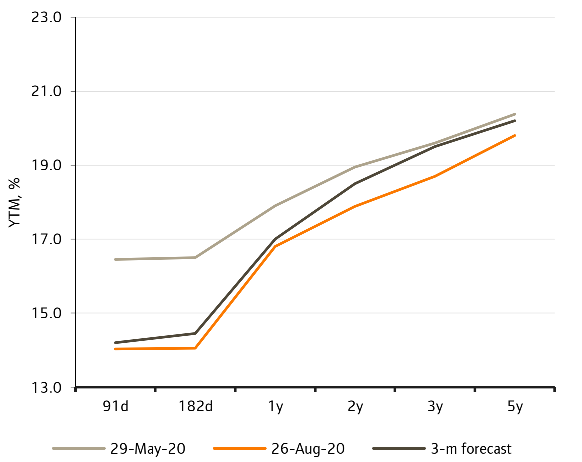
Source: Bank of Ghana

Yield curve outlook: upward bias

While there was a momentary decline in interest rates and yields after the BOG's easing actions earlier this year, the significantly wider deficit now being projected by the government is expected to increase the supply of domestic paper significantly. Hence, our upward bias for domestic yields into year-end, which of course may be compounded by a possible increase in portfolio outflows.

The government would want lower GHS yields in a bid to manage debt service costs. But authorities will likely have to trade off lower yields for the assurance of getting the required funding for the wider fiscal deficit. Domestic financing in the revised 2020 budget is expected to rise by 210%, to GHS25.6bn, from GHS8.3bn, further reinforcing our upward bias for GHS yields over the coming months. Foreign investor positioning in domestic GHS bonds had declined to 21.62% as at Jul 20. After the Dec elections, foreign portfolio inflows could rise again.

Yield curve changes



Source: Bank of Ghana; Standard Bank Research

Fiscal policy: materially wider deficit; slower fiscal consolidation

The combination of revenue shortfalls and increased government spending, particularly to mitigate the pandemic's fallout, is set to force a significantly wider fiscal deficit in Ghana in 2020. The government had strived to maintain a fiscal deficit responsibility rule below the 5% ceiling in the past 3-y, recording 4.9% of GDP in 2019, including grants, but excluding arrears and the financial sector bailout. Inevitably, the government is now expecting the fiscal deficit to rise to GHS47bn (11.8% of GDP) in 2020, from GHS18.9bn (4.7%) in the initial 2020 budget.

However, the government does not expect to return under the 5% threshold until 2024. This suggests that the fiscal consolidation path, after the pandemic, could take much longer than expected. From 2017 till date, the government has spent c.GHS21.6bn (USD3.7bn) in the financial sector clean-up and bail-out. Also, c.GHS5bn (USD869mn) of the over GHS11bn outstanding arrears have been paid.

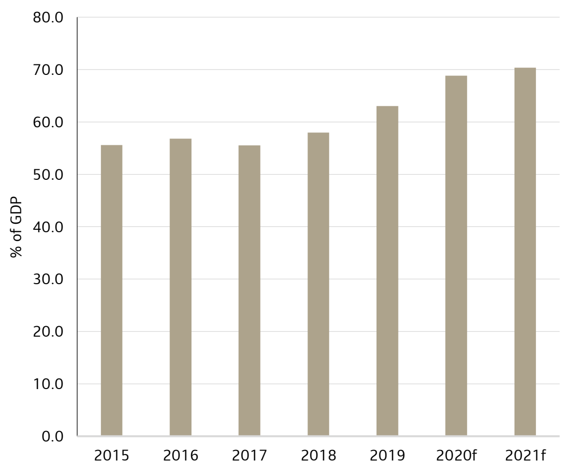
In its mid-year budget review, the finance minister sought parliamentary approval for a supplementary budget, amounting to GHS11.9bn. The supplementary budget is mostly targeted at measures and stimulus to mitigate the impact of the Covid-19 pandemic on households and businesses. Measures such as upgrading the health infrastructure, governance and security, relief for payment of water and electricity bills, soft loans for SMEs, accelerated payments of outstanding claims, are the key expenditure items for the supplementary budget. As at Jun, Ghana's debt position had risen to USD45.6bn (67% of GDP), with external debt-to -GDP at 35%, while domestic debt is c.32% of GDP. This is of course reflective of the USD3bn Eurobond financing in Mar, USD1bn RCF financing from the IMF and other concessional funding from multilateral agencies. We estimate that debt-to-GDP could be closer to 70% by FY2020 due to increased funding of the deficit by government.

Central government budget

	2019		2020	
% of GDP	Budget	Revised	Budget	Revised
Revenues	16.8	15.1	16.5	12.6
Expenditure	21.1	20.3	21.6	24.9
- Wages	6.6	6.5	6.7	6.7
- Interest	5.4	5.7	5.4	6.1
- Capital	2.5	1.7	2.3	2.5
- Arrears clearance	0.2	0.2	0.4	0.4
Budget deficit (- grants)	-4.5	-5.2	-5.1	-12.2
Budget deficit (+ grants)	-4.2	-4.9	-4.7	-11.8
Net domestic financing	1.3	3.3	4.0	8.1
Net external financing	2.8	1.9	2.7	4.6
Other financing	0.4	0.0	0.0	0.0
Petroleum funds	-0.1	-0.1	-0.1	0.2
Sinking fund	-0.2	-0.2	-1.8	-1.6
Contingency fund	0.0	0.0	0.0	0.0
Grants	0.3	0.3	0.3	0.4

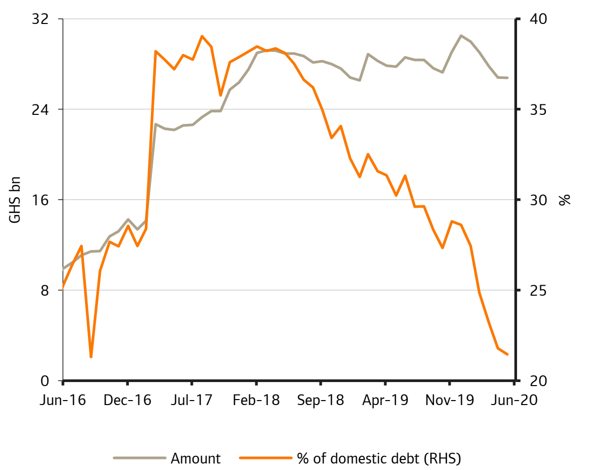
Source: Ministry of Finance

Interest expenditure



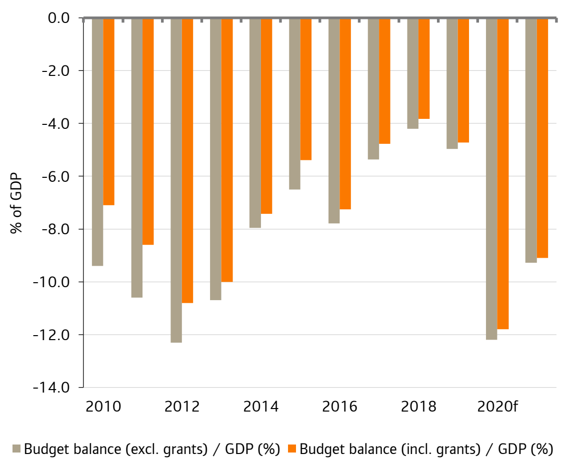
Source: Ministry of Finance and Economic Planning

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	377	429
Nominal GDP (USD bn)	47	55	58	63	64	65	67
GDP / capita (USD)	1 770	1 947	2 036	2 173	2 134	2 129	2 144
Real GDP growth (%)	2.2	3.5	8.2	6.3	6.5	-0.3	4.7
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	-5.2	-12.2	-9.3
Budget balance (incl. grants) / GDP (%)	-5.4	-7.3	-4.8	-3.8	-4.9	-11.8	-9.1
Domestic debt / GDP (%)	22.4	24.8	26.0	29.1	30.5	34.6	35.0
External debt / GDP (%)	33.2	32.0	29.5	28.8	32.5	34.2	35.4
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	-4.4	-3.1
Capital & Financial account (USD bn)	3.1	2.6	3.0	1.5	3.1	3.4	2.6
- FDI (USD bn)	3.0	3.5	3.2	2.9	2.3	0.8	2.1
Basic balance / GDP (%)	0.3	1.2	2.0	1.4	0.7	-3.2	0.0
Gross FX reserves (USD bn) pe	5.9	6.2	7.6	7.0	8.3	8.8	9.3
- Import cover (months) pe	5.2	5.7	7.2	6.4	7.4	7.5	7.6
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	10.3	9.1
Consumer inflation (%) pe	17.7	15.4	11.8	9.4	7.7	12.0	7.6
M2 money supply (% y/y) pa	25.1	24.2	28.5	33.8	5.6	17.7	21.6
M2 money supply (% y/y) pe	24.8	24.1	21.9	53.7	-9.5	18.6	22.8
BOG prime rate (%) pa	23.6	25.9	22.7	17.9	16.1	14.9	13.9
BOG prime rate (%) pe	26.0	25.5	21.0	17.0	16.0	14.5	13.5
3-m rate (%) pe	22.8	19.0	11.5	16.5	15.1	14.6	14.3
1-y rate (%) pe	22.5	20.5	14.8	19.5	15.5	17.0	16.0
2-y rate (%) pe	22.0	20.9	18.0	21.3	19.3	18.5	18.0
5-y rate (%) pe	22.0	19.0	17.9	21.5	19.0	20.2	20.0
USD/GHC pa	3.81	3.93	4.40	4.70	5.37	5.76	6.36
USD/GHC pe	3.81	4.22	4.51	4.90	5.69	5.97	6.60

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

Notes: pa - period average; pe - period end

Kenya: growth recovering, albeit tentatively

Medium-term outlook: growth to recover from H2:20

Our base case foresees GDP growth of 3.0% y/y in 2020 and 5.9% y/y in 2021, which is still more optimistic than the consensus. Even the IMF expects the Kenyan economy to contract by 0.3% y/y in 2020. Indeed, besides the telecommunication sector, the wider services sector, mainly tourism, trade and transport, will probably contract sharply in Q2:20.

However, the agricultural sector, accounting for a nearly a third of economic output, has performed quite well in Q2:20. Maize and bean production were up 7.7% y/y and 26% y/y respectively in H1:20, and potato production was also up 43% y/y.

Despite concerns around desert locusts and floods earlier this year, the broader agrarian sub-sector has been relatively resilient. Even tea production was up 42.0% y/y in H1:20. Moreover, according to the Kenya Flower Council, floriculture exports have also recovered to around 95% of pre-pandemic levels, from a trough in Apr.

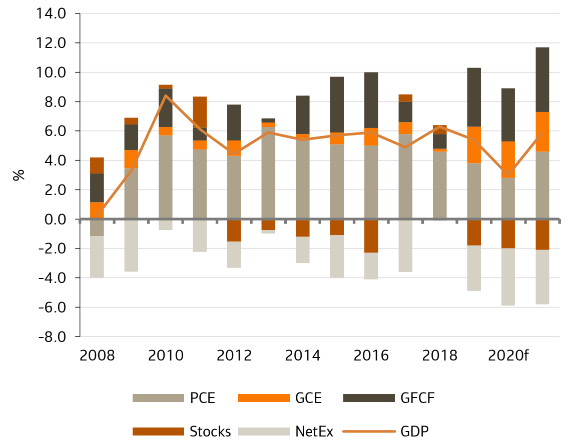
Indeed, the re-opening of economies globally has begun to aid a recovery in external demand for Kenya's exports. Nevertheless, the risk of second waves of the pandemic could incur more stringent containment measures being re-imposed. If so, that would be consistent with our bear scenario, with GDP growth of just 1.7% y/y and 4.0% y/y in 2020 and 2021 respectively.

Furthermore, our bear case GDP growth forecasts see a contraction in Q2:20 because the improvement in the agriculture sector won't counterbalance the sharp contraction in the broader services sector. Our bear scenario therefore expects GDP growth to recover slower than currently priced into our base case, in both H2:20 and 2021.

The government re-opened international airspace on 1 Aug. However, we don't expect a meaningful recovery in international tourist arrivals, at least until there is a global vaccine. In the interim, the authorities aim to boost domestic tourism.

The Stanbic Bank Kenya PMI rose to a 13-m high of 54.2 in Jul, from 34.8 in Apr, implying that the easing of the domestic curfew and the pick-up in external demand have begun to underpin economic activity, albeit off a low base in Apr.

Composition of GDP growth by demand



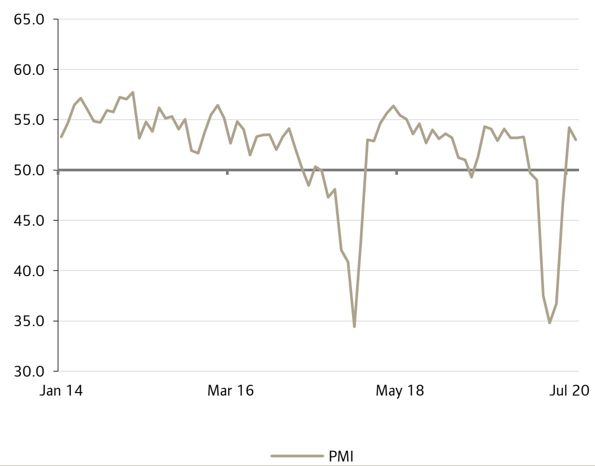
Source: Kenya National Bureau of Statistics; Standard Bank Research

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

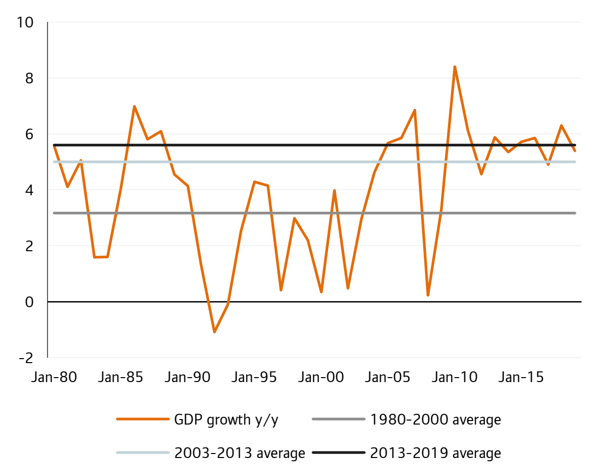
Medium-term economic growth forecasts

	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	5.8	4.6	4.6	4.1	6.2	5.9	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	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.5	6.0	6.0	6.0
3-m rate (%) pe	7.2	6.7	6.4	6.7	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	7.4	6.7	7.0	7.2	7.3	7.5	7.6	7.7	7.9	8.0	8.0	8.1	8.1	8.2	8.2
USD/KES pe	105.0	106.6	108.0	107.0	107.4	108.5	109.3	109.0	109.5	110.3	111.5	110.8	109.7	110.5	111.5	111.2
GDP (% y/y) pa	4.9	1.0	2.8	3.6	5.7	6.5	5.6	5.8	5.1	4.4	4.1	5.3	6.2	6.3	6.1	6.0
Bear scenario																
CPI (% y/y) pe	5.8	4.6	5.8	5.5	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	6.7	7.1	7.4	7.8	8.3	8.5	8.7	9.2	9.3	9.3	9.4	9.4	9.3	9.3	9.3
6-m rate (%) pe	8.1	7.4	7.5	8.1	8.5	8.9	9.2	9.4	9.8	10.5	10.7	10.9	10.9	10.9	10.7	10.6
USD/KES pe	105.0	106.6	109	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	4.9	-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	5.8	4.6	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	7.0	7.0	7.0	6.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0
3-m rate (%) pe	7.2	6.7	6.2	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	7.4	6.6	6.7	6.8	6.8	7.0	7.3	7.4	7.4	7.5	7.5	7.6	7.6	7.6	7.5
USD/KES pe	105.0	106.6	107.5	106.5	106.0	107.2	107.8	108.2	108.1	108.8	109.1	108.5	108.2	107.8	107.7	108.3
GDP (% y/y) pa	4.9	1.5	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; National Treasury; Kenya National Bureau of Statistics; Bloomberg; Standard Bank Research

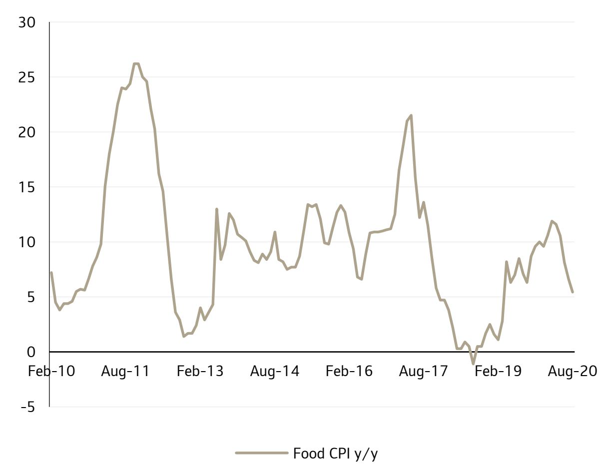
Notes: pe – period end; pa –a period average

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 receipts set to slide

We still see the C/A deficit at 5.1% of GDP in 2020 and 5.3% in 2021. Service export receipts, mainly from travel and transport, are likely to decline sharply in 2020. However, imports should ease markedly too.

We don't expect any notable pick up in tourism receipts, until there is a global vaccine, notwithstanding the recent re-opening of the international airspace. Even as the government ramps up domestic tourism, supporting economic activity and job creation, it won't be enough to support the balance of payments.

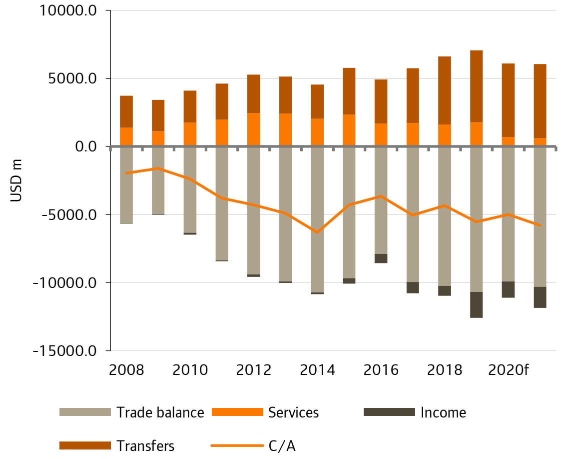
Still, transport receipts should fare much better from H2:20 as global supply chains are being restored. The disruption to global trade had reduced transit transport business into landlocked Uganda, South Sudan, Rwanda, Burundi and even DRC. However, there's been some improvement noted in this sector from Jun.

Imports of goods will probably ease further due to the slide in international oil prices. Furthermore, even as economic activity gradually recovers from H2:20, we don't see consumer imports picking up sufficiently in a manner that would put pressure on the C/A balance.

Interestingly, diaspora remittances were up 3.9% y/y in H1:20 despite our earlier concerns that net current transfers could subside due to weaker global growth.

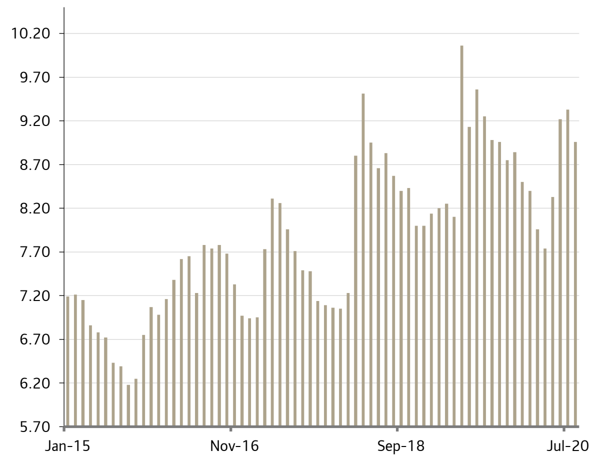
The capital and financial account will probably continue to receive support from government budgetary support loans. Earlier in the year, courtesy of multilateral loans, FX reserves rose to around USD9.7bn. However, at the time of writing, FX reserves had eased to around USD9.2bn, in large part due to the central bank's sell-side intervention and external debt coupon repayments.

Current account developments



Source: Central Bank of Kenya; Standard Bank Research

FX reserves (USD bn)



Source: Central Bank of Kenya

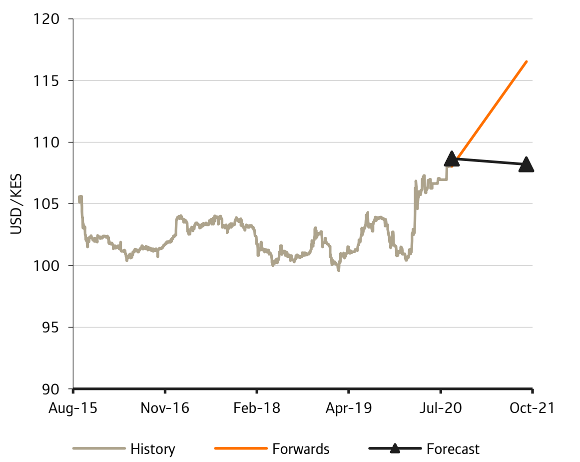
FX outlook: KES appreciation bias

We expect USD/KES to subside to a 106.5-107.0 range by year-end. The KES was volatile in Mar-Apr due to the stronger USD globally which resulted in an increase in foreign portfolio outflows and broadly negative sentiment.

Once global risk conditions improved, the USD/KES declined. Then, as domestic curfew restrictions were relaxed in Jun, there was an initial increase in import demand which placed upside pressure on USD/KES. And, owing to the pandemic, most annual general meetings were postponed from Mar to Jun/Jul, which is why there was more pressure on the local unit then too.

Once large firms have completed their USD purchases from the market associated with dividend payments, the KES could appreciate, but that would largely depend on global risk conditions being positive.

USD/KES: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral, with an easing bias

We expect the MPC to hold its key policy rate at 7.0% this year. Still, an accommodative bias will likely persist – but we'd foresee the MPC only looking to ease again this year should economic conditions be known to be deteriorating further.

For now, the MPC believes that economic activity has begun to recover from the trough in Apr, perhaps emboldening the MPC to leave the CBR unchanged.

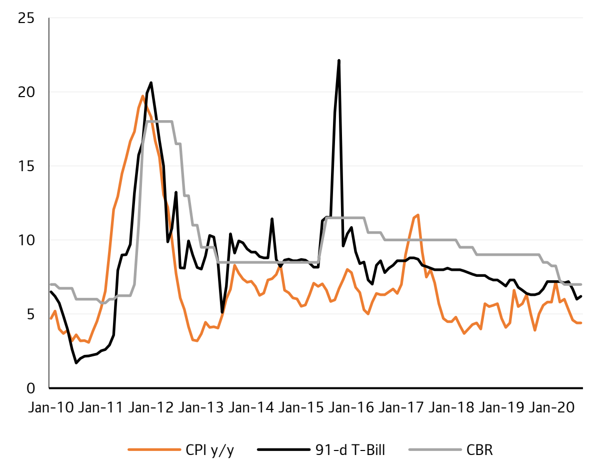
The MPC has further argued that, given the amount of excess KES liquidity in the interbank market, easing the policy stance further might be ineffective. Indeed, the transmission effectiveness of looser monetary policy may not be that robust because of the weakness in aggregate demand and subsequent deterioration in asset quality due to the pandemic.

Even as economic activity recovers from H2:20, we don't expect underlying inflationary pressures to become a source of concern for the MPC over the coming year. Still, an accommodative bias might persist into end 2021.

We now see headline inflation falling further to 4.1% y/y by Dec, supported by favourable base effects and lower food prices. Crucially, the historical data set for the rebased CPI now being published by the CBK, should go a long way in assisting us in forecasting inflation.

We expect headline inflation to rise to 6.2% y/y in Mar 21 and thereafter ease to 5.9% y/y in Jun 21 and 5.1% y/y in Sep 21.

Inflation and interest rates (%)



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

Monetary aggregates

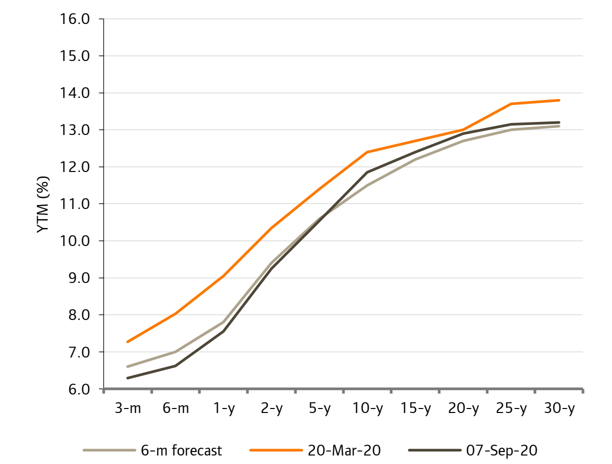
Source: Central Bank of Kenya

Yield curve outlook: T-bill yields could rise

We expect T-bill yields to rise moderately over the next 6-m. However, in an environment of commercial banks barely extending credit to the private sector, the increase in T-bill yields will be extremely modest. In fact, despite our previous concerns around the higher domestic borrowing requirements for FY2020/21 potentially exerting upward pressure on KES yields, owing to ample amounts of excess KES liquidity in the interbank market, the government will now probably have minimal issues to finance its FY2020/21 budget via domestic sources. Of course, this would come at the expense of crowding out the private sector.

Nonetheless, the government may be keen to capitalize on excess KES liquidity in the system by issuing longer-dated paper. Thus, yields on the longer end of the curve, especially tenors longer than 15-y, could increase over the coming year. Bear in mind that 2021 is a pre-election year.

Changes in the yield curve



Source: Central Bank of Research; Standard Bank Research

Fiscal policy: consolidation plans to be delayed

The government sees the FY2020/21 budget deficit inclusive of grants at 7.5% of GDP, from an expected outcome of 8.3% in the previous fiscal year.

The pandemic will inevitably delay the government's long-awaited consolidation plans. But, with 2021 being a pre-election year, we cannot see how the government will manage to lower the deficit over the next few years.

Judging by historical trends in Kenya, economic activity tends to ease closer to an election period. Hence, revenue collections will probably falter. Still, despite the slowdown in economic activity mainly brought about by the pandemic, revenue collections for FY2019/20 stood at KES1.61trn, from KES1.58trn in FY2018/19. Nevertheless, the implied growth of 17.3% in revenues for FY2020/21 seems a big ask.

The government remains keen to secure a Standby Arrangement (SBA) facility with the IMF. Prior to the pandemic, the government was in the final stages of securing this precautionary arrangement. However, the focus then swiftly turned to the Rapid Credit Facility (RCF). Nevertheless, discussions to obtain an SBA may well resume, with the intention of securing this either towards year-end or by Q1:21.

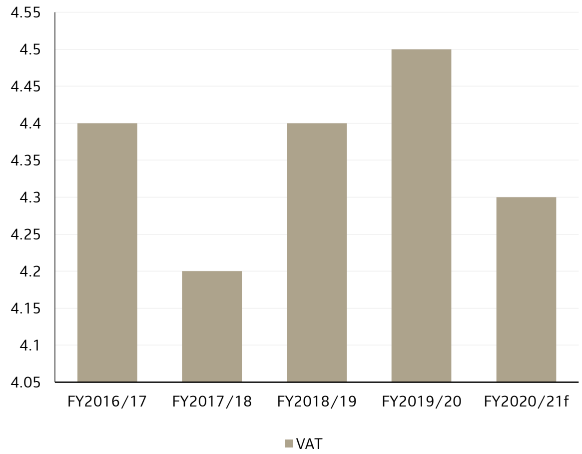
Critically, the IMF would want a commitment from the government to consolidate public finances, as part of the conditionality of the non-funded facility. Furthermore, the IMF may want the raft of Covid-19 relief tax cuts reversed. To be sure, increasing taxes going to an election year would indeed be a big ask.

Central government budget

% of GDP	FY2019/20	FY2020/21
Total revenue	18.6	16.8
Total expenditure	27.7	25.4
Wages	4.6	4.7
Interest	4.3	4.5
Development	5.8	5.6
Overall balance (+ grants)	-8.3	-7.5
Overall balance (- grants)	-9.1	-8.6
Net external borrowing	4.6	4.0
Net domestic borrowing	3.6	3.4
Donor support	0.1	0.1

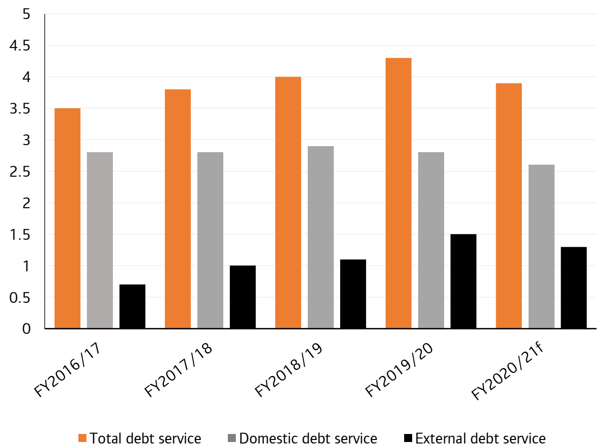
Source: National Treasury

VAT collections (% of GDP)



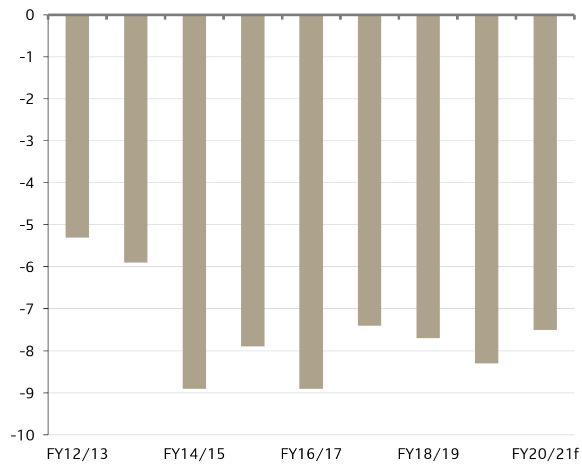
Source: National Treasury

Debt service (% of GDP)



Source: National Treasury

Fiscal deficit incl. of grants (% of GDP)



Source: National Treasury

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output	44.20	45.50	46.70	48.00	49.40	50.70	52.10
Population (million)	6284.00	7022.00	8165.00	8892.00	9740.00	10800.00	12430.00
Nominal GDP (KESbn)	63.50	69.10	79.00	87.80	95.40	101.20	114.50
Nominal GDP (USDbn)	1436.00	1521.00	1693.00	1829.00	1931.00	1996.00	2197.00
GDP / capita (USD)	5.70	5.90	4.90	6.30	5.40	3.00	5.90
Real GDP growth (%)	32.20	39.60	33.20	35.50	36.20	40.20	38.50
Coffee production ('000 tons)	399.20	471.20	439.80	485.50	445.00	475.60	461.30
Tea production ('000 tons)							
Central Government Operations	-8.40	-8.40	-9.30	-7.40	-7.90	-9.10	-8.60
Budget balance (excl. Grants) / GDP (%)	-7.90	-7.90	-9.10	7.30	-7.70	-8.30	-7.50
Budget balance (incl. Grants) / GDP (%)	26.10	27.50	28.40	28.80	28.90	29.20	29.90
Domestic debt / GDP (%)	25.50	27.30	29.50	30.50	33.40	35.50	36.20
External debt / GDP (%)							
Balance Of Payments	5.90	5.70	5.80	6.10	5.90	5.70	5.90
Exports of goods (USDbn)	15.60	13.60	15.90	16.30	16.50	15.60	16.20
Imports of goods (USDbn)	-9.70	-7.90	-10.10	-10.20	-10.60	-9.90	-10.30
Trade balance (USDbn)	-4.30	-3.60	-5.10	-4.40	-5.50	-5.00	-5.80
Current account (USDbn)	-6.77	-5.21	-6.50	-5.00	-6.00	-5.10	-5.30
- % of GDP	5.07	4.14	4.60	5.30	6.20	5.70	5.70
Financial account (USDbn)	0.52	0.39	0.55	0.75	0.74	0.65	0.82
- FDI (USDbn)	-5.96	-4.64	-5.76	-4.16	-4.99	-4.30	-4.35
Basic balance / GDP (%)	7.10	6.97	7.10	8.00	8.80	8.60	9.40
FX reserves (USDbn) pe	4.50	4.50	4.70	5.20	5.40	5.20	5.00
- Import cover (mths) pe							
Sovereign Credit Rating	B+	B+	B+	B+	B+	B+	B+
S&P	B1	B1	B1	B2	B2	B2	B2
Moody's	B+	B+	B+	B+	B+	B+	B+
Fitch							
Monetary & Financial Indicators	6.60	6.30	7.80	5.00	4.90	5.10	5.30
Consumer inflation (%) pa	7.40	6.40	4.50	5.70	5.80	4.10	4.30
Consumer inflation (%) pe	15.40	7.70	7.40	8.70	8.40	7.10	9.40
M3 money supply (% y/y) pa	13.70	3.60	9.50	10.10	5.60	6.80	9.10
M3 money supply (% y/y) pe	10.13	11.00	10.00	9.10	8.90	7.40	7.00
Policy interest rate (%) pa	11.50	10.00	10.00	9.00	8.50	7.00	7.00
Policy interest rate (%) pe	10.40	8.60	8.10	7.30	7.20	6.70	7.20
3-m rate (%) pe	12.75	11.00	11.10	10.00	9.80	7.80	8.40
1-y rate (%) pe	12.30	12.60	11.70	10.80	10.40	9.50	10.10
2-y rate (%) pe	13.80	14.40	12.50	11.60	11.50	11.00	11.40
5-y rate (%) pe	99.00	101.60	103.30	101.30	102.10	106.70	108.60
USD/KES pa	102.30	102.50	103.30	102.00	101.40	107.00	109.00
USD/KES pe	44.20	45.50	46.70	48.00	49.40	50.70	52.10

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: merely muddling through

Medium-term outlook: downside risks dominate

Infection levels seem low but the outbreak peak, and the eventual outcome of the pandemic in Malawi, are unknowns. The government may well have to re-employ containment measures, a lockdown or curfew, which would further crimp economic growth.

Growth is likely to reach 1.3% y/y this year, with a recovery next year should the pandemic come under control. In our base case, GDP growth should reach 4.0% y/y by 2022.

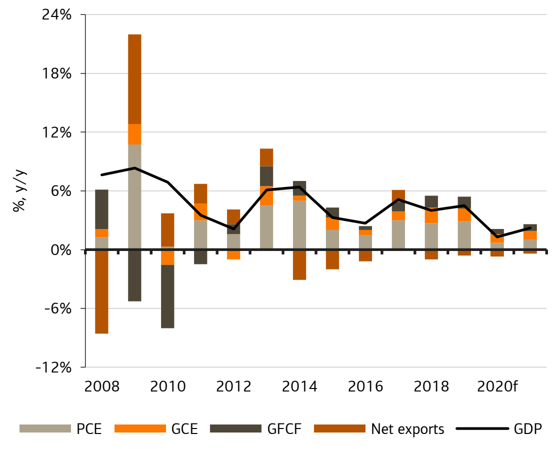
Since 30% of GDP is derived from the agricultural sector, favourable rainfall patterns are vital to growth prospects. Additionally, stronger agricultural output tends to augment households' disposable income. Due to the spill-over effects of a strong agricultural harvest, robust growth of the agricultural sector would correlate with the stronger growth of the wider economy.

In our bear scenario, while the agricultural sector has been resilient, any disruption to agricultural cycles would limit agriculture's contribution to GDP in 2021/22, resulting in a U-shaped recovery. Here, we see the economic recovery as stalling, with GDP growth recovering to pre-pandemic levels only by 2023.

Uncertainty around containment measures underlines downside risks to the outlook. Further, public finances would deteriorate markedly in our bear case scenario, with fiscal deficits widening. Weak domestic growth conditions expected over the next 2-3 y would undermine domestic revenue generation. Additionally, higher inflation due to currency depreciation may limit scope for interest rates cut until 2023.

Still, the economy could turn out better than our base case should the infection rate remain low — but much depends on efficient testing to assess true viral spread in Malawi. Our bull case scenario therefore sees GDP growth bottoming at 2.0% y/y in 2020, then recovering to over 6.0% y/y in 2023.

Composition of GDP by demand



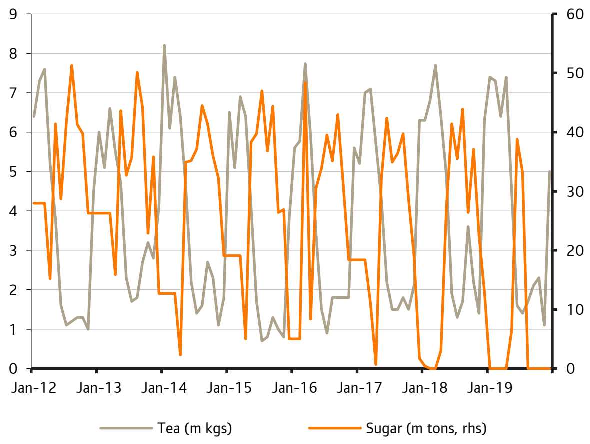
Source: Reserve Bank of Malawi; Standard Bank Research

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

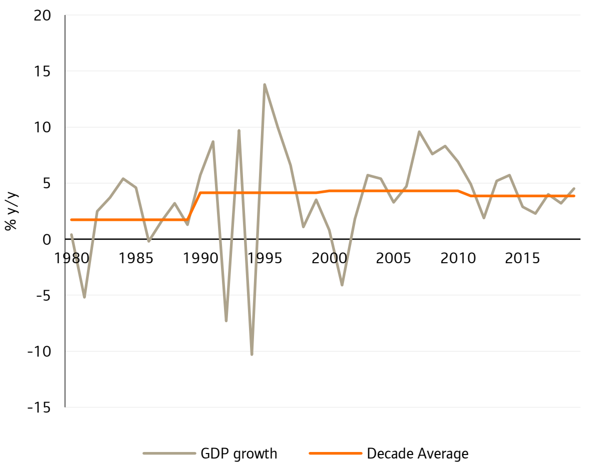
Medium-term economic growth scenarios

	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	1.30	1.30	1.30	1.30	2.20	2.20	2.20	2.20	4.00	4.00	4.00	4.00	5.50	5.50	5.50	5.50
CPI (% y/y) pe	9.80	8.51	8.75	10.50	12.41	13.53	13.09	10.85	10.35	9.24	9.41	9.45	9.20	9.17	8.48	8.65
Policy rate (%) pe	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	12.50	12.50	12.50	12.50	12.50	12.50
3-m rate (%) pe	7.50	7.50	9.00	10.20	11.70	12.40	13.67	11.20	10.30	9.70	8.85	9.30	8.85	7.75	8.25	8.80
6-m rate (%) pe	10.84	11.50	13.20	14.20	15.70	16.40	17.67	14.53	13.63	13.03	12.18	12.63	12.18	11.08	11.58	12.13
USD/MWK pe	732.94	733.54	766.55	812.54	825.60	833.87	838.04	842.23	850.65	859.16	872.05	880.77	898.38	916.35	934.68	953.37
Bull scenario																
GDP (% y/y) pa	2.00	2.00	2.00	2.00	3.50	3.50	3.50	3.50	4.50	4.50	4.50	4.50	6.10	6.10	6.10	6.80
CPI (% y/y) pe	9.80	8.51	8.45	10.10	11.81	12.83	12.39	10.25	9.75	8.94	9.11	9.15	8.90	8.87	8.18	8.35
Policy rate (%) pe	13.50	13.50	13.50	13.50	13.50	13.50	13.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
3-m rate (%) pe	7.50	7.50	8.77	9.97	11.47	12.17	13.44	10.70	9.80	9.20	8.35	8.80	8.35	7.25	7.75	8.30
6-m rate (%) pe	10.84	11.50	12.17	13.37	14.87	15.57	16.84	14.10	13.20	12.60	11.75	12.20	11.75	10.65	11.15	11.70
USD/MWK pe	732.94	733.54	766.55	804.54	815.60	823.87	828.04	830.23	838.65	847.16	860.05	868.77	883.38	906.35	924.68	943.37
Bear scenario																
GDP (% y/y) pa	0.50	0.50	0.50	0.50	1.10	1.10	1.10	1.10	3.00	3.00	3.00	3.00	4.50	4.50	4.50	4.50
CPI (% y/y) pe	9.80	8.51	9.25	11.30	13.91	15.03	14.84	12.60	12.10	10.99	11.16	11.20	10.95	10.05	9.36	9.53
Policy rate (%) pe	13.50	13.50	13.50	13.50	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	13.50	13.50	13.50	13.50
3-m rate (%) pe	7.50	7.50	9.70	10.90	13.90	14.60	15.87	13.40	12.50	11.90	11.05	11.50	10.10	9.00	9.50	10.05
6-m rate (%) pe	10.84	11.50	13.10	14.30	17.30	18.00	19.27	16.80	15.90	15.30	14.45	14.90	13.50	12.40	12.90	13.45
USD/MWK pe	732.94	733.54	778.55	833.05	874.70	909.69	927.88	946.44	965.37	979.85	994.55	1009.4	1029.6	1050.2	1071.2	1092.6

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

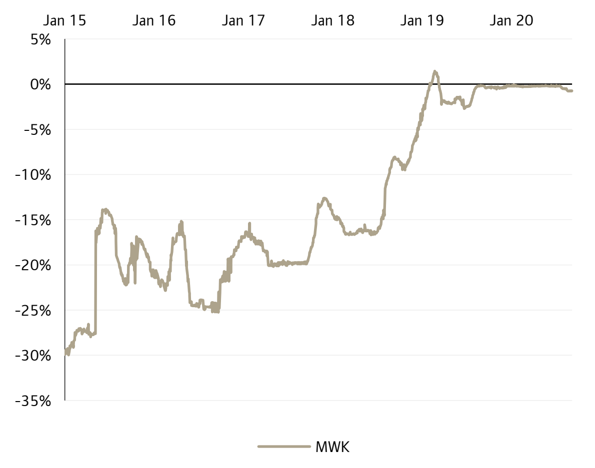
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: FX reserves low

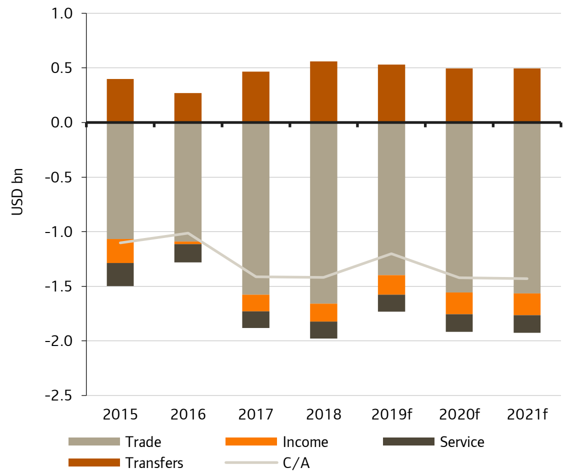
We see FX reserves remaining around USD 600m-USD700m, corresponding with 3-m of import cover. FX reserves were USD642m at the end of Aug, from USD651m in Jul and USD682m in Jun. This persistent decline in FX reserves demonstrates the underlying BOP pressures.

Among the factors that could cause the C/A deficit to widen this year is uncertain trade flows. Of course, since tobacco generates most FX inflows, this is critical. Disruptions due to the pandemic and unfavourable weather could imply lower tobacco export earnings. Malawi's Tobacco Control Commission estimates that tobacco output will reach 113.3m kg, compared with the previous estimate of 155m kg. Moreover, reduced tobacco inflows could exacerbate onshore FX liquidity challenges.

Other agricultural exports – tea and sugar – are likely to continue to disappoint due to weaker soft commodity prices. This is likely to restrain export growth further. However, imports remain robust. We expect that, while consumer imports remain subdued given the depressed economic growth conditions, the materials required to contain Covid-19 would have supported import demand. Additionally, current transfers declined during H1:20, which has compounded the external pressures.

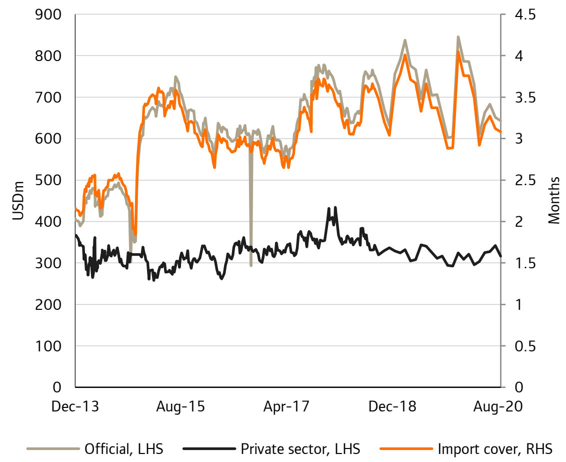
In May, Malawi secured USD91m in BOP support from the IMF, which should help relieve some balance of payments pressures. Donor funding is critical for Malawi. Notably, in recent years, many donors have opted to provide project support, rather than direct budget support. Direct budget support, which accounts for less than 30% of donor inflows, has also declined. Of course, at the start of each fiscal year, pledges for budget support from various developmental partners are common, but it has proven difficult for the government to access these funds due to the conditions attached to such disbursements.

Current account developments



Source: Reserve Bank of Malawi

FX reserves



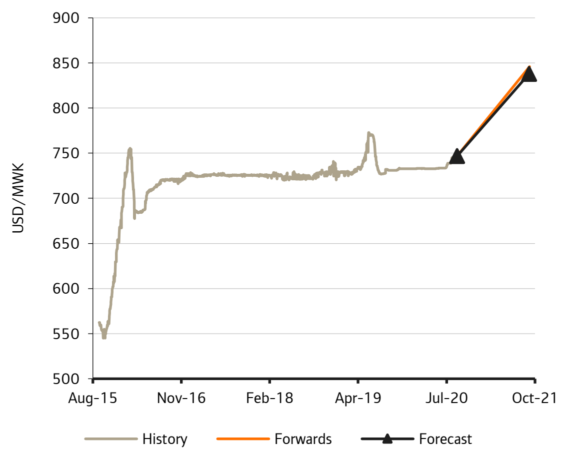
Source: Reserve Bank of Malawi

FX outlook: should strengthen further

Notwithstanding domestic FX liquidity challenges, FX trading guidelines in place for foreign exchange trading activities should limit upward movement of the currency. Recall that, in a business day, only for transactions greater than or equal to USD2.0m, are authorized dealer banks permitted to revise their rates. These regulations seem to prevent the exchange rate from acting as a shock absorber and potentially cushioning the economy from external shocks.

While we have seen the USD/MWK rise more meaningfully, particularly in Aug, the currency has still been slow to adjust. Nonetheless, we see scope for further depreciation. Our base case puts the currency at 812 at the end of Dec. Of course, should the RBM opt to ease these FX trading regulations, there is a risk that there would be an exaggerated move higher in the currency initially, before it settles at a new level.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: RBM stands pat

The Reserve Bank of Malawi is likely to hold the policy rate unchanged over the next 4-m. It had left the policy stance unchanged for over a year, last cutting by 100 bps in Mar 19.

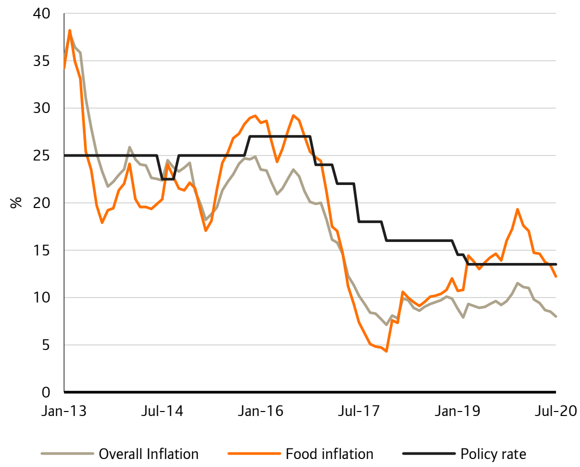
Notably, the MPC reduced the LCY reserve ratio by 125 bps to 3.75% and 5.0% and set the Lombard Rate at 20 bps above the policy rate at its Apr meeting. Of course, these measures were aimed at easing liquidity constraints in the banking sector and to incentivise commercial banks to adequately support those sectors affected by the pandemic.

Crucially, following the Jul MPC meeting, the committee noted the government's increased public sector financing requirement as among the factors weighing on the inflation outlook. During Q2:20, M1 money supply growth averaged 4.05% m/m, compared with 0.06% m/m during Q1:20.

That said, the RBM sees inflation averaging 9.8% y/y this year. This is higher than the RBM's medium-term inflation target of 5.0%, with a 200-bps corridor. Headline inflation eased to 8.5% y/y in Jun, compared with 8.6% y/y in May and 9.4% y/y in Apr. After sliding to 8.0% in Jul, we now see headline inflation rising to 10.5% y/y in Dec 20.

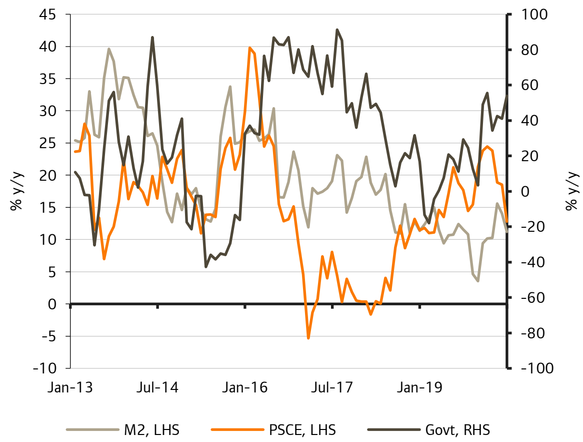
Consistent with seasonal trends, as the maize harvest season draws to an end by Sep, food inflation should begin rising in Q4:20. This should pull headline inflation higher. Yet, non-food inflation should remain subdued. Non-food inflation has remained below 5.0% y/y during Q2:20, falling as far as 4.5% y/y in May and Jun. Notably, unexpected currency depreciation could see non-food inflation rise in the coming months.

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: upside bias

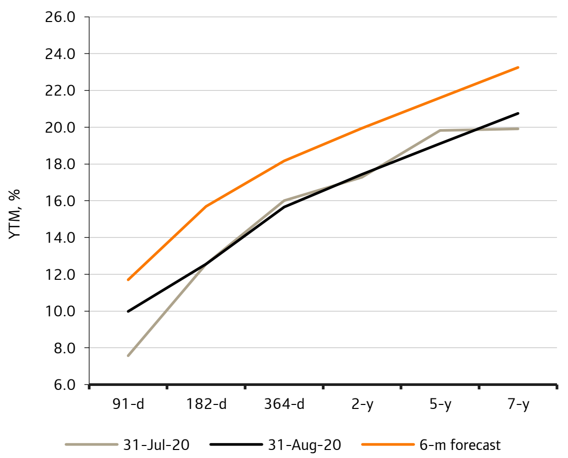
The Ministry of Finance continues reprofiling its debt stock, favouring the issuance of T-bonds to T-bills.

Hence, 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 remain neutral. Issuance will likely be concentrated on 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: budget deficit balloons

Since Malawi's fiscal year ends in Jun, it is likely that the pandemic incurred a deterioration in public finances during the last 4-m of the previous fiscal year.

The FY2020/21 budget forecasts a deficit of 11.9% of GDP (including grants), compared with 6.7% of GDP at the end of the FY2019/20. The government plans on financing the majority of its budget domestically. However, the government also aims to raise MWK224.8bn in foreign debt to finance the deficit, which represents a 73.8% y/y increase, compared with the FY2019/20 budget outcome. The government may have difficulty though in securing the requisite external financing.

The government plans on raising total expenditure by 18.6% y/y to MWK2,190tr, with recurrent and development expenditure set at MWK1,679tr and MWK530.1bn respectively. With recurrent expenditure, MWK8.0bn is set aside for the recruitment of additional healthcare personnel. In addition, MWK160.2bn is set aside for the Affordable Inputs Programme, which is a subsidy programme that enables smallholder farmers to purchase two bags of fertilizer and enough seed for maize or legumes commensurate with their land holding size. Notably and consistent with increases in government borrowings, interest payments are set to increase by 43.8% y/y during FY2020/21, to MWK376.0bn, about 6.5% of GDP.

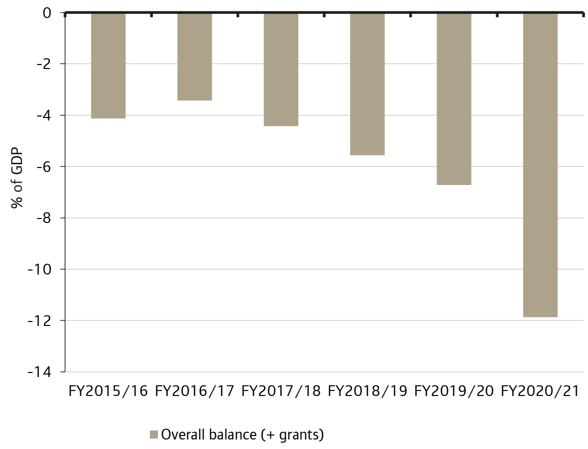
Revenue forecasts relies on grants of MWK255.7, accounting for 15% of total revenue and grants. To reiterate, the conditions attached to the disbursement of grants in some instances make these funds inaccessible to the government. Moreover, the domestic revenue target of MWK1,179bn is set at 3.8% y/y, lower than the FY2019/20 revenue outcome. Considering the impact of Covid-19, there is scope for meaningful revenue underperformance, which would make these domestic revenue estimates inflated.

Central government budget

% of GDP	FY2018/19	FY2019/20	FY2020/21
Total revenue	19.5	21.3	22.6
Total expenditure	25.0	21.3	34.4
- Recurrent	20.2	22.2	26.4
- Development	4.9	5.8	8.0
Overall balance (- grants)	-7.6	-8.7	-15.9
Overall balance (+grants)	-5.6	-6.7	-11.9
Net domestic borrowing	1.1	0.9	3.5
Net foreign borrowing	4.5	7.8	8.3

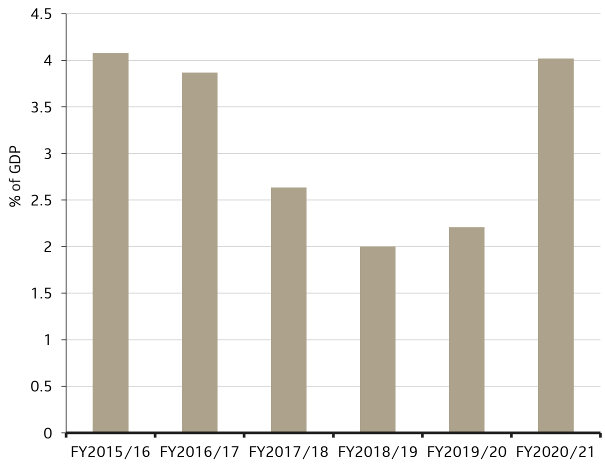
Source: Ministry of Finance

Fiscal deficits



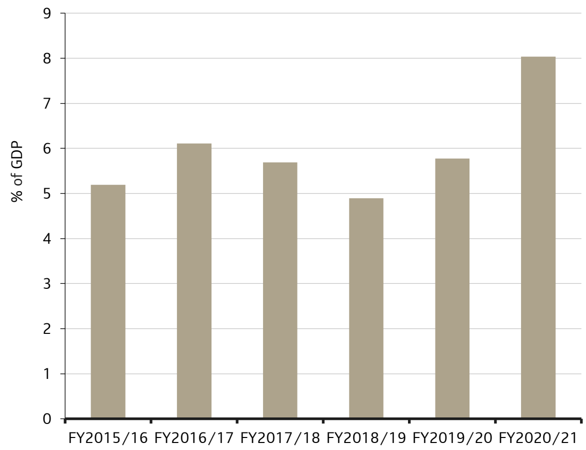
Source: Ministry of Finance; Standard Bank Research

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	6 367.61	7 301.71
Nominal GDP (USD bn)	6.11	5.37	6.18	6.98	7.77	7.84	8.67
GDP / capita (USD)	375.11	322.44	363.63	403.20	443.72	439.46	480.87
Real GDP growth (%)	3.25	2.70	5.10	4.00	4.00	1.30	2.20
Tobacco auction sales (million kgs)	193.00	194.00	158.00	202.00	154.00	115.00	145.00
Tea production (million kgs)	38.40	43.61	46.20	50.50	48.20	48.83	49.90
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.56	-8.54	-6.7	-6.7	-7.6	-8.7	-15.9
Budget balance (incl. Grants) / GDP (%)	-5.43	-4.68	-3.4	-4.4	-5.6	-6.7	-11.9
Domestic debt / GDP (%)	16.80	18.90	19.50	20.00	21.60	30.05	33.00
External debt / GDP (%)	37.00	33.20	33.50	35.00	34.80	39.00	41.00
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	-11.48	-10.37
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	-10.08	-8.81
FX reserves (USD m) pe	638.85	606.93	759.00	730.00	700.00	615.00	650.00
- Import cover (months) pe	3.06	2.90	3.66	3.36	3.23	2.83	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	9.39	12.47
Consumer inflation (%) pe	24.72	19.98	7.10	9.90	11.50	10.50	10.85
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	13.50	13.50
Policy interest rate (%) pe	27.00	24.00	16.00	16.00	13.50	13.50	13.50
3-m rate (%) pe	23.63	23.99	14.50	11.50	10.89	10.20	9.30
USD/MWK pa	525.44	711.27	725.13	727.51	740.83	761.39	834.94
USD/MWK pe	667.77	728.00	725.52	736.78	730.00	812.54	842.23

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: construction the engine of economic recovery

Medium-term outlook: stagnating, for now

We now forecast the economy to contract by 9.2% y/y in 2020, from forecasting 8.9% y/y previously. In 2021 though, we forecast GDP growth of 5.3% y/y.

However, global travel restrictions will continue to exert pressure on tourism. In the first 7-m of the year, tourist arrivals in Mauritius plummeted by 60.2% y/y on average, after 2019's 1.1% y/y contraction. These already low tourist arrivals in 2019 have now been exacerbated by the pandemic in 2020.

Although the nationwide lockdown was lifted by Jun, and there is a phased reopening of Mauritian borders for international travel, tourism recovering will depend on the evolution of the pandemic and a vaccine. Tourism contributes 6% to GDP but the impact spills over to other sectors.

Goods exports fell by 25.2% y/y in H1:20 largely due to the 24% y/y deterioration in goods exports to Europe. After all, Europe accounts for roughly 45% of Mauritian goods exports and roughly 60% of tourist arrivals.

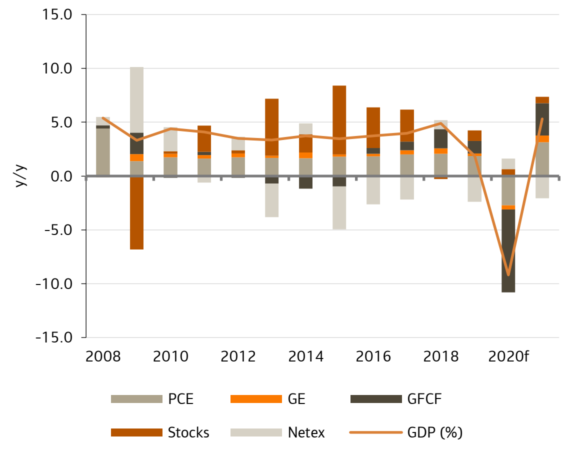
Domestic demand has helped drive growth in the past 3-y. We anticipate though that domestic demand will compress too, in line with the nationwide lockdown and job losses. As of May, Statistics Mauritius estimated unemployment to have risen to 10.2%, from 7.2 % in Q1:20.

Public investment should boost a recovery. Investment spending grew by 3.7% y/y in 2016 and that momentum has continued, after declining by an average of 4.9% y/y in the 3-y to 2015. The government plans to increase capital expenditure to 6.2% of GDP in FY2020/21, from 5.1% of GDP in FY2019/20. Thus, we expect the increase in capital expenditure to boost the construction sector. This sector had recovered from a prolonged recession in 2017 which has underpinned economic growth since then.

Indeed, the Ministry of Finance expects the construction sector to drive the economic recovery. Among other projects, funds will be distributed to the construction of social housing units, the Rivière des Anguilles dam, bus terminals, roads and bridges and the Metro System from Rose Hill to Curepipe.

Should a vaccine become available, the economic recovery could be better and faster than we currently expect. Our bullish scenario sees GDP growth of 7.8% y/y in 2021. But in our bear scenario, the economy grows by 3.9% y/y in 2021.

Composition of GDP growth by demand



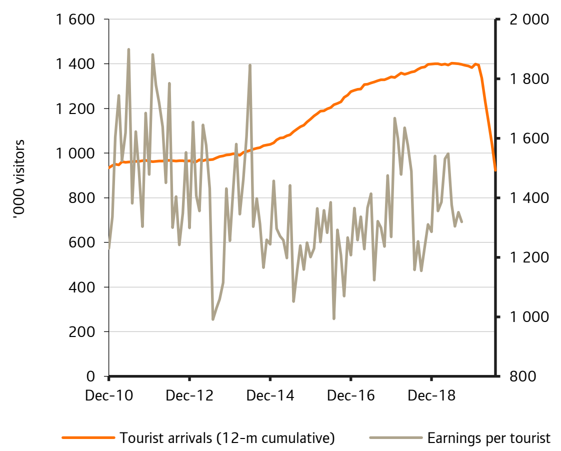
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector

% of GDP	2014	2016	2019
Agriculture	3.3	3.2	3.3
- Sugarcane	0.8	0.8	0.2
Manufacturing	13.6	12.4	12.5
- Food excl. sugar	4.8	4.4	4.5
- Textiles	4.1	3.7	3.4
Construction	4.2	3.7	5.0
Wholesale and retail trade	10.6	10.6	12.5
Transport and storage	5.4	5.6	6.5
Accommodation and food services	5.5	6.1	6.9
Financial and insurance services	10.5	10.7	11.8
Real estate services	5.4	5.2	5.9
Public administration	5.5	5.7	6.2
ICT	3.8	3.8	4.3
Education	4.2	4.4	4.7

Source: Statistics Mauritius

Tourism trend



Source: Statistic Mauritius

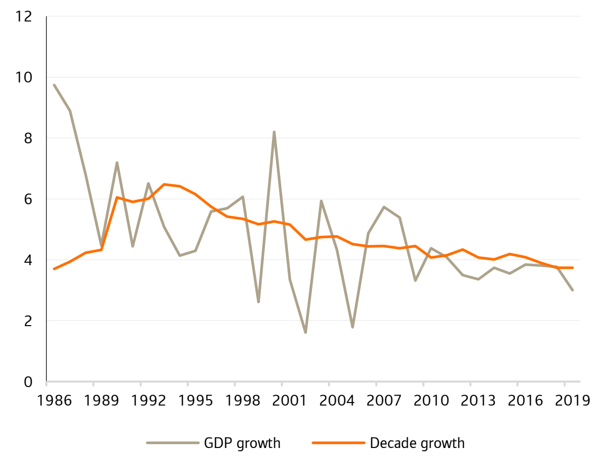
Medium-term economic growth scenarios

	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	-1.99	-20.97	-7.47	-6.57	-7.10	14.00	8.00	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	0.85	0.70	0.75	0.75	0.75	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	0.95	0.86	0.86	0.86	0.86	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	39.88	39.75	39.13	35.01	34.50	34.57	33.90	34.70	34.58	34.10	33.12	34.04	35.02	35.29	34.78
Bull scenario																
GDP (% y/y) pa	-1.99	-20.97	-4.17	-2.77	-3.60	16.20	10.60	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	0.85	1.62	2.47	2.47	2.47	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	0.95	1.78	2.58	2.58	2.58	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	39.88	39.45	38.93	34.51	33.80	33.77	32.70	32.80	32.68	31.90	31.22	32.14	33.72	34.49	34.08
Bear scenario																
GDP (% y/y) pa	-1.99	-20.97	-8.57	-7.72	-8.29	12.80	6.75	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	0.85	0.47	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	0.95	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	39.88	40.05	39.33	35.51	35.20	35.37	35.10	36.60	36.48	36.30	35.02	35.94	36.32	36.09	35.48

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

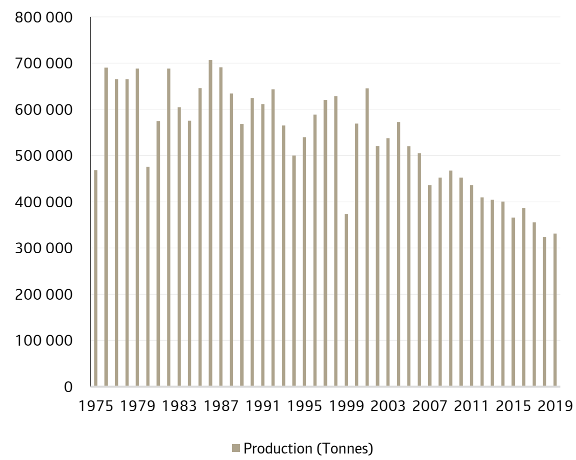
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; Statistics Mauritius

Sugar production



Source: Statistics Mauritius

Balance of payments: C/A deficit still widening

There's still a high chance of the C/A deficit widening further in 2020. We now forecast it at 8.9% of GDP in 2020 and then narrowing to 7.8% of GDP in 2021.

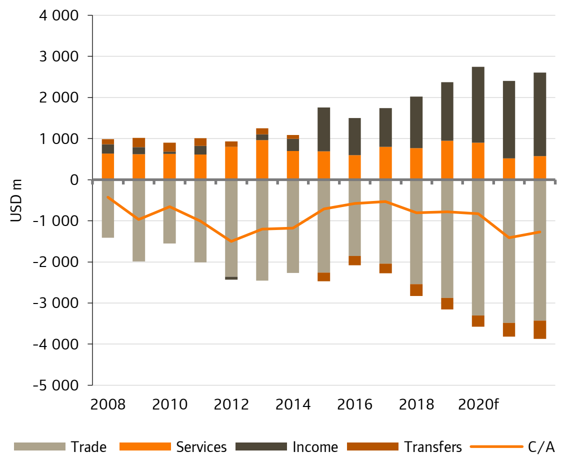
In H1:20, both goods and services exports fell meaningfully. Tourist arrivals fell by 50.3% y/y, and goods exports fell by 25.2% y/y in H1:20. This should improve in H2:20 but the trade deficit is still likely to widen on y/y basis, and thereby widen the C/A deficit.

Import demand too declined by 17.1% in H1:20, attributable to mineral fuels, lubricants, & related products and manufactured goods. Although economic activity is expected to improve in H2:20, the import bill will expand slowly due to soft domestic demand. However, policymakers will resume stoking investment spending, per with the budget announcement, which should lift import demand.

Financial inflows from large multinational businesses typically predominate but likely not this year. Still, FX reserves have been climbing gradually despite the widening C/A, as financial inflows have been sufficiently robust to allow FX reserves to rise.

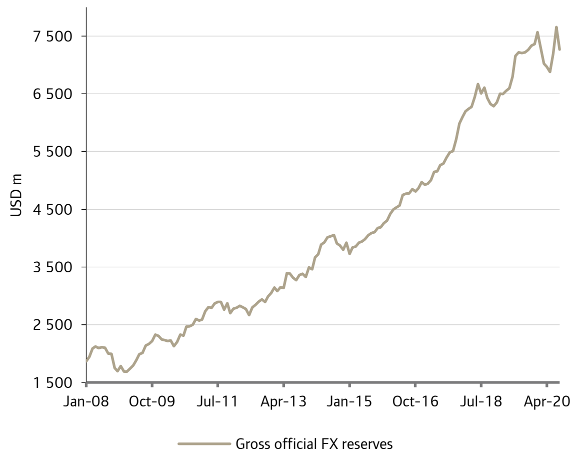
Global financial markets have rebounded, a trend that is likely to continue. By Dec 20, we expect FX reserves to reach USD7.8bn, covering 13.0 months of imports, from the latest reading of USD7.3bn in Aug.

Current account developments



Source: Bank of Mauritius; Standard Bank Research

FX reserves



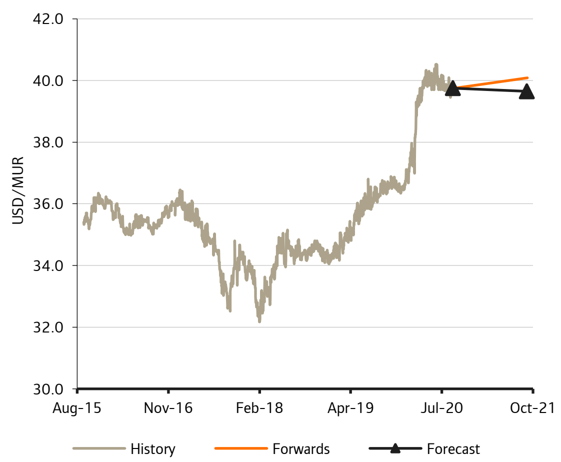
Source: Bank of Mauritius

FX outlook: stable, then moving lower

The BOM is unlikely to allow USD/MUR to deviate much from the current trading range. Indeed, the BOM has of late consistently intervened by selling FX in the market. While it has been understandable for the authorities to prioritise broad-based MUR depreciation in view of the weakness in external demand, the BOM may keep the trade-weighted MUR steady in the medium term.

Certainly, with the BOP pressure abating, there is little pressure on USD/MUR to move higher. We expect to see USD/MUR remaining stable and ending the year at 39.13 before falling to 35.01 by Q1:21 when the USD/MUR will probably return to being heavily reliant on the path of EUR/USD.

USD/MUR: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral into year-end

After lowering the policy rate by a cumulative 150 bps to support the economic fallout from pandemic, it looks likely that the BOM's MPC will now leave the policy stance unchanged this year.

The MPC left the Key Repo Rate (KRR) unchanged at 1.85% at its policy meeting in Jul. We expect the MPC to retain the current policy stance at least till the end of the year. However, with economic activity likely to remain poor, an easing bias would continue to make sense. Considering that the money market rates are significantly lower, the MPC may now keep rates on hold.

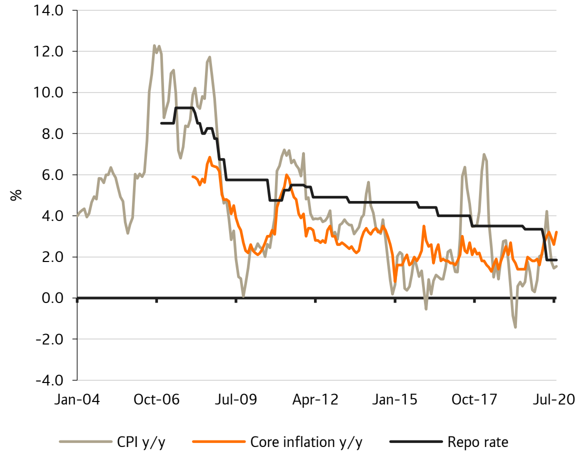
Moreover, reflecting excess liquidity in the market, broad money supply has gained momentum since Apr. Growth in broad money increased by 12.8% y/y in Q2:20, from 9.7% y/y in Q1:20. But, credit extension to the private sector increased by just 6.6% y/y in Q2:20, from 7.2% y/y in Q1:20.

Whereas inflation was expected to rise this year on base effects, weak economic growth has left the economy with hardly any underlying inflationary pressures. Both core inflation measures have remained subdued, now close to 3.0% y/y. However, headline inflation has been far more volatile, with gyrations mainly coming from food inflation volatility.

Still, the measure that excludes food, beverages, tobacco and mortgage interest from the headline CPI was 2.6% y/y in Jul, from 3.2% y/y in May. Headline inflation has ranged between1.5% and 2.8% y/y since May.

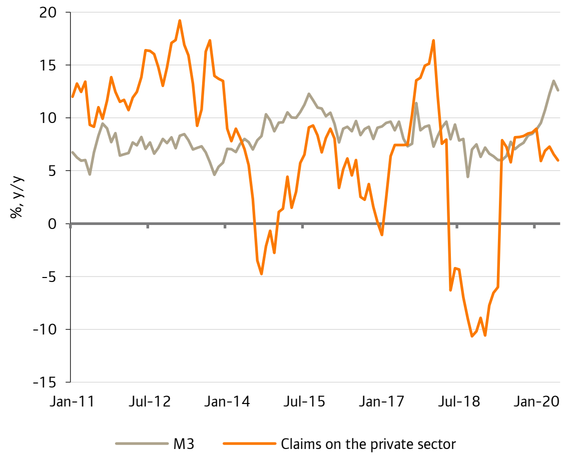
There are no indications of inflationary pressures over the near term. Headline inflation will remain marginally below 2.0 % y/y by year-end and average 2.2% y/y this year. While inflation may rise modestly next year, that would require a resurgence in domestic demand.

Inflation and interest rates



Source: Bank of Mauritius; Statistics Mauritius

Money supply



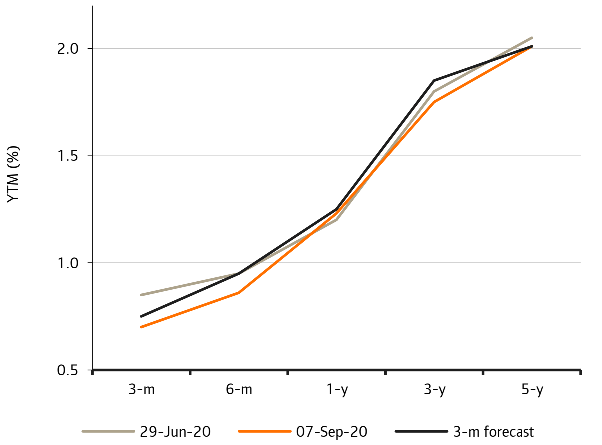
Source: Bank of Mauritius

Yield curve outlook: yields to rise somewhat

Whereas low yields may persist for a while still, we expect T-bill yields to edge higher in the coming months. Since Mar, T-bill yields have moved sideways in a range of 0.7% and1.25%. We don't see this pattern changing much over the coming 6-m, as yields are kept closer to the key repo rate which is at 1.85%.

Given the persistent mopping up of excess liquidity in the money market, there is no reason to see much potential for yields to decline from current levels. Even if the BOM tightened monetary policy, there would be no meaningful upward pressure on yields, and so they should stay rangebound. Nonetheless, the risk for MUR yields is surely to the upside.

Change in yield curve



Source: Bank of Mauritius; Standard Bank Research

Fiscal policy: higher capital expenditure

The FY2020/21 budget is titled "Our New Normal: The Economy of Life"' and is contractionary, compared to FY2019/20 budget. The fiscal deficit in FY2019/20 turned out significantly higher than budgeted, at 13.6% of GDP due to impact of the pandemic on public finances. In FY2020/21, the government is planning a balanced budget, with total revenue and expenditure projected at MUR162.9bn each.

Thus, recurrent spending was reduced. However, social benefits were increased by 3.2% y/y. Crucially, the government emphasised raising capital expenditure to revive the economy, with the capital expenditure projected to rise by 26.3% y/y. Recurrent expenditure is expected to decline by 6.1% y/y. This combination should support medium-term growth. However, it may prove difficult for the government to reduce recurrent expenditure, especially should the pandemic continue.

The government has budgeted for a 60.2% y/y increase in total revenue in FY2020/21.This may seem very ambitious. However, bear in mind that the Bank of Mauritius decided to provide an "exceptional contribution" of MUR60.0bn in accordance the Bank of Mauritius Act.

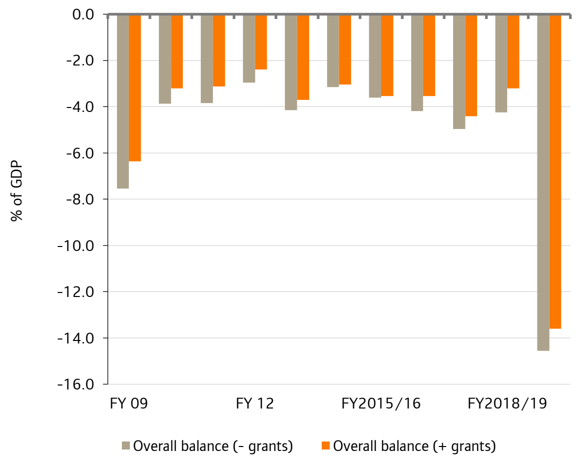
The government is budgeting for a net repayment of domestic debt amounting to MUR11.3bn and external borrowing of MUR10.3bn (2.1% of GDP) in FY2020/21. Interestingly, the government is not planning to borrow meaningfully from the domestic market despite low interest rates.

Rising public sector debt, which shot up to 72.7% of GDP in FY2019/20, from 61.6% originally planned, ought to be a priority for the government to address, and furthermore to ensure that public debt is on a sustainable path.

% of GDP	FY2019/19	FY2020/21
Total revenue	21.8	33.7
Total expenditure	35.4	33.7
- Interest	2.9	2.6
- Wages	6.7	6.3
- Capital expenditure	5.1	6.2
Net lending	5.1	6.2
Overall balance (- grants)	-14.6	-0.6
Overall balance (+ grants)	-13.6	0.0
Net lending to parastatals	0.2	0.2
Net external borrowing	1.8	2.1
Net domestic borrowing	13.2	-2.3
Donor support (grants)	1.0	0.6

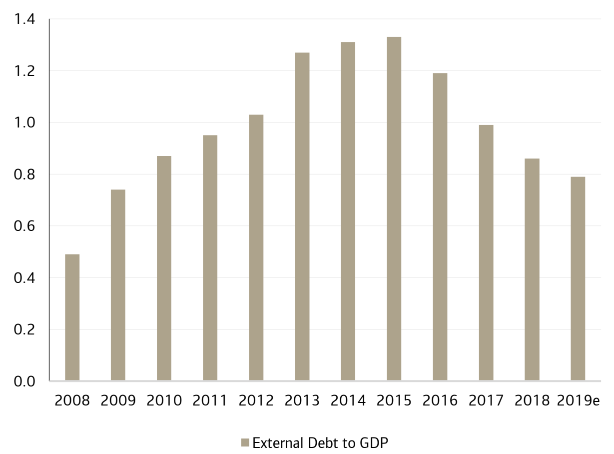
Source: Ministry of Finance and Economic Development

Fiscal deficit



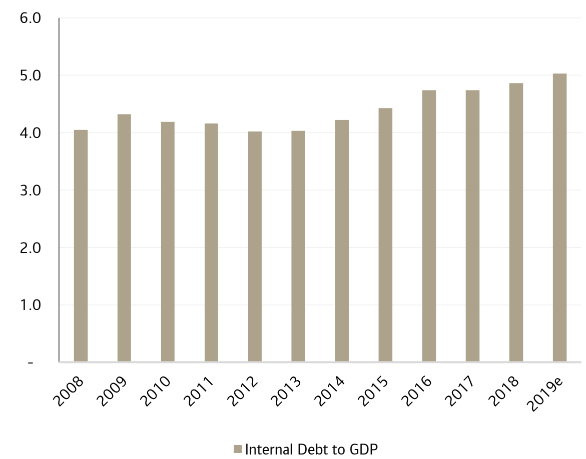
Source: Ministry of Finance and Economic Development

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	464.6	502.1
Nominal GDP (USD bn)	11.6	12.2	13.3	14.1	14.0	11.9	14.2
GDP / capita (USD)	9 223	9 657	10 503	11 174	11 026	9 377	11 087
Real GDP growth (%)	3.5	3.7	3.8	3.8	3.0	-9.2	5.3
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	-5.0	-4.2	-14.6	-0.6
Budget balance (incl. Grants) / GDP (%)	-3.1	-3.5	-3.5	-4.4	-3.2	-13.6	0.0
Domestic debt/GDP (%)	44.3	49.7	51.8	50.6	54.2	67.9	62.5
External debt/GDP (%)	13.3	14.7	12.9	12.2	10.8	15.6	18.3
Balance of Payments							
Exports of goods and services (USD bn)	5.48	5.21	5.21	5.29	5.57	4.76	4.93
Imports of goods and services (USD bn)	6.74	6.46	6.98	7.22	7.97	7.72	7.79
Trade balance (USD bn)	-1.26	-1.24	-1.77	-1.93	-2.41	-2.96	-2.86
Current account (USD bn)	-0.58	-0.53	-0.80	-0.78	-0.83	-1.41	-1.27
- % of GDP	-4.99	-4.34	-6.06	-5.72	-5.53	-8.93	-7.78
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	24.06	22.26	21.80
FX reserves (USD bn) pe	4.26	4.97	5.98	6.35	7.36	7.89	8.21
- Import cover (months) pe	7.1	8.7	9.5	10.5	12.6	13.0	13.5
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	2.20	1.47
Consumer inflation (%) pe	1.3	2.3	4.2	1.8	0.9	1.97	1.97
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	0.75	0.91
5-y rate (%) pe	4.85	3.93	4.25	5.20	5.20	2.01	3.20
USD/MUR pa	35.19	35.63	34.41	34.03	35.69	39.09	35.33
USD/MUR pe	35.85	35.97	33.57	34.30	36.35	39.13	33.90

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

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

Mozambique: insurgency threatens inclusive growth

Medium-term outlook: downside risks abound

The escalation of insurgency in the northern province of Cabo Delgado, from sporadic armed attacks since Oct 2017 to a guerrilla type of war this year, has spurred Islamic radical groups. This could erode the local content benefits from the implementation of the multi-billion USD investment in Liquified Natural Gas (LNG) projects in the Rovuma Basin.

The Area-1 Mozambique LNG project committed to spend USD2.5bn in local content during the project implementation, representing around 17% of 2020 GDP. A similar amount in local content spend is expected as the Area-4 Rovuma LNG project reaches a Final Investment Decision (FDI).

Armed attacks have already killed thousands and displaced over 200,000 people. Combined with the pandemic, the negative impact now sees our growth scenarios revised downward.

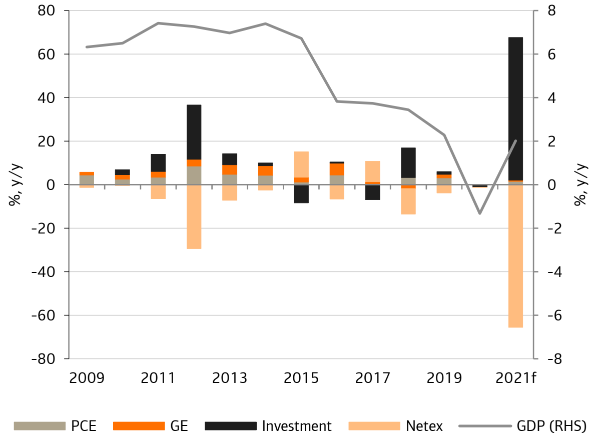
Our base, bull and bear cases now factor in a GDP contraction this year, ranging from 1.3% y/y in the base case to 1.9% y/y in the bear case. A recovery is expected only from Q2:21 in our base case.

Already in Q2:20, GDP contracted by 3.3% y/y, from growth of 1.7% y/y in Q1. Agriculture, which accounts for 23% of GDP and supports over 70% of the population, is however experiencing a recovery this year despite the pandemic. Agriculture has been recovering from last year's cyclones, otherwise the GDP contraction might have been worse.

While the long-term growth outlook remains largely positive, supported by LNG investments, armed conflicts constrain the prospects for more inclusive growth.

Encouragingly, the government is approaching the Cabo Delgado situation with a developmental eye, as reflected in last month's launch of the Northern Development Agency (ADIN) which seeks to coordinate both private and public investments to reduce poverty in the northern region and by means of discouraging support to the insurgency.

Composition of GDP by demand (%)



Source: Instituto Nacional de Estatística; Standard Bank Research

GDP composition by sector

	2015	2016	2017	2018	2019
Agriculture & fishing	23.1	23.2	23.2	23.2	23.0
Extractive industries	4.9	5.4	6.9	7.4	6.9
Manufacturing	8.1	8.1	8.0	7.9	7.8
Electricity & gas supply	2.9	2.9	2.7	2.5	2.4
Water supply	0.2	0.2	0.2	0.2	0.2
Construction	1.9	1.9	1.8	1.7	1.7
Trade & motor vehicle repair	10.9	10.3	9.7	9.6	9.3
Transport and storage	7.0	6.9	6.9	6.9	7.0
Accommodation and food	2.0	1.9	1.8	1.8	1.8
Information and communication	3.3	3.2	3.2	3.3	3.4
Financial services	4.8	5.1	5.1	5.2	5.3
Real estate activities	5.3	5.0	4.8	4.9	5.0
Public administration, defence	6.4	6.6	6.5	6.4	6.5
Education	6.3	6.2	6.1	5.9	5.9
Health and social work activities	1.4	1.5	1.5	1.5	1.5
Other services	11.4	11.5	11.4	11.6	12.2
GDP	100.0	100.0	100.0	100.0	100.0

Source: Instituto Nacional de Estatística, Standard Bank Research

Purchasing Managers Index

Source: IHS Markit; Bloomberg

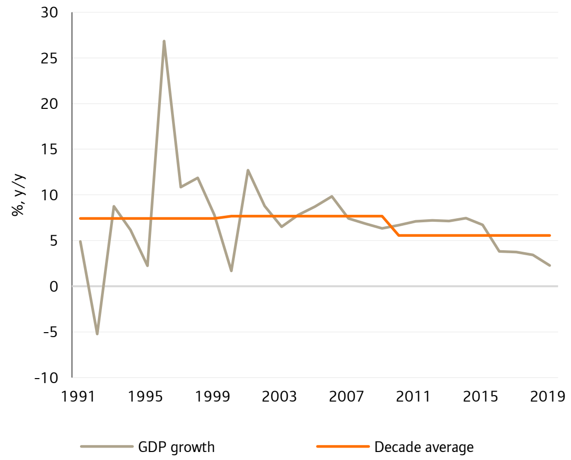
Medium-term economic growth scenarios

	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	1.7	-3.3	-2.4	-1.3	-0.8	3.2	3.6	2.0	3.5	3.6	6.0	4.3	6.4	6.2	6.6	6.4
CPI (% y/y) pe	3.1	2.7	3.4	4.1	5.3	6.4	6.9	6.7	6.2	4.3	4.7	4.6	4.7	5.8	6.1	6.5
BNA rate (%) pe	12.75	10.25	10.25	10.25	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	9.9	8.3	8.2	8.0	8.0	8.0	8.0	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
6-m rate (%) pe	11.1	10.4	8.2	8.1	7.9	7.9	7.9	7.9	7.9	7.5	7.5	7.5	7.5	7.5	7.5	7.5
USD/MZN pe	66.7	70.1	73.3	77.1	77.3	74.3	74.1	75.2	73.0	70.1	70.2	65.3	65.1	65.8	65.5	64.8
Bull scenario																
GDP (% y/y) pa	1.7	-3.3	-0.6	-0.8	1.8	3.8	3.7	3.1	3.0	5.6	5.5	4.7	7.3	7.6	8.0	7.6
CPI (% y/y) pe	3.1	2.7	3.4	3.8	4.4	5.3	5.3	4.8	4.0	2.3	2.9	3.4	4.2	5.3	5.3	5.4
BNA rate (%) pe	12.75	10.25	10.25	9.75	9.75	9.25	9.25	9.25	9.25	8.75	8.75	8.75	8.75	8.75	8.75	8.75
3-m rate (%) pe	11.0	9.9	8.3	8.0	8.0	7.6	7.6	7.6	7.6	7.2	7.2	7.2	7.2	7.2	7.2	7.2
6-m rate (%) pe	11.1	10.4	8.2	7.8	7.8	7.4	7.4	7.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
USD/MZN pe	66.7	70.1	78.8	70.9	71.2	69.3	68.7	69.9	66.8	65.1	59.9	60.2	60.1	60.6	60.3	60.1
Bear scenario																
GDP (% y/y) pa	1.7	-3.3	-4.1	-1.9	-1.8	1.6	3.6	1.1	2.1	2.7	5.3	3.3	5.3	5.1	5.4	5.2
CPI (% y/y) pe	3.1	2.7	4.1	7.0	8.9	10.3	10.4	8.6	8.1	6.1	6.8	6.7	6.8	7.9	8.2	8.2
BNA rate (%) pe	12.75	10.25	10.25	10.25	10.25	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	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
6-m rate (%) pe	11.1	10.4	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
USD/MZN pe	66.7	70.1	75.3	80.2	81.4	78.4	78.2	79.3	77.1	74.7	74.2	69.4	69.2	69.8	69.1	68.9

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

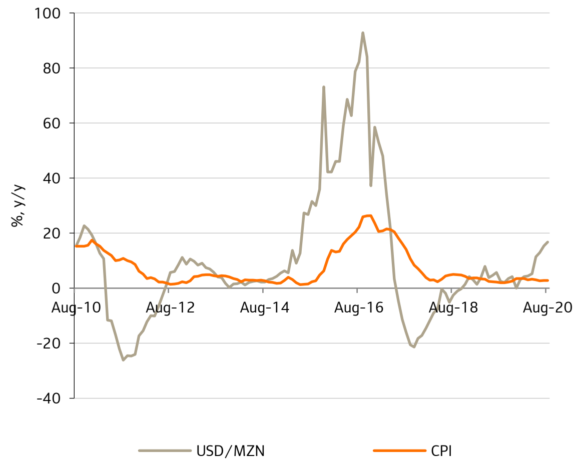
Notes: pa - period average; pe - period end

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: mounting pressures

Half-year balance of payments (BOP) data for 2020 presents a realistic picture of the pandemic's impact this year, with a wider C/A deficit and reduced foreign direct investment.

We see the C/A deficit rising to USD3.6bn, or 24.9% of GDP, this year, from USD3bn last year, mainly on a 36.5% y/y decline in goods exports, partially compensated by a 23.1% y/y decline in goods imports, mainly due to the pandemic. In 2021, the C/A deficit could swell to 60.4% of GDP as the implementation of LNG projects gains momentum, but we don't see this resulting in BOP pressures because these projects are funded mainly offshore.

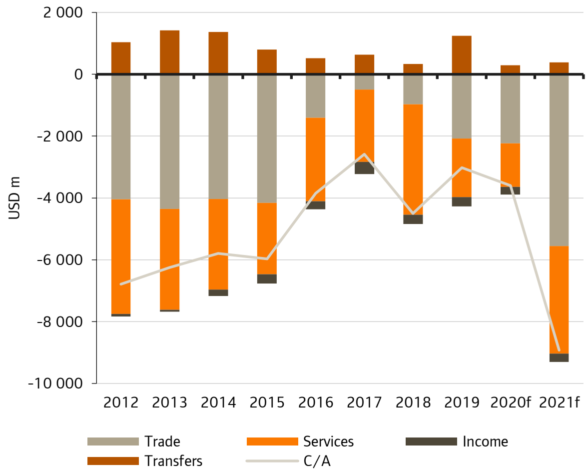
In H1:20, the C/A deficit rose by 17.2% y/y, to USD2.1bn, mainly due to the 62.2% y/y increase in the trade account deficit to USD1.4bn, only partially offset by the 17.9% y/y improvement in the services account deficit to USD687.3m. Primary transfers net outflows declined by 29.3% y/y, to USD123.6m, with secondary transfers net inflows rising by 27.4% y/y, to USD152m.

Goods exports have fallen by 28.3% y/y, to USD1.6bn in H1:20, compared with H2:19 exports of USD2.2bn. The extractive sector, accounting for 36% of exports, fell by 39.9% y/y mainly due to a 52.6% y/y contraction in coal exports. Aluminium exports (bars and cables), representing 29.5% of total exports, declined by 18.6% y/y. Good imports eased by only 3.2% y/y in H1:20, to USD3bn, tightening the screws on FX liquidity pressures.

FX gross reserves remained relatively stable at USD3.9bn Jan-Jul, representing 4.5-m of import cover, or 7-m when large project imports are excluded.

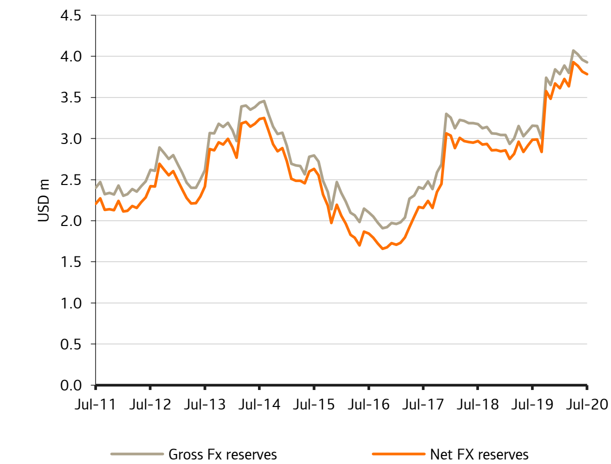
We see FX reserves sliding due to the pandemic, with a negative impact on the metical.

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX reserves



Source: Banco de Moçambique; Standard Bank Research

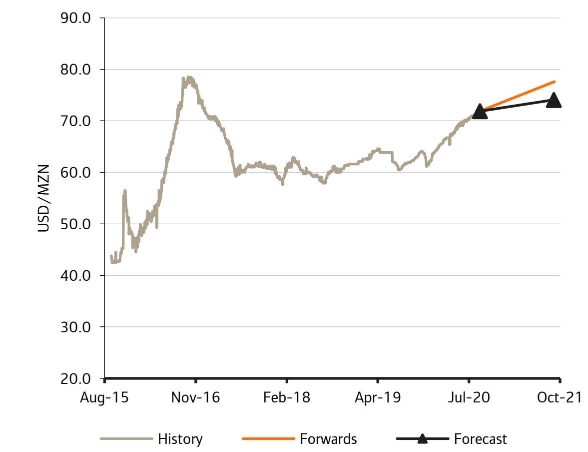
FX outlook: weakening bias for the metical

The USD/MZN pair will likely keep rising; our year-end forecast is 77.1, from 75.3 in May. We expect tighter FX liquidity conditions in Q4 and sentiment to deteriorate due to both the pandemic and security challenges. Furthermore, a more prudent stance from the Banco de Moçambique (BOM) where there are likely tolerate further currency depreciation by means of supporting the ongoing BOP adjustment, as opposed to tolerating any material decline in FX reserves to support the Metical, could be adopted.

After all, inflation pressures remain muted, supporting the view that BOM may tolerate the USD/MZN pair rising.

Our base case however sees the USD/MZN improving towards 75 levels in 2021, then further to 65 levels in 2022, as the LNG investment props up FX liquidity.

USD/MZN: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: BOM still on hold

The BOM is likely to hold the policy interest rate unchanged over the next 12-m. After cutting the policy rate by 250 bps during H1:20, the BOM has left the policy rate unchanged at 10.25%. Since Aug 17, the MPC cut the policy rate by a cumulative 1,150 bps since Aug 17.

Further easing of the policy interest rate is likely only once the currency and inflation outlook improve.

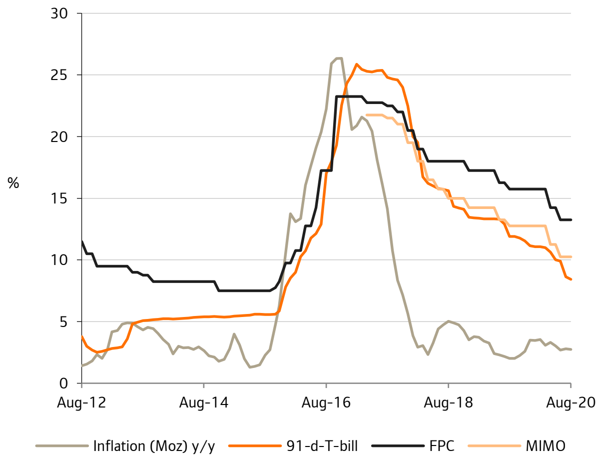
Mozambique's annual inflation eased marginally to 2.75% y/y in Aug, from 2.8% y/y in Jul. On a m/m basis, inflation rose by 0.1% in Aug, capturing price increases across most sub-indices.

The temporary easing in annual inflation still reflects a delay in the passthrough of previous currency weakness to inflation. Furthermore, food inflation has risen further, to 7.68% y/y in Aug, from 7.52% y/y in Jul. Since food products account for 30.7% of the CPI basket, food prices have a meaningful impact on the overall price level.

The 12-m moving average for inflation maintained an upward trend at 2.92% y/y in Aug, from 2.86% y/y in Jul, due to base effects. We still see inflation rising gradually, ending year-end at around 4.1% y/y and 6.7% y/y next year-end, matching the annual averages of 3.4% y/y and 6.1% y/y for 2020 and 2021 respectively.

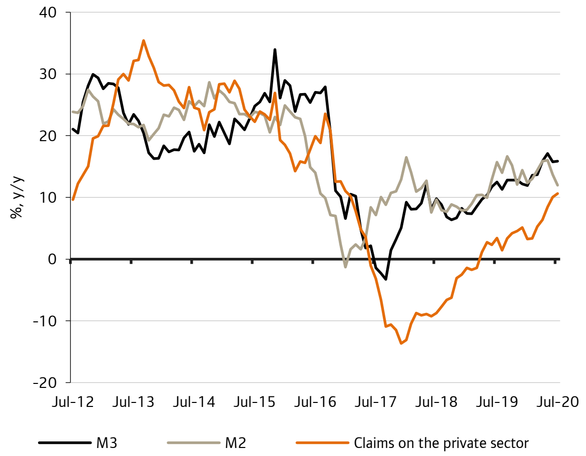
Monetary statistics data reported to Jul shows an acceleration in money supply (M3) growth to 15.9% y/y, from 12.2% y/y last Dec. This mainly reflects the rise in the USD/MZN pair. Local currency money supply (M2) growth eased to 12% y/y, from 14.4% y/y last Dec. This translates into a deceleration in local currency private sector credit growth to 8% y/y in Jul, from 11.8% y/y last Dec, consistent with subdued economic performance. After all, interest rates remain elevated, in real terms, with commercial banks average prime lending rate currently at 15.9%.

Inflation and interest rates



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

Monetary statistics



Source: Banco de Moçambique; Standard Bank Research

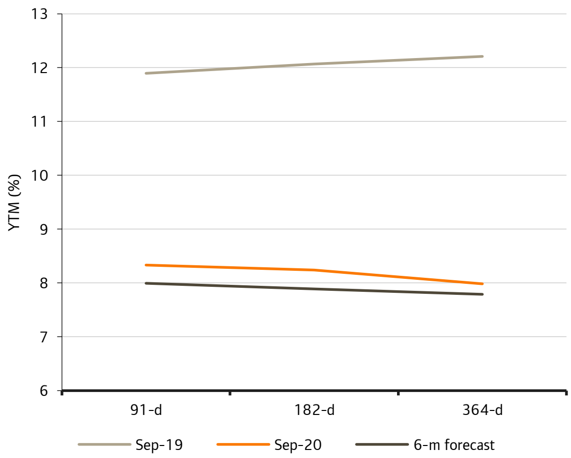
Yield curve outlook: stable

Half-year fiscal performance data shows a 14% YTD growth in domestic borrowing, to MZN182.5bn, or 27.9% y/y, with debt stock in the form of T-bills up 22.5% y/y and government bonds up 30% y/y. The reviewed 2020 budget could see an increase in domestic borrowing requirements.

Still, consistent with the monetary policy easing cycle, T-bill yields have fallen disproportionately, a trend that could persist over the next 6-m. We see a stable yield curve for now, even if domestic borrowing increases.

At the time or writing, the 91-d T-bill was at a yield of 8.3%, with the 182-d at 8.24% and the 364-d at 7.98%, from peaks of respectively 25.46% for the 91-d, 28.35% for 182-d and 29.45% for 364-d in Mar 17. The latest LCY government bonds issues are yielding around 10%.

Yield curve changes



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: fiscal pressures resurge

The pending revisions to the 2020 original budget will likely reflect an increase in expenditure and borrowing requirements to deal with both the pandemic and security challenges.

Despite a positive half-year fiscal performance in 2020, we expect a wider fiscal deficit before grants than the 6.7% of GDP in the original budget, from a surplus of 0.3% of GDP last year, which was driven by the one off USD880m capital gains tax received. This could see fiscal consolidation efforts suspended for a year.

Still, H1:20 fiscal performance shows a 5.4% y/y nominal growth in revenues, to MZN110.2bn, compared to H1:19, a quite remarkable performance in a pandemic. Most likely this translates deferred tax payments attributed to the temporary relief granted last year when the cyclones hit the country.

H1:20 overall expenditure excluding financing transactions grew 2.6% y/y, to MZN123.5bn, with recurrent expenditure up by 8.3% y/y, to MZN102.8bn and investment expenditure down by 29.9% y/y, to MZN16.3bn. Net lending to SOEs accelerated to MZN4.4bn in H1:20, from MZN2.2bn in H1:19.

Therefore, the fiscal balance before grants eased by 15.8% y/y, to a deficit of MZN13.3bn, funded by grants of MZN4.2bn, net external borrowing of MZN20.9bn and net domestic borrowing of MZN20.9bn, with a negative balancing figure of MZN32.6bn, representing changes in balance that reflects savings from previous years' capital gains taxes.

Despite the pandemic and likely suspended fiscal consolidation efforts, we see the debt to GDP ratio easing to 103.2% this year, from 105.8% last year, as we exclude the guarantees issued for MAM and Proindicus, nullified by the Constitutional Court rule.

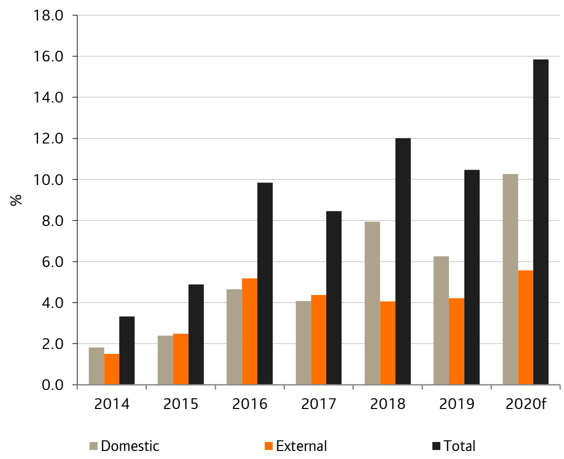
Outstanding debt plus arrears for the MAM and Proindicus government guarantees had been estimated at USD1.4bn at the end of 2019, or 9% of GDP.

Central government budget

% of GDP	2018	2019	2020 (original budget)
Total revenue	23.8	28.9	23.1
Total expenditure	28.9	28.6	29.8
- Recurrent	19.9	20.5	22.4
- Development	7.5	7.5	7.0
Overall balance (+ grants)	-5.2	0.3	-6.7
Overall balance (- grants)	-3.2	1.2	-3.7
Grants	2.0	1.0	3.0
Net domestic borrowing	0.4	1.5	2.6
Net foreign borrowing	2.2	2.2	1.1
Changes in balances	0.6	-4.9	0.0

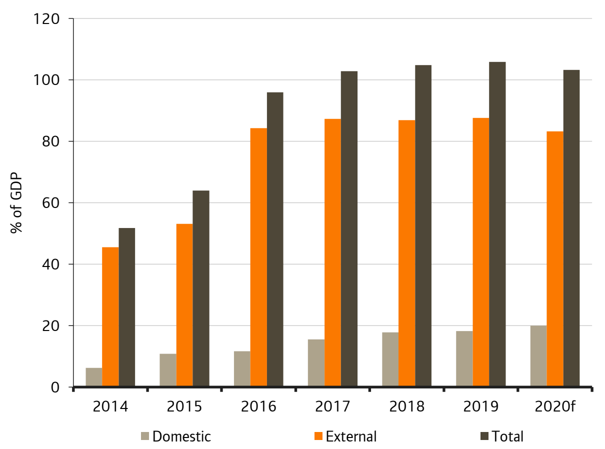
Source: Ministry of Economy and Finance; Standard Bank Research

Interest expenditure to revenues



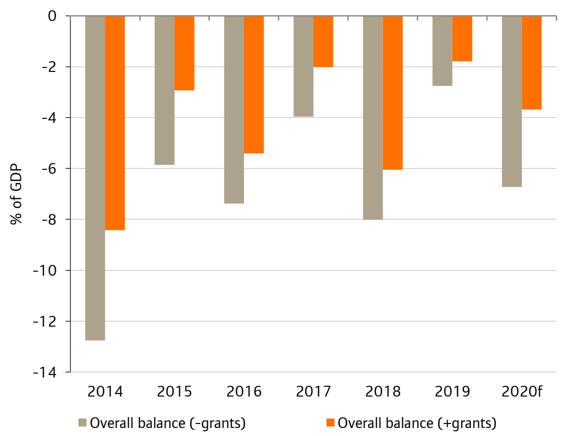
Source: Ministério da Economia e Finanças; Standard Bank Research

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	28.6	29.3	30.1	30.8
Nominal GDP (MZN bn)	637.8	752.7	840.5	895.6	956.8	1,019.0	1,113.2
Nominal GDP (USD bn)	16.4	11.9	13.3	14.8	15.3	14.4	14.8
GDP / capita (USD)	638	449	478	519	522	480	479
Real GDP growth (%)	6.7	3.8	3.7	3.4	2.3	-1.3	2.0
Coal output (MTPA)	6.6	6.2	11.8	13.1	10.3	8.0	11.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.7	-5.2	-1.8	-5.2	0.3	-6.7	-5.2
Budget balance (incl. Grants) / GDP (%)	-1.7	-3.2	0.1	-3.2	1.2	-3.7	-3.1
Domestic debt / GDP (%)	10.9	11.7	15.5	17.9	18.2	20.0	19.5
External debt / GDP (%)	53.1	84.3	87.3	86.9	87.6	83.2	81.3
Balance of Payments							
Exports of goods and services (USD m)	4.1	3.8	5.4	6.0	5.6	3.6	4.3
Imports of goods and services (USD m)	10.6	7.9	8.2	10.5	9.6	7.3	13.4
Trade balance of goods and services (USD m)	-6.5	-4.1	-2.8	-4.5	-3.0	-3.6	-9.0
Current account (USD m)	-6.0	-3.8	-2.6	-4.5	-3.0	-3.6	-8.9
- % of GDP	-36.4	-32.4	-19.4	-30.3	-19.8	-24.9	-60.4
Financial account (USD m)	5.9	3.9	2.5	4.5	3.0	3.6	8.9
- FDI (USD bn)	3.9	3.1	2.3	2.7	2.2	1.3	6.8
Basic balance / GDP (%)	-12.8	-6.3	-2.2	-12.2	-5.3	-15.9	-14.4
FX reserves (USD m) pe	2.5	2.0	3.3	3.0	3.8	3.8	3.5
- Import cover (months) pe	2.8	3.0	4.8	3.5	4.8	5.6	2.6
- Import cover (months) pe excl. large projects	5.9	4.2	6.8	6.3	7.0	8.3	5.2
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	3.4	6.1
Consumer inflation (%) pe	10.6	23.7	5.6	3.5	3.5	4.1	6.7
M2 money supply (% y/y) pa	23.6	15.0	6.4	10.3	12.4	12.6	6.8
M2 money supply (% y/y) pe	21.7	2.4	12.9	7.9	14.4	10.8	8.2
Policy interest rate (%) pa	7.77	16.04	21.28	16.19	13.46	11.04	10.25
Policy interest rate (%) pe	9.75	23.25	19.50	14.25	12.75	10.25	10.25
3-m rate (%) pe	7.8	24.3	22.5	13.5	11.2	8.2	8.0
USD/MZN pa	38.9	63.4	63.2	60.4	62.5	70.6	75.4
USD/MZN pe	45.0	71.2	59.0	61.5	61.5	77.1	75.2

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

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

Namibia: remaining stuck in recession

Medium-term outlook: recession protracted

We reduce our GDP growth forecast to a contraction of 6.3% y/y for 2020, from a contraction of 2.4% y/y, and see growth of 3.0% y/y in 2021, instead of 2.6% y/y. The 2020 GDP contraction will likely deepen due to muted domestic demand conditions on account of the pandemic. That said, the Ministry of Finance seems less optimistic, forecasting a contraction of 6.6% y/y and 1.1% y/y for 2020 and 2021 respectively.

Economic disruptions will have a far-reaching impact. Unsurprisingly, the first seven months of this year have seen a pronounced slump in sectors such as mining, agriculture, construction, tourism, wholesale and retail trade as well as transport and storage. The mining index declined by 26.4% y/y in Jul, from an increase of 2.7% y/y in Jun and a decline of 9.8% y/y in Jan. Moreover, amid depressed global demand, weak commodity prices in Q2:20 would have undermined main exports such as copper, precious stones and metals. In Jun, exports slid by 3.9% y/y.

The government had eased restrictions in Aug due to the comparatively low rate of reported infections (1,000 cases Mar-Jul). However, the surge in cases from late Jun to mid-Aug saw the government having to revert to stricter containment measures in late Aug. Of course, these stricter lockdown measures will not only deepen the economic contraction but also prolong it.

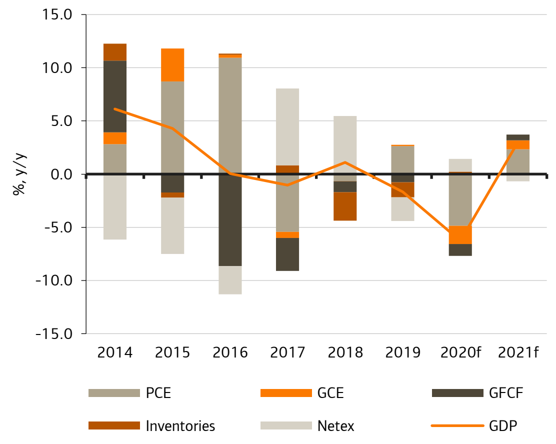
Our base case now sees significant declines in Q2:20 and Q3:20, which could see the economy contract by 11.5% y/y and 8.9% y/y in Q2:20 and Q3:20 respectively, averaging a negative 6.3% y/y for 2020. However, in mid-Sep, authorities opted not to extend the state of emergency that had been in place since Mar; which bodes well with the anticipated economic recovery from Q4:20 onwards.

Even with some recovery in economic activity in 2021, GDP growth is likely to stay around 3.0% y/y until 2023.

Even should restrictions be lifted sooner, our bull scenario still forecasts a contraction of 5.3% y/y in 2020, then growth of 3.9% y/y next year, and thereafter reverting to the 5.0% y/y pace of 2010-2015 by late-2022.

To revive tourism, Namibia has re-opened the Hosea Kutako International Airport for international travel at the start of Sep.

Composition of GDP by demand



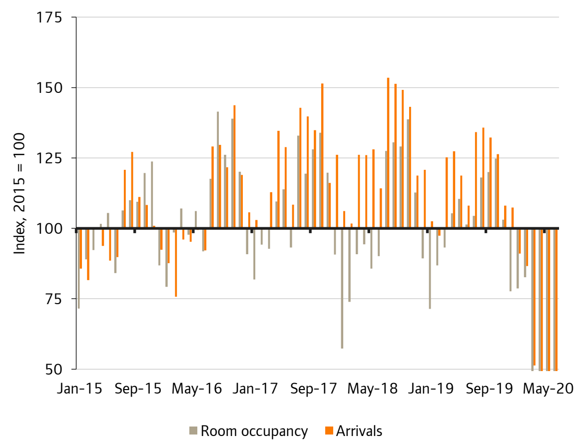
Source: Source: Namibia Statistics Agency; Standard Bank Research

Contribution to GDP by sector (% of GDP)

	2013	2016	2019
Agriculture	7.8	6.8	6.9
Mining and quarrying	10.7	7.9	9.5
Manufacturing	12.6	12.6	13.1
Construction	3.5	3.3	2.3
Wholesale and retail trade	10.3	11.6	9.2
Financial intermediation	6.8	7.0	7.9
Real estate activities and business services	5.3	5.2	5.7
Public administration	10.9	11.4	12.2
Education	9.2	9.1	9.4

Source: Namibia Statistics Agency

Tourism indices



Source: Source: Namibia Statistics Agency

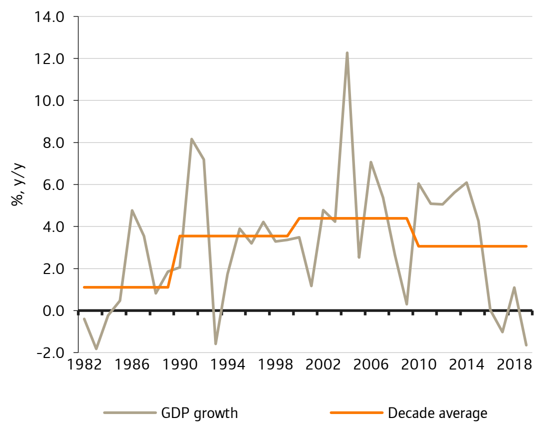
Medium-term economic growth scenarios

	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	-0.8	-11.5	-8.9	-3.9	-0.2	7.8	5.0	0.1	1.8	3.8	4.3	2.0	0.5	2.7	4.6	5.4
CPI (% y/y) pe	2.4	2.2	2.3	2.7	2.9	3.9	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	4.00	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	17.38	16.90	16.50	16.25	16.00	15.75	15.50	15.57	15.64	15.71	15.79	15.46	15.14	15.61	16.07
Bull scenario																
GDP (% y/y) pa	-0.8	-10.3	-7.7	-2.7	0.8	8.3	5.3	1.4	3.5	5.6	6.0	3.8	2.2	4.4	6.4	7.1
CPI (% y/y) pe	2.4	2.7	3.0	3.4	3.7	4.6	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	4.00	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	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	17.38	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	-0.8	-12.8	-10.8	-5.6	-1.4	6.1	3.8	-0.6	1.1	3.3	3.8	1.5	0.0	2.2	4.1	4.9
CPI (% y/y) pe	2.4	1.6	1.9	2.3	2.6	3.5	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	4.00	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	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	17.38	18.25	17.50	16.85	16.30	15.88	15.50	15.55	15.59	15.63	15.67	15.77	15.88	15.99	16.05

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

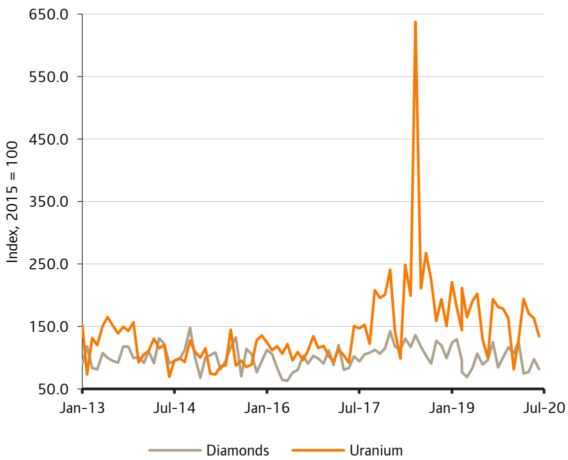
Notes: pa - period average; pe - period end

Long-term growth performance



Source: Namibia Statistics Agency

Mining production



Source: Source: Namibia Statistics Agency

Balance of payments: C/A deficit widening

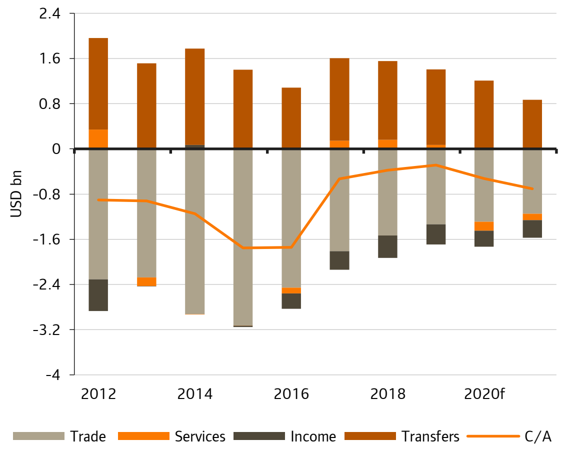
The C/A deficit will likely widen to 4.6% of GDP this year and 5.3% in 2021, from 2.1% in 2019.

The trade deficit too could widen this year on already restrained import demand, exacerbated by containment measures in South Africa. Exports have dropped sharply, with minerals displaying the sharpest slide. Furthermore, the SACU revenue pool will likely contract significantly, though the reduction in flows to Namibia will most likely only be meaningfully lower in 2021. Bear in mind that the downward revisions for this year will be deducted next year.

FX reserves increased to USD2.1bn in Jul, from an average of USD1.8bn Apr-Jun. But, the reinstatement of the lockdown in late Aug might undermine this recovery and thus we expect them to end 2020 at USD1.9bn, covering what we estimate as 5.4-m of imports. In 2021, we expect FX reserves to reach USD2.1bn by year-end, covering about 4.5-m of imports, which is still adequate to secure the NAD's 1-to-1 link to the ZAR.

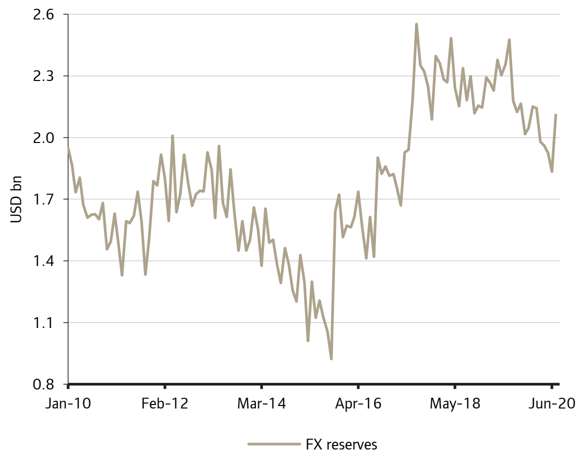
Perhaps the risk here might be if the government cannot service the Eurobond redemption falling due in 2021 from the Sinking Fund and look to utilise FX reserves. But then again, the government maintains two sinking funds in South African rand and US dollars, with balances of ZAR1.3bn and USD360m respectively to cover upcoming maturities on sovereign bonds. Authorities indeed have a tendency of drawing on these funds for financing purposes. Recall that Namibia issued two 10-y Eurobonds in 2011 and 2015. The government will likely opt for a repayment of the Eurobond maturing next year, rather than refinancing, which could sharply crimp FX reserves.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves



Source: Bank of Namibia

FX outlook: USD/NAD still headed lower

At its Aug meeting, the Bank of Namibia's Monetary Policy Committee emphasized its aim to retain the 1-to-1 link between the NAD and ZAR. We do not see the bank abandoning that link any time soon. Therefore, the NAD will keep tracking the rand's path.

The rand is expected to reclaim some ground as global financial market turmoil eases — but its ultimate path depends on SA policy reforms to support higher growth and government debt stabilisation. Our G10 strategist forecasts USD weakness in 2021, which too should support the rand.

We see the USD/ZAR at 16.50 by year-end and15.50 by end-2021. Investor expectations for growth and fiscal policy interventions will likely drive the medium-term rand trajectory. The currency would however remain vulnerable should the fiscal trajectory not be sustainable as the global economy rebounds.

USD/NAD: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: to stand pat

Unless the South African Reserve Bank cuts SA policy rates again, we'd expect Namibia to hold on rates this year, perhaps only changing tack in H2:21. Indeed, the 25 bps cut in Aug might be the end of the easing cycle.

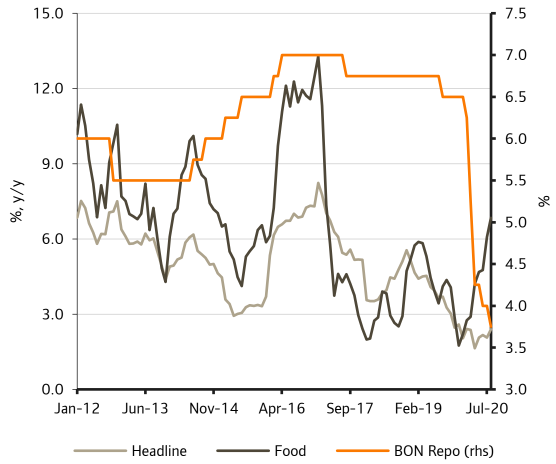
Since Jan, the Namibia MPC has cut the repo rate by a cumulative 275 bps, taking it to 3.75%. From its Aug meeting statement which covers the economic disruptions of the pandemic, the committee said that the current rate is appropriate to support domestic economic activity but also acknowledged the importance of not undermining savings and investment decisions. Furthermore, it reiterated its aim to retain the 1-to-1 link between the ZAR and NAD.

Headline inflation has been benign, averaging 2.1% y/y in the first 7-m of this year, compared to an average of 4.3% y/y over the same period in 2019. At 1.6% y/y, the Apr 20 reading was the lowest on record since mid-2005. We now see headline inflation broadly remaining below 3.0% y/y this year due to soft domestic demand. It is likely to average 2.7% y/y in 2020 and 3.7% y/y in 2021. However, this is still below the mid-point of the 3% - 6% y/y target range.

The anticipated acceleration in headline inflation next year, combined with some economic recovery in 2021, could sway the MPC into hiking the policy rate, which might see the repo rate at 4.50% by end-2021.

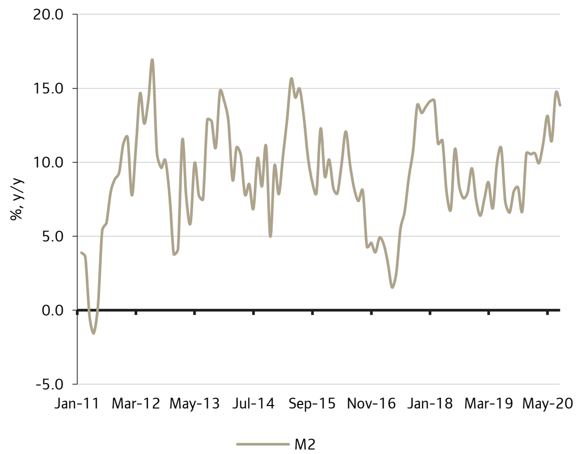
Food inflation has been rising at an average of 0.6% m/m since the beginning of this year. It is the only sub-index that has averaged higher than 0.3% m/m. It rose to 1.0% m/m in Jul, from 0.4% m/m in Jan. Meanwhile, transport inflation has stalled since Apr and is now in deflation, matching fuel prices declines. Despite the acute NAD weakness in recent months and some marginal increases in oil prices, the passthrough seems limited so far.

Inflation and interest rates



Source: Bank of Namibia; Namibia Statistics Agency

Money supply growth



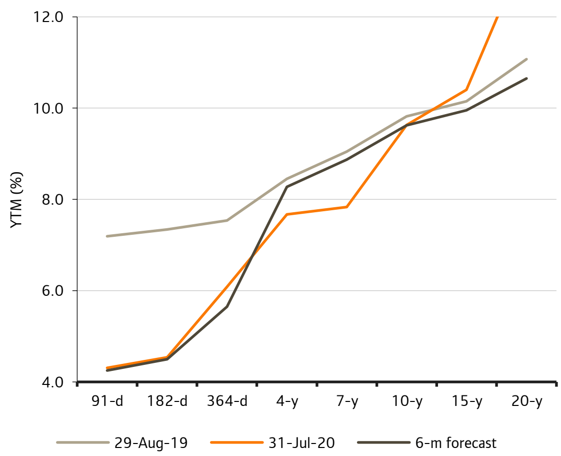
Source: Bank of Namibia

Yield curve outlook: suspended bull-steepening

The 25 bps cut in policy rates at the BON's Aug meeting might have been the end of this easing cycle. However, the policy rate trajectory will depend largely on the policy path of the SARB. But there's still a bias for yields to remain at current levels for the next 4-m. Headline inflation is broadly subdued, demand for credit by the private sector too has declined as growth of credit extended to businesses eased due to the pandemic. Ample liquidity with commercial banks could be deployed and drive bond yields lower. Although while we see bond yields lower, T-bill yields may be trading sideways, which could suspend the steepening of the yield curve we had anticipated.

Though the borrowing strategy is to meet funding needs largely from the domestic market, the 2020/21 budget deficit is significantly large to be sourced from the domestic market, as is usual. Hence, 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: consolidation stopped dead

The FY2020/21 national budget tabled in May estimates a wider deficit of 12.5% of GDP due to a weak revenue outlook. The Finance Ministry estimates that the budget deficit reached 4.5 % of GDP in FY2019/20 compared with 4.1% of GDP that was budgeted.

The progress that the government has made since commencing fiscal consolidation in 2016 will likely be suspended by the pandemic. Consolidation had enabled expenditure growth to be reined in and public debt stock to ease. However, total debt is estimated to increase to 68.7% of GDP in the current fiscal year, from 43.4% and 54.8% in FY2017/18 and FY2019/20 respectively. Moody's in May revised Namibia's outlook at Ba2 rating from stable to negative, citing the pandemic-induced shock to exert economic and financial pressures and exacerbate vulnerabilities.

Revenues for FY2020/21 have been revised down by NAD8.3bn, from initial estimates in the MTEF, to NAD51.4bn, a 14.3% decline as various revenue streams have declined due to the pandemic. Furthermore, the SACU revenue pool will likely drop significantly. However, the reduction in SACU revenue transfers to Namibia from current disruptions will most likely only be meaningfully in the medium term rather than this year due to a 2-y lag in SACU revenue disbursements. Considering that the downward revisions for this year will be deducted next year. SACU revenues account for about 32% of total revenues in Namibia. The government has limited fiscal space to spend, which is being exacerbated by high public debt.

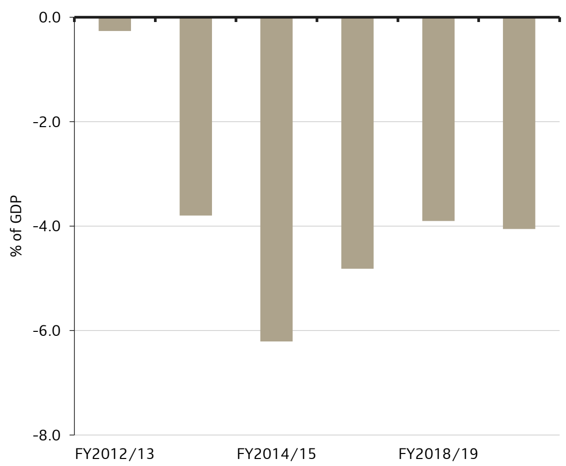
With Namibia technically deemed an upper-middle income country, the country will likely struggle for adequate concessional funding to mitigate the pandemic's shock impact. To this end, the authorities have approached the IMF in late-Jul for a NAD4.5bn (USD273m) emergency loan.

Central government budget

	FY2018/19	FY2019/20	FY2020/21
% of GDP	**Actual**	**Estimated**	**Budgeted**
Total revenue and grants	31.4	33.2	30.0
Total expenditure	36.5	37.7	42.5
- Operational	29.7	29.6	30.5
- Interest	11.3	11.9	15.1
- Development	3.1	4.5	4.8
Budget deficit (excl grants)	-5.2	-4.5	-12.5
Budget deficit (incl grants)	-5.2	-4.5	-12.5
Domestic debt	31.0	35.9	49.5
Foreign debt	18.1	19.0	20.1
Total debt	49.1	54.8	69.6

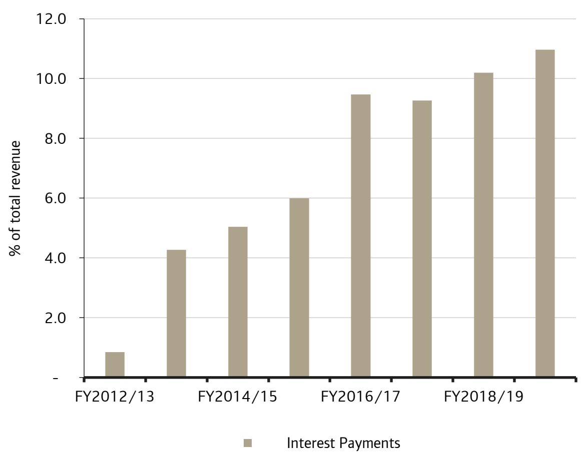
Source: Ministry of Finance

Fiscal deficit



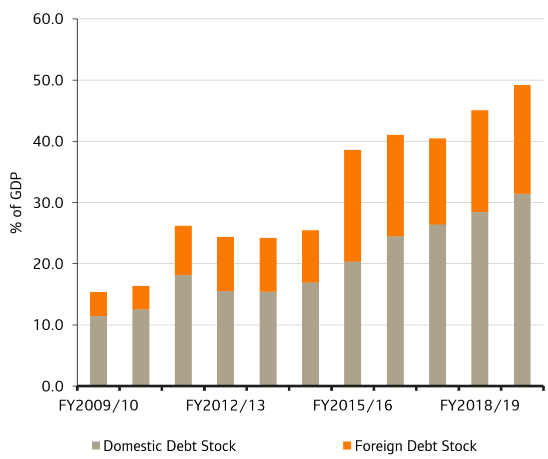
Source: Ministry of Finance

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	197.5	189.5	202.0
Nominal GDP (USD bn)	11.7	11.3	13.6	14.5	13.6	10.9	12.8
GDP / capita (USD)	5 338	5 137	6 175	6 298	5 915	4 738	5 341
Real GDP growth (%)	4.5	-0.3	-0.3	0.7	-1.0	-6.3	3.0
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	-5.2	-5.2	-4.5	-12.5
Budget balance (incl. Grants) / GDP (%)	-6.2	-8.0	-5.9	-5.2	-5.2	-4.5	-12.5
Domestic debt / GDP (%)	16.9	20.3	24.4	26.4	28.3	31.5	34.8
External debt / GDP (%)	8.5	18.3	16.6	14.0	16.6	17.9	19.5
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	5.2	1.6	5.4
FX reserves (USD bn) pe	1.5	1.8	2.4	2.1	2.1	1.9	2.1
- 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	7.9	8.1	10.8
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	4.2	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: fiscal/structural reforms key to resilient recovery

Medium-term outlook: recovery will be slow and painful

The saying goes "never waste a good crisis"- Although many will argue that the pandemic isn't a good crisis given its heavy toll on human lives and livelihoods, fiscal authorities seem to have seized the opportunity to slip through a few critical reforms that have been long overdue in Nigeria. VAT increases, fuel subsidy removals, electricity tariff increases have all been executed by the government this year despite the pandemic. To be fair, the pandemic has worsened fiscal revenues in a manner that has rendered those inherent subsidies unsustainable.

There were pre-existing vulnerabilities such as low and sub-optimal growth before the pandemic hit, which are now worse. Nigeria therefore would be unlikely to stage a swift economic recovery such as we might see in some other African economies. For one, the consumer environment is likely to remain weaker for longer, as purchasing power will be restrained given recent reform outcomes.

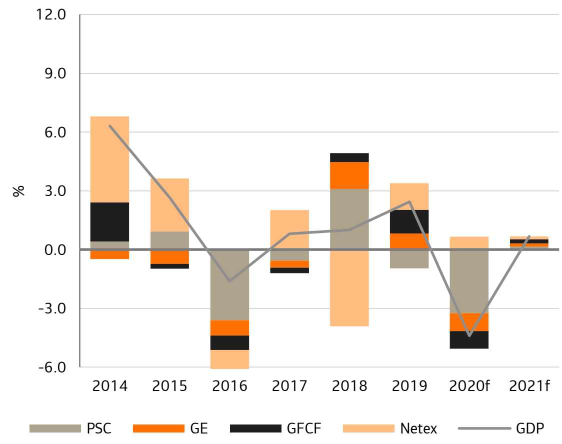
An economic recession in 2020 now seems certain. The disruption in economic activity from the pandemic had already led to a contraction of 6.1% y/y in Q2:20. The agricultural, ICT and the financial services sectors were the only ones to record positive growth in Q2:20. We now however expect the economy to contract by 4.4% y/y in 2020, then slowly recover to grow by 0.6% y/y in 2021.

Key sectors have been recording very low levels of growth in the past 4-y. In fact, the manufacturing sector has contracted on average by 0.6% y/y over the past 4-y, and it contracted by 9.0% y/y in just Q2:20. Persistent FX liquidity challenges in this sector will further dampen the outlook for growth and recovery. The trade sector, Nigeria's second biggest, has contracted by 0.6% y/y on average in the past 4-y. It has been affected by border closures but also by consumer purchasing power having been under severe pressure since the near 60% currency depreciation during 2017. Furthermore, imports contracting due to multi-faceted supply chain disruptions has worsened the vulnerabilities in the trade sector. Our base case forecasts capture our less optimistic view of Nigeria's economic recovery.

However, our bear case growth scenario could materialise. After all, FX illiquidity challenges have persisted in Q3:20 and more likely will continue in Q4:20. The oil sector will continue to contract as pressures continue to mount from the OPEC+ cartel for Nigeria to adhere to the 1.4m bpd target. We expect the economy to contract by 5.5% y/y in our bear scenario and return to growth only in 2022.

Even the most optimistic of our growth scenarios still sees a 3.4% y/y economic contraction in 2020, followed by a moderate recovery to 2.7% y/y in 2021.

Composition of GDP by demand



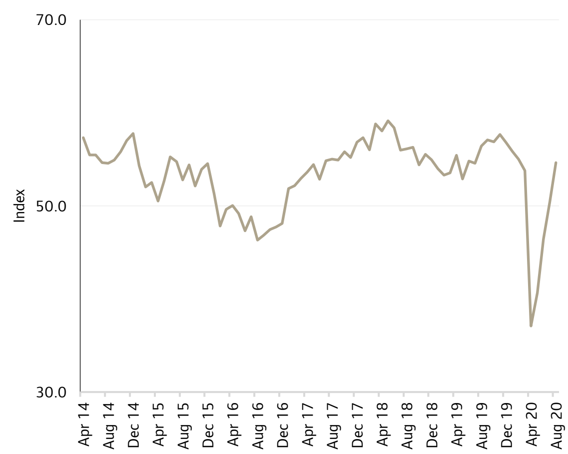
Source: National Bureau of Statistics; Standard Bank Research

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



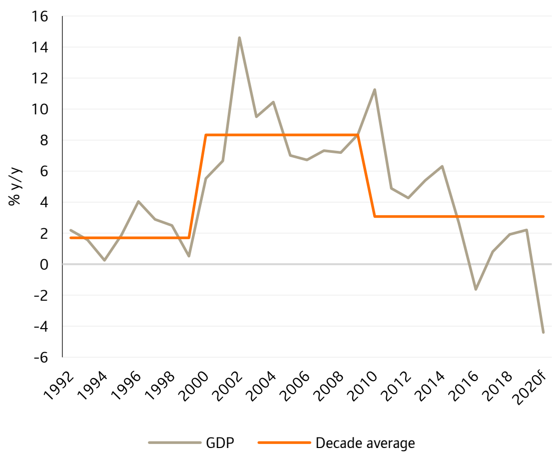
Source: IHS Markit

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	-6.1	-6.5	-7.0	-6.2	2.2	2.9	3.6	3.6	3.3	2.9	2.5	3.1	3.3	3.2	3.2
CPI (% y/y) pe	12.3	12.6	13.5	14.0	14.0	13.8	13.4	12.5	13.0	13.0	11.7	11.1	11.3	11.5	12.0	12.3
CBN policy rate (%) pe	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.0	12.0	12.0	12.0	12.0
3-m rate (%) pe	3.0	1.8	1.1	1.3	1.9	2.5	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	2.1	1.3	1.5	2.2	3.4	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	387.5	388.0	390.0	390.0	395.0	395.0	400.0	405.0	405.0	406.8	410.0	408.0	400.0	405.0	410.0
Bull scenario																
GDP (% y/y) pa	1.9	-6.1	-4.6	-4.6	-3.2	5.4	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	12.6	13.3	13.5	13.5	13.0	11.8	11.0	11.5	11.8	11.3	11.0	11.0	11.0	11.5	11.8
CBN policy rate (%) pe	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.5	12.5
3-m rate (%) pe	3.0	1.8	0.95	1.15	1.75	2.35	3.65	3.8	3.95	4.3	4.43	4.76	4.75	4.29	3.87	3.35
6-m rate (%) pe	4.0	2.1	1.2	1.4	2.1	3.3	4.2	4.4	4.8	4.9	4.9	5.2	5.1	4.8	4.5	3.8
USD/NGN pe	386.5	387.5	385.0	385.0	385.0	385.0	395.0	395.0	395.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
Bear scenario																
GDP (% y/y) pa	1.9	-6.1	-8.5	-9.4	-8.6	-1.0	0.7	1.0	1.5	1.7	2.2	2.3	2.7	2.9	3.0	3.2
CPI (% y/y) pe	12.3	12.6	13.6	14.6	14.7	14.8	14.2	12.8	13.3	13.0	12.5	12.2	12.5	12.6	13.1	13.4
CBN policy rate (%) pe	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
3-m rate (%) pe	3.0	1.8	2.66	2.86	3.46	4.06	5.36	5.51	5.66	6.01	6.14	6.47	6.46	6	5.58	5.06
6-m rate (%) pe	4.0	2.1	2.9	3.1	3.8	5.0	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	387.5	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

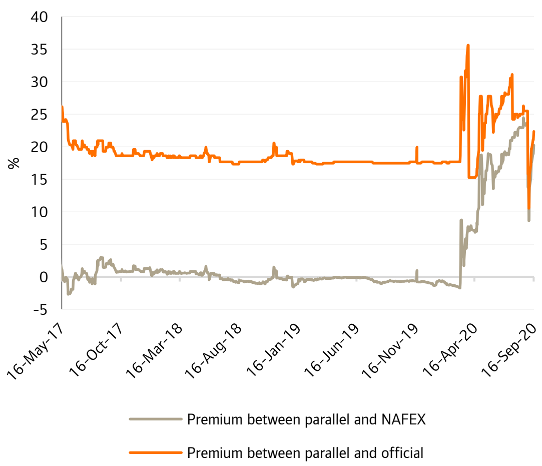
Source: Central Bank of Nigeria; National Bureau of Statistics; Bloomberg; Ministry of Finance; Standard Bank Research Notes: pa - period average; pe - period end

Long-term growth rate



Source: Bloomberg; Standard Bank Research

Premium between FX market segments



Source: FMDQ; AbokiFX

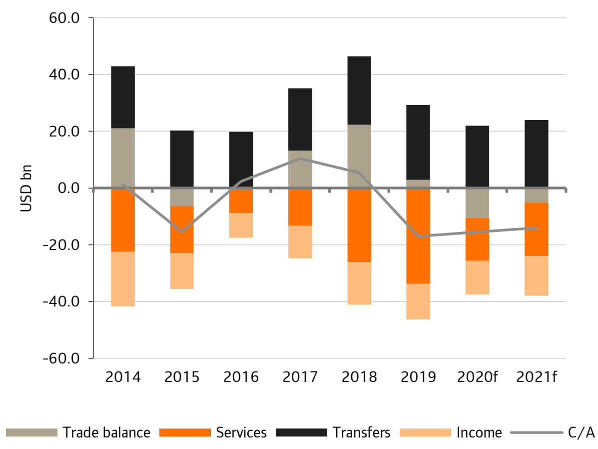
Balance of payments: C/A deficit to persist

In addition to longstanding poor growth, the persistent BOP deterioration is a challenge. All through 2019, Nigeria recorded persistent C/A deficits which rose to USD17.0bn (4.2% of GDP) by FY2019 as imports (particularly capital) soared. Nigeria's total import bill rose by 87% from a low of USD35.2bn in 2016, to USD62.1bn in 2019.

In contrast to the C/A dynamics in 2019, both exports and imports will decline materially in 2020. Preliminary trade data from the National Bureau of Statistics already showed a 46% q/q and 52% y/y decline in total exports, while imports declined by 11% q/q but rose marginally by 0.39% y/y in Q2:20. Of course, the material decline in exports is largely attributable to lower oil prices and production during the period. We expect the C/A deficit at 3.8% of GDP in 2020, before narrowing to 3.1% of GDP in 2021 as exports recover. FX liquidity challenges are likely to restrain imports this year. However, pharmaceutical imports and other health related imports will rise and drive a negative trade balance for the rest of the year, given the significant decline in oil prices and oil production. We expect a negative trade balance of USD10.5bn in 2020, which should reduce to USD5.0bn in 2021.

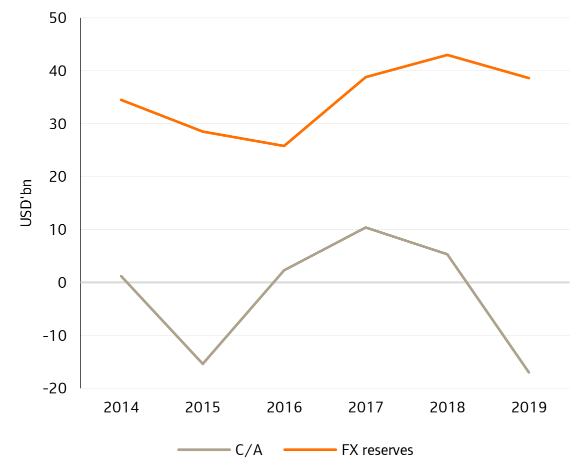
Significant Foreign Portfolio Investment (FPI) outflows from Q3:19 exacerbated BOP pressures. FX reserves declined from a high of USD45bn in Jun 19 to around USD33.4bn in Apr 20. Although FPI flows have been a major source of financial inflows into the capital account over the past 3-y, there is no denying that the pandemic and poor domestic market conditions have exacerbated capital outflows this year. Hence, the capital and financial account relies on the concessional funding inflows from the multilateral agencies such as the IMF and the World Bank. The IMF in Apr approved USD3.4bn in BOP support but the government is still in talks with the World Bank for a further USD1.5bn financing. Still, concessional funding could prove inadequate to fund the USD15.5bn C/A deficit we expect in 2020.

Current account developments



Source: Central Bank of Nigeria; Standard Bank Research

FX reserves and current account



Source: Central Bank of Nigeria

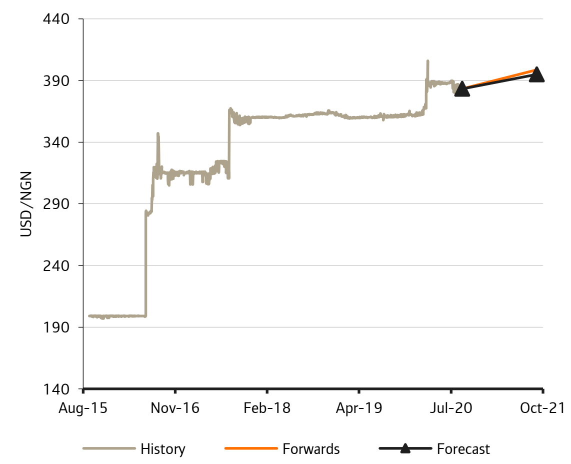
FX outlook: CBN set on FX stability

After the initial adjustment in Mar 20 where the USD/NGN depreciated by some 7% in the IEFX segment, the pair has siince ranged around 385-390. Notably, liquidity has been very thin. As such, there has been a significant accumulation of FX demand in the market, particularly for foreign portfolio investors. However, the CBN at the beginning of Sep resumed sales to FPI (offering spots and forwards) at the IEFX segment and also to BDCs as international travel resumed.

The CBN seems set on keeping the USD/NGN stable, at least for the rest of the year, while looking to clear the FX backlog. With a somewhat decent level of FX reserves levels and potential for further accretion through higher oil prices and the World Bank loan, the CBN's target might be achieved.

We retain our base case year-end forecast for USD/NGN at 390.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: liquidity management

The CBN's MPC in May delivered a token cut of 100 bps in the MPR to13.5% from 12.5% despite the persistent uptick in inflation. General interest rate levels were already low and they remain subdued due to factors outside of the purview of the MPC.

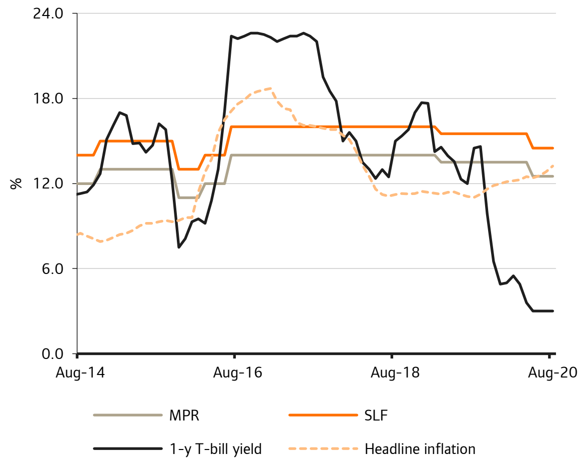
The CBN's monetary policy techniques have been geared towards liquidity management mostly through its unorthodox excess cash reserve ratio (CRR) regime. The bifurcation of the OMO market in Oct 19 has resulted in significant liquidity build-up in the domestic market. The excess CRR regime has ensured a cheaper way for the CBN to sterilise these funds, as opposed to issuing significant amount of OMOs which have proven the costlier over the past few years. Hence, money supply (M3) has only managed 3.0% y/y average growth this year. Credit to the private sector recorded 24.0% y/y growth in Jul 20 largely on lower base effects as the LDR policy only came into place late in Q3:19.

Monetary policy techniques have proven quite ineffective in fighting headline inflation in Nigeria because it is more affected by supply-side and cost-push factors. For instance, headline inflation is more susceptible to currency depreciation and/or a dislocation to supply chains, or border closures, or FX illiquidity challenges.

There are a few factors that could keep headline inflation elevated this year. The recent increases in petrol pump prices and power tariffs could pose upside risks to inflation. More importantly, there have been reports that some of the expected food harvests have been affected by flooding, which would keep food prices higher. The recent directive of the government of discontinuing official FX sales for food and fertilizer imports could also see an immediate spike in food prices.

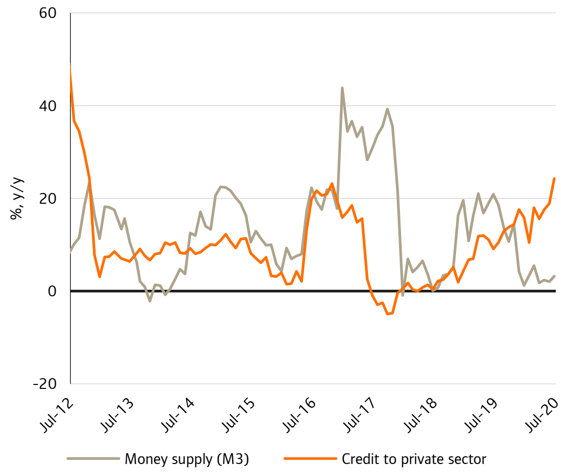
Whilst we see inflation averaging 12.9% y/y in our base case scenario, the severity of the aforementioned factors could push inflation higher towards the 13.1% y/y average we forecast in our bear scenario.

Inflation and interest rates



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

Monetary statistics



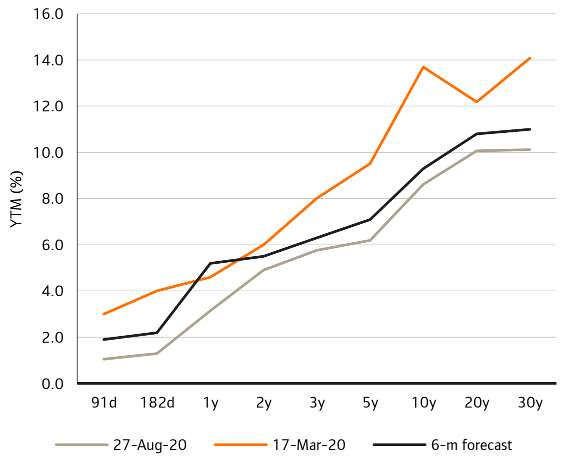
Source: Central Bank of Nigeria

Yield curve outlook: driven by liquidity

The economic anomaly of negative real returns will persist this year. While headline inflation has maintained a consistent uptick thus far this year, domestic NGN yields have been on a downward slide because the domestic market has remained awash in liquidity, which will likely continue over the next 3-m. However, the end of the bifurcation cycle in Oct could force a slight upward retracement in yields into FY2020. NGN yields have, on average, declined by 320bps across the curve.

The significantly higher fiscal deficit forecast in the government's revised 2020 budget infers that the government's borrowing needs have increased materially. YTD, the government has borrowed over NGN1.9tr from the domestic market, which is already higher than its total domestic borrowing in each of the last 5-y. Although the expected increase in the supply of paper might imply an uptick in yields, domestic liquidity being ample should limit the upward move in yields.

Yield curve changes



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

Fiscal policy: revised 2020 budget still too ambitious on revenues

We expect Nigeria's fiscal position to deteriorate further in 2020 given the impact of the pandemic as well as lower oil prices. As expected, the government revised its initial 2020 budget to reflect significantly lower revenue expectations, particularly from oil revenue. However, the government still seems a tad too ambitious on non-oil revenues. Fiscal authorities still expect 2020 total revenues at NGN5.5tr, higher than the NGN4.2tr collected in 2019 during more stable times and also higher oil prices. We therefore now expect the actual fiscal deficit to rise closer to 7.0% of GDP in 2020, far above the government's expectations of 3.4% of GDP. Moreover, the government has very little room to cut expenditure as near 80% of total expenditure is recurrent.

Authorities have said there's no intention to participate in the G20 or Paris club debt relief initiative, while stressing that the government can still honour external debt service obligations despite the sharp slide in oil. To be fair, FX reserve levels remain buoyant, above USD35bn, mostly supported by multilateral borrowing. It is difficult to see a quick path to fiscal consolidation for Nigeria after the pandemic, particularly as revenues could still well remain under pressure over the next 2-y given the consensus outlook on oil prices. Hence, the fiscal deficit to GDP will likely remain above the fiscal responsibility rule of 3.0% over the next 2-y. Perhaps the supposed deregulation of the petroleum sector and recent service-based tariff increases will reduce the implicit subsidies from the government over the coming years.

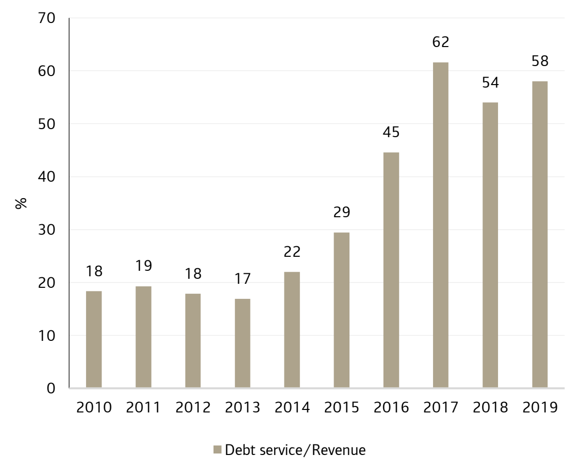
Nigeria's debt levels will rise in 2020 as the government tries to plug the fiscal hole. However, the government favours more concessional foreign funding from multilateral and bilateral institutions. But, given the expected decline in revenues this year, the debt-service to revenue ratio could yet rise towards 80%, which won't be sustainable.

Federal Government Budget

	2018	2020	2020
% of GDP			Revised
Revenue	2.3	5.6	3.8
Capital expenditure	2.8	1.5	1.5
Recurrent expenditure	4.9	5.0	5.4
Statutory transfers	0.5	0.4	0.3
Service debt	1.8	1.7	2.0
Supplementary budget	0.0	0.0	0.0
Total expenditure	8.1	7.1	7.4
Oil price assumption (US$/bbl)	51.0	57.0	28.0
Oil production assumption (m bbl)	2.3	2.2	1.7
Exchange rate assumption	305.0	305.0	360.0
External Financing	0.6	0.6	1.4
Domestic Financing	0.6	0.5	1.5
Fiscal deficit	-1.7	-1.5	-3.4

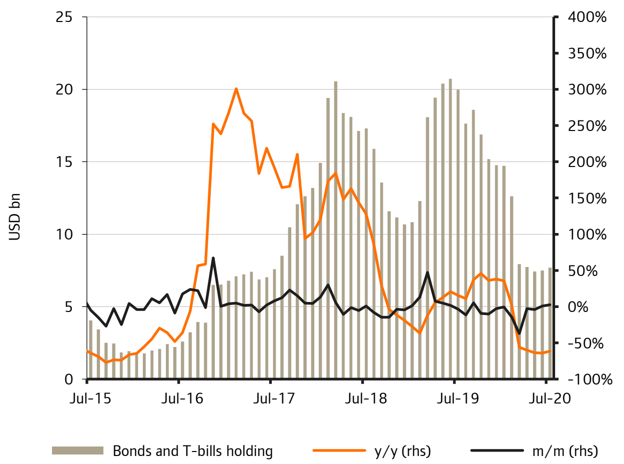
Source: Federal Ministry of Finance; Standard Bank Research

Debt service-to-revenue



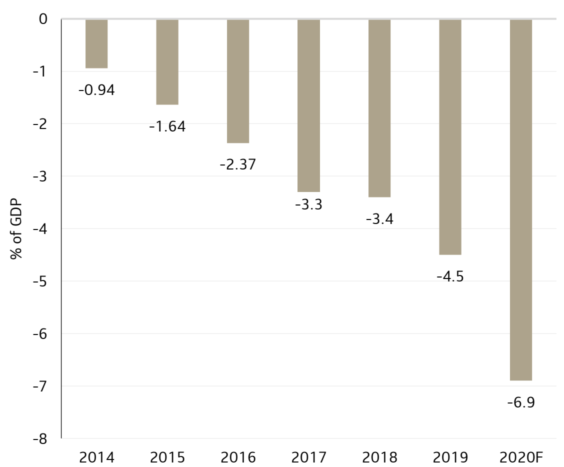
Source: Federal Ministry of Budget and National Planning; Standard Bank Research

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	2019	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	157997.7	180412.8
Nominal GDP (USDbn)	481.2	397.9	325.0	352.9	402.7	408.3	456.7
GDP / capita (USD)	2694.3	2195.0	1778.5	1882.5	2093.6	2068.7	2255.7
Real GDP growth (%)	2.8	-1.5	0.8	1.8	2.3	-4.4	0.6
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	9.9	15.5
FDI (USDbn)	1.4	1.0	1.0	1.3	0.9	0.8	1.3
Basic balance / GDP (%)	-2.9	1.4	4.1	4.6	4.5	-3.6	-2.8
FX reserves (USDbn) pe	28.5	25.8	38.8	43.0	38.6	33.0	34.5
Import cover (mths) pe	6.5	8.8	14.3	12.7	7.5	6.4	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	12.9	13.5
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	15.0	14.5
M2 money supply (% y/y) pa	17.3	14.0	4.2	4.6	15.5	4.8	5.0
M2 money supply (% y/y) pe	19.0	18.4	1.2	16.4	4.2	11.2	10.0
Policy interest rate (%) pa	12.8	13.2	14.0	14.0	13.6	12.7	12.5
Policy interest rate (%) pe	11.0	14.0	14.0	14.0	13.5	12.5	12.5
3-mth rate (%) pe	3.5	14.5	12.5	12.3	3.8	1.3	4.0
1-yr rate (%) pe	7.7	17.0	14.0	17.0	4.4	3.0	5.8
3-yr rate (%) pe	8.6	15.5	14.0	15.2	10.0	5.6	7.1
5-yr rate (%) pe	10.9	15.6	14.4	15.0	10.0	6.0	8.5
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	400.0

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: growth faces still stark downside risks

Medium-term outlook: persistent disruptions

We see a GDP contraction of 1.15% y/y in 2020, followed by a recovery of 5.7% y/y in 2021. However, from 2022 our base case is for growth of over 7.45%, the decade average. The pandemic has been disruptive to the entire economy but the wholesale and retail trade as well as tourism sectors will take the biggest hit.

GDP contracted by 12.4% y/y during Q2:20 from 3.6% y/y growth in Q1:20. Notwithstanding the diverse economic base, Q2:20 GDP print will probably capture the worst of the pandemic. As the Covid-19 containment measures ease, we still expect economic activity to recover in H2:20. Notably, during Q2:20, the industrial and services sector contracted by 18.9% y/y and 16.3% y/y, respectively. As supply chain disruptions ease, and raw materials become available, we are likely to see a strong recovery in the industrial sector during Q3:20. The agricultural sector contracted by 1.6% y/y, with export crops and fishing weighing on the sector's overall performance.

Having said that, international travel restrictions are being eased now but all travel will remain constrained until a vaccine is in effect. Therefore, especially tourism, as well as other key sectors dependent on tourism, and business travel, face further losses. In fact, tourism is likely to be the laggard in recovering.

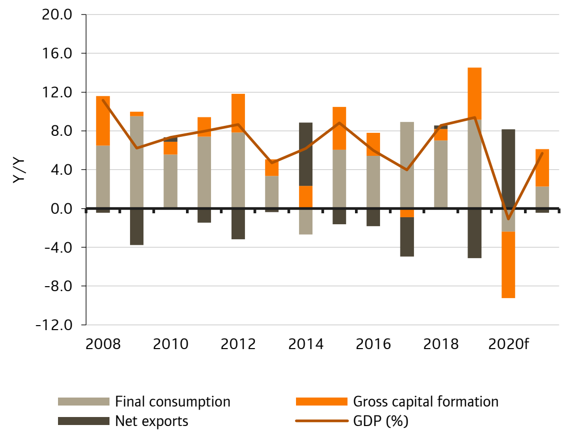
Notwithstanding the government's expansive capital spending plans for FY2020/21, the rising fiscal burdens due to the pandemic will slow public investment plans. Infrastructure projects are key in supporting growth in the construction sector. Our bear scenario sees investment spending drop sharply, likely incurring a protracted contraction in the construction sector.

Global supply chain disruptions are settling now, so the disruption to import-dependent sectors too should be easing. The hard lockdown has been lifted but the eventual outcome of the pandemic remains unknown, a stark reminder of the downside risks to the outlook.

Our bear case forecasts a contraction of 1.75% y/y this year, then growth of over 7.0% y/y by 2022, with key sectors, particularly the business tourism sector, struggling to overcome the various shocks. Key downside risks for the agricultural sector include unpredictable weather, and a wider locust infestation in the region. Further disruptions from Covid-19 too could disrupt agricultural cycles, ultimately reducing production as more people fall ill.

Our bull case sees GDP growth contracting by 0.84% y/y in 2020, then recovering robustly to over 9.0% y/y by 2023. That would however depend on a quick resumption of public and private investments to support growth. Should the outbreak be contained, however, another hard lockdown would seem unlikely.

Composition of GDP by demand



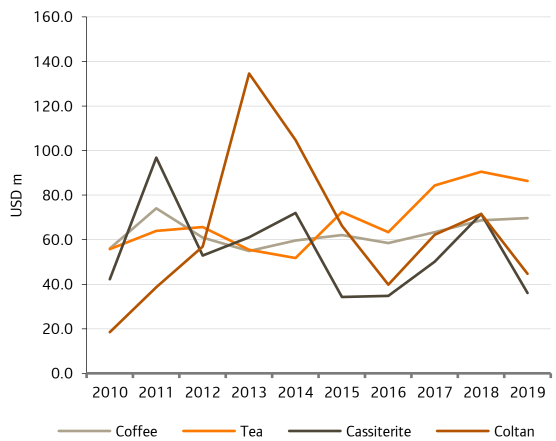
Source: National Institute of Statistics of Rwanda; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2017	2018	2019
Agriculture	27.7	27.3	29	23.7
- Food crops	16.3	15.8	16	13.5
- Forestry	5.9	5.7	6	5.9
Industry	17.2	17.3	16	19.4
- Manufacturing	5.9	5.9	6	8.9
- Construction	7.6	7.5	6	8.1
Services	47.8	48.4	48	48.4
- Wholesale and retail trade	7.8	7.8	7	8.3
-ICT	1.6	1.6	1.3	2.0
- Financial services	3	2.9	2.9	2.5
- Real estate services	7.9	8	8.2	6.1
- Public administration	4.6	4.9	4.8	5.5
- Education	2.6	2.6	2.2	2.7
Taxes less subsidies	7.2	7.1	7	8.5

Source: National Institute of Statistics of Rwanda

Principal exports



Source: National Bank of Rwanda

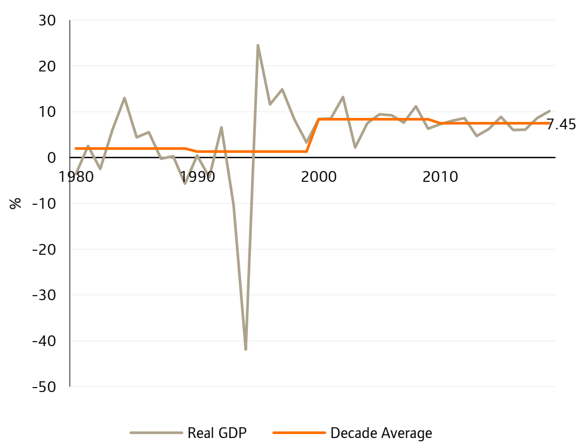
Medium-term economic growth scenarios

	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	3.60	-12.40	1.20	3.00	5.20	4.50	6.20	6.90	7.40	6.80	8.40	8.80	8.00	8.10	7.80	7.60
CPI (% y/y) pe	8.54	9.05	7.74	7.10	4.63	3.01	3.91	2.57	4.11	5.43	5.88	7.93	8.06	7.88	7.53	7.57
Policy rate (%) pe	5.00	4.50	4.50	4.50	4.50	4.00	4.00	4.00	4.00	4.50	4.50	4.50	4.50	5.00	5.00	5.00
3-m rate (%) pe	5.75	6.10	6.40	6.80	7.10	7.70	7.40	6.90	7.10	6.60	6.00	5.88	6.00	5.70	5.30	4.80
6-m rate (%) pe	6.50	6.80	7.10	7.50	7.80	8.40	8.10	7.60	7.90	7.40	6.80	6.68	6.65	6.35	5.95	5.45
USD/RWF pe	935.00	948.32	964.20	980.69	995.47	1010.4	1025.7	1041.1	1056.8	1072.8	1088.9	1105.3	1122.0	1138.9	1152.6	1166.5
Bull scenario																
GDP (% y/y) pa	3.60	-12.4	1.95	3.50	6.40	5.70	7.40	8.10	8.50	7.90	9.50	9.90	9.30	9.40	9.10	8.90
CPI (% y/y) pe	8.54	8.70	8.09	7.45	4.98	3.36	4.66	3.32	4.86	6.18	6.63	8.93	9.06	8.88	8.53	8.57
Policy rate (%) pe	5.00	4.50	4.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.50	4.50	4.50	5.00	5.00	5.00
3-m rate (%) pe	5.75	5.60	5.90	6.30	6.60	7.20	6.90	6.40	6.60	6.10	5.50	5.38	5.50	5.20	4.80	4.30
6-m rate (%) pe	6.50	6.30	6.60	7.00	7.30	7.90	7.60	7.10	7.20	6.70	6.10	5.98	6.30	6.00	5.60	5.10
USD/RWF pe	935.00	941.66	949.55	957.66	964.88	972.15	979.48	986.86	994.30	1001.8	1009.3	1016.9	1024.6	1032.3	1038.5	1044.8
Bear scenario																
GDP (% y/y) pa	3.60	-12.40	0.00	1.80	3.40	2.60	4.30	4.80	6.80	6.20	7.80	8.20	7.50	7.60	7.30	7.10
CPI (% y/y) pe	8.54	8.72	7.19	6.55	4.48	2.86	3.76	2.42	3.96	5.28	5.73	7.78	7.91	7.73	7.38	7.42
Policy rate (%) pe	5.00	4.50	4.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.50	4.50	4.50	4.50	4.50
3-m rate (%) pe	5.75	9.50	8.19	7.55	5.08	3.46	4.36	3.02	4.56	5.88	6.23	8.28	8.41	8.23	7.88	7.92
6-m rate (%) pe	6.50	10.20	8.89	8.25	5.78	4.16	5.06	3.72	5.31	6.63	6.98	9.03	9.03	8.85	8.50	8.54
USD/RWF pe	935.00	958.31	986.40	1015.9	1038.8	1062.3	1086.3	1110.9	1131.9	1153.2	1174.9	1197.1	1216.9	1237.1	1253.5	1270.1

Source: Standard Bank Research

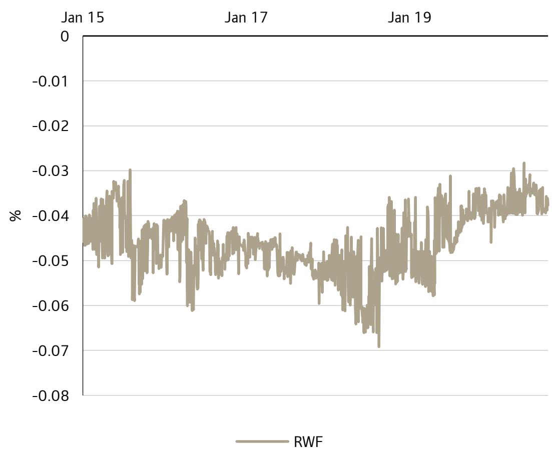
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF

3-y annualized pace of depreciation



Source: Bloomberg; Standard Bank Research

Balance of payments: tourism to plummet

The C/A deficit is forecast in excess of16.0% of GDP for the next 2-y. While a notable reduction in tourism receipts at the onset of the pandemic incurred a sharp drop in foreign exchange reserves, FX reserves had recovered to USD1.7bn by end Jul. This corresponds with over 6-m of import cover, thereby providing an adequate buffer against external shocks.

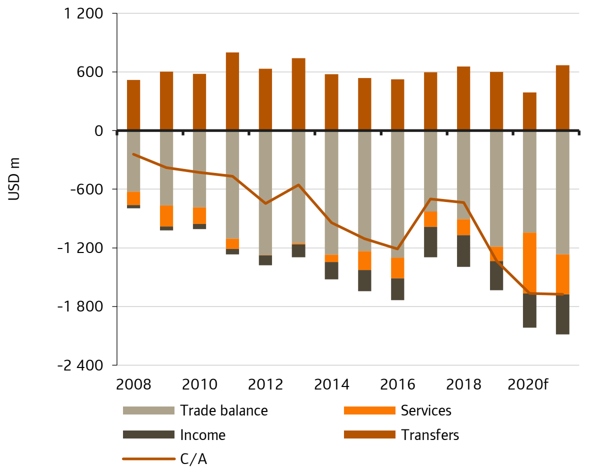
Weak international prices continue to weigh on Rwanda's traditional exports of tea and coffee, swelling the trade deficit. Imports increased by 2.7% q/q, to USD916.7m at end Q1:20. There was a sharp increase in the following import categories: mineral fuels, lubricants and other related material as well as animals and vegetable oils, fats and waxes. The supply chain disruptions are likely only to reflect in the Q2:20 trade data. The dim economic outlook will constrain consumer import demand too.

The C/A balance also faces lower services inflows. The government estimates that earnings from tourism and transport services may plummet by 70% this year. Here too any recovery in tourism flows will lag other sectors.

FDI and government borrowing tend to be the predominant sources of capital flows. Depressed investment sentiment would weigh on both. Also, weak capital inflows could exacerbate Rwanda's external financing shortfall.

Positively, the government secured USD109m in funding from the IMF to cover urgent BOP requirements. The increase in FX reserves is likely on account of higher external borrowing. Still, most of Rwanda's external debt is concessional, which is consistent with the country's debt management strategy.

Current account developments



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

FX reserves

Source: Bloomberg

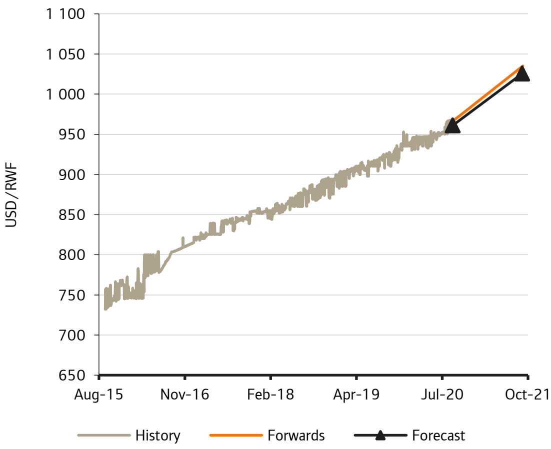
FX outlook: moving up

We see USD/RWF at around 964 end Q3:20 and 980 end Q4:20.

Portfolio inflows are limited, insulating the pair from shifts in EM risk appetite. However, pressure on the exchange rate due to Rwanda's weakening external position is likely to intensify in the coming months. Episodes of currency weakness tend to correlate with diminished aid transfers.

Our bear case, which factors in extreme BOP pressures, forecasts a higher rate of depreciation than the base case, with the USD/RWF ending the year around 1,015.9.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: on hold, for now

The National Bank of Rwanda's MPC will likely keep the rate unchanged at 4.5% for the next 4-m. The NBR had cut the monetary policy rate by 50 bps in May but kept rates on hold at the Aug meeting, most likely due to rising inflation. While underlying inflation pressures have now moderated, core inflation remained around 7.1% y/y in Aug, from 7.3% y/y in Jul and Jun.

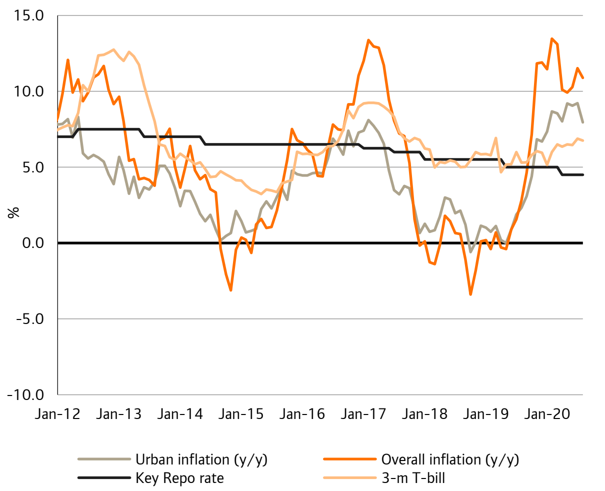
Furthermore, urban inflation reached 7.96% y/y in Aug and 9.22% y/y in Sep, after averaging 8.59% y/y in Q2:20. Rising food and transport inflation pulled urban inflation higher. Since food accounts for 28% of the urban inflation basket, food prices have a significant impact on overall prices. Unusually heavy rains disrupted food crops, so food inflation seems set on a higher course.

However, we expect non-food inflation to moderate. Higher transport inflation is largely a function of the Covid-19 containment measures applied to public transport. Since transport inflation reached 21.4% m/m in May, transport inflation has moderated to -0.6% m/m in Jul, after -0.4% m/m in Jun and 0.3% m/m in Jun.

We see headline inflation remaining near the upper end of the NBR's target band of 8.0% y/y in Q3:20. We then see inflation moderating to 7.1% y/y in Dec 20.

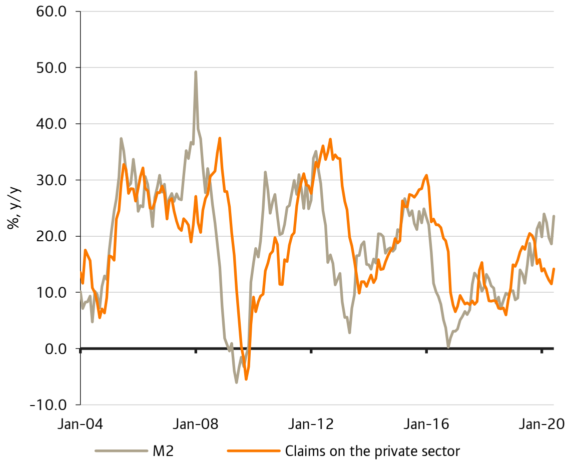
Due to steeper public transport fares, the NBR has revised headline inflation forecasts to an average 6.9% y/y for 2020, from 6.0% y/y. The NBR see inflation falling closer to 5.0% y/y, the mid-point of their target range, during Q4:20. According to the NBR inflation is likely to remain contained in 2021 and converge towards 5.0% y/y in the medium term.

Inflation and interest rates



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

Money supply growth



Source: National Bank of Rwanda

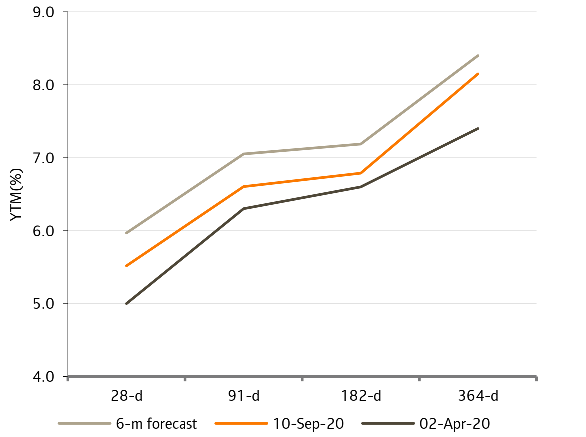
Yield curve outlook: still rising

Yields will likely rise further since the fiscal authorities are likely to increase the planned domestic bond issuance during FY2020/21, given that the fiscal deficit is expected to deteriorate considerably due to the pandemic.

Moreover, the FY2020/budget indicates that the government plans to finance most of its deficit locally. Thus, regardless of the looser monetary policy stance, onshore yields could rise.

Short-term yields have risen since Feb. However, the 181-d T-bill yields have been slower to rise. Since Mar, yields on the 28-d, 91-d and 364-d T-bills are up 38 bps, 85 bps and 80 bps respectively. Notably, yields on 182-d rose only by 28 bps.

Yield curve changes



Source: National Bank of Rwanda; Standard Bank Research

Fiscal policy: expansive

The FY2020/21 budget presented in Aug factors in the impact of the pandemic on public finances, with a considerable deterioration foreseen.

Government revenue is expected to decline by 22% y/y, compared with the FY2020/21 budget outturn, due to slower economic growth. The domestic revenue forecast is based on growth of 2.0% y/y in 2020 and 6.3% y/y in 2021. Therefore, the domestic revenue forecasts could seems too optimistic, at least according to our revised GDP growth forecast, following the Q2:20 contraction in growth.

Notably, grants are forecast to reach RWF482bn, around 10% higher than the FY2019/20 outturn. Of course, some budget grants have conditions attached to disbursements, making it difficult for governments to access these funds. Typically, a portion of grants budget, fails to materialize by the end of a fiscal year.

Total government expenditure is expected to rise by 7.5%, from the FY2019/20 budget outturn, to RWF3,245bn. Interestingly, instead of reducing capital expenditure, the budget forecasts an increase of 9.1% y/y, to RWF1,298.5bn.

Notwithstanding the persistent pandemic-related pressure on the fiscus, the government continues to prioritise capital expenditure, setting aside around 40% of total expenditure for developmental projects. The unknown outcome of the pandemic makes it tricky though to assess the likelihood of the development budget being executed.

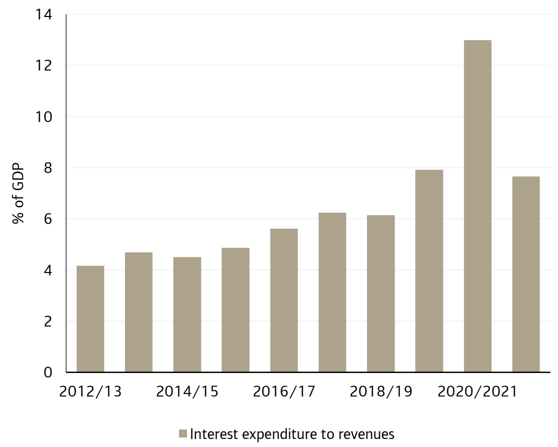
Recurrent expenditure is budgeted to rise by 12%, compared with the FY2019/20 budget outturn, to RWF1,583bn. This would be just under 50% of total expenditure. Spending overruns seem inevitable given the unknown trajectory of the pandemic in Rwanda.

Central government budget

% of GDP	FY2018/19e	FY2019/20f	FY2020/21f
Total revenue	23.70	23.33	16.67
Total expenditure	29.45	32.43	31.97
- Wages	4.20	4.25	4.62
- Interest	1.18	1.48	1.54
- Capital expenditure	11.78	12.70	12.79
Overall fiscal deficit	-5.7	-9.1	-15.3
Net domestic borrowing	0.5	-0.8	0.3
Net foreign borrowing	4.62	10.15	7.72
Donor support (grants)	3.01	7.67	4.21

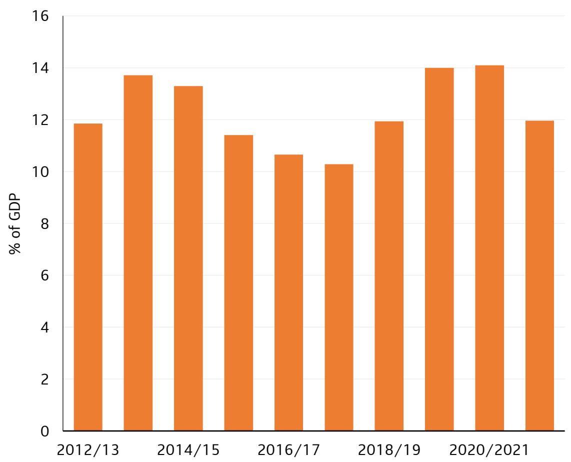
Source: Ministry of Finance and Economic Planning; Standard Bank Research

Interest expenditure



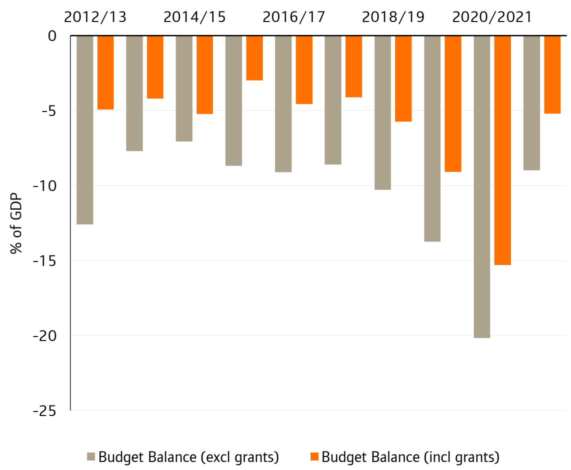
Source: Ministry of Finance and Economic Planning, Standard Bank Research

Developmental 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	9 050.0	9 650.0
Nominal GDP (USD bn)	9.8	9.4	9.2	9.6	10.1	9.5	9.5
GDP / capita (USD)	823.4	782.0	747.7	763.9	784.2	751.7	774.3
Real GDP growth (%)	8.9	6.0	4.0	7.8	10.0	-1.0	5.7
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	-3.0	-4.6	-4.1	-5.7	-9.1	-15.3
Budget balance (incl. Grants) / GDP (%)	-7.1	-8.7	-9.1	-8.6	-10.3	-13.8	-20.2
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	-17.6	-17.5
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	-15.8	-12.8
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	nr	nr	nr	nr	nr	nr
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	8.0	4.1
Urban consumer inflation (%) pe	4.5	7.3	0.7	1.1	6.7	7.1	2.6
M3 money supply (% y/y) pa	18.9	9.9	12.2	12.3	14.3	14.7	22.1
M3 money supply (% y/y) pe	21.1	7.5	9.7	16.5	16.9	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	957.1	1 010.9
USD/RWF pe	745.0	822.0	845.0	894.2	935.0	980.7	1 041.2

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: oil and gas investments could spur a swift recovery

Medium-term outlook: should still be robust

The pandemic has derailed Senegal's buoyant economic growth trajectory of the past 6-y. In Q1:20, growth was just 1.4% y/y, compared to 4.8 % y/y same time last year. Global supply chain disruptions will affect external demand considerably. This, and lockdown measures, will see much slower economic activity. Significantly lower remittances compared to previous years too, will have a telling impact on aggregate demand as well as on household income and consumption.

In our base case we now forecast growth of 1.3% y/y in 2020, with room for a recovery to 5.0% y/y in 2021.

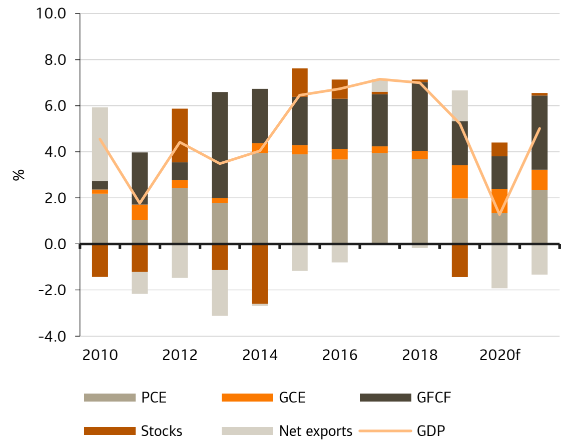
Covid-19 infections are over 13,294 now, with a recovery rate near 68%. The government has been easing lockdown measures in place since early Q2:20, which should make for a decent recovery in Q3:20 and Q4:20 as the economy picks up.

The tourism sector, with its associated revenues typically accounting for 5% of GDP, will remain under duress though. In fact, we don't expect a return to any kind of normality until 2021, and even that would depend on a vaccine. Nevertheless, a pick-up in external demand and economic activity should support some measure of recovery this year.

The IMF has adjudged the policy implementation under its Policy Coordination Instrument (PCI) for Senegal to be satisfactory despite the difficult circumstances. The government had signed a PCI with the IMF to help in implementing the second phase of the Plan Senegal Emergent in Jan 20. This second phase of the National Development Strategy is focused on driving high and sustainable inclusive growth, consolidating macroeconomic stability, and managing the oil and gas sector in a sustainable and transparent manner.

Our bull case sees faster than expected progress in the oil and gas sector. From 2021, robust growth should stage a comeback. There are two key oil and gas projects – Sangomar and GTA – that have reached final investment decision on their initial phases. We expect foreign direct investment to pick up from 2021 into these major projects, although the sharp drop in international oil prices might require some reassessment. Nonetheless, sustained investments in the country's budding oil and gas sector over the next 3-y could see growth achieving double digits.

Composition of GDP by demand



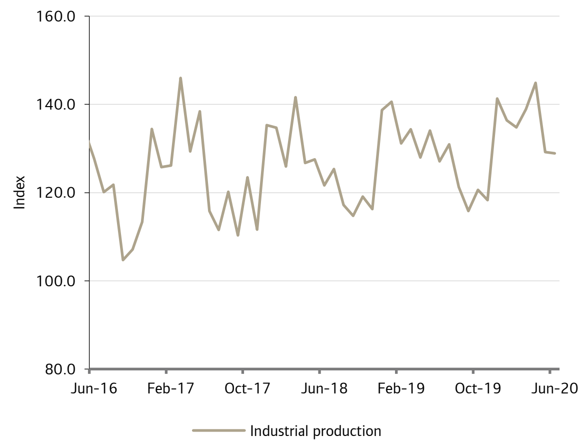
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

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

Senegal

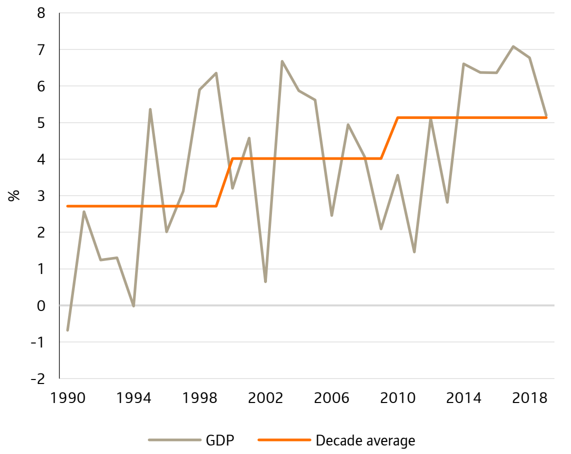
Medium-term economic growth scenarios

	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	1.4	0.4	1.5	1.9	4.0	6.0	4.8	5.0	7.8	7.4	8.2	7.1	8.1	8.5	9.6	10.3
CPI (% y/y) pe	-1.0	1.7	2.3	2.2	1.8	0.6	1.4	2.1	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	595.9	583.9	560.6	537.6	524.7	504.5	546.6	504.5	520.6	508.4	485.9	489.5	504.5	504.5	524.7	524.7
Bull scenario																
GDP (% y/y) pa	1.4	0.8	1.8	2.1	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	-1.0	1.7	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	595.9	583.9	546.6	524.7	512.4	489.5	524.7	485.9	520.6	508.4	475.3	482.3	504.5	496.9	504.5	485.9
Bear scenario																
GDP (% y/y) pa	1.4	0.3	0.8	1.1	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	-1.0	1.7	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	595.9	583.9	655.9	690.4	728.8	728.8	690.4	690.4	655.9	655.9	624.7	596.3	570.3	570.3	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

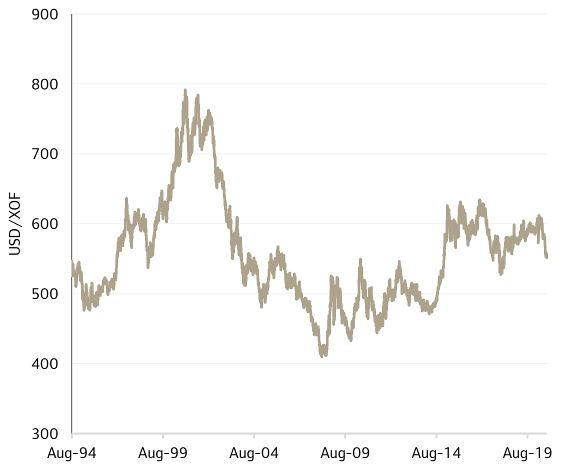
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; Standard Bank Research

Historical USD/XOF



Source: Bloomberg; Standard Bank Research

Balance of payments: deficit to deepen

We still expect the C/A deficit to widen to 8.3% of GDP in 2020 and then deepen further to10.3% in 2021 as capital imports related to investments in the hydro-carbon sectors pick up. Both exports and imports are likely to contract this year. However, stronger than expected groundnut exports in Q1:20, should somewhat counteract the expected decline in overall exports in FY20.

Services exports are poised to be significantly affected this year owing to the weakness in tourism and all associated value chains. The services sector typically comprises half of the Senegalese economy.

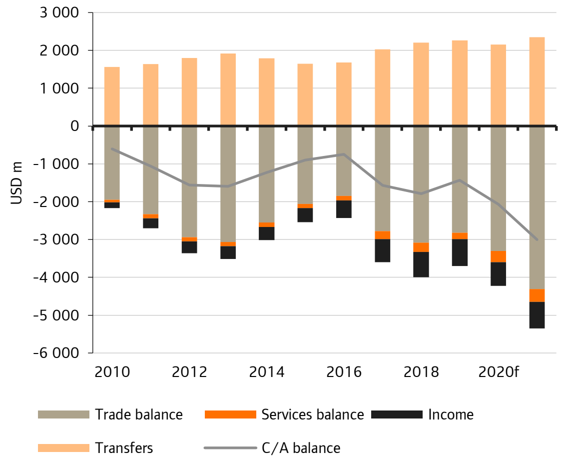
The contraction in imports will largely be driven by the significant drop in international crude prices. Notably, the significant widening of the C/A deficit over the past 2-y was largely on the account of increased oil imports. Refined petroleum and crude petroleum imports account for a sizeable chunk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

We therefore estimate the trade deficit to widen to USD3.3bn in 2020 and then inch up to USD4.3bn in 2021 as a recovery in international oil prices and increased capital imports might exert some pressure. In the medium term, the economy and the current account should benefit from oil and gas exports which should start to come through from 2023.

Net capital inflows are expected to decline this year, particularly as the government will not be able to tap the Eurobond market. However, Senegal's external partners along with the IMF have committed to provide substantial foreign financing to the government over the next 12-m, both in the form of grants and concessional loans.

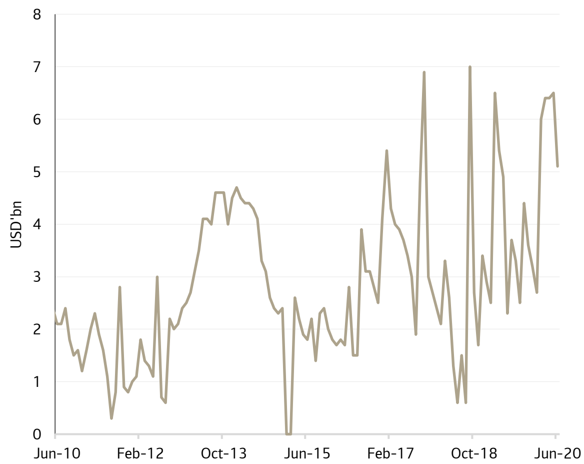
The government still relies more heavily on external financing for the budget deficit. Of course, most of this financing is concessional. But, as the 2021 Eurobond maturity approaches, the government might opt to refinance it.

Current account developments



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

FX reserves



Source: Bloomberg

FX outlook: no changes likely to euro peg in 2020

Further talks around the renaming of the XOF to ECO will likely stall this year as policymakers across the UEMOA are confronted with the pandemic and its fallout.

In any case, even if a renaming of the currency went ahead, we'd see the euro peg sticking around for some years still. Any agreement between the ECOWAS members still seems far off. Furthermore, all 15 countries would need to meet the different convergence criteria and/or some of the convergence criteria be relaxed for full adoption to take place.

Our G10 strategist Steve Barrow expects EUR/USD at 1.22 in the next 3-m, before heading higher next year, so the bias is for USD/XOF to be closer to 537 by year-end.

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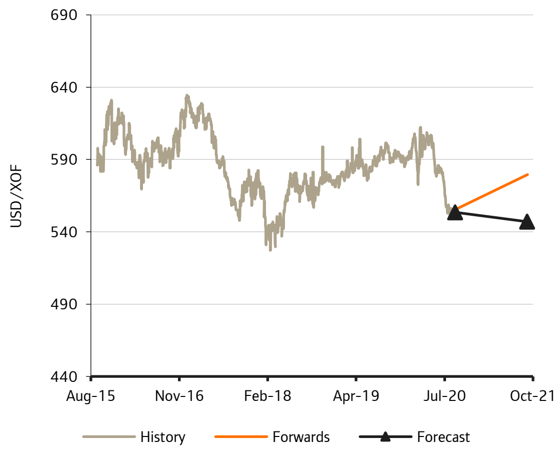
USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: remaining accommodative

The monetary policy response from the BCEAO to the adverse economic impact of the pandemic has been swift and accommodative over the past 6-m. Most measures particularly targeted increasing banking system liquidity across the region and credit to corporates and SMEs hardest hit by the pandemic. By extending the types of collateral eligible to refinancing, the BCEAO has widened the refinancing window for corporates and individuals.

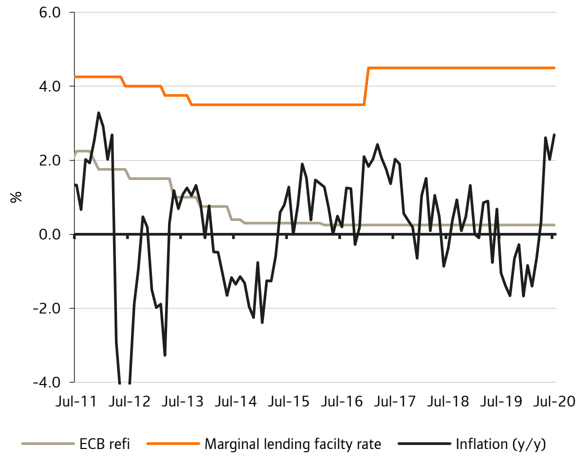
Senegal's banking system had entered the pandemic with adequate capital and liquidity buffers. Therefore, the credit portfolios of banks have not yet shown significant signs of distress. However, about a third of the banking system's total credit outstanding is exposed to the hospitality, transport and retails sectors, which have taken the worst hit during this period. Some banks may well still face some level of asset quality deterioration over the coming months.

The apex bank for the West African States in Mar opted to increase liquidity provisioning to the banks by a weekly amount of XOF340bn. This would help to provide support for corporates and SMEs across the region in a bid to mitigate the impact of the pandemic. Credit to the economy increased by 2.0% y/y in July.

Inflation is expected to remain low albeit rising owing to supply shocks. Weaker aggregate demand should help to dampen any inflationary effects from reduced supply. The continued peg of the XOF to the EUR should also keep inflation expectations well anchored. We expect inflation to reach 2.2% y/y by year-end.

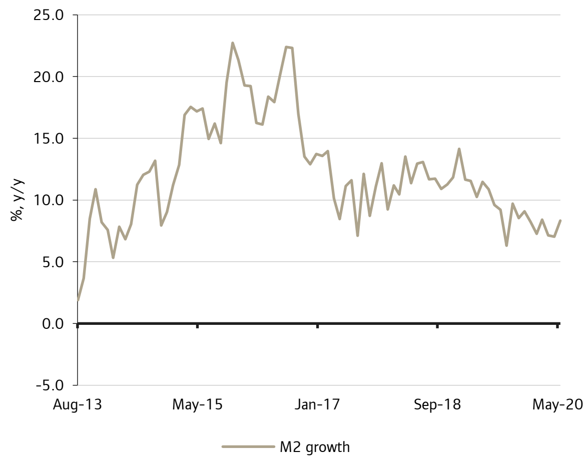
The BCEAO's MPC will likely leave the monetary policy stance unchanged, while maintaining an accommodative monetary stance through easing and liquidity injection over 2020.

Inflation and interest rates



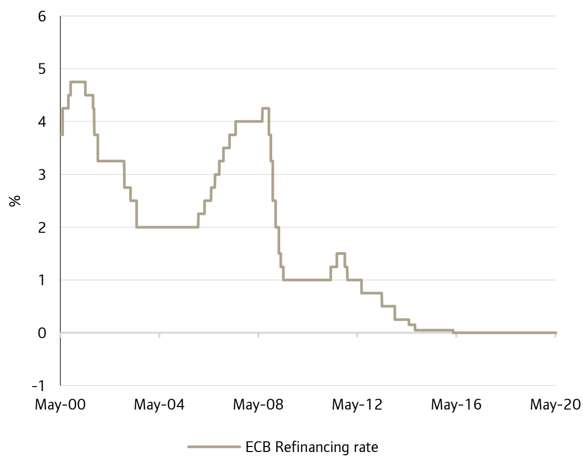
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

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: loose fiscal stance

The fiscal deficit could to widen to around 6.1% of GDP in 2020 as the government ramps up health spending, increases subsidies for basic amenities, and provides support to assist vulnerable households. After all, the region's convergence criteria at 3.0% fiscal deficit to GDP has been suspended owing to the pandemic. However, fiscal authorities expect some level of fiscal consolidation over the next 2-y, with the view of returning to within the 3.0% convergence criteria by 2022.

Revenues are expected to decline to 17.6% of GDP, from 19.5% initially anticipated. As at Q1:20, revenue targets were still being met at 88% of initial revenue targets in Mar and Apr. However, tax revenue already declined to 65% of the target in May, further depicting the slowdown in economic activity. Under the new medium-term revenue strategy, authorities expect the tax-to-GDP ratio (excluding hydrocarbon related flows) to reach 20% by 2023.

Notably, the projected 2020 fiscal deficit is deemed to be adequately financed with new budgetary grants from development partners making up about two-thirds of revenue shortfall. The rest of it is expected to be funded by foreign concessional loans, thereby reducing the need for local debt issuances.

Following the revised 2020 budget, fiscal authorities announced a response package to the pandemic called the Economic and Social Resilience program, which in size amounts to 7.0% of GDP. The program includes measures aimed at health sector interventions, social safety nets for the most vulnerable, direct and indirect subsidies, amongst others.

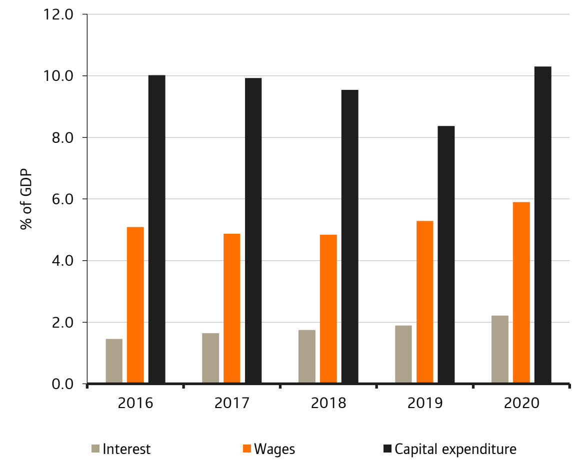
Fiscal authorities have requested debt service suspension under the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris club. The debt service savings amounts to CFAF90bn between Jun and Dec 20. At its last Debt Sustainability Assessment (DSA), the IMF adjudged Senegal's debt as sustainable but with moderate risk of debt distress.

Central government budget

% of GDP	2018		2019	2020
	Budget	Estimate		
Revenue	18.1	16.5	18.6	17.6
Grants	2.2	2.0	1.6	3.5
Expenditure	23.1	22.1	23.9	27.3
- Salaries	4.8	5.2	5.3	5.8
- Interest	1.7	2.0	1.9	2.2
- Capital	10.2	9.4	8.4	10.0
Fiscal deficit (excl. grants)	-5.0	-5.5	-5.4	-9.7
Fiscal deficit (incl. grants)	-2.8	-3.6	-3.7	-6.1

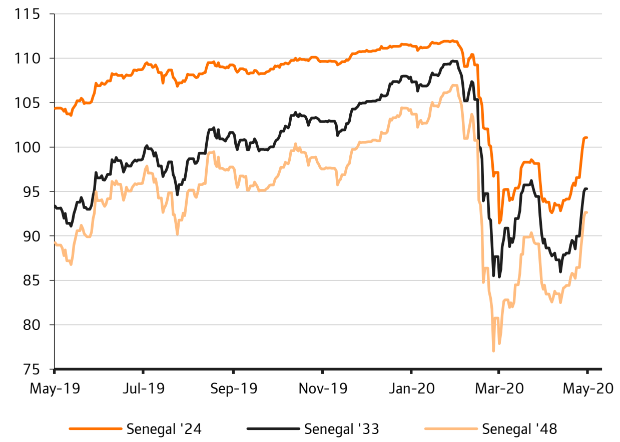
Source: International Monetary Fund; Ministre de l'Economie et des Finances et du Plan

Components of expenditure



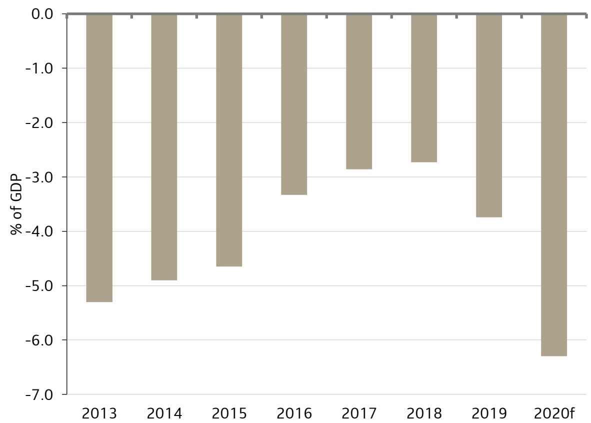
Source: Ministre de l'Economie et des Finances et du Plan

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	13 859	14 214	15 139
Nominal GDP (USD bn)	17.8	18.1	21.1	22.9	23.4	25.0	29.1
GDP / capita (USD)	1 233	1 223	1 377	1 482	1 486	1 531	1 743
Real GDP growth (%)	6.5	6.3	7.1	7.0	5.2	1.3	5.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-7.5	-5.5	-4.9	-5.5	-5.4	-9.7	-6.5
Budget balance (incl. grants) / GDP (%)	-4.5	-3.3	-2.9	-3.6	-3.7	-6.1	-3.3
Domestic debt / GDP (%)	15.7	15.7	18.5	18.5	18.6	19.2	20.0
External debt / GDP (%)	39.5	40.0	40.0	39.0	39.1	48.9	49.5
Balance of Payments							
Exports of goods (USD bn)	2.7	2.7	3.4	3.7	4.0	2.8	3.9
Imports of goods (USD bn)	-4.8	-4.6	-6.2	-6.8	-6.8	-6.1	-8.2
Trade balances	-2.1	-1.8	-2.8	-3.1	-2.8	-3.3	-4.3
Current account (USD bn)	-0.9	-0.8	-1.6	-1.8	-1.4	-2.1	-3.0
- % of GDP	-5.1	-4.1	-7.5	-7.8	-6.1	-8.3	-10.3
Capital & Financial account (USD bn)	1.2	0.8	1.8	2.7	1.9	1.6	1.9
- FDI (USD bn)	0.4	0.2	0.5	0.5	0.3	0.2	0.5
Basic balance / GDP (%)	-3.1	-2.9	-5.0	-5.5	-4.7	-7.3	-8.7
FX reserves (USD bn) pe	1.9	1.5	2.2	3.1	3.6	3.1	2.0
- Import cover (months) pe	4.8	3.8	4.3	5.5	6.4	6.2	2.9
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	1.3	1.5
Consumer inflation (%) pe	1.8	0.7	-0.7	1.3	-1.7	2.2	2.2
M2 money supply (% y/y) pa	16.8	17.5	10.8	12.0	9.7	8.7	11.3
M2 money supply (% y/y) pe	18.7	13.7	9.3	14.1	8.2	9.0	9.0
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	569.5	520.1
USD/XOF pe	609.9	612.0	558.2	580.3	585.7	537.6	504.5

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

Tanzania: services sector still the weak spot

Medium-term outlook: 2021 growth to rise

We still see GDP growth sliding to 4.5% y/y in 2020 but recovering thereafter to 7.0% y/y in 2021. The economy grew by 5.7% y/y in Q1:20, from 7.2% y/y average growth in H2:19. Most African economies declined in Q2:20 due to lockdowns and disrupted global supply chains.

However, Tanzania had imposed no lockdown or curfew, so one can argue that economic output didn't suffer as much as elsewhere during Q2:20.

Still, the services sector would have suffered as cross-border travel ceased. International tourist arrivals will take long to recover, as was already apparent in Q1:20 as growth in the accommodation and restaurant sub-sector slid to 1.1% y/y, from an average of 4.0% y/y in H2:19.

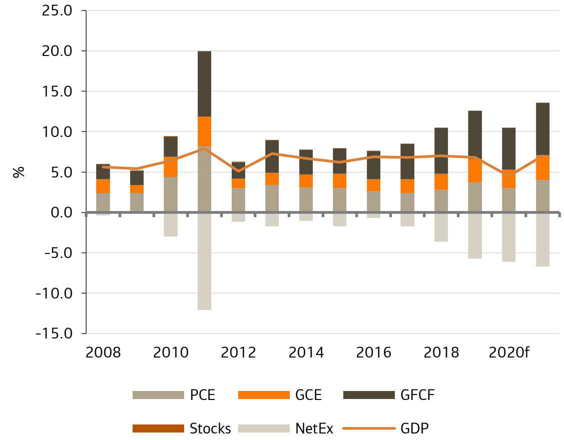
Furthermore, transport sector activity too would have diminished in Q2:20 on reduced global trade. However, as external demand has picked up since May and regional landlocked economies surrounding Tanzania have relaxed restrictions, a revival in the transport sector may be imminent over the coming year and be broadly supportive of economic growth.

Gold production at local mines has remained relatively robust. And, with gold prices likely to remain well supported over the coming year, the mining sector should continue performing relatively well.

Moreover, with elections in Oct 20, the government might further increase infrastructure investment which too should support economic activity.

Our bear case scenario sees GDP growth falling to 2.7% y/y in 2020, then recovering to 4.5% y/y in 2021. We'd also expect a protracted decline in the services sector to drag down economic growth in this case. Indeed, our bear scenario prices in a government struggling to obtain external funding, hindering any boost to investment in infrastructure.

Composition of GDP growth by demand



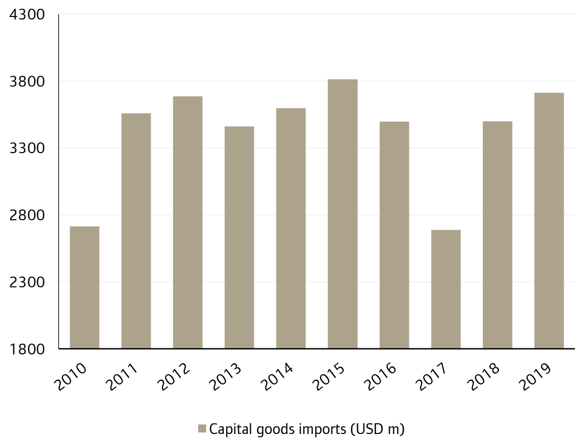
Source: National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2005	2014	2019
Agriculture	29.1	25.8	26.5
Mining & quarrying	4.2	3.8	5.2
Manufacturing	6.6	9.1	8.5
Electricity & gas	2.0	1.0	0.3
Construction	6.7	10.8	14.3
Wholesale & retail trade	9.1	9.7	8.8
Transport & storage	6.0	7.5	6.9
Hotels & restaurants	1.9	1.6	1.3
ICT	2.1	1.9	1.5
Finance & insurance	2.2	4.4	3.5
Real estate	6.6	3.3	2.7
Public administration	8.5	4.8	3.8
Education	3.0	2.5	2.4

Source: National Bureau of Statistics

Capital goods imports (USD m)



Source: Bank of Tanzania

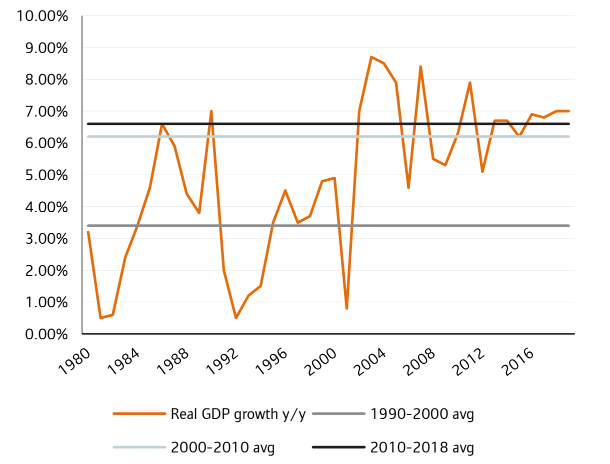
Medium-term economic growth scenarios

	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	5.7	2.8	4.1	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	3.2	3.3	3.5	4.0	3.7	4.6	5.3	5.0	5.2	5.0	4.2	4.6	4.5	4.4	4.8
BOT policy rate	7.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0
3-m rate (%) pe	3.5	2.7	2.4	2.8	3.3	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	3.3	2.8	3.3	3.9	4.5	4.5	4.9	5.2	5.3	5.3	5.7	5.7	6.1	6.1	6.4
USD/TZS	2315	2335	2330	2340	2370	2360	2360	2370	2440	2420	2430	2440	2480	2470	2480	2470
PSCE (%) pe	8.6	5.5	5.5	6.5	9.5	9.5	9.5	9.5	11.0	11.0	11.0	11.0	12.0	12.0	12.0	12.0
Bull scenario																
GDP (% y/y) pa	5.7	2.8	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	3.2	2.6	2.9	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	7.0	5.0	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	2.7	2.2	2.2	2.3	2.4	2.5	2.6	2.7	3.1	3.2	3.4	3.4	3.5	3.3	3.3
6-m rate (%) pe	4.2	3.3	2.6	2.6	2.7	2.8	2.9	2.9	3.2	3.5	4.1	4.3	4.3	4.5	4.5	4.5
USD/TZS	2315	2335	2310	2310	2340	2330	2330	2330	2360	2360	2350	2350	2380	2380	2370	2370
PSCE (%) pe	8.6	5.5	11.5	11.5	14.5	14.5	14.5	14.5	15.5	15.5	15.5	15.5	16.7	16.7	16.7	16.7
Bear scenario																
GDP (% y/y) pa	5.7	-0.2	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	3.8	5.2	5.9	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	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	2.7	3.5	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	3.3	4.5	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	2315	2335	2360	2380	2440	2470	2490	2530	2540	2550	2550	2560	2590	2610	2610	2600
PSCE (%) pe	8.6	5.5	2.0	2.0	4.5	4.5	4.5	4.5	7.5	7.5	7.5	7.5	9.0	9.0	9.0	9.0

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

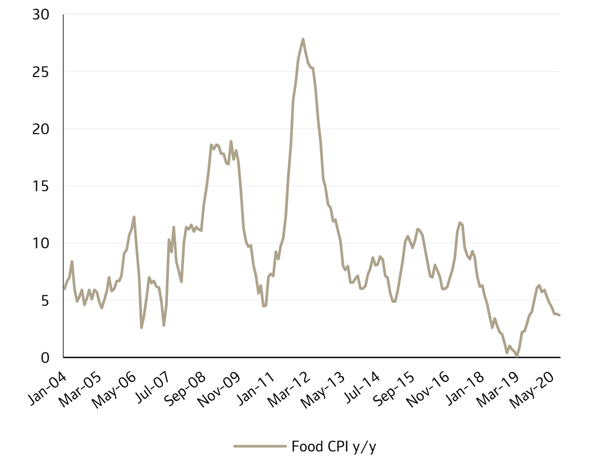
Notes: pe – period end; pa –a period average

Long-term GDP growth



Source: World Bank

Food inflation (% y/y)



Source: National Bureau of Statistics

Balance of payments: imports declining

We revise our C/A deficit forecast to 1.8% of GDP for 2020 from our previous expectation of 3.0%.

Despite the weaker tourism and transport sector, which will weigh down service receipts in 2020, exports of goods could remain relatively resilient. Exports of goods rose to USD6,160.4m as at Jun 20, from USD4,598.8m in Jun 19, largely due to a solid performance from the mining sector, and this could continue through to end 2021.

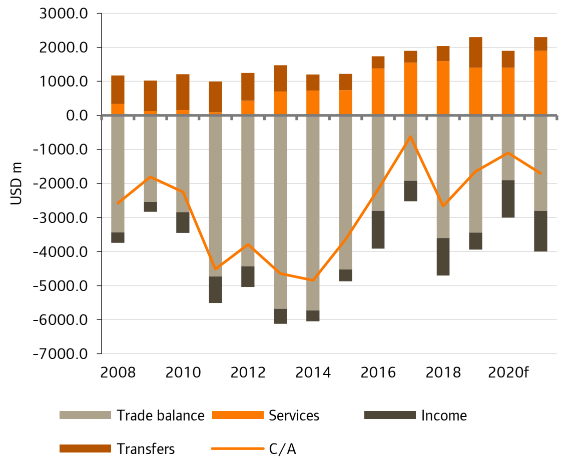
However, service export receipts declined to USD3,613.2m as at Jun 20, from USD4,117.3m same time last year. While we expect transport earnings to pick up as economies in the region ease restrictions, tourism receipts will probably only recover meaningfully from H2:21.

But then again, the oil import bill has reduced substantially following the sharp decline in international oil prices since Mar. Bear in mind that imports of goods are nearly double the amount of exports of goods. This supports our decision to lower our C/A deficit forecast for 2020.

FX reserves eased to USD5.18bn in Jul, from USD5.33bn in May and USD5.41bn in Mar. However, import cover remains above 6.0 months, implying that the BOP position is still broadly favourable.

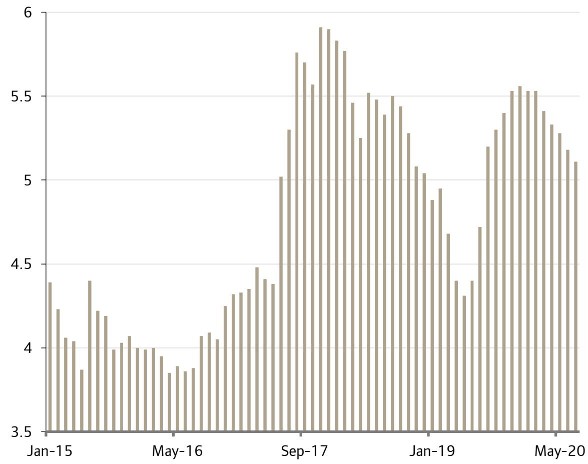
Even after elections in Oct 20, we'd still expect public investment in infrastructure to remain elevated, which should lead to a wider trade balance. Thus, we'd expect the C/A deficit to widen to 2.5% of GDP in 2021 — but increased government spending will largely be a function of the availability of external funding, though this has proven cumbersome to source over the past 3-y or so.

Current account developments



Source: Bank of Tanzania; Standard Bank Research

FX reserves (USD bn)



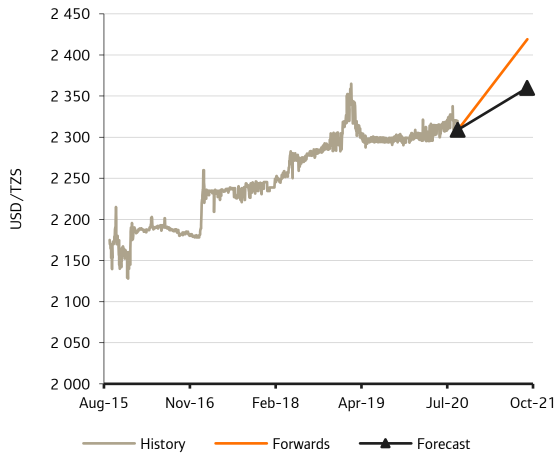
Source: Bank of Tanzania

FX outlook: near-term weaker bias

We still expect USD/TZS to rise to 2340-2350 by end 2020. Since Mar this year, acute FX liquidity shortages have begun to develop, crimping private sector economic activity. Despite the shortfalls in export earnings stemming largely from the tourism sector, we would argue that the BOP position hasn't deteriorated to an extent that would result in such severe FX liquidity insufficiencies. After all, FX reserves and import cover remain adequate.

However, the BOT hasn't been supplying adequate amounts of FX to the market via direct sales. Furthermore, a raft of new FX operation guidelines implemented in Aug may exacerbate already slim USD liquidity. Moreover, even if the apex bank were to increase USD sell-side interventions in the market, the USD/TZS pair may initially move higher because clearly a fair amount of import demand has been building up.

USD/TZS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: could ease again should PSC growth remain weak

We still expect the MPC to adopt an accommodative bias over the coming year. The MPC cut the Statutory Minimum Reserve (SMR) ratio to 6.0%, from 7% in May. The BOT discount rate was also lowered to 5.0%, from 7.0% previously.

Should private sector credit (PSC) growth remain tepid, the MPC will probably ease its policy stance again over the coming year.

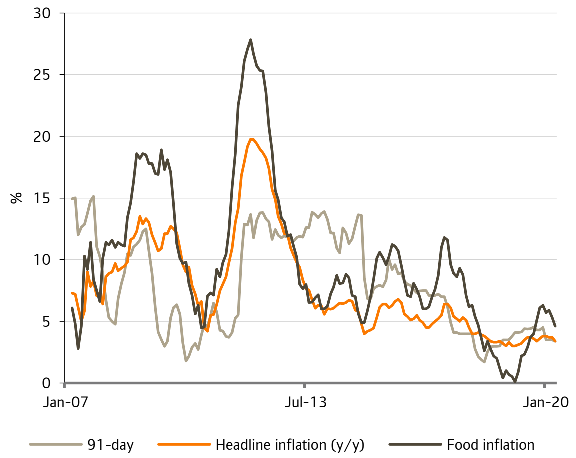
PSC growth declined to 5.5% y/y in Jun, from 8.6% y/y in Mar and an average of 9.9% y/y in Q4:19. Even M3 money supply growth eased to 9.5% y/y in Jun, from 12.2% y/y in Apr. This trend may embolden the MPC to maintain an accommodative stance and ease further.

Indeed, we see the MPC cutting its key policy rates again over the coming year because we expect PSC growth to remain muted for much longer. Clearly, the pandemic has supressed aggregate demand. Thus, commercial banks will probably be reticent to extend credit to the private sector until their perception of asset quality has improved.

Judging by previous cycles where banking sector non-performing loans (NPLs) spiked and PSC growth abated, the recovery in PSC growth typically takes 8 to 12-m.

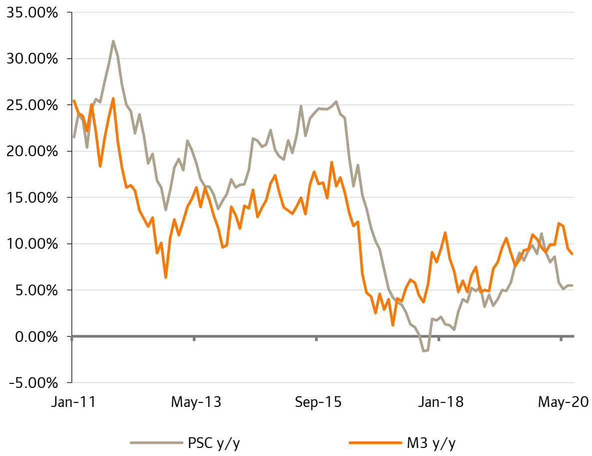
We see headline inflation at 3.5% y/y in Dec 20 and 4.0% y/y in Mar 21 as base effects unwind and international oil prices recover. Thereafter, we'd see headline inflation falling to 3.7% y/y in Jun 21 and then increasing to 5.3% y/y in Dec 21. Given that we still expect the output gap to remain wide in 2021, we see limited risks for this economy to overheat.

Inflation and interest rates



Source: Bank of Tanzania; National Bureau of Statistics

Monetary aggregates



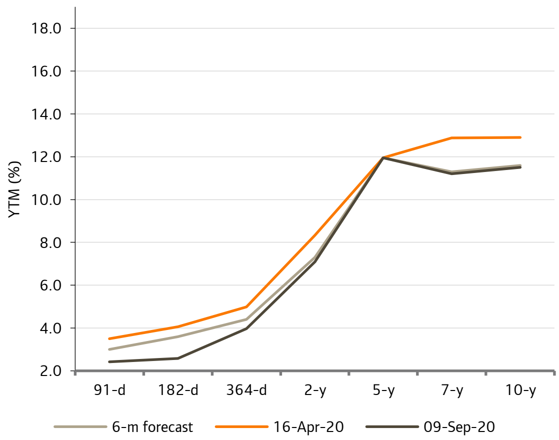
Source: Bank of Tanzania

Yield curve outlook: bear-flattening

Even though the yield on the 10-y government bond has declined around 140 bps in the secondary market since May, the yield curve still seems very steep. Yields on the 5-y and 7-y government bonds are little changed since May. However, T-Bill yields have eased by some 100-140 bps in that time. Nevertheless, with short end yields having already declined to such low levels, we see limited scope for further compression at this part of the curve.

However, the illiquid nature of the bond market and partially liberalized capital account will possibly make it cumbersome for long-end yields to decline meaningfully over the next 6-m or so. Crucially, however, with growing uncertainty around where the government will source external funding from, domestic borrowing may well increase, placing upside pressure on TZS yields. Hence, we see a bear-flattening yield curve bias in H2:20.

Changes in the yield curve



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: expansionary

The FY2020/21 budget deficit is expected to rise to 2.6% of GDP, from 2.3% in FY2019/20. With election spending likely to increase in H2:20, the fiscal deficit may well overshoot the government's target in FY2020/21.

More importantly, the government will probably remain keen to boost investment in infrastructure in the medium term. Hence, government expenditure could keep rising, even after the Oct 20 elections.

However, as external funding remains limited, development spending has been below par from 2016 to 2020. The government is adamant though that they can finance part of their infrastructure pipeline via domestic sources. Hence, perhaps compounding the development budget absorption issues, as clearly domestic savings are not sufficient to fully finance large flagship infrastructure projects.

Tax revenues are expected to increase to TZS20.3trn, from TZS17.6trn in the previous fiscal year. Notably, tax revenues grew by an average of 4.8% from FY2017/18 to FY2018/19. Thus, the implied growth of 13.6% for tax revenues in FY2020/21 seems quite optimistic, especially when accounting for the pandemic's impact on economic activity.

The government has budgeted for TZS600bn to clear validated impending bills. However, before elections the government tends to become distracted by other expenditure requirements. Hence, the clearing of arrears may have to wait until after the Oct elections.

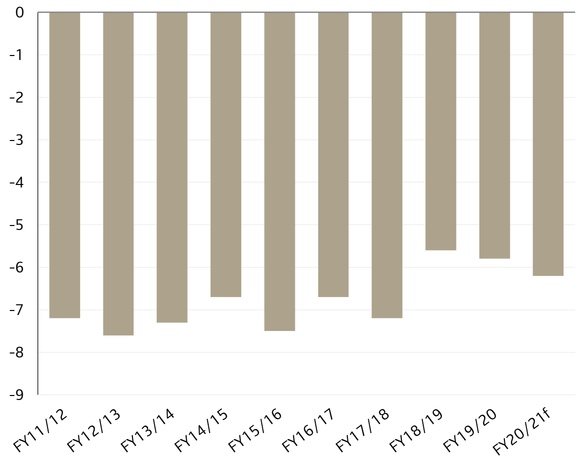
Interestingly, the government is not planning to receive any concessional funding for budget support in FY2020/21. However, without a credit rating the chances of issuing the inaugural Eurobond this fiscal year are slim indeed.

Central government budget (% of GDP)

	FY2019/20	FY2020/21
Total revenue	16..9	18.5
Total expenditure	22.7	24.7
Wages	4.5	4.6
Interest	5.4	5.6
Development	7.0	8.1
Overall balance (- grants)	-5.8	-6.2
Overall balance (+ grants)	-2.3	-2.6
Net domestic borrowing	0.7	0.6
Net external borrowing	1.6	2.0
Donor support (grants)	3.5	3.5

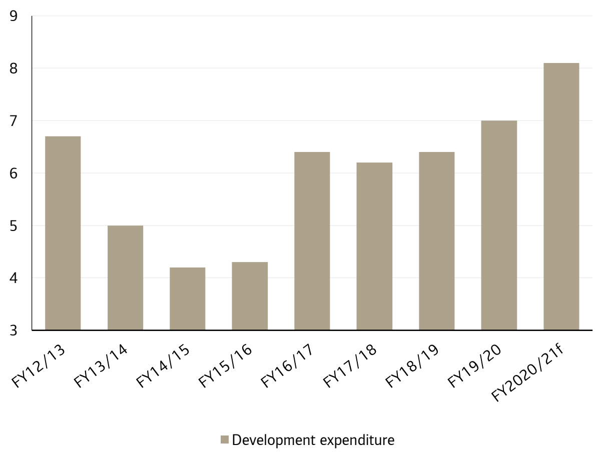
Source: Ministry of Finance

Fiscal deficit excl. grants (% of GDP)



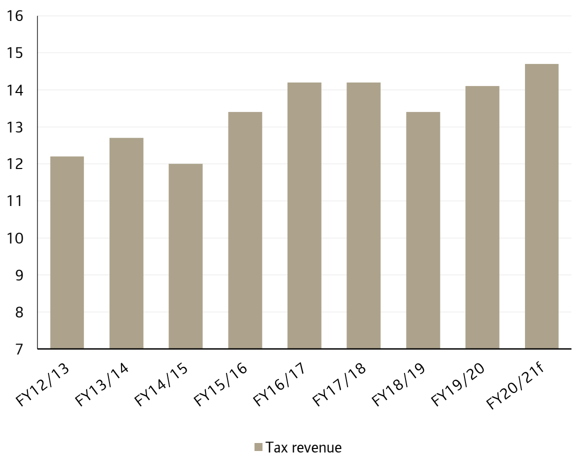
Source: Ministry of Finance

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	53.0	54.6	56.3	58.0	59.7
Nominal GDP (TZS bn)	94 349	108 362	118744	129043	139893	145750	162140
Nominal GDP (USD bn)	46.3	49.5	53.1	56.6	60.5	62.6	68.6
GDP / capita (USD)	928	961	1002	1036	1075	1079	1148
Real GDP growth (%)	6.2	6.9	6.8	7.0	7.0	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	-6.2
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 (USD bn)	8.7	9.3	8.5	8.4	9.7	9	9.8
Imports of goods and services (USD bn)	12.5	10.7	8.9	10.4	10.9	9.5	10.7
Trade balance (USD bn)	-3.8	-1.4	-0.4	-1.7	-1.2	-0.5	-0.9
Current account (USD bn)	-3.7	-2.2	-0.6	-2.7	-1.6	-1.1	-1.7
- % of GDP	-8.0	-4.3	-1.0	-4.8	-2.6	-1.8	-2.5
Financial account (USD bn)	2.6	1.7	2.1	1.7	2	1.8	2.2
- FDI (USD bn)	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	-1.2	-0.6	-1.2
FX reserves (USD bn) 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	5.5	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	3.4	4.3
Consumer inflation (%) pe	6.8	5.0	4.0	3.3	3.8	3.5	5.3
M3 money supply (% y/y) pa	15.3	9.3	5.5	6.7	9.2	9.5	10.5
M3 money supply (% y/y) pe	18.8	2.9	8.0	4.9	9.6	9.1	11.3
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	2.8	4.2
1-y rate (%) pe	18.7	15.8	8.4	9.3	5.9	4.3	5.2
2-y rate (%) pe	16.9	17.7	11.1	10.5	11.1	7.2	8.0
5-y rate (%) pe	17.5	18.0	13.6	12.0	12.0	12.1	12.2
USD/TZS pa	2 038	2189	2237	2281	2311	2330	2 365
USD/TZS pe	2 155	2188	2240	2310	2300	2340	2 370

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

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

Uganda: it's all down due to the pandemic

Medium-term outlook: modest 2021 recovery

Our GDP growth forecast now stands at 1.8% y/y for 2020, down from 2.5% y/y previously, and our bear case scenario too is down to 0.5% y/y, from 1.4% y/y.

Uganda had started 2020 on a strong footing, with GDP growth at 6.8% y/y in 2019, but the pandemic weighed on all economic activity in H1:20, with GDP growth plummeting to 1.8% y/y in Q1:20, from an average of 6.7% y/y in H2:19. Not surprisingly, the economy contracted by 3.2% y/y in Q2:20. The services sector contracted by 5.4% y/y in Q2:20, with a deep 54.7% y/y contraction in the tourism sub-sector.

Lockdown measures have now been relaxed, though, so the broader services sector should recover gradually over the coming year.

Indeed, the Stanbic Bank Uganda PMI rose to 54.6 in Aug, from an average of 36.7 Apr to Jun, indicating that economic activity and business confidence should pick up further in H2:20.

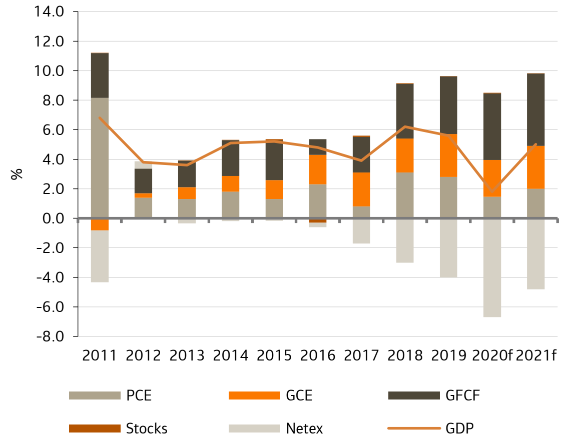
The weather too should stay conducive for the agrarian sector over the coming year — but there are still concerns about desert locusts destroying key farming crops in H2:20.

Crucially, the disruption to global supply chains in Mar/Apr was compounded by Uganda being a landlocked economy, relying on goods via the Mombasa port. Consequently, growth in the industrial sub-sector contracted to an average of 1.9% y/y in H1:20, from average growth of 7.5% y/y in 2020. As global supply chains are being restored, the industrial and agriculture sub-sectors should however benefit over the coming year.

Our base case scenario still foresees a Final Investment Decision (FID) in H1:21 but we now can't rule this out as being possible by 2020 year-end.

Our 2021 GDP growth forecast too is lower now, at 5.0% y/y, from 6.2% y/y previously, due to the enhanced political risk to economic activity in Q1:21. The government hasn't indicated though that the Feb 21 elections would be postponed because of the pandemic, and of course favourable base effects should underpin growth in 2021 — but we'd only see GDP growth back above 6.0% y/y from 2022.

Composition of GDP growth by demand



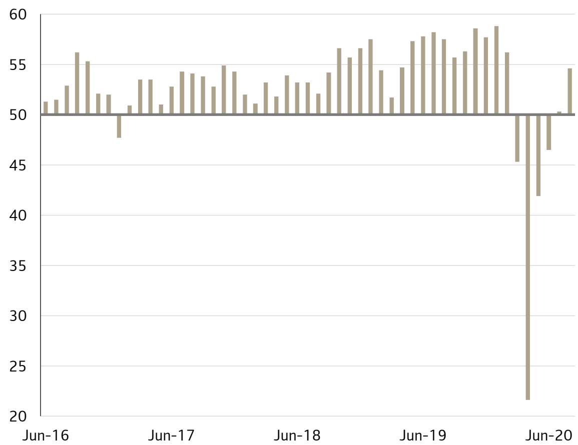
Source: Uganda Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2014	2019
Agriculture	27.1	22.5	23.1
Mining	1.2	1.4	1.8
Manufacturing	8.7	7.8	8.4
Construction	5.5	6.5	6.3
Trade & repairs	13.3	11.6	8.7
Transport	2.6	2.8	3.2
Accommodation & food	2.1	2.4	2.6
ICT	4.2	8.3	9.7
Financial & insurance	2.4	2.8	2.7
Real estate	5.5	5.3	6.6
Public administration	2.8	3.0	2.7
Education	5.3	5.4	4.0

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

Uganda

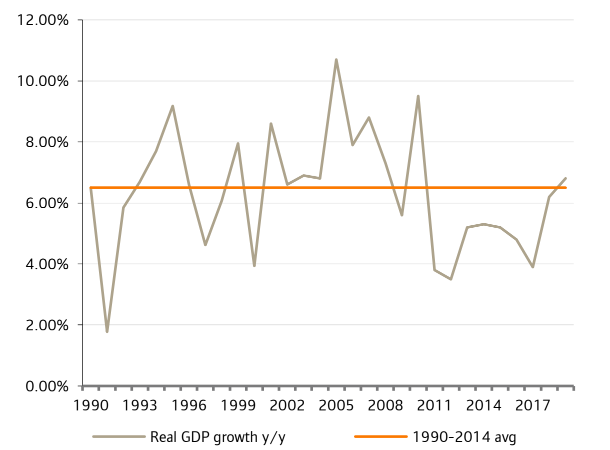
Long-term economic growth forecasts

	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																
GDP (% y/y) pa	1.8	-3.2	4.1	4.5	2.4	6.3	5.4	6.0	6.6	5.9	6.3	6.7	7.1	7.1	7.0	7.2
CPI (% y/y) pe	3.0	4.1	4.7	5.4	6.5	4.6	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	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.5	6.5	6.5
3-m rate (%) pe	9.2	8.2	8.4	9.0	9.6	9.7	9.4	9.5	9.4	9.2	8.8	9.1	9.3	9.2	9.0	8.9
6-m rate (%) pe	10.8	9.4	10.3	10.7	11.1	11.2	11.3	11.1	11.1	10.9	10.8	10.8	10.5	10.3	10.3	10.1
USD/UGX	3790	3730	3700	3750	3850	3820	3860	3900	3880	3900	3920	3920	3950	3960	3980	3980
Bull scenario																
GDP (% y/y) pa	1.8	-3.2	5.2	5.8	4.8	7.2	6.8	6.7	7.5	7.1	7.0	7.5	7.8	7.8	7.8	7.8
CPI (% y/y) pe	3.0	4.1	3.5	3.9	4.2	3.6	4.1	3.8	3.2	3.4	2.9	3.6	3.1	2.7	2.2	2.1
BOU policy rate (%) pe	9.0	7.0	7.0	6.5	6.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.5	5.5
3-m rate (%) pe	9.2	8.2	8.2	8.3	8.5	8.5	8.6	8.7	8.8	8.7	8.7	8.7	8.5	8.2	7.8	7.7
6-m rate (%) pe	10.8	9.4	9.4	9.5	9.6	9.8	10.1	10.1	10.2	10.1	9.9	9.7	9.4	9.4	9.1	9.1
USD/UGX	3790	3730	3660	3690	3715	3700	3720	3740	3750	3760	3780	3780	3770	3800	3820	3820
Bear scenario																
GDP (% y/y) pa	1.8	-3.2	1.5	2.0	1.5	4.5	4.8	4.8	5.7	5.8	5.8	5.9	6.2	6.2	6.2	6.2
CPI (% y/y) pe	3.0	4.1	5.9	7.1	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	7.0	7.0	7.0	9.0	9.0	9.0	9.0	8.5	8.5	8.5	8.0	8.0	8.0	8.0	8.0
3-m rate (%) pe	9.2	8.2	10.9	11.1	11.2	11.5	11.2	11.1	11.2	11.1	10.8	10.4	10.4	10.4	10.4	10.2
6-m rate (%) pe	10.8	9.4	12.8	13.7	13.9	14.2	14.2	13.5	13.2	13.0	12.5	12.2	12.1	12.1	12.1	12.1
USD/UGX	3790	3730	3740	3900	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

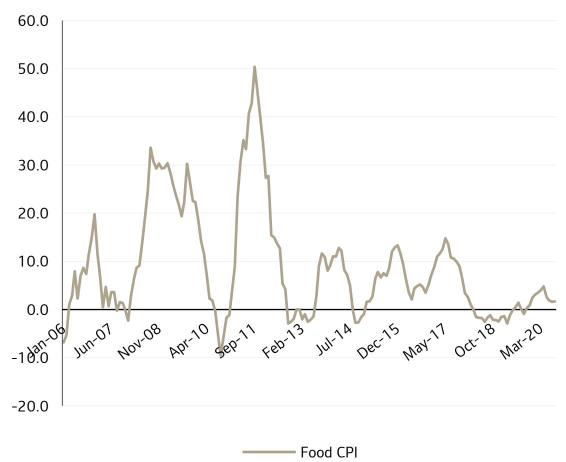
Notes: pa - period average; pe - period end

Long-term GDP growth performance



Source: World Bank

Food inflation (%)



Source: Uganda Bureau of Statistics

Balance of payments: services exports sliding

We still forecast the C/A deficit to widen to 8.3% of GDP in 2020 and 10.5% in 2021.

Surprisingly, despite weaker growth in both the industrial and agricultural sectors owing to global supply chains being disrupted earlier this year, exports of goods have remained relatively resilient. Goods exports declined marginally to USD1.89bn in H1:20, from USD1.92bn in H2:19. Simultaneously, coffee exports rose to USD260.2m, from USD237.2m.

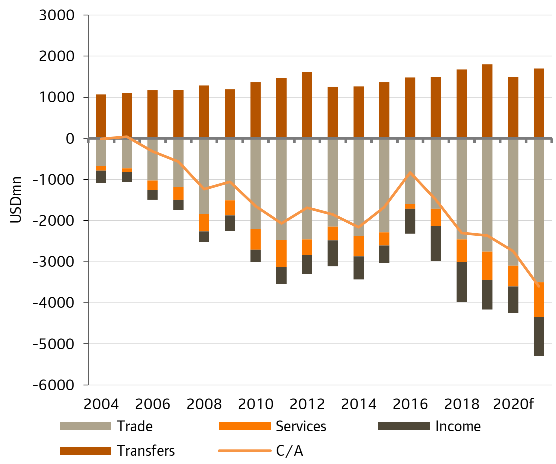
Gold exports, underpinned by higher international prices, rose to USD348.1m in the 3-m to Jun 20, from USD254.8m in Q1:20 and USD257.6m in Q4:19. However, most of these gold export receipts don't pass by the FX interbank market, which implies a slim correlation with FX reserves. Exports of goods should recover further over the coming year as external demand improves.

However, service exports declined by 73.6% in the 6-m to Jun 20, from H2:20. Bar a global vaccine, the tourism sector will keep struggling over the next 12-m. Political risks ahead of the Feb 21 elections too could weigh down tourism.

Funding the wider C/A deficit ahead of the Feb elections may prove cumbersome, considering that foreign portfolio investment outflows could ease, especially should government-driven capital goods import demand be elevated.

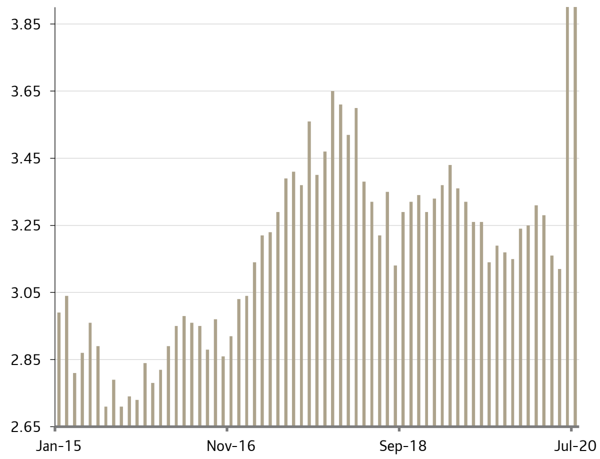
Yet, if the FID on oil should transpire in Q4:20 or even in H1:21, direct investment inflows should rise from 2021, helping to finance the likely wider C/A deficit over the medium term.

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves (USD bn)



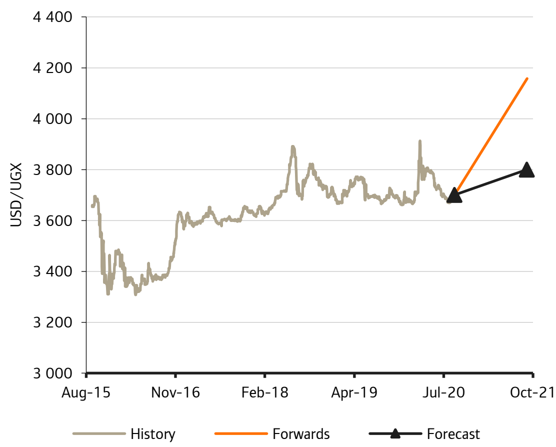
Source: Bank of Uganda

FX outlook: UGX weaker bias ahead of elections

We now expect the USD/UGX pair to trade around 3720-3750 levels by year-end. The pair had eased to sub-3700 after the bout of negative global risk sentiment earlier this year took it to 3920. Despite the BOU purchasing USD from the market, the UGX appreciated further. At the time of writing, the BOU was buying USD from the market around 3660-3670 levels.

Robust coffee export receipts from May to Jun, and the resumption in foreign portfolio inflows, supported the local unit. And, despite the lockdown easing earlier this year, there's been no surge in import demand to incur durable upside pressure on USD/UGX. However, due to the risk of fiscal slippage before the elections, foreign portfolio outflows will likely rise and put moderate upward pressure on the pair. Of course, increased public investment in infrastructure adds to this weakening bias.

USD/UGX: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral, for now

We see the MPC leaving its policy stance unchanged until end 2021. The CBR has already cut rates this year by a cumulative 200 bps but will now likely adopt a more cautious stance because headline inflation might edge higher in Q1:21.

Should, however, the economy not recover from H2:20 as we currently expect, an accommodative bias may persist into 2021. In fact, even as headline inflation rises, should the MPC believe that the output gap is widening, they could still look to ease further.

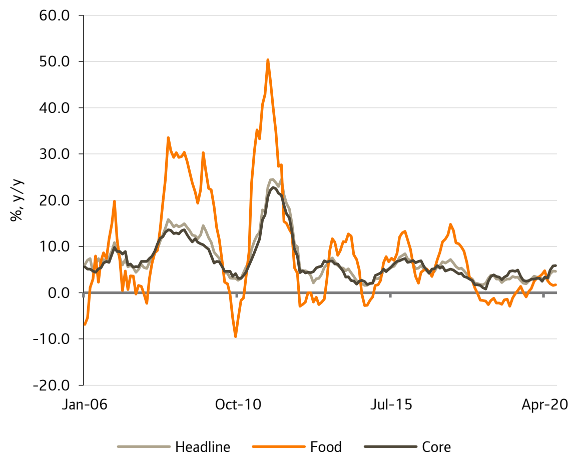
In fact, should a second infection wave result in another lockdown, the MPC could still look to remain accommodative even if inflation temporarily exceeded the 5.0% y/y medium-term target.

We see headline rising to 5.4% y/y in Dec 20 and 6.5% y/y in Mar 21, then declining to 4.6% y/y in Jun 21. Underlying inflation pressures have been evident ever since the government relaxed the lockdown in Jun. Primarily public transport fares have increased notably due to social distancing regulations.

Core inflation has increased to 5.9% y/y in Aug, from 2.5% y/y in Mar and 3.2% y/y in May. The MPC seems concerned about this but as this rise could be fleeting due to the recent public transport price hikes, we aren't convinced that core inflation pressures will become durable, especially in an economy unlikely to overheat.

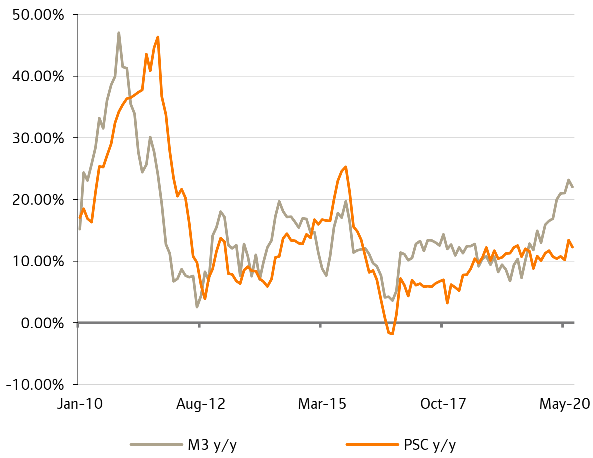
Granted, fiscal slippage risks and the potential weakening of the UGX ahead of Feb 21 elections could prompt the MPC to remain cautious in its inflation outlook.

Inflation and interest rates



Source: Uganda Bureau of Statistics

Monetary aggregates



Source: Bank of Uganda

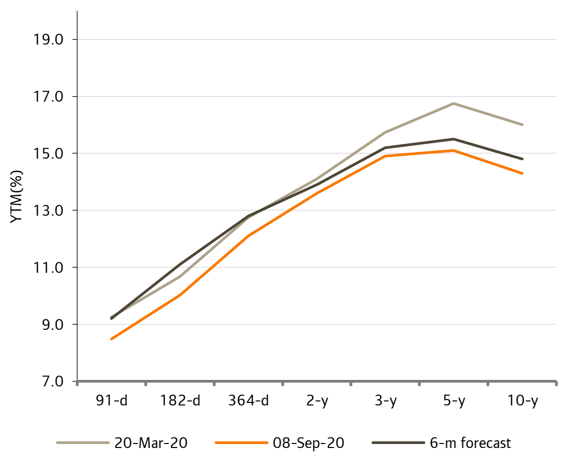
Yield curve outlook: awaiting better entry levels

As the MPC turned accommodative and commercial banks held back on private sector credit extension, UGX yields have been edging lower since May.

We recently took profit on the 10-y government bond we were holding in our shadow portfolio, as we now seek better entry level yields. We will look to target an entry level yield of 14.8%-15.0% for the 10-y bond.

As fiscal pressures emerge ahead of the elections, the government might increase its domestic borrowing target, placing upward pressure on UGX yields in H2:20 and Q1:21. Foreign portfolio investors too could take profit towards Q4:20 into the elections. The resultant rise in volatility could see UGX yields rise further but, considering that credit to the private sector could remain weak, any such pressure on UGX yields would probably be moderate.

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: expansionary ahead of Feb elections

The government is looking to adopt an expansionary fiscal policy over the coming year. The planned fiscal deficit inclusive of grants is seen rising to 8.6% of GDP in FY2020/21, from 7.5% in the previous fiscal year and 4.9% in FY2018/19.

Budget absorption challenges, mainly for development, persist. After all, the government only spent UGX11,360.7bn on development expenditure in FY2019/20, against an initial target of UGX16,740.8bn.

Thus, based on the historical implied growth of the development spending budget, the UGX17,184.5bn target for FY2020/21 too seems ambitious. Nonetheless, the government will probably be looking to ramp up investment in infrastructure, not just associated with the Feb election, but also thereafter, as they look to develop the ancillary infrastructure linked to the oil project. This would keep government expenditure elevated, even after the elections in Q1:21.

Interestingly, the government is planning to fund a larger part of its development budget in FY2020/21, from external sources (UGX8,695.6bn vs UGX3,958.7bn in FY2019/20).

The net external borrowing requirement increased to UGX9,473.2bn, from UGX6,723.4bn. Out of this, concessional funding is set to rise to UGX4,568.0bn, from UGX2,353.4bn, while non-concessional financing increases to UGX3,361.0bn, from UGX1,334.3bn.

We still don't expect the government to issue its inaugural Eurobond in FY2020/21 notwithstanding the notable rise in non-concessional funding.

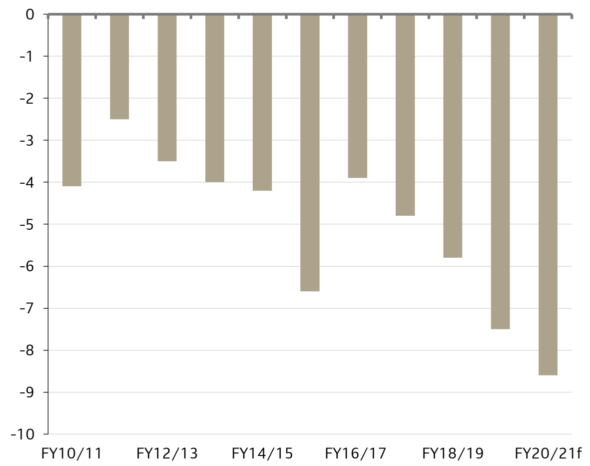
Instead, the authorities might still look to issue more syndicated loans, as they did in the previous fiscal year.

Central government operations

% of GDP	FY2019/20	FY2020/21
Total revenue	13.0	13.2
Total expenditure	20.5	22.4
Wages	3.9	4.0
Interest	2.5	2.7
Development expenditure	10.7	12.5
Overall balance (- grants)	-8.1	-9.2
Overall balance (+ grants)	-7.5	-8.6
Net domestic borrowing	3.2	3.5
Net external borrowing	4.9	5.7
Donor support (grants)	1.5	1.4

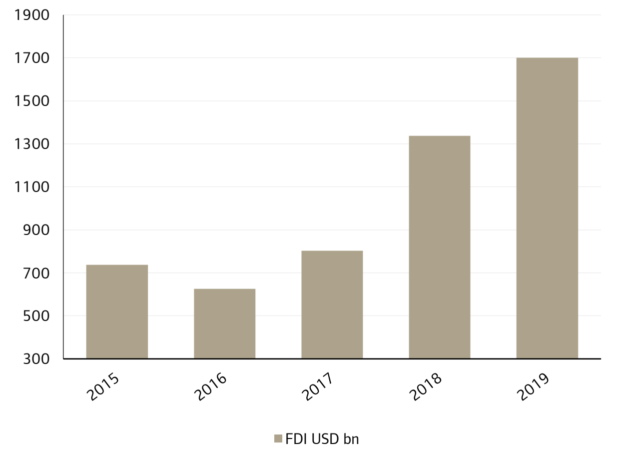
Source: Ministry of Finance

Fiscal deficit incl. of grants (% of GDP)



Source: Ministry of Finance

FDI (USD bn)



Source: United Nation s Conference on Trade and Development

Development expenditure (USD 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	39.80	41.22	42.4
Nominal GDP (UGX bn)	81 333	86 951	97 919	110 649	118 980	124 390	137 870
Nominal GDP (USD bn)	24.4	25.3	27.1	29.3	32.2	33.2	34.2
GDP / capita (USD)	687	693	719	755	810	806	806
Real GDP growth (%)	5.2	4.8	3.9	6.2	5.6	1.8	5.0
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	-8.1	-9.2
Budget balance (incl. Grants) / GDP (%)	-4.2	-6.6	-3.5	-4.8	-5.8	-7.5	-8.6
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	5.00	5.60	6.37	5.20	5.70
Imports of goods and services (USD bn)	7.33	6.40	7.20	8.65	9.60	8.80	9.90
Trade balance (USD bn)	-2.60	-1.61	-2.20	-3.05	-3.23	-3.60	-4.20
Current account (USD bn)	-1.68	-0.83	-1.49	-2.30	-2.36	-2.75	-3.60
- % of GDP	-6.9	-3.3	-5.5	-7.8	-7.3	-8.3	-10.5
Financial account (USD bn)	1.88	0.87	1.09	1.41	1.77	1.85	2.35
- FDI (USD bn)	0.74	0.63	0.80	1.30	1.70	1.50	2.00
Basic balance / GDP (%)	-3.9	-0.8	-2.5	-3.4	-2.0	-3.8	-4.7
FX reserves (USD bn) pe	2.8	3.0	3.7	3.4	3.2	3.8	4.2
- Import cover (months) pe	5.5	5.2	5.1	4.5	4.1	5.1	4.5
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	4.3	5.1
Consumer inflation (%) pe	8.7	5.7	3.3	2.2	3.6	5.4	4.4
M3 money supply (% y/y) pa	13.9	8.2	12.9	10.8	11.0	19.2	16.8
M3 money supply (% y/y) pe	11.7	11.1	12.8	8.2	16.0	18.0	14.8
BOU policy rate (%) pa	14.0	14.9	10.5	9.2	9.8	7.5	7.0
BOU policy rate (%) pe	17.0	12.0	9.5	10.0	9.0	7.0	7.0
3-m rate (%) pe	19.50	14.0	8.4	10.4	9.2	9.0	9.5
1-y rate (%) pe	22.30	15.9	9.0	13.2	12.9	12.5	12.3
2-y rate (%) pe	20.10	16.7	11.2	14.9	14.5	13.8	13.6
5-y rate (%) pe	22.30	16.9	12.7	16.5	16.0	15.4	15.1
USD/UGX pa	3 334	3433	3615	3773	3690	3743	3858
USD/UGX pe	3 381	3596	3643	3705	3665	3 750	3900

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

Notes: pa - period average; pe - period end

Zambia: fast running out of financing road

Medium-term outlook: clouded

Growth seems set to remain weak in the medium term. In fact, for at least the next 2-3 years, growth will likely dwell far below the annual average growth rate of 5.3% of the last 10 years.

The uncertain outcome of the pandemic will weigh on the immediate growth outlook. The tourism, wholesale and retail trade, and construction sectors face the most damage for the foreseeable future.

More concerningly, the government's financing pressures will likely constrain growth for longer. Payment arrears now stand at 7-8% of GDP, which seem set to increase too.

Even post-pandemic, the government's limited access to new external financing may force it to rationalize public spending. Since most of this financing covered the government's development spending plans, the government may now have to scale back on capital expenditure. It would require sustainable fiscal policy conduct to reel back recurrent expenditure. Critically, fiscal imbalances could stall any economic recovery.

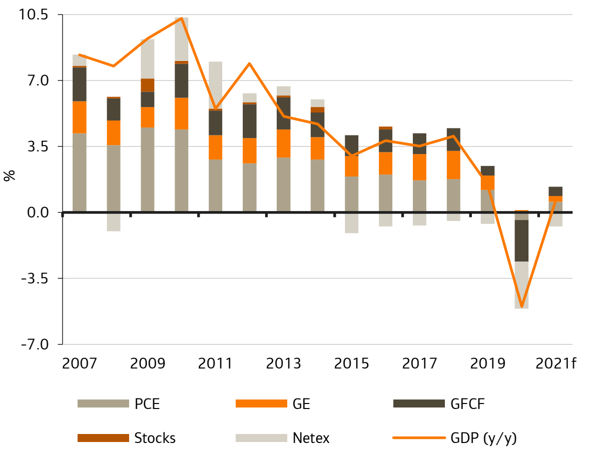
Nevertheless, copper prices at over USD6,000/MT should benefit at least the copper mining sector. Copper prices are now well above most mining companies' production break-even levels. In the 7-m to Jul, copper exports reached 501k tons, a 0.6% y/y decline. Furthermore, the Zambian Ministry of Agriculture sees maize production rising almost 70.0% y/y to 3.4m tonnes during the 2019/20 harvesting season, while rice and soya beans production are also expected to increase by around 17.0% y/y and 6.0% y/y respectively. Therefore, a strong agricultural outcome could support some economic resilience this year.

However, in our bearish scenario, GDP growth could contract by -5.8% this year. Further risks are posed by recurring waves of the pandemic and government's external debt restructuring negotiations being protracted and delivering little result.

Our base case proposes, more positively, that the government manages to conclude the external debt restructuring within the next 1-y.

Our bull case proposed external debt restructuring being finalized in the next 6-m, and with a somewhat improved economic outcome in the medium term.

Composition of GDP growth by demand



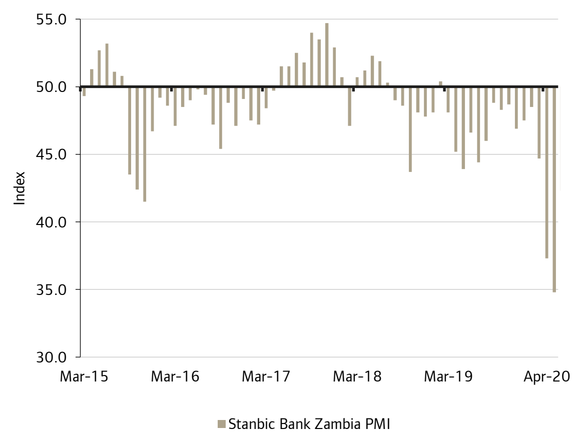
Source: Zambia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

	2011	2017	2019
Agriculture, forestry and fishing	9.6	8.2	3.2
Mining and quarrying	12.1	10.4	12.4
Manufacturing	7.7	8.0	7.6
Construction	9.7	11.0	8.8
Wholesale and retail trade	20.5	21.3	22.6
Financial and insurance activities	3.7	3.5	5.5
Real estate activities	4.0	3.4	3.7
Public administration and defence	3.2	5.2	3.6
Education	7.0	7.7	3.5

Source: Zambia Statistics Agency

Purchasing Managers Index



Source: Stanbic Bank Zambia; Markit

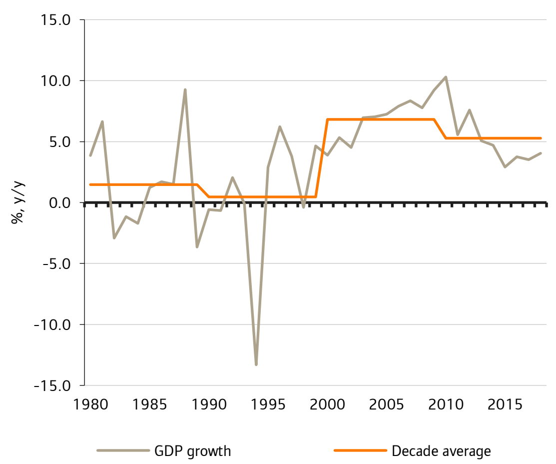
Medium-term economic growth scenarios

	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	-1.7	-5.5	-7.4	-5.3	-2.7	-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	15.9	14.5	14.9	13.9	12.1	13.0	11.6	9.7	8.6	7.6	7.4	7.4	7.4	7.4	7.8
Policy interest rate (%) pe	11.50	9.3	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0
3-m rate (%) pe	15.8	17.0	14.0	13.2	12.8	13.5	14.2	14.0	13.5	13.0	12.5	11.0	11.0	10.5	11.0	11.0
6-m rate (%) pe	21.3	21.0	16.5	15.8	15.2	15.7	15.7	14.9	14.3	13.8	13.2	11.8	11.5	11.1	11.1	11.1
USD/ZMW pe	18.21	18.14	20.17	21.54	20.57	21.18	21.53	21.38	21.33	20.63	20.73	20.63	20.23	19.73	19.53	19.57
Bull scenario																
GDP (% y/y) pa	-0.5	-4.3	-6.1	-4.0	-1.4	1.0	3.0	4.0	4.4	3.6	3.1	4.0	4.4	3.9	3.7	4.5
CPI (% y/y) pe	14.0	15.9	14.7	16.0	15.7	13.9	14.8	13.1	11.1	9.7	8.2	8.1	7.9	7.7	7.0	7.3
Policy interest rate (%) pe	11.5	9.3	8.00	8.00	8.00	8.00	8.00	8.00	8.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50
3-m rate (%) pe	15.8	17.0	13.80	13.00	12.60	13.00	13.70	13.50	13.00	12.50	12.40	10.90	10.90	10.40	10.90	10.90
6-m rate (%) pe	21.3	21.0	16.50	12.80	12.20	12.70	14.95	14.15	13.55	13.10	12.50	11.05	11.45	11.05	11.00	11.05
USD/ZMW pe	18.2	18.1	19.80	19.15	18.14	19.52	18.54	19.15	19.50	19.35	19.30	18.60	18.70	18.60	18.20	17.70
Bear scenario																
GDP (% y/y) pa	-2.5	-6.3	-8.2	-6.1	-3.5	-1.0	1.4	2.4	2.7	2.0	1.5	2.4	2.8	2.3	2.1	2.9
CPI (% y/y) pe	14.0	15.9	15.3	15.6	14.3	12.4	13.2	13.1	14.0	13.1	12.4	12.2	12.4	12.4	13.3	13.6
Policy interest rate (%) pe	11.5	9.3	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0
3-m rate (%) pe	15.8	17.0	14.2	13.4	13.0	14.0	17.4	17.2	16.7	16.2	15.7	15.0	15.0	14.5	15.0	15.0
6-m rate (%) pe	21.3	21.0	16.7	16.0	15.4	15.9	18.9	18.1	17.5	17.0	16.4	15.8	15.5	15.1	15.1	15.1
USD/ZMW pe	18.2	18.1	22.14	23.37	22.57	23.82	22.85	23.20	23.55	23.40	23.35	22.65	22.75	22.65	22.25	21.75

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

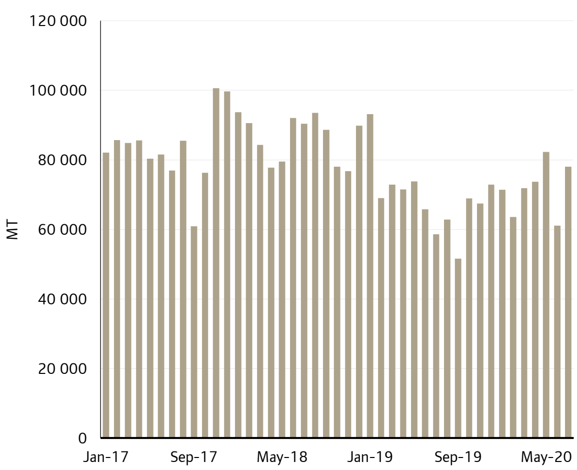
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Zambia Statistics Agency

Copper exports



Source: Zambia Statistics Agency

Balance of payments: under extreme pressure

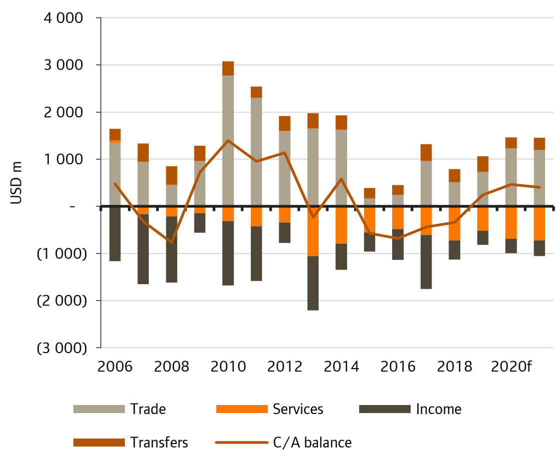
For the past 12-m, gross FX reserves have fluctuated between USD1.20bn and USD1.50bn. After falling to USD1.28bn in Apr, gross FX reserves recovered to USD1.43bn end Jun. Notwithstanding external pressures, FX reserves appear to have stabilized in this range.

Government demand for FX has been the primary source of pressure on FX reserves for some time now. Most of this demand has been for meeting external debt service commitments. Therefore, the sooner the external debt restructuring is finalized, the sooner FX requirements will moderate, thereby easing the pressure on FX reserves. However, negotiations seem prone to stalling. While the government has benefitted from a number of debt service relief measures, some external debt commitments remain, such as Eurobond commitments.

At end Q2:20, the C/A surplus had narrowed to 1.3% of GDP, from 2.8% of GDP at end Q1:20. Notwithstanding global trade disruptions in that time, copper and agricultural exports performed well. Exports rose by 14% q/q in Q2:20, to ZMW29,146m. It appears that as backlogs eased at ports and borders in Zambia's neighbouring countries re-opened, imports resumed. They had declined by 26% m/m in Apr but recovered from Jun. But with the economic outlook as dim, consumer imports are likely to remain subdued this year, restraining overall import growth. Moreover, should onshore FX shortages persist, import demand could be disrupted.

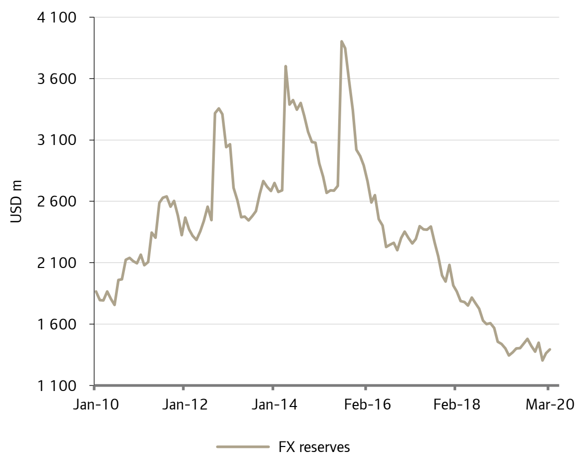
The H1:20 improvements in the trade balance were largely offset by the primary income balance deteriorating. We had initially expected that better copper prices and improved profitability for copper miners would see income outflows in the current account pick up.

Current account developments



Source: Bank of Zambia; Standard Bank Research

FX reserves



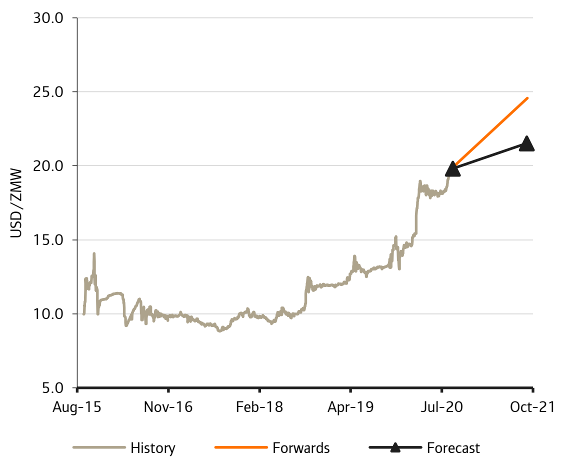
Source: Bank of Zambia

FX outlook: ZMW set to weaken further

Upward pressure on the USD/ZMW is likely to intensify; we see the pair near 21.5 by year-end. And, agricultural import demand is likely to increase from Sep, which, combined with inadequate FX supply from the BOZ, could exert further upward pressure on USD/ZMW.

USD inflows into the interbank market have been sliding, and, in addition to royalties, mining companies have also begun paying their taxes directly to the government in USD. This incurred FX liquidity shortages onshore at the end Aug 20. Gross FX reserves remain low, and this will probably limit the amount of FX that the BOZ can sell to the market. Should the government's external debt restructuring talks stall, the BOZ might conserve FX reserves in order to meet external debt service commitments falling due in the next 6 to 12-m.

USD/ZMW: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: greater bias for easing

Following the abrupt change in leadership at the BOZ, there may be a greater bias for further monetary policy easing now.

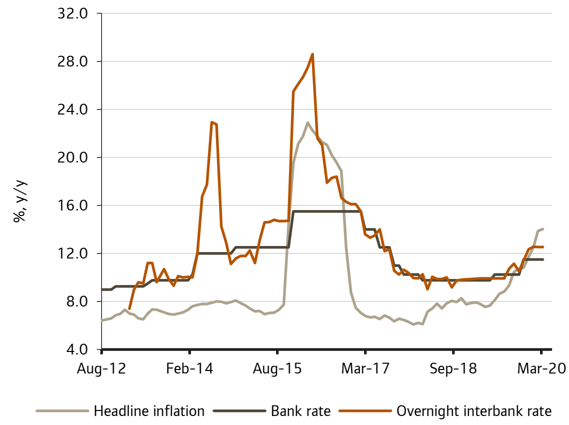
The president recently replaced Dr Denny Kalyalya with Christopher Mvunga. The former's second term as governor had been set to expire in 2023. This unexpected leadership change comes in a pre-election year and against the backdrop of mounting public funding pressures. The market now questions whether the government could either pressurize the BOZ to monetize its deficit or lower the policy rate further.

The committee has been particularly concerned about the growth outlook, and the sharp deterioration in economic conditions in Q2:20 probably motivated the MPC to cut rates in Aug. The MPC has already cut the policy rate by a cumulative 350 bps this year.

Of course, if the government made meaningful progress in its debt restructuring initiative or manage to secure new, external funding, that would warrant a looser policy stance. For some time now, the BOZ's MPC has highlighted the fiscal risks. Also, for some time now, the depreciation of the ZMW has been mostly due to FX purchases by the government for the purposes of servicing external debt, causing an upward bias to inflation.

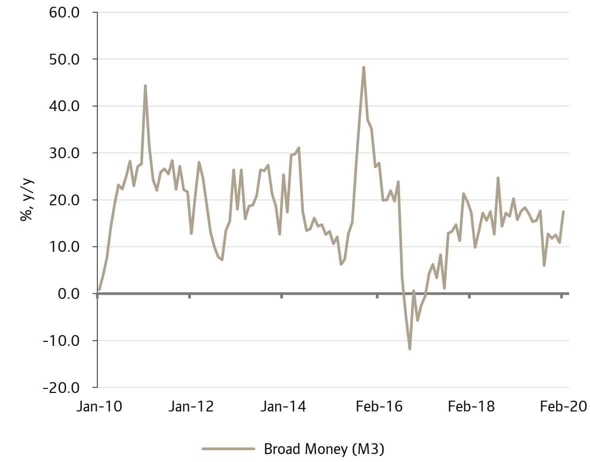
Headline inflation has been sticky; after peaking at 16.6% y/y in May, inflation moderated to 15.8% y/y in Jul and was a touch lower at 15.5% y/y in Aug. Of course, food inflation should continue moderating, on account of a good harvest, but it still remains elevated, averaging 16.0% y/yin Q1:20 and 16.9% y/y in Q2:20.

Inflation and interest rates



Source: Bank of Zambia; Zambia Statistics Agency

Money supply growth



Source: Bank of Zambia

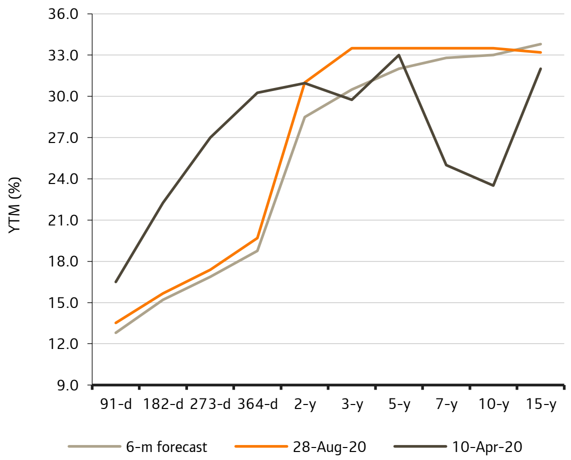
Yield curve outlook: yields to remain elevated

For as long as multilateral financing is unavailable, the government is likely to overborrow in the domestic market, already evident in auction sizes increasing, for both T-bills and bonds.

That said, yields on the longer end of the curve should gradually decline, should there be sustained offshore investor interest in the market. However, offshore participation in the Aug bond auction fell to 15-20%, lower than both Jun and Jul's bond auctions. But this is likely to prevent a downward shift in yields at the longer end of the curve.

Notably, yield movements at the shorter end of the curve tend to be more responsive to onshore appetite. Indeed, ample onshore liquidity should limit upward pressure on this part of the curve, allowing them to decline gradually.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: financing pressures abound

While Zambian policymakers continuing programme discussions with the IMF is positive, the government's access to new external financing remains highly constrained. We believe that in order to advance talks with the IMF, the revised FY2020 budget and FY2021 budget would be critical in providing clarity on fiscal policy direction. It is worth noting that in previous engagements with the IMF, the government's fiscal policy conduct and debt sustainability were the main points of contention.

The government will likely need further funding to deal with the pandemic's impact on public finances. The accumulation of domestic expenditure arrears is a symptom of the government's financing challenges. It remains to be seen if they can secure funding from other developmental finance institutions while discussions with the IMF continue. Furthermore, it is unclear if the government will be able to access the funds from the previously contracted but undisbursed external loans.

Still, for some months now Zambia has benefitted from various debt service suspension initiatives, which should reduce the sovereign's external debt service commitments for FY2020. Of course, finalizing the external debt restructuring would ease these pressures more permanently. Recall that the FY2020 budget puts external debt service at USD1.16bn, increasing by close to 70% over the past 5-y.

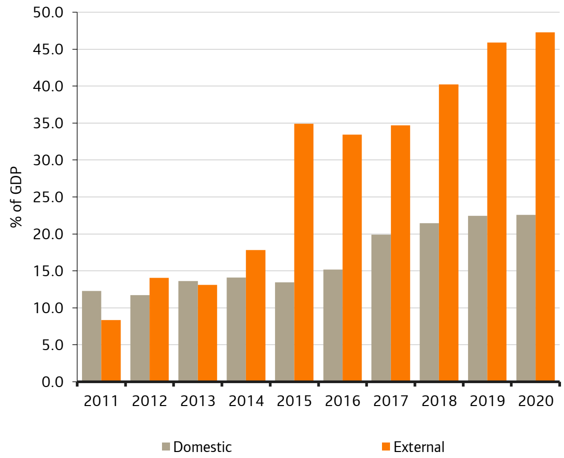
Since 50% of the government's external debt stock is from commercial lenders, it's worth highlighting that this could also complicate or even delay the debt restructuring process. While the government's external debt stock stood at USD11.2bn in Dec 19, this excludes government-guaranteed debt. This is yet another factor that could complicate the external debt restructuring process.

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

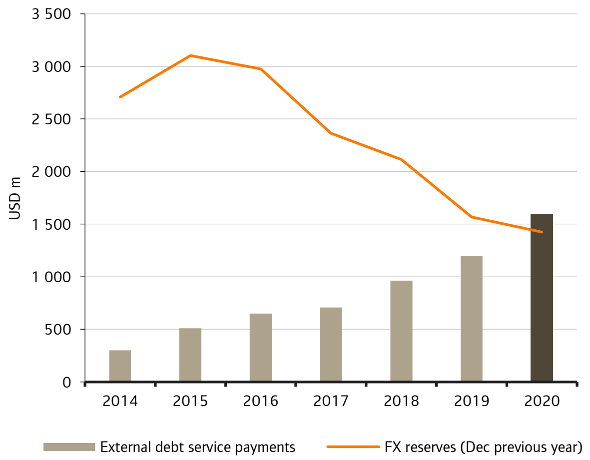
Source: Ministry of Finance and National Planning

Debt to GDP



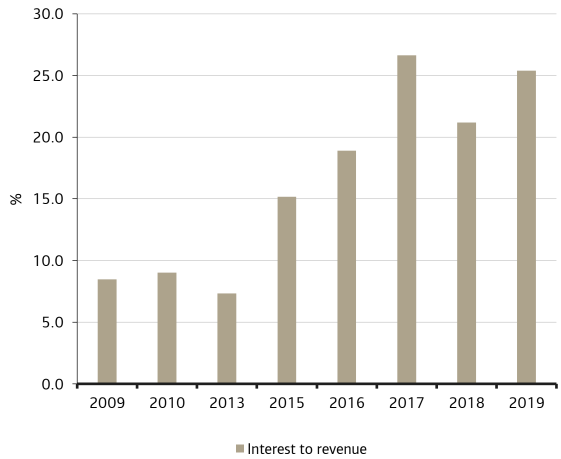
Source: Ministry of Finance and National Planning

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	299 913	329 794	374 014
Nominal GDP (USD bn)	19.2	20.8	25.2	24.2	22.9	17.3	19.3
GDP / capita (USD)	1 235	1 302	1 537	1 432	1 315	986	1 081
Real GDP growth (%)	3.0	3.8	3.5	4.0	1.5	-5.0	0.6
Copper production ('000 tons)	711	775	755	830	850	900	880
Central Government Operations							
Budget balance / GDP (%)	-9.3	-8.8	-7.7	-6.3	-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	7.8	8.6
Trade balance (USD bn)	-0.4	-0.2	0.4	-0.2	0.2	0.5	0.5
Current account (USD bn)	-0.6	-0.7	-0.4	-0.3	0.2	0.5	0.4
- % of GDP	-3.0	-3.3	-1.7	-1.4	1.0	2.7	2.1
Capital and Financial account (USD bn)	0.0	0.3	0.4	-0.1	-0.5	-0.4	-0.4
- FDI (USD bn)	1.2	0.5	1.2	0.4	-0.2	-0.1	-0.1
Basic balance / GDP (%)	3.2	-1.0	3.0	0.1	0.1	2.0	1.4
FX reserves (USD bn) pe	3.0	2.4	2.1	1.6	1.4	1.7	1.8
- Import cover (months) pe	4.1	3.7	2.9	1.8	2.2	2.6	2.5
Sovereign Credit Rating							
S&P	B	B	B	B	B	CCC	CCC
Moody's	B2	B3	B3	B3	B3	Ca	Ca
Fitch	B	B	B	B-	B-	CC	CC
Monetary & Financial Indicators							
Consumer inflation (%) pa	10.0	18.2	6.6	7.5	9.1	15.0	12.8
Consumer inflation (%) pe	21.1	7.5	6.1	7.9	11.7	14.9	11.6
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	9.48	8.00
Policy interest rate (%) pe	15.50	15.50	10.25	9.75	11.50	8.00	8.00
3-m rate (%) pe	15.0	20.5	9.8	12.0	16.5	13.2	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	33.0	25.5
USD/ZMW pa	9.6	10.5	9.6	11.2	13.0	19.6	21.3
USD/ZMW pe	11.0	9.8	10.0	11.9	14.0	21.5	21.4

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

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