AFRICAN MARKETS REVEALED

Still tenacious, but vaccinations must roll out faster

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Standard Bank IT CAN BE™

Standard Bank Research Authors:

Steven Barrow
Ferishka Bharuth
Kuria Kamau
Mulalo Madula
Angeline Moseki
Fausio Mussa
Dean Onyambu
Jibran Qureishi
Blessing Oladipo

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Rollouts remain inadequate

- **Africa's vaccinations have largely disappointed.** Besides Rwanda and Mauritius, most African countries have fully vaccinated just 5%-10% of their population. This implies that most African governments will miss the targeted 20%-30% by Dec 21 set by them initially.
- Poor supply has hampered vaccination rollouts but, as supply picks up, most countries should make meaningful progress in meeting targets. However, **vaccine apathy is on the rise, which may prolong reaching herd immunity.** New viral variants also pose a further threat.
- There's **further downside risk to the economic growth outlook posed by renewed public health restrictions**. Of those markets that reintroduced public health restrictions since May, Uganda's were probably the most severe, matching the restrictions of Q2:20. Though favourable base effects bolstered Uganda's growth in Q2, we now see growth moderating in H2:21, with GDP growth of 4.5% -4.8% y/y forecast for FY2021/22, from 6.4% y/y previously.
- Similarly, **positive base effects benefited Nigeria's Q2 growth — but diminishing oil production and poor FX liquidity may limit growth** to 1.8% y/y, from our previous forecast of 3.1% y/y. Incidentally, oil production has also lagged OPEC production quotas in **Angola, with the recession now likely to be extended to 5-y in 2021**.
- Public health restrictions in Rwanda were less disruptive than we anticipated in May. This, combined with strong base effects from Q2 GDP growth, underlines our upward revision to 8.9% y/y, from our previous 5.1% y/y forecast for 2021.
- For **Ghana and Kenya, idiosyncratic factors have weighed on the growth outlook since our last publication in May**. After the rebasing to 2016 from 2009, we now see Kenya's GDP growth at 4.5% y/y, from 5.6% y/y previously. Moreover, drought conditions underscore downside risks. We now forecast Ghana's growth for 2021 at 4.3% y/y, from 7.3% y/y previously. Weaker production in the mining and oil sector will likely prove limiting to this economic recovery.
- **FX and FI strategy:** Exchange rates in our high beta markets – **Ghana, Egypt, Uganda, and Zambia** – could see heightened volatility as the US Federal Reserve is expected to start tapering bond purchases by year-end and hike rates next year. However, we don't foresee the same kind of exchange rate volatility as during the 2013/14 taper tantrum. In fact, in some instances, where yield entry levels improve, the weaker exchange rate may provide more attractive entry levels.
- We still envisage USD/NGN nearing 430 by year-end. Reportedly, the USD/NGN pair in the parallel market has risen significantly after the CBN halted FX sales to BDCs. Critically, the CBN maintains that the parallel market is illegal
- On the back of these developments, USD/NGN implied NDF yields on the right have also moved higher. Considering the **CBN's policy stance, we are more likely to be buyers than sellers of the USD/NGN NDFs over the next 3-m.**
- Notwithstanding some renewed optimism that the CBN will increase sales into the I&E window as FX reserves are augmented by proceeds from external debt issuance and the IMF's new SDR allocation, it's worth highlighting that **it's unlikely that limited FX supply is a function of the FX reserve level**. The FX order backlog in Nigeria is estimated at USD3.6bn-4.7bn.
- **Egypt remains a top pick, for both duration and carry trades.** Back in Apr, Egyptian bonds were placed on watchlist for GBI-EM index inclusion. While these bonds are almost certain to be included in this index, we don't foresee EGP yields on the long end falling significantly towards year-end as this is already largely priced in. Authorities have experienced delays in finalising the Euroclearability status, which may now be postponed to Q1:22.
- Our position in the Zambia 24s in our shadow portfolio has delivered a return of 47.8% since inception, with the curve bull-fattening over the last few months. Though FPI interest tapered off in the Sep auction, onshore appetite has been robust. Notably, with inflation just above 24.0% y/y in Aug 21, real returns on bonds are still negative. **Continued FPI investment in ZMW bonds hinges on the inflation outlook.** Should inflation remain sticky and elevated over the next 6-m, foreign portfolio investor appetite may wane and compression in ZMW yields may ease.
- With our Ghana 29 position, in our shadow portfolio, returning 20.7% since inception, we are comfortable holding this position. However, we acknowledge near-term upside risks for USD/GHS as **foreign positioning in this market remains elevated**, with foreign holdings of debt in nominal terms having increased

significantly since 2019. Moreover, duration risks persist as the pace of fiscal consolidation will likely remain sluggish. Ghana's strong external position though should see the Bank of Ghana continuing to intervene and increase FX supply to the market.

- With yields currently looking rich, **we await better yield entry levels in Uganda. Indeed, with changes expected in global risk sentiment, we should secure better entry levels**, particularly as fiscal policy will probably remain expansionary.
- For Eurobonds, while we favour positions on the **long end for Côte d'Ivoire, Senegal and Zambia, we are more cautious on Kenya, Nigeria and Ethiopia.**
- Even with the new IMF SDR allocations having made the Eurobond issuance pipeline more uncertain, and Egypt and Nigeria having issued Eurobonds in Sep, we still see **Côte d'Ivoire and Kenya coming to market by year-end.**

G10 view: growth or inflation?

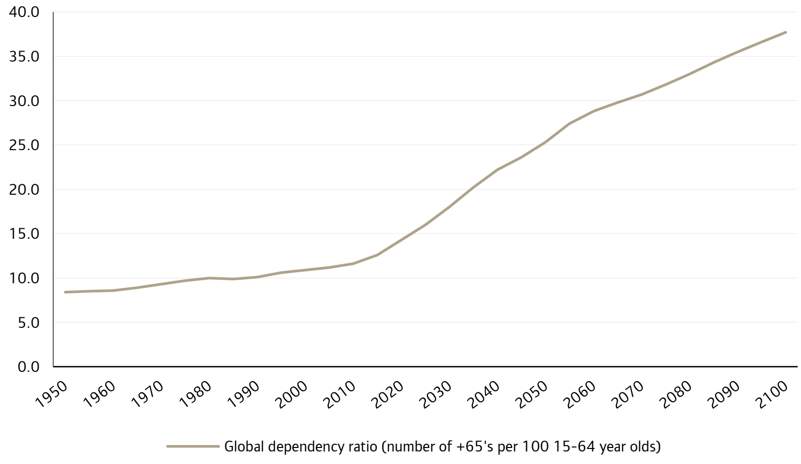
The pandemic is an adverse supply shock, one that reduces output but lifts inflation. In the past 18 months of this pandemic, policymakers and financial markets have had to decide which takes precedence. Unsurprisingly, the weakness in growth commanded the early attention, as risk assets such as equities capitulated, while policymakers responded with aggressive policy easing.

But growth has since rebounded, albeit in fits and starts as Covid-19 cases rise and fall. With it has come a sharp improvement in asset prices, fuelled by central bank monetary largesse. However, more recently, the adverse inflationary consequences of this supply shock have started to show as supply chains fracture.

Policymakers and financial markets are now at a point of having to decide whether economic recovery is sufficiently entrenched, and the inflation dangers sufficiently large, to warrant ending fiscal and monetary support. Some central banks have already started to lift rates — but the key central bank, the Federal Reserve, is still to make a start on policy normalisation.

On the fiscal side, governments have been slower to signal that the costs of fighting the pandemic will have to be recouped. The UK is one of the first major nations to signal its readiness to do so but we doubt that others will follow quickly. The key question for financial markets is whether this transition, away from significant policy support, could endanger the economic recovery or prove insufficient to quell the inflation threat. We see the risk of overshooting inflation as greater than that of a significant relapse in growth.

Figure 1: Rising dependency ratio threatens supply – and higher inflation



Source: UN

Indeed, the pressures on the global supply of both goods and labour don't just start and end with the pandemic. Longer-term structural forces that could restrict supply and push up inflation, such as deglobalisation and less favourable demographics, were in place since well before the pandemic, and will continue long afterwards. So, while the pandemic might have supercharged adverse inflation dynamics, they would have existed all the same.

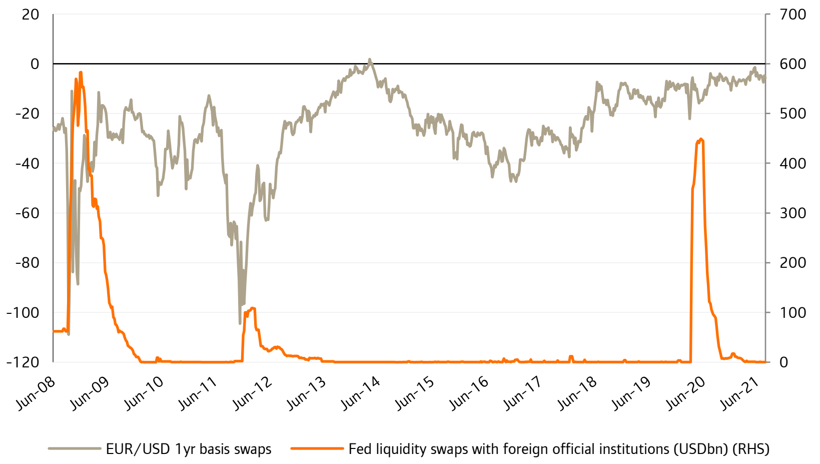
Also, policymakers are not used to dealing with supply shocks; the last ones of note were the oil price shocks of the 1970s. Since then, inflation has been low and central banks have been able to respond to adverse demand shocks, such as the global financial crisis of 2008, by cutting policy rates, and then buying assets once rates could no longer be cut. However, monetary policy space is now being crimped by rising inflation, and fiscal space limited by hefty debt levels that have been still further inflated by the pandemic. This creates the possibility that the policy response, on both the fiscal and monetary policy side, will not be as significant as required should another adverse shock hit, such as a new vaccine-resistant viral strain. Therefore, another adverse shock may see financial assets far more vulnerable.

Central banks are likely to err on the side of caution when it comes to monetary policy normalisation. The Fed, for instance, still seems unlikely to start lifting policy rates until Q4:22. But patient central banks do not necessarily mean that bond yields will stay low should inflation prove stubborn. The risk of adverse spill-over effects to risk assets, should yields rise, such as those in emerging markets, is ever present, especially should the Fed misstep and fall behind the inflation curve. Treasury yields would likely rise sharply, and the Fed would eventually have to catch up with more aggressive rate hikes than those presently implied by its own forecasts and market pricing.

This theme of adverse spilling over to risk assets harks back to the infamous Fed taper tantrum of 2013 when treasury yields soared as the bank first announced plans to reduce the pace of bond purchases. Notably, by the time the Fed started to taper at the start of 2014, yields were on their way back down again.

Fast-forward to today, and the market has been far calmer about bond tapering. When the pace of bond purchases does start to slow from later this year or early in 2022, we doubt that treasury yields will spike. Instead, our call for 10-year yields to rise to over 2% next year is based on the stubbornness of inflation, not tapering.

Figure 2: Dollar shortage eases



Source: Federal Reserve, Bloomberg

The risk of higher yields, and perhaps a higher dollar, adversely impacting risk assets is real but, in our view, quite low. Indeed, the Fed has become more adept at supplying quick dollar liquidity whenever tensions emerge. Crisis periods have resulted in a dollar shortage problem in the past, as reflected in sharp movements in basis spreads (the cost of securing dollars through the FX market).

However, dollar-supplying operations, such as liquidity swaps and reverse repos with foreign central banks, have increased and, during the pandemic it was notable that dollar funding costs did not surge in the same way. This, in turn, may be one reason why the value of the dollar rose only briefly at the start of the pandemic, with much of the rest of 2020 seeing a sharp slide in the greenback. So far this year, the dollar has stabilised and made some small gains but our concern over US inflation and slow Fed rate hikes implies that real (inflation-adjusted) US rates will remain very low, particularly at the front end of the curve — which would weigh on the dollar.

In addition, a recovering global economy, with more countries improving as their vaccine levels rise, should contribute to strength in their currencies and weakness in currencies of countries that have been a bit ahead of the others, like the US and the dollar. Of course, there is the ever-present risk that the difficulties created by a strong economic recovery, such as higher inflation, will induce financial market strains and lift the dollar, along with other supposedly safe currencies such as the yen and the Swiss franc.

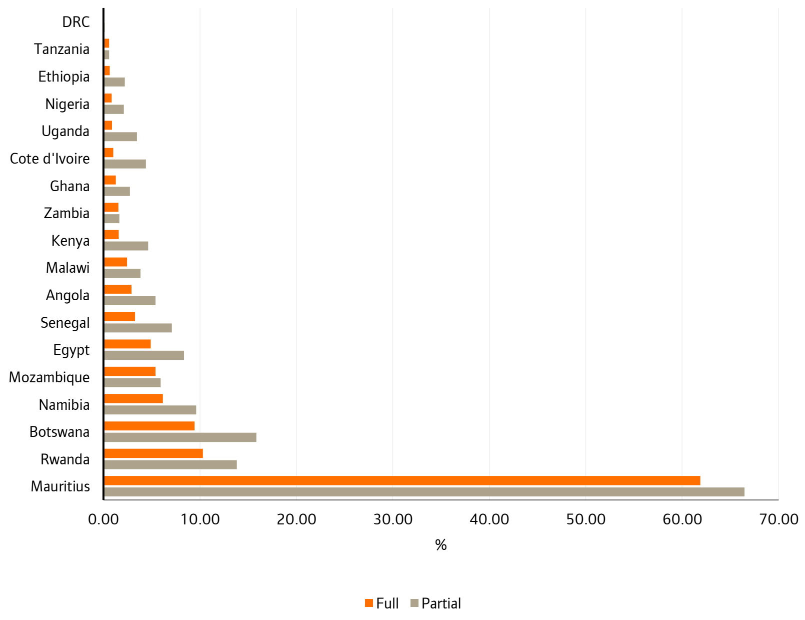
We are nevertheless hopeful that the improvement in the Fed's ability to supply dollar liquidity during periods of tension will restrict any rise in the dollar to both a limited size and limited duration.

Vaccinations should speed up

In our May edition, we noted the risks associated with slow vaccination rollout in Africa. Economic growth outlooks would suffer due to governments likely reintroducing public health restrictions such as lockdowns.

Indeed, at the time of writing, most African economies in our coverage, bar Mauritius and Rwanda, had fully vaccinated just 5-10% of their population. Of course, poor vaccine supply has proven a constraint. However, over the coming year, particularly as supply improves, progress should be made even though most governments' target of vaccinating 20-30% of their population by Dec 21 seems ambitious.

Figure 3: Vaccination rollout



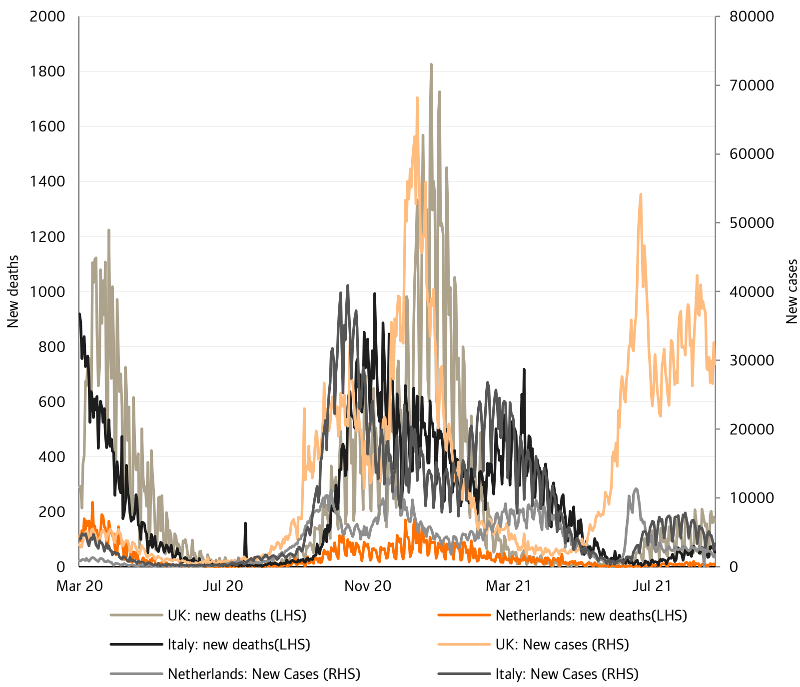
Source: OurWorldInData

Since Aug and Sep 21, thanks in large part to bilateral contributions, additional consignments of Moderna, Pfizer, and Johnson & Johnson vaccines have been distributed to various African countries – implying a faster vaccination pace over the next 6-m or so. For instance, the Rwandan government has begun door-to-door vaccination, while the Ugandan government has been setting up vaccination stalls closer to rural areas to overcome logistical hurdles.

However, parties involved with the patent waiver for vaccinations have been dragging their feet, notwithstanding mounting international pressure. Still, Egypt is ahead and is likely to become the vaccination hub for Africa. Indeed, Egypt has already produced and distributed one million doses domestically via its VACSERA facility, with plans afoot to build a new facility over the next 6-m. This should speed up local rollouts as well as boost vaccine supply for Africa.

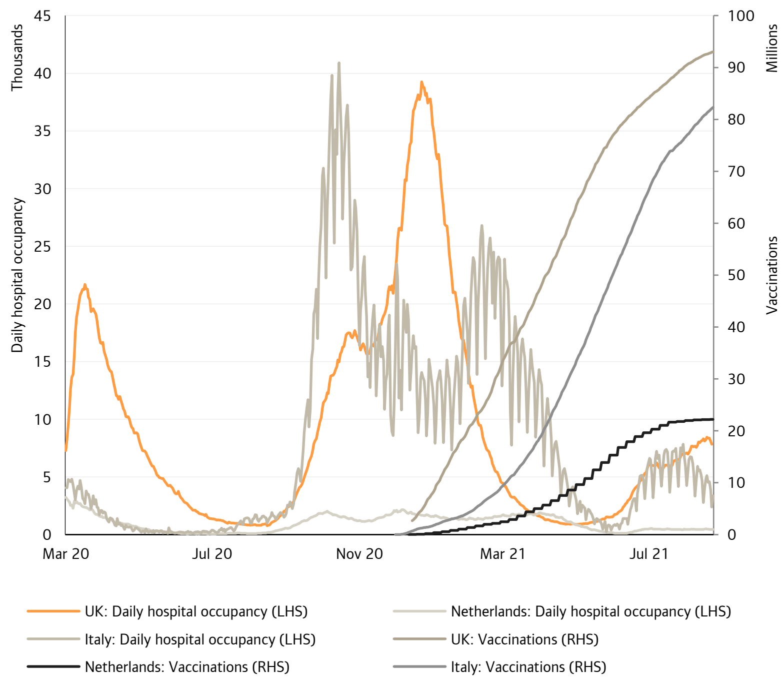
Earlier this year, there was an obvious concern that new variants – Delta and more recently Lambda – would impede the efficacy of vaccines. Yet, data from advanced economies validates the premise that vaccines are proving broadly successful in curbing instances of hospitalisation as well as fatalities.

Figure 4: Advanced economies – new deaths vs new cases



Source: OurWorldInData

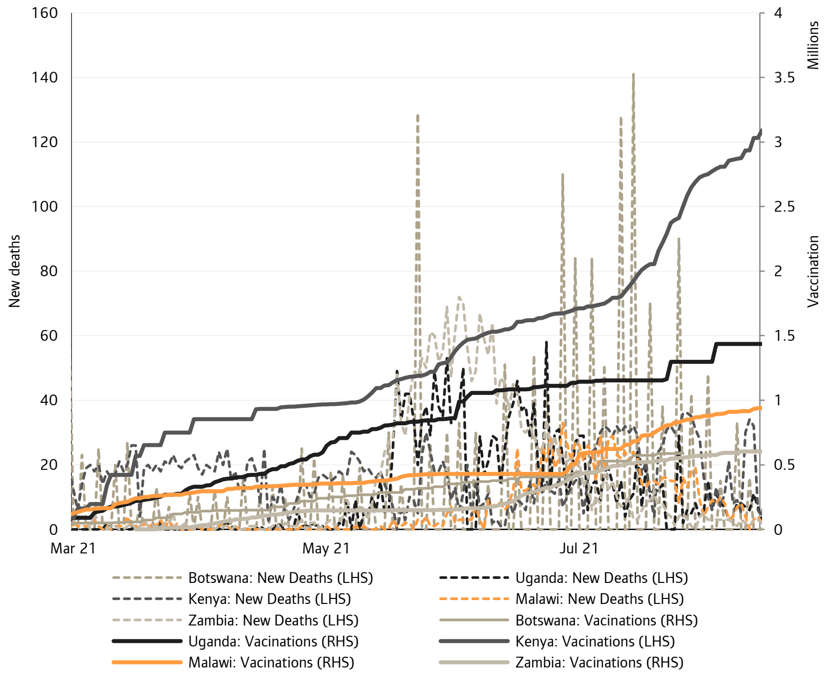
Figure 5: Advanced economies – new deaths vs new cases



Source: OurWorldInData

While Africa's hospitalisation data is difficult to source, clearly vaccination rollouts have advanced and gained impetus, and fatalities in some countries have subsided. However, uncertainty will persist around the risk of new variants perhaps more resistant to vaccines. Additionally, vaccine apathy in parts of Africa may delay herd immunity and further burden health systems.

Figure 6: Africa - new deaths vs vaccinations



Source: OurWorldInData

Growth outlook

Covid-19 cases' cyclical trend over the past year has seen a spiking over the festive season in Dec and during winter weather conditions, then subsiding due to reinstated lockdown measures.

While further public health restrictions are the most pronounced downside risk to Africa's economic growth outlook, some governments may want to avoid lengthy and severe restrictions, even if cases were to rise.

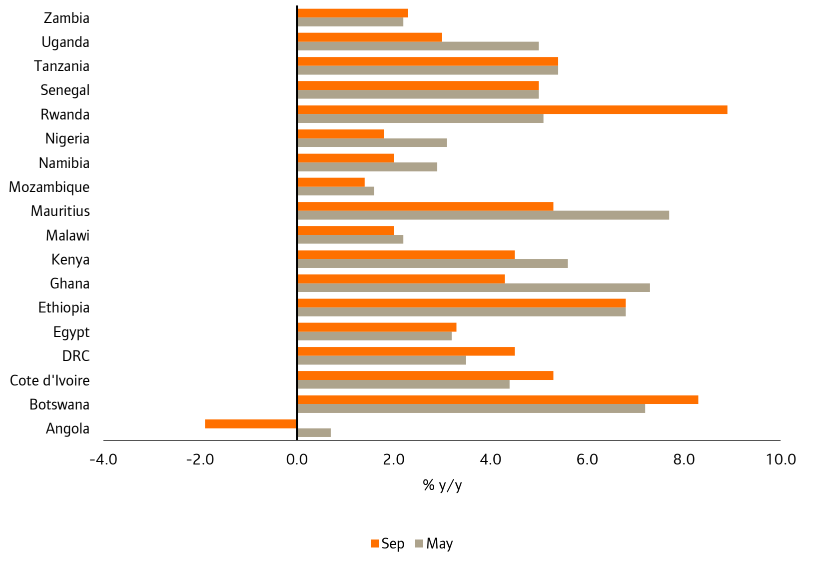
Nevertheless, since May restrictions were reinstated in Uganda, Angola, DRC, Zambia, Mozambique and Rwanda. Uganda's were probably the more stringent, with the lockdown as severe as in Q2:20, inevitably weighing down growth in Q2:21 and Q3:21, but lasting only 42-d. Yet, courtesy of favourable base effects, this economy still expanded by 6.2% y/y in Q2:21, from 1.5% y/y in Q1:21.

However, Uganda may see GDP growth softening in H2:21 due to drought conditions in northern Uganda. We now forecast FY2021/22 GDP growth at 4.5% y/y-4.8% y/y, from previously 6.4% y/y. A swifter pick-up in oil-related investments may see growth recover faster than that — but the oil Final Investment Decision (FID) is at risk of being postponed further due to ESG-related concerns.

Zambia too saw partial lockdown measures reintroduced for two months from mid-Jun, although schools were mostly open, unlike the previous lockdown. We forecast GDP growth at 2.3% y/y for 2021 which is higher than the government's 1.6% y/y forecast, largely due to favourable weather conditions for agriculture, tailwinds from ZMW appreciation for private consumption, and base effects.

After Kenya's stringent but short lockdown earlier this year, the government had to enforce a further lockdown in the western region for 13 counties as cases rose due to the Delta variant. A countrywide curfew remains in effect from 4am to 10pm. We now lower our 2021 GDP growth forecast to 4.5% y/y, from 5.6% y/y. However, this revision is attributable more to the revision in GDP growth data after a rebasing to the 2016 year from 2009, rather than public health restrictions. Also, drought conditions have been reported in parts of the country, albeit not food-growing, regions. The president has declared droughts in parts of Kenya a national disaster. Should the short rains season in Q4:21 disappoint, agricultural production may be lower both in Q4:21 and H1:22.

Figure 7: SBR's 2021 growth forecasts - May vs Sep



Source: Standard Bank Research

Leading economic indicators in Kenya so far in 2021 seem robust; the 5.5% y/y contraction in GDP growth for Q2:20 is likely to have been revised lower, while the contraction from Q3:20 of 1.1% y/y was revised to growth of 2.1% y/y. Hence, base effects are unlikely to be as favourable as we initially anticipated for 2021 GDP growth. Still, ongoing public investment in infrastructure as well as strong growth from horticulture could see Kenya's GDP growth slightly higher than our current forecast.

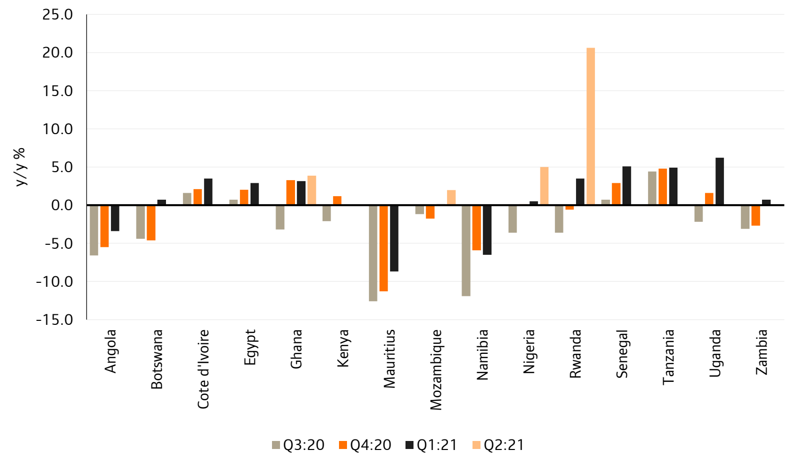
For Ghana, we trim our 2021 GDP growth forecast to 4.3% y/y, from 7.3% y/y. After a key mine was closed in May, output will likely be down in 2021. Oil production too has subsided to an average of 187.4/bbl in Q1:21, from 194.8/bbl in H2:20, due to delays in drilling oil wells. Furthermore, despite favourable base effects, GDP growth expanded by just 3.9% y/y in Q2:21, from the 3.2% y/y average in the two preceding quarters. Indeed, this prompted us to lower our growth forecast for 2021.

Rwanda's GDP growth in Q2:21 rose to 20.6% y/y, from 3.5% y/y, primarily due to unwinding base effects. We now see 2021 GDP growth at 8.9% y/y, from 5.1% y/y previously.

For Nigeria, favourable base effects saw Q2:21 GDP growth rise to 5.0% y/y, from an average contraction of 0.2% y/y in the preceding three quarters. However, as oil production dwindles and FX liquidity pressures persist, we now forecast GDP growth at 1.8% y/y, from our previous expectation of 3.1% y/y.

For Angola, we expect the recession to extend by 5-y, with a likely contraction of 1.9% y/y in 2021. Oil production remains subdued as there's been no exploration in new oil fields, and maturing oil fields are no longer as productive.

Figure 8: GDP growth by quarter



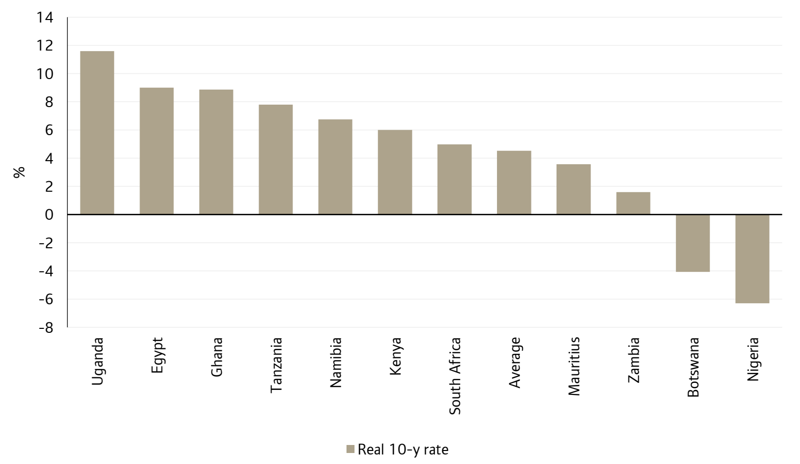
Source: Various central banks, and statistical agencies

FX and fixed income strategy

With the US Federal Reserve now widely expected to taper bond purchases by year-end and perhaps hike rates towards end 2022, there will be concerns around exchange rate volatility in some high beta markets — such as Ghana, Egypt, Uganda and Zambia.

Indeed, there may be moderate pressure on exchange rates in these markets and perhaps a few others towards year-end 2021 and early 2022 but the well telegraphed nature of US bond purchase tapering still may not incur exchange rate volatility such as during the taper tantrum of 2013/14.

Figure 9: Real 10-y bond yields



Source: Bloomberg, Standard Bank Research

In fact, any weakness in exchange rates in these markets and a rise in domestic yields would embolden us to view it as an opportunity as FX and yield entry levels improve. Of course, it helps that external positions now have additional buffers after the increase in SDR allocations from the IMF in Aug 21.

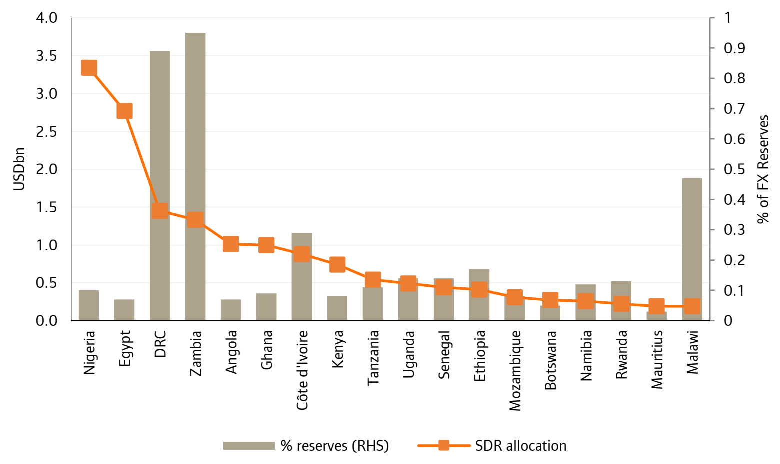
USD/NGN implied NDF yields on the right have been edging higher after suggestions of USD/NGN parallel market levels rising, following the CBN's decision to stop FX sales to BDCs. Indeed, BDC were notable suppliers of FX to that segment.

However, the CBN deems the parallel market illegal, and again reiterating this view at the MPC meeting in Sep 21. This may imply that the CBN won't adjust the official

USD/NGN higher, or at least not adjust it close to the suggested parallel market levels. We envisage the USD/NGN official rate gradually rising to 430 by year-end.

Recently, there's been renewed optimism that the CBN may ramp up FX sales to the I&E window following the boost to FX reserves from the USD3.3bn IMF SDR allocation and the recent USD4.0bn Eurobond issuance. Note, however, the level of FX reserves hasn't been a major issue with respect to patchy FX supply at the I&E window but rather the CBN not drawing down on reserves. Thus, FX supply increasing remains highly uncertain.

Figure 10: SDR allocation



Source: Standard Bank Research, IMF

Perhaps the CBN won't adjust the official FX rate higher, as higher oil prices should support the C/A balance even though production is below par. Furthermore, improved FX reserves may see the CBN regard the overall BOP as stable, with little need to bump up the official USD/NGN rate. Indeed, they may be thinking that foreign portfolio investors will return to the Nigerian fixed income market in light of these developments. However, with negative real yields and the ongoing paucity in FX liquidity, enticing new foreign portfolio investment will prove hard, and retaining existing offshore portfolio investment in Nigeria even harder. The total FX backlog is estimated at USD3.6bn-4.7bn, with the corporate demand backlog around USD2.0bn-3.0bn, and around USD1.6bn-1.7bn for foreign portfolio investors.

Despite a recent rise in right hand side implied NDF USD/NGN yields, we would still rather buy than sell USD/NGN NDFs over the next 3-m or so.

We still favour Egyptian fixed income, both for carry and duration. After being placed on the watchlist back in Apr for GBI-EM inclusion, it seems certain that EGP bonds will be included in this index. We see the market as large having already priced this in, hence, long end EGP yields are unlikely to fall materially from Nov 21 when inclusion is expected. Euroclearability could however take longer to secure, possibly being postponed to Q1:22. As prerequisite conditions for both the GBI-EM and Euroclear settlement, the government intentionally ramped up issuance of government bonds, which put upside pressure on yields and steepened the yield curve.

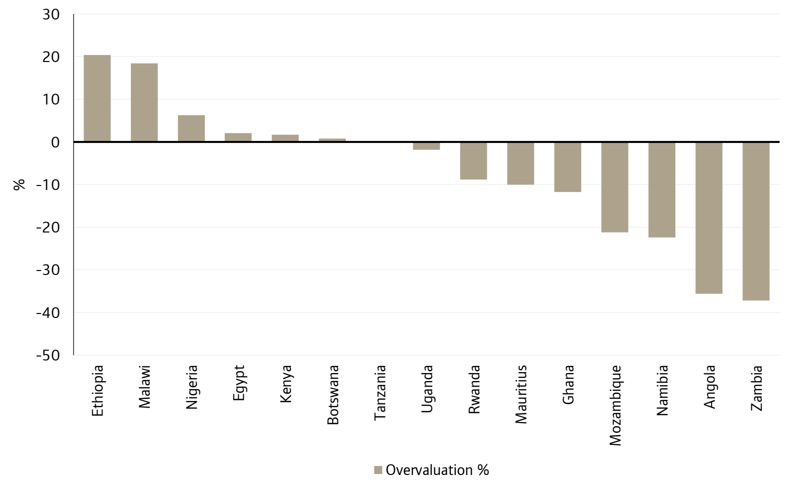
The CBE will probably remain cautious around the global risk setting amidst talk of tighter monetary policy conditions in advanced economies, and could thus look to continue maintaining relatively attractive real EGP yields over the next 3 to 6-m. If anything, the EGP yield curve may steepen further during this period.

The Zambia 24s, in our shadow portfolio since 22 Feb, have delivered a direct return of 47.8%. The ZMW yield curve has bull-flattened over the past 2-m or so. Foreign portfolio investment inflows had already begun to rise prior to the Aug 22 elections, but offshore appetite for ZMW bonds increased even further after the elections.

The new Zambian government is already pushing to secure an IMF program, which we expect by Q1:22. Once in place, it may expedite debt restructuring negotiations with external creditors. The external creditors committee has been concerned about the actual amount of external debt on the government's balance sheet as well as the preferential treatment given to other bilateral creditors. Indeed, the government has acknowledged that external debt may be higher than the USD12.9bn reported on Jun 21.

With inflation at 24.4% y/y in Aug 21, investors investing in ZMW fixed income are making negative real returns. However, with the expected boost to FX reserves from the likely IMF program, in addition to the USD1.3bn support from the IMF SDR allocation, ZMW may prove more stable and even appreciate slightly, which may incur headline inflation to decline. However, were the government to consolidate public finances after an IMF program, taxes may need to be raised and subsidies eliminated - both of which may put upside pressure on inflation. Indeed, the inflation outlook may be key for ZMW bond yields over the next 6-m and, should inflation remain stickily elevated, the recent momentum in foreign portfolio investment may subside.

Figure 11: Currency valuations



Source: Standard Bank Research

Our Ghana 29 position in our shadow portfolio has returned 20.7% since inception. We are comfortable to hold this position despite near-term upside risks for USD/GHS related to global risk. As of Jul 21, foreigners accounted for 20.13% of the total domestic debt stock, from 28.61% in Jan 20 and 30.23% in Jun 19. However, interestingly, in nominal terms foreign holdings increased during this period, and this reduction in the ratio of holdings is simply a function of a notable increase in the domestic debt stock. The pace of fiscal consolidation is therefore likely to remain sluggish, especially as economic activity takes longer to recover. Nevertheless, FX reserves were boosted by USD1.05bn from the additional IMF SDR allocation, and could rise further after the issuance of the planned social bond. Indeed, we see the BOG continuing to intervene and increase FX supply to the market.

We have been eyeing better yield entry levels in Uganda since May. Due largely to ongoing foreign portfolio investment, 10-y bond yields dropped below 14.0%, which seems rich. However, we are confident of returning to this market at better entry levels, particularly as fiscal policy will probably remain expansionary and the global risk environment could deteriorate towards year-end 2021 and into 2022.

Table 1: Open trades

Positions	Entry date	Entry yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %	
						Since inception	Since May 21
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	14.40	15.70	96.9	4.7
Ethiopia: buy USD/ETB 24-m NDF	06-Aug-20	12.10	35.42	23.54	46.06	21.5	2.8
Ghana: buy Ghana '29	03-Dec-20	21.00	5.94	19.35	6.03	20.7	4.0
Zambia: buy ZAMGB '24	22-Feb-21	34.50	21.68	23.50	16.41	47.8	46.4
Kenya: buy KenGB '39	08-Apr-21	12.67	107.97	12.40	110.17	-0.1	-3.5

Source: Bloomberg; Standard Bank Research

African Eurobonds

Our SBAFSO index is up 1.42% YTD, compared to the Global EMBI which is down 0.73% YTD. Between end Oct 20 and early Feb 21, the SBAFSO index gained 12.8%, supported by positive vaccination sentiment. However, global risk appetite waned after the SBAFSO lost 5.1% between early Feb 21 and end Mar. Even though valuations had already started to look rich, the decline in risk sentiment was largely attributable to the spike in inflation expectations in advanced economies – fuelling expectations of a hawkish policy stance.

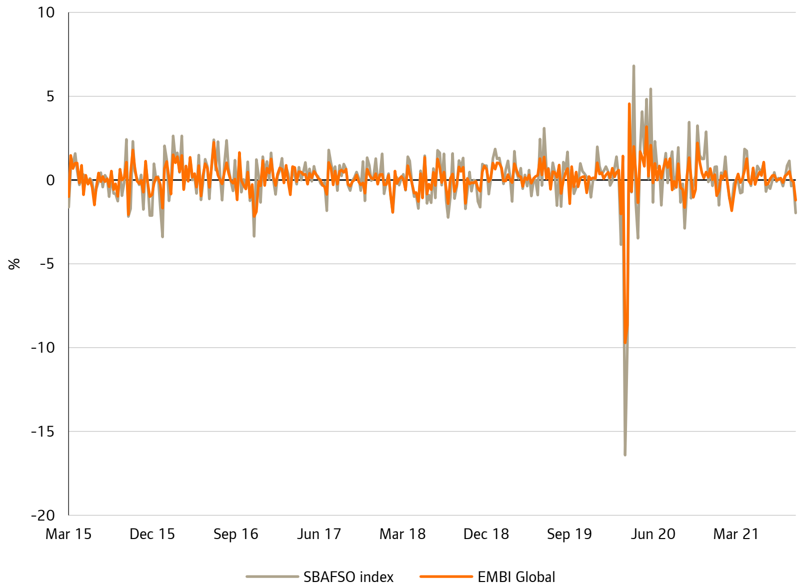
Indeed, while the SBAFSO index recovered and gained some 8.4% between early Apr 21 and early 7 Sep 21, risk sentiment may prove volatile ahead of US bond purchase tapering, which now seems likely by year-end.

We favour the long end for Côte d'Ivoire, Senegal and Zambia. We remain cautious on Kenya, Nigeria and Ethiopia. Even though the Ethiopia 24s looks cheap, there's still uncertainty about the political situation and the government's debt restructuring plans. Kenya's ability to consolidate public finances ahead of the Aug 22 elections concerns us despite the IMF program being in place. Nigeria's entrenched FX liquidity situation, combined with poor oil production, makes us cautious on this hard currency credit.

With Egypt and Nigeria already issuing a Eurobond in Sep 21, we see Côte d'Ivoire and Kenya as potential issuers by end 2021. Côte d'Ivoire already had intentions to raise funding back in Jul – but this was postponed owing to unfavourable global risk conditions. Meanwhile, Kenya may tap the Eurobond market before year-end rather than in the 2022 election year when political risks may be elevated.

Arguably, with the new IMF SDR allocations, the Eurobond issuance pipeline has become opaque. However, while some sovereigns may avoid issuing more commercial debt due to this new funding over the next 6 to 8-m, most may simply reduce planned issuance amounts from the Eurobond market. In fact, many other sovereigns may issue before global risk dynamics deteriorate, similar to Egypt's USD3.0bn issuance in Sep 21 which authorities expedited to avoid the risk environment closer to US bond purchase tapering.

Figure 12: Weekly return of the EMBI Global vs SBAFSO index



Source: Bloomberg, Standard Bank Research

Table 2: African Eurobonds

					Spread, bps		Spread change, bps			Total Return, %		
Name	**Moody's/Fitch**	**Mid Price**	**Mod Dur**	**Yield, %**	**Over UST**	**Z-Spread**	**1 wk**	**YTD**	**12mths**	**1 wk**	**YTD**	**12mths**
ANGOL 9.5% 12-NOV-2025	B3/CCC	109.589	3.3	6.79	614	594	73.97	-199	-663	-2.6	11.6	35.8
ANGOL 8.25% 09-MAY-2028	B3/	103.373	4.9	7.59	662	643	70.76	-187	-570	-3.7	13.4	40.5
ANGOL 8% 26-NOV-2029	B3/CCC	102.379	5.8	7.60	650	632	60.48	-189	-511	-3.6	14.7	40.4
ANGOL 9.375% 08-MAY-2048	B3/	102.504	9.6	9.12	766	755	38.58	-137	-406	-4.2	15.3	43.7
ANGOL 9.125% 26-NOV-2049	B3/CCC	100.872	9.8	9.04	756	746	35.91	-141	-393	-4.1	16.0	43.0
REPCAM 9.5% 19-NOV-2025	/B	115.772	2.7	4.08	361	338	15.51	-231	-476	-0.5	10.0	21.1
REPCON 3% 30-JUN-2029	/CCC	81.932	3.2	11.80	1 120	1 083	3.14	-116	-161	-0.1	11.8	16.9
EGYPT 5.577% 21-FEB-2023	B2u/B+	104.078	1.3	2.58	244	229	48.06	-24	-149	-0.6	2.3	6.1
EGYPT 4.55% 20-NOV-2023	B2u/B+	103.084	2.0	3.05	277	263	28.78	-22	-141	-0.6	2.4	7.0
EGYPT 6.2004% 01-MAR-2024	B2u/B+	106.543	2.2	3.37	302	287	40.73	-21	-151	-1.0	2.5	7.7
EGYPT 5.75% 29-MAY-2024	B2u/B+	105.411	2.4	3.61	320	304	42.97	-9	-143	-1.1	2.2	7.8
EGYPT 5.875% 11-JUN-2025	B2/B+	104.963	3.3	4.41	379	361	44.58	32	-110	-1.6	0.5	7.5
EGYPT 5.25% 06-OCT-2025	/B+	103.722	3.5	4.23	355	337	40.72	12		-1.6	0.9	
EGYPT 3.875% 16-FEB-2026	B2/B+	95.583	3.9	5.01	421	408	61.29			-2.7		
EGYPT 7.5% 31-JAN-2027	B2/B+	107.930	4.4	5.75	488	471	60.90	78	-120	-2.9	-2.0	9.2
EGYPT 6.588% 21-FEB-2028	B2u/B+	102.516	5.1	6.11	510	495	54.06	68	-120	-3.1	-2.4	9.7
EGYPT 7.6003% 01-MAR-2029	B2u/B+	105.939	5.6	6.57	549	534	52.79	73	-114	-3.2	-3.0	9.9
EGYPT 5.875% 16-FEB-2031	B2/B+	94.036	7.0	6.74	544	537	58.30			-4.5		
EGYPT 7.0529% 15-JAN-2032	B2u/B+	99.271	7.1	7.15	585	575	48.49	70	-119	-3.9	-4.0	10.8
EGYPT 7.625% 29-MAY-2032	B2u/B+	102.386	7.1	7.30	600	589	50.73	79	-134	-4.0	-4.7	12.2
EGYPT 6.875% 30-APR-2040	B2/B+	93.839	9.8	7.49	601	591	30.01	49	-78	-3.6	-4.3	7.7
EGYPT 8.5% 31-JAN-2047	B2/B+	99.222	10.2	8.57	708	699	35.15	81	-100	-4.1	-6.7	11.3
EGYPT 8.7002% 01-MAR-2049	B2u/B+	99.773	10.3	8.72	722	714	35.17	95	-103	-4.2	-8.1	11.7
EGYPT 8.875% 29-MAY-2050	B2u/B+	101.561	10.2	8.72	723	714	36.71	93	-111	-4.3	-7.8	12.5
EGYPT 7.903% 21-FEB-2048	B2u/B+	93.983	10.5	8.48	697	688	35.36	91	-93	-4.3	-7.9	10.6
EGYPT 8.15% 20-NOV-2059	B2u/B+	94.634	10.9	8.63	711	704	34.39	94	-88	-4.2	-8.4	10.3
EGYPT 7.5% 16-FEB-2061	B2/B+	89.482	11.4	8.42	685	682	37.09			-4.5		
ETHOPI 6.625% 11-DEC-2024	Caa1 *-/CCC	87.227	2.7	11.49	1 102	1 081	19.75	524	486	-0.5	-9.8	-6.7
GABON 6.375% 12-DEC-2024	/B-	107.169	2.0	2.98	268	245	23.79	-183	-550	-0.5	6.9	19.9
GABON 6.95% 16-JUN-2025	Caa1/B-	108.846	3.2	4.34	374	355	42.01	-107	-433	-1.5	6.0	21.9
GABON 6.625% 06-FEB-2031	Caa1/B-	98.507	6.2	6.86	565	555	36.22	13	-195	-2.8	0.1	15.8
GHANA 7.875% 07-AUG-2023	B3/B	105.307	1.7	4.85	462	449	26.75	76	-48	-0.4	1.5	6.0
GHANA 8.125% 18-JAN-2026	B3/B	102.289	2.8	7.32	683	660	35.26	229	-94	-1.1	-3.4	9.9
GHANA 6.375% 11-FEB-2027	B3/B	95.290	3.7	7.67	693	676	35.26	182	-129	-1.4	-3.9	11.6
GHANA 7.875% 26-MAR-2027	B3u/B	98.775	3.6	7.86	714	694	28.10	217	-113	-1.2	-5.1	11.0
GHANA 7.625% 16-MAY-2029	B3/B	96.695	4.9	8.28	730	712	28.35	130	-157	-1.7	-4.0	14.1
GHANA 10.75% 14-OCT-2030	B1/BB-	122.687	5.4	7.00	596	575	14.88	74	-110	-1.2	-2.4	9.9
GHANA 8.125% 26-MAR-2032	B3u/B	96.582	6.2	8.49	728	715	24.04	87	-209	-1.8	-3.3	18.5
GHANA 7.875% 11-FEB-2035	B3/B	91.714	7.5	9.00	768	755	21.37	96	-167	-2.1	-5.1	17.0
GHANA 8.627% 16-JUN-2049	B3/B	91.059	9.5	9.56	809	799	16.85	72	-161	-2.2	-4.9	18.0
GHANA 8.95% 26-MAR-2051	B3u/B	92.889	9.7	9.69	822	813	14.37	71	-153	-2.1	-4.6	17.5
GHANA 8.75% 11-MAR-2061	B3/B	91.018	10.1	9.64	815	807	12.32	75	-165	-1.9	-5.2	19.0
GHANA 0% 07-Apr-2025	B3/B	77.824	3.4	7.24	656	646	26.44			-1.0		
GHANA 7.75% 07-APR-2029	B3/B	97.109	5.4	8.27	724	704	24.53			-1.6		
GHANA 8.625% 07-APR-2034	B3/B	97.159	6.1	8.99	783	766	19.13			-1.6		
GHANA 8.875% 07-MAY-2042	B3/B	94.681	8.2	9.48	810	796	17.04			-1.9		
IVYCST 5.375% 23-JUL-2024	Ba3/BB-	106.995	2.6	2.78	232	218	-0.40	-101	-251	-0.1	4.5	11.0
IVYCST 5.75% 31-DEC-2032	/BB-	100.094	4.9	5.73	476	452	12.05	-38	-177	-0.9	3.3	12.1
IVYCST 6.375% 03-MAR-2028	Ba3/BB-	110.994	4.6	4.09	317	303	11.04	-13	-260	-0.8	1.0	15.7
IVYCST 6.125% 15-JUN-2033	Ba3/BB-	107.029	7.8	5.26	391	382	18.45	8	-213	-2.0	-1.3	17.6
KENINT 6.875% 24-JUN-2024	/B+	110.028	2.5	3.03	262	245	3.88	-104	-339	-0.2	4.8	14.2
KENINT 7% 22-MAY-2027	B2u/B+	108.701	3.9	4.88	411	392	13.19	-35	-288	-0.7	3.1	16.9
KENINT 7.25% 28-FEB-2028	B2u/B+	110.485	5.1	5.30	429	414	20.22	-39	-272	-1.4	3.1	18.5
KENINT 8% 22-MAY-2032	B2u/B+	110.890	6.7	6.46	520	510	21.87	12	-237	-1.9	0.0	19.2
KENINT 8.25% 28-FEB-2048	B2u/B+	109.029	11.2	7.46	592	585	18.99	4	-182	-2.7	0.0	20.5
KENINT 6.3% 23-JAN-2034	B2u/B+	99.143	8.1	6.40	503	493	20.10			-2.2		
MOROC 4.25% 11-DEC-2022	/BB+	103.923	1.2	0.96	85	70	19.98	-52	-84	-0.2	1.7	2.8
MOROC 2.375% 15-DEC-2027	Ba1u/BB+	98.828	5.7	2.58	146	139	2.89	-28		-0.7	0.1	
MOROC 3% 15-DEC-2032	Ba1u/BB+	96.460	9.3	3.38	193	187	5.55	5		-1.3	-2.9	
MOROC 5.5% 11-DEC-2042	/BB+	114.064	12.9	4.47	276	281	-0.97	24	-10	-1.0	-5.6	-3.9
MOROC 4% 15-DEC-2050	Ba1u/BB+	92.705	16.4	4.45	253	275	3.54	22		-1.8	-7.5	
MOZAM 5% 15-SEP-2031	Caa2u/	87.201	5.9	10.06	894	879	-5.57	69	-83	0.0	-0.5	11.2
REPNAM 5.25% 29-OCT-2025	Ba3/BB	107.627	3.6	3.24	252	237	-2.65	-65	-251	-0.1	3.4	12.9
NGERIA 5.625% 27-JUN-2022	B2/B	102.895	0.7	1.71	166	151	42.31	-119	-348	-0.3	3.1	7.9
NGERIA 6.375% 12-JUL-2023	/B	105.963	1.7	2.93	271	258	22.68	-4	-273	-0.4	2.0	10.2
NGERIA 7.625% 21-NOV-2025	B2/B	111.288	3.5	4.60	391	373	12.65	5	-259	-0.6	1.5	14.4
NGERIA 6.5% 28-NOV-2027	B2/B	104.001	5.0	5.72	474	458	19.53	9	-224	-1.3	0.8	15.7
NGERIA 7.143% 23-FEB-2030	B2/B	102.984	6.2	6.67	546	537	26.95	9	-197	-2.0	0.3	15.8
NGERIA 8.747% 21-JAN-2031	B2/B	110.197	6.4	7.22	599	588	23.66	9	-205	-1.9	0.5	16.8
NGERIA 7.875% 16-FEB-2032	B2/B	104.478	7.0	7.25	595	586	28.71	15	-211	-2.5	0.1	18.6
NGERIA 7.696% 23-FEB-2038	B2/B	99.417	9.1	7.76	632	621	15.01	20	-196	-2.0	-1.2	19.9
NGERIA 9.248% 21-JAN-2049	B2/B	109.511	10.4	8.36	686	677	24.49	19	-187	-3.2	-0.9	20.6
NGERIA 7.625% 28-NOV-2047	B2/B	96.784	10.8	7.92	640	631	16.49	37	-164	-2.4	-2.9	18.2
RWANDA 6.625% 02-MAY-2023	/B+	107.315	1.5	1.94	176	162	-2.80	-176	-321	0.0	5.2	9.9
RWANDA 5.5% 09-AUG-2031	/	104.437	7.6	4.93	360	351	-2.80			-0.4		
SENEGL 6.25% 30-JUL-2024	Ba3/	110.614	2.6	2.36	191	176	9.98	-101	-317	-0.4	4.2	13.0
SENEGL 6.25% 23-MAY-2033	Ba3/	105.389	7.6	5.56	424	414	22.65	25	-153	-2.3	-2.2	12.4
SENEGL 6.75% 13-MAR-2048	Ba3/	102.050	12.2	6.58	493	495	16.04	15	-138	-2.7	-2.8	14.6

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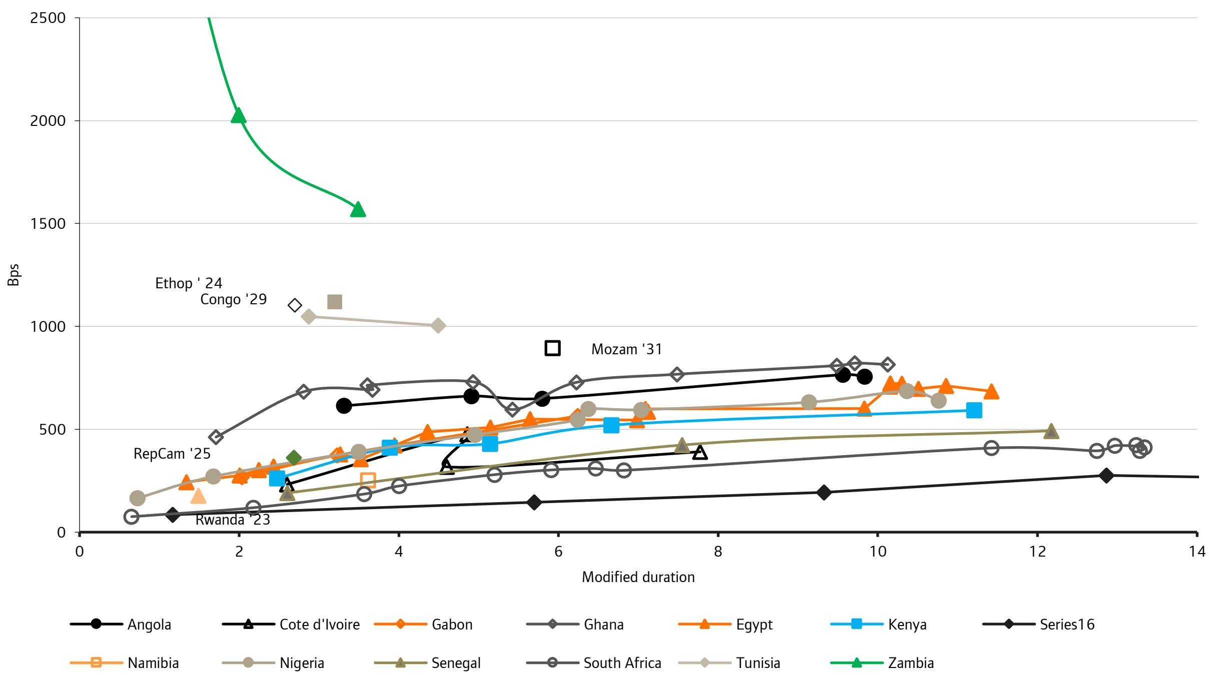
Table 2: African Eurobonds (continued)

Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Spread, bps		Spread change, bps			Total Return, %		
					Over UST	Z-Spread	1 wk	YTD	12mths	1 wk	YTD	12mths
SOAF 5.875% 30-MAY-2022	Ba2/BB-	103.379	0.7	0.80	75	62	28.58	3	-160	-0.2	0.6	3.6
SOAF 4.665% 17-JAN-2024	Ba2/BB-	107.081	2.2	1.53	119	106	6.15	-61	-263	-0.2	2.3	9.4
SOAF 5.875% 16-SEP-2025	Ba2/BB-	112.364	3.6	2.58	186	173	7.16	-38	-222	-0.5	1.7	10.7
SOAF 4.875% 14-APR-2026	Ba2/BB-	107.663	4.0	3.06	225	211	10.01	-34	-214	-0.7	1.6	11.2
SOAF 4.85% 27-SEP-2027	Ba2/BB-	105.541	5.2	3.81	280	267	4.51	-17	-191	-0.7	0.7	11.9
SOAF 4.3% 12-OCT-2028	Ba2/BB-	100.920	5.9	4.15	303	290	12.39	-2	-192	-1.2	-0.3	12.9
SOAF 4.85% 30-SEP-2029	Ba2/BB-	103.465	6.5	4.33	309	301	8.35	-16	-188	-1.1	0.6	13.2
SOAF 5.875% 22-JUN-2030	Ba2/BB-	111.461	6.8	4.29	301	294	6.64	-40	-204	-1.0	2.1	14.7
SOAF 6.25% 08-MAR-2041	Ba2/BB-	106.809	11.4	5.67	409	404	7.45	-35	-167	-1.6	2.8	17.3
SOAF 5.375% 24-JUL-2044	Ba2/BB-	96.481	12.7	5.65	395	400	5.59	-34	-174	-1.7	2.3	19.1
SOAF 6.3% 22-JUN-2048	Ba2/BB-	105.015	13.0	5.92	421	427	5.97	-33	-190	-1.7	2.6	21.5
SOAF 5.65% 27-SEP-2047	Ba2/BB-	96.959	13.3	5.88	413	422	2.18	-27	-183	-1.7	1.3	20.6
SOAF 5% 12-OCT-2046	Ba2/BB-	90.801	13.3	5.69	396	403	10.78	-19	-170	-2.2	0.5	18.8
SOAF 5.75% 30-SEP-2049	Ba2/BB-	96.894	13.2	5.97	424	432	9.24	-19	-180	-2.0	0.8	20.2
BTUN 5.75% 30-JAN-2025	B3/B-	85.643	2.9	11.00	1 048	1 028	57.57	246	198	-1.6	-1.6	2.3
BTUN 8.25% 19-SEP-2027	B3/WD	88.423	4.5	10.94	1 004	984	37.77	146	94	-1.8	-1.8	2.9
ZAMBIN 5.375% 20-SEP-2022	/WD	74.059	0.8	39.95	3 990	3 973	393.9	-947	-149	-2.6	48.0	47.4
ZAMBIN 8.5% 14-APR-2024	/WD	76.984	2.0	20.56	2 027	2 004	130.1	-1201	-1112	-2.5	54.1	60.9
ZAMBIN 8.97% 30-JUL-2027	/WD	75.982	3.5	16.39	1 571	1 545	70.8	-944	-852	-2.7	54.1	58.9
SB Africa Eurobond (incl. SA)	B+			6.74	557	543	17	2.3	-211	-2.0	1.4	15.9
SB Africa Eurobond (excl. SA)	B+			7.03	589	574	22	0	-224	-2.1	1.9	16.5

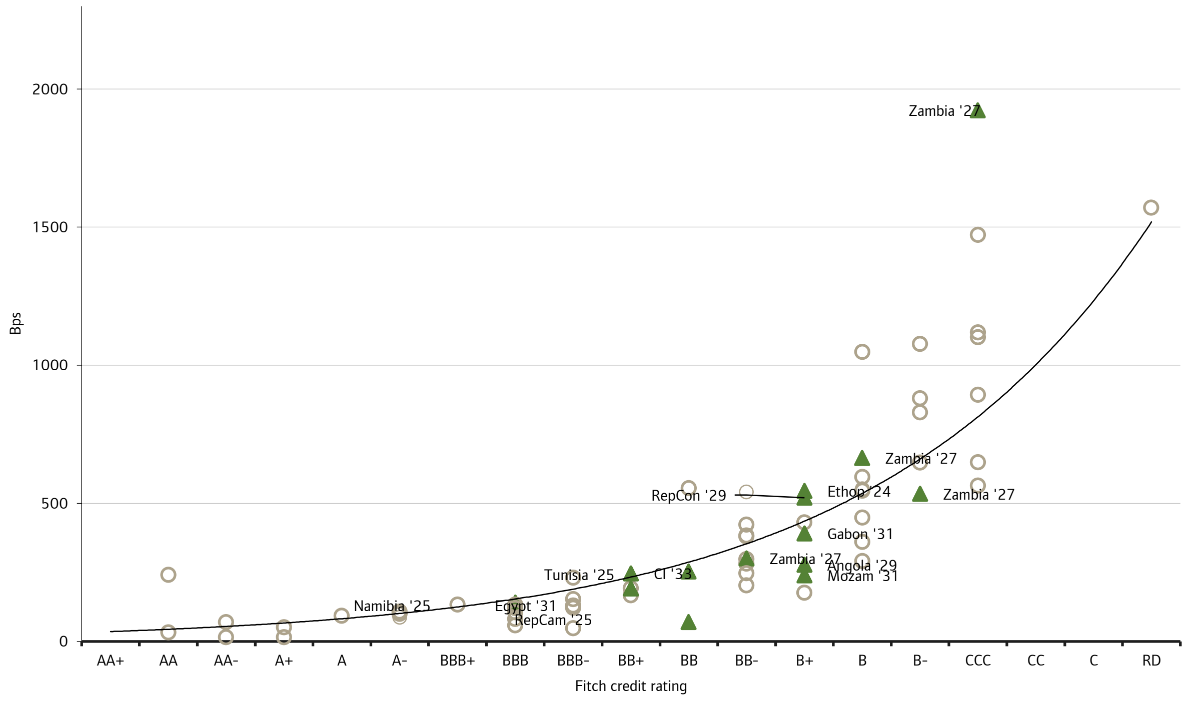
Source: Bloomberg; Standard Bank Research

Figure 13: African Eurobonds (spread over UST vs modified duration)



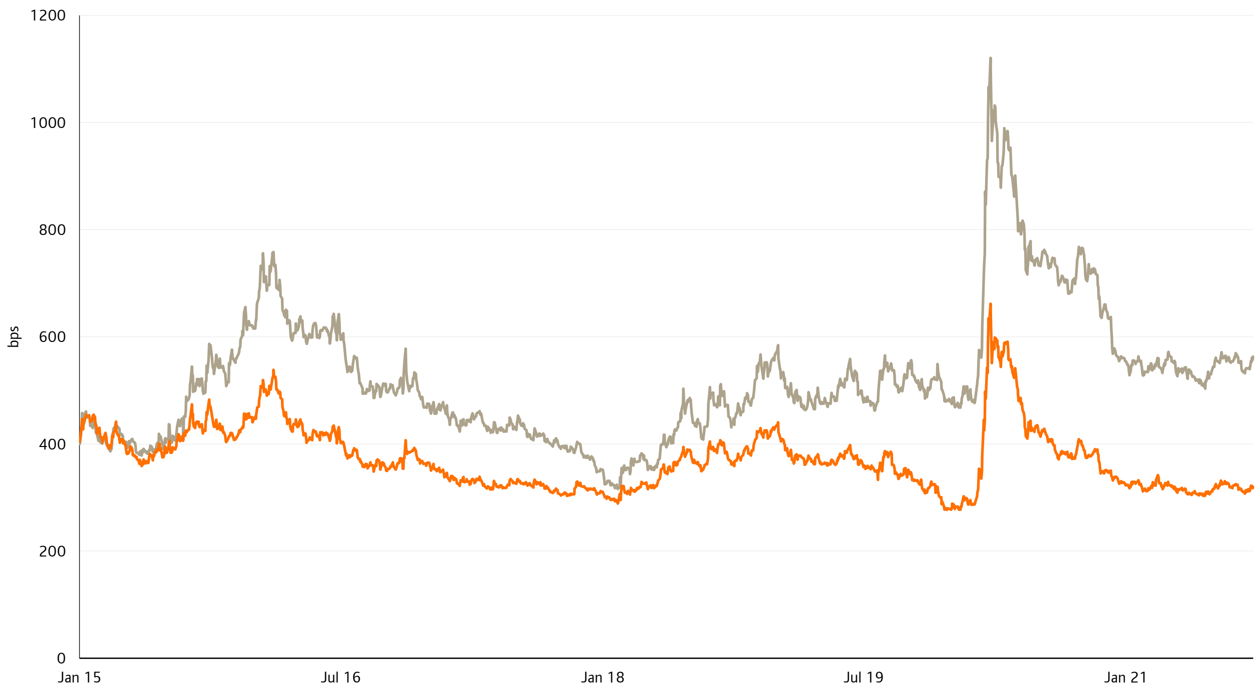
Source: Bloomberg; Standard Bank Research

Figure 14: African and broader EM bonds (spread over UST vs credit rating)



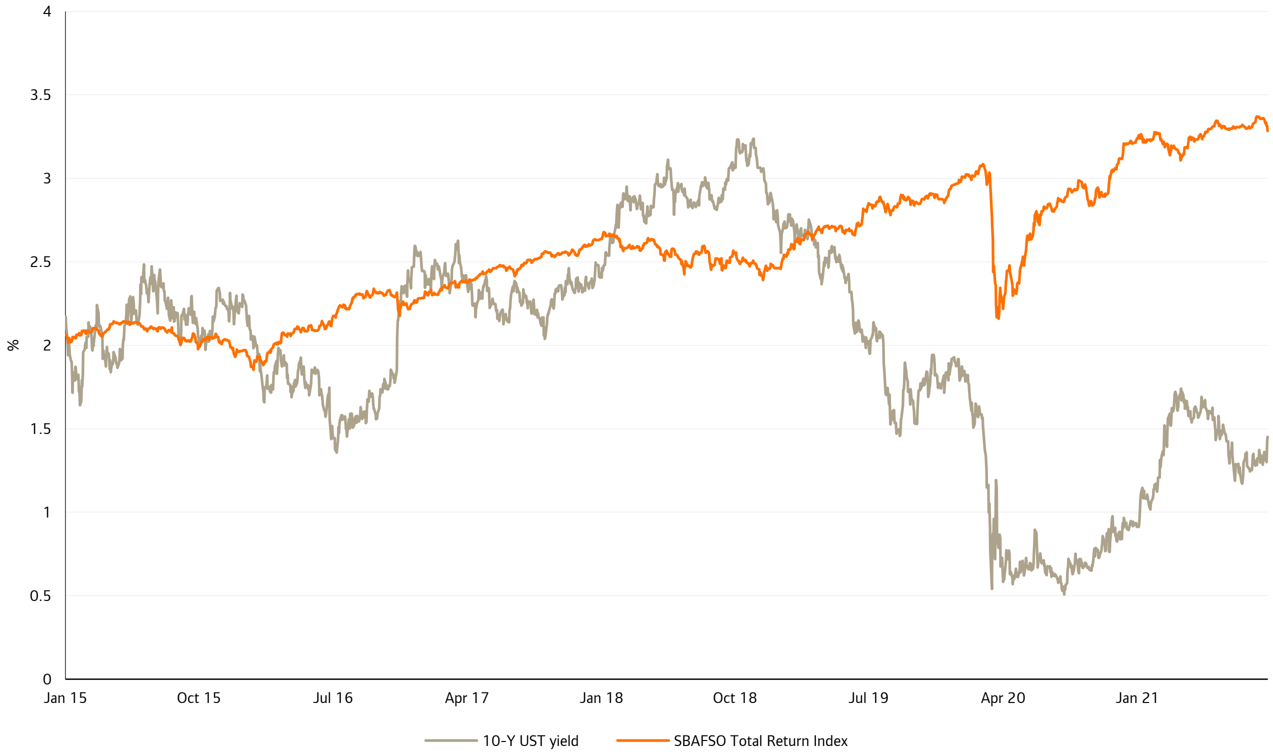
Source: Bloomberg; Standard Bank Research

Figure 15: Spread over UST: SB African Eurobond index vs EMBI Global



Source: Bloomberg; Standard Bank Research

Figure 16: SBAFSO total return index vs 10-Y UST yield



Source: Bloomberg; Standard Bank Research

Recommended trades: performance

Table 3: Open trades

Positions	Entry date	Entry yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %	
						Since inception	Since May 21
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	14.40	15.70	96.9	4.7
Ethiopia: buy USD/ETB 24-m NDF	06-Aug-20	12.10	35.42	23.54	46.06	21.5	2.8
Ghana: buy Ghana '29	03-Dec-20	21.00	5.94	19.35	6.03	20.7	4.0
Zambia: buy ZAMGB '24	22-Feb-21	34.50	21.68	23.50	16.41	47.8	46.4
Kenya: buy KenGB '39	08-Apr-21	12.67	107.97	12.40	110.17	-0.1	-3.5

Source: Bloomberg; Standard Bank Research

Table 4: Closed trades

	Entry date	Close date	Entry yield, %	Entry FX	Close yield, %	Close FX	Total return, %	
							Since inception	Annualised
Kenya: sell USD/KES 6m NDF	15-Aug-17	09-Feb-18	9.06	103.72	5	101.03	7.26	15.46
Angola: sell USD/AOA 2-m NDF	19-Dec-17	14-Feb-18	106.87	166.75	5	210.63	-6.53	-35.09
Malawi: buy 12-m T-bill	04-Apr-17	04-Apr-18	23.37	725.23	14	725.595	21.37	21.37
Mozambique: sell USD/MZN 12m NDF	12-Apr-17	12-Apr-18	8.8	66.48	5	60.84	18.93	18.93
Kenya: buy Kenya IS '24	22-Nov-17	20-Apr-18	12.23	103.45	11.6	100.3	10.03	26.37
Egypt: buy 12-m T-bill	02-May-17	01-May-18	18.99	18.057	17.82	17.78	18.8	18.85
Zambia: sell USD/ZMW 12-m NDF	19-Dec-17	24-May-18	13.15	9.825	24.89	10.35	-5.99	-13.45
Ghana: sell USD/GHS 6-m NDF	19-Dec-17	27-Jun-18	12.3	4.53	5	4.76	1.12	2.15
Nigeria: buy 12-m T-bill	03-Aug-17	31-Jul-18	22.6	366	11	362.1	21.9	22.1
Kenya: buy Kenya IS '33	29-Jan-18	03-Sep-18	12.5	102.4	11.6	100.73	15.22	26.81
Zambia: sell USD/ZMW 12-m NDF	19-Dec-17	24-Sep-18	13.15	9.825	31.51	12	-13.76	-17.61
Uganda: buy UganGB '18	22-Feb-16	01-Nov-18	20.5	3440	9.74	3741	45.69	15
Uganda: buy UGANGB '24	11-Apr-19	30-Apr-19	15	3760	14.7	3735	2.4	57.65
Egypt: buy 12-m T-bill	01-May-18	30-Apr-19	16.92	17.704	17.52	17.183	18.42	18.48
Zambia: sell USD/ZMW 6-m NDF	30-Oct-18	25-Apr-19	34.27	11.57	5	12.35	9.62	20.85
Malawi: buy 12-m T-bill	02-May-18	02-May-19	15	725.5	9.35	736.74	11.25	11.25
Ghana: sell USD/GHS 12-m NDF	07-Jun-18	03-Jun-19	19.4	4.74	5	5.35	5.73	5.79
Kenya: buy INF 14	18-Feb-19	28-Jun-19	11.8	100.2	10.95	102.2	6.33	18.82
Angola: sell USD/AOA 12-m NDF	09-Jan-19	27-Sep-19	18.77	311.62	17.97	375.12	-6.14	-8.48
Angola: sell USD/AOA 12-m NDF	09-Jan-19	10-Oct-19	18.77	311.62	28.25	390.76	-11.52	-15.04
Egypt: buy 12-m T-bill	06-Nov-18	29-Oct-19	19.78	17.92	5	16.134	30.6	31.39
Nigeria: buy 12-m T-bill	01-Nov-18	31-Oct-19	16.82	363	5	363	14.78	14.82
BEAC: sell USD/XAF 2-y NDF	24-Nov-17	21-Nov-19	4.25	550.62	5	592.342	0.82	0.41
Kenya: buy INF 2035	28-Oct-19	31-Jan-20	12.4	103.6	11.35	100.56	13.2	61.02
Nigeria: buy NIGB '27	27-Feb-18	17-Mar-20	13.7	361	13.38	368.17	25.44	11.68
Zambia: sell USD/ZMW 6-m NDF	10-Dec-19	20-Mar-20	25.02	15.25	38.34	17.15	-8.27	-26.81
Nigeria: buy NIGB '27	27-Feb-18	17-Mar-20	13.7	361	13.38	368.17	25.44	11.68
Zambia: buy ZAMGB '26	18-Nov-16	14-Apr-20	24.5	9.81	33.81	18.403	-6.15	-1.85
Zambia: sell USD/ZMW 6-m NDF	10-Dec-19	14-Apr-20	25.02	15.25	32.63	18.4	-11.74	-30.36
Uganda: buy Uganda '29	14-Oct-19	15-Jun-20	14.9	3700	14.8	3720	8.75	13.31
Ghana: buy GHGB '20	31-Oct-16	23-Jun-20	20	3.985	15.6	5.791	24.87	6.28
Kenya: KenGB '29	08-Apr-20	20-Aug-20	12.1	106	10.6	108	10.41	30.96
Nigeria: sell USD/NGN 12-m NDF	22-Jun-20	13-Jan-21	18.06	387.8	20.96	393.18	6.37	11.61
Angola: buy USD/AOA 12-m NDF	09-Sep-20	13-Jan-21	26.15	620.75	17.57	652.5	-7.46	-20.11
Kenya: buy KenGB '31	24-Aug-20	17-Jan-21	11.24	108.000	11.00	110.080	3.93	10.12
Egypt: sell USD/EGP 12-m NDF		28-May-20	27-May-21	14.92	15.87	7.41	15.68	15.79

Source: Bloomberg, Standard Bank Research

Angola: growth only in 2022 when oil output should stabilise

Medium-term outlook: low investment, uncertainty, and GDP growth volatility

Our base case sees growth of 2.3% y/y for 2022, after the contraction of 1.9% y/y this year, as oil output should stabilise due to improved investment.

In our base, bull and bear growth cases, we see GDP growth in positive territory in 2022, a busy year politically due to the general elections, after a 6-y recession.

The bull scenario sees 0.1% y/y growth for 2021 on a stronger non-oil economy. Our base case sees oil output at an average of 1.150m bpd next year, posting 1.2% y/y growth, from an expected annual average of 1.136m bpd this year, which represents a 10.7% y/y contraction, the sharpest y/y decline since 2016 when oil output started to fall, leading to a prolonged recession because of maturing oil fields and limited investment, and then exacerbated by the pandemic's impact.

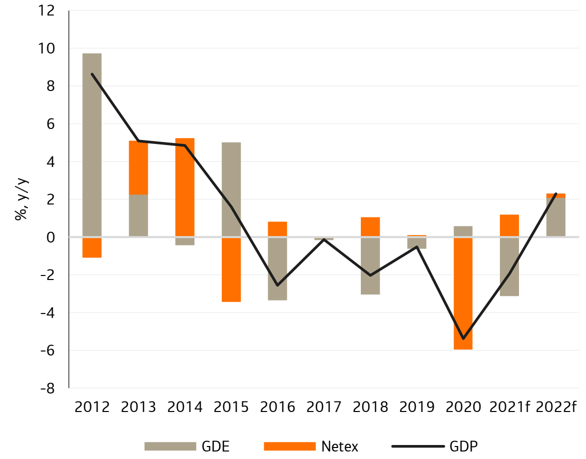
Angola made an important strategic decision at end 2018 by creating the National Oil and Gas Agency (ANPG), responsible for the sector's policies and regulatory activity, leaving exploration and production at Sonangol. This, together with progress on structural reforms, assisted by the 3-y IMF funded program which will end in Dec, helped revive major multinationals' interest in the oil sector. In addition, progress on the ease of doing business reforms was made, which also supports the non-oil economy.

However, the pandemic, the 2020 oil price collapse and, more recently, energy-transition global considerations have diminished investment, thereby increasing uncertainty and negatively affecting the growth outlook. For now, the economy is benefiting from the oil price recovery, relief from FX liquidity and fiscal pressures, assisted by external debt reprofiling and increased external funding, all supporting the balance of payments and the fiscus.

The result is that the kwanza may appreciate; however, these benefits are not yet resulting in either inflation easing or aggregate demand increasing. However, the expected easing in public health restrictions, progress with vaccinations, combined with an elections-related increase public expenditure, should lift aggregate demand in 2022, with both general domestic expenditure (GDE) and net exports contributing to growth.

The recent upgrade by Moody's of Angola's sovereign rating to B3, from Caa1, on reform progress, better governance, improved fiscal and currency outlook, should help lift investor sentiment and encourage investment.

Composition of GDP by demand



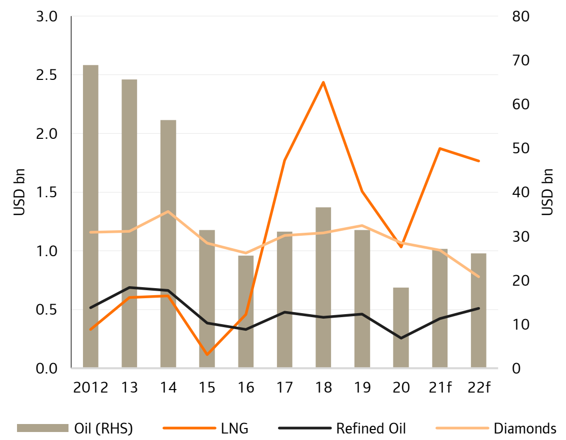
Source: Instituto Nacional de Estatística; Banco Nacional de Angola; Standard Bank Research

GDP composition by sector

	2016	2017	2018	2019	2020
Agriculture & forestry	4.5	4.6	4.6	4.7	5.1
Fishing	2.8	2.8	2.4	2.0	2.0
Oil	38.0	36.0	33.4	31.4	30.9
Other extractive industry	1.9	1.9	1.8	1.9	1.9
Manufacturing (incl. oil refinery)	3.9	4.0	4.2	4.3	4.7
Electricity & water supply	0.7	0.7	0.9	1.0	1.0
Construction	10.3	10.6	10.9	11.5	9.0
Wholesale and retail trade	12.6	12.8	13.0	13.3	14.7
Transport and storage	2.4	2.5	2.5	2.7	1.8
Courier and communication	1.9	1.8	1.9	1.8	1.8
Financial and insurance services	1.5	1.4	1.5	1.4	1.4
Public administration & defence	7.5	7.5	7.8	8.1	8.1
Real estate activities	5.0	5.1	5.4	5.6	5.6
Other services	7.1	8.4	9.8	10.4	12.1
GDP	100.0	100.0	100.0	100.0	100.0

Source: Instituto Nacional de Estatística, Standard Bank Research

Principal exports



Source: Banco Nacional de Angola; Standard Bank Research

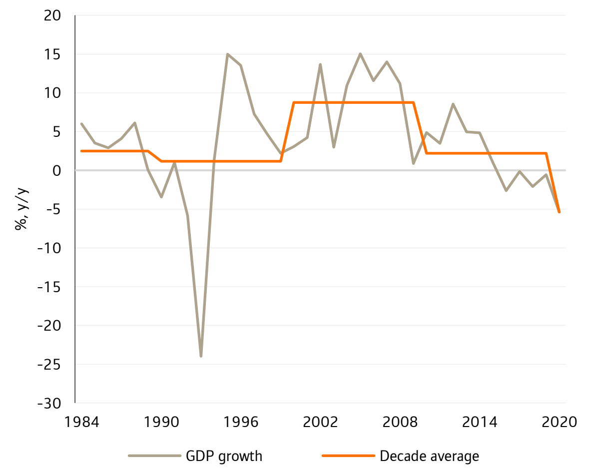
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	-3.4	-1.1	-1.3	-1.9	1.7	2.6	2.7	2.3	1.2	1.6	1.2	1.3	0.7	1.8	2.1	1.6
CPI (% y/y) pe	24.8	25.3	26.3	24.6	23.9	21.6	18.9	17.5	16.1	14.4	12.7	12.2	13.0	14.6	16.8	18.1
Policy rate (%) pe	15.50	15.50	20.00	20.00	20.00	20.00	18.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	18.50	19.50
3-m rate (%) pe	19.4	19.4	17.2	17.1	20.4	20.2	18.5	16.6	16.5	16.3	16.1	16.1	16.2	16.3	18.3	19.4
6-m rate (%) pe	20.5	20.5	17.4	17.3	20.6	20.4	18.7	16.8	16.6	16.5	16.3	16.2	16.3	16.5	18.5	19.6
USD/AOA pe	625.0	646.0	624.6	615.9	625.2	634.6	644.2	653.9	667.7	681.8	696.3	711.0	732.5	754.7	777.6	801.1
Bull scenario																
GDP (% y/y) pa	-3.4	0.9	2.7	0.1	4.8	3.5	3.6	3.9	2.8	4.3	1.9	3.0	2.4	2.5	2.8	2.6
CPI (% y/y) pe	24.8	25.3	24.8	19.2	16.5	12.9	10.7	12.7	12.0	11.4	10.7	10.0	11.3	12.7	14.0	15.4
Policy rate (%) pe	15.50	15.50	20.00	20.00	18.00	15.50	15.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	15.50	16.50
3-m rate (%) pe	19.4	19.4	16.5	15.9	14.2	12.1	11.9	10.7	10.7	10.6	10.5	10.5	10.6	10.7	12.3	13.1
6-m rate (%) pe	20.5	20.5	16.7	16.1	14.4	12.3	12.1	10.9	10.8	10.7	10.7	10.6	10.7	10.9	12.4	13.3
USD/AOA pe	625.0	646.0	600.2	550.2	555.2	560.2	565.2	570.3	578.9	587.7	596.5	605.5	618.3	631.4	644.7	658.4
Bear scenario																
GDP (% y/y) pa	-3.4	-2.2	-2.4	-2.7	-2.1	2.4	2.5	0.9	0.8	0.7	0.9	0.8	0.6	1.7	2.0	1.4
CPI (% y/y) pe	24.8	25.3	26.4	25.1	24.3	22.1	19.7	18.9	18.0	17.5	16.9	16.8	17.8	18.9	19.9	21.0
Policy rate (%) pe	15.50	15.50	20.00	20.00	20.00	20.00	20.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	20.00	21.00
3-m rate (%) pe	19.4	19.4	16.6	16.5	16.4	16.2	16.0	15.2	15.1	15.0	15.0	15.0	15.1	15.2	16.0	16.8
6-m rate (%) pe	20.5	20.5	17.0	16.9	16.8	16.6	16.4	15.6	15.5	15.4	15.4	15.4	15.5	15.6	16.4	17.2
USD/AOA pe	625.0	646.0	634.4	638.6	650.2	661.9	673.9	686.1	706.9	728.3	750.4	773.1	801.3	830.5	860.8	892.1

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

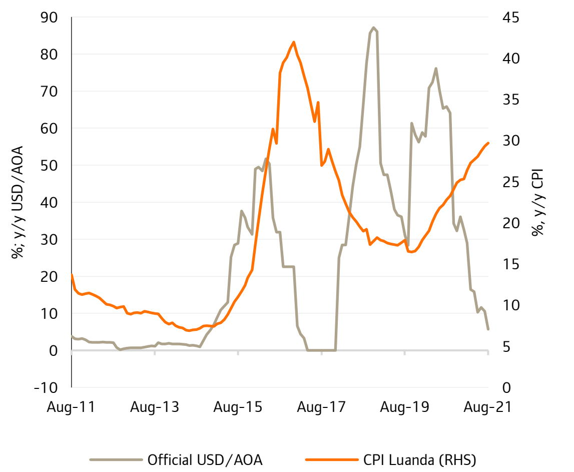
Notes: pa - period average; pe - period end

Long-term GDP performance



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

Annualised FX rate change versus inflation



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

Balance of payments: sustained C/A surplus

There's been some balance of payments (BOP) relief courtesy of a higher current account (C/A) surplus, assisted by better oil prices and contained import demand.

The BOP is also being supported by the positive impact on the financial account from both external debt reprofiling worth over USD7.0bn and increased multilateral funding of some USD2.9bn this year, from USD1.2bn in 2020.

The recent IMF new SDR allocation over USD1.0bn also supports the BOP, which helps boost FX reserves. End of Aug data, which incorporates the impact of the SDR allocation, shows gross FX reserves up by 12.7% ytd, to a balance of USD16.8bn, which represents 12.6-m of import cover, with net FX reserves up by 13.4% ytd, to a balance of USD9.9bn. FX reserves should remain relatively stable over the next 6-m or so.

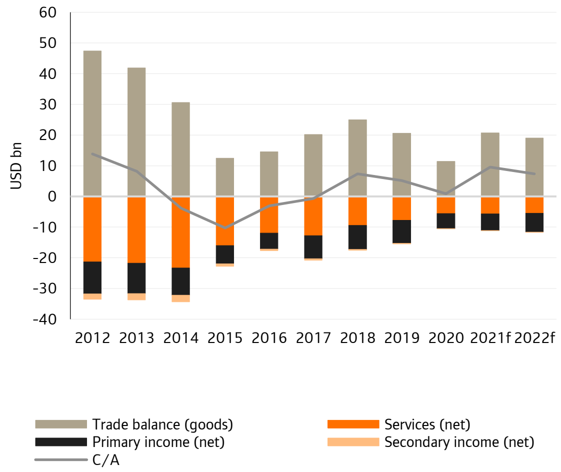
We see the C/A surplus rising to 14.4% of GDP this year but easing towards 9% of GDP next year, from a recent low of 1.6% of GDP in 2020 when the pandemic saw oil prices plummet to an average low of USD41/bbl.

Oil prices, at above USD70/bbl at the time of writing, may soften but likely to remain above USD60/bbl next year, resulting in a slight decline in goods and services exports to USD29.2bn, from an expected USD30.5bn this year. This may trim the C/A surplus.

Despite progress on structural reforms, Angola remains heavily dependent on oil exports as this sector accounts for over 95% of export revenue.

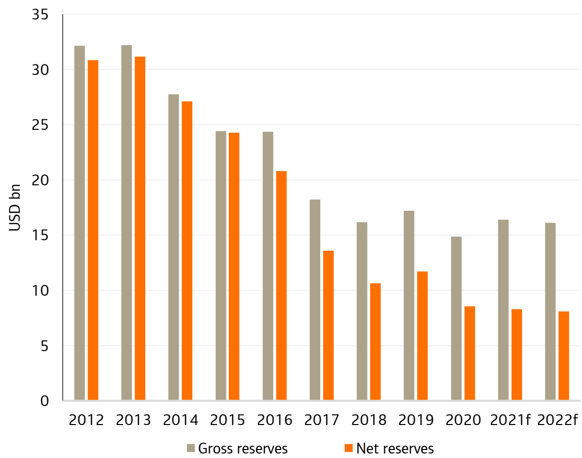
Goods and services imports are expected to remain stable at around USD15.5bn due to a slow economic recovery and import substitution restrictions despite improved FX liquidity conditions and a relatively stable kwanza.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves



Source: Banco Nacional de Angola; Standard Bank Research

FX outlook: kwanza may appreciate

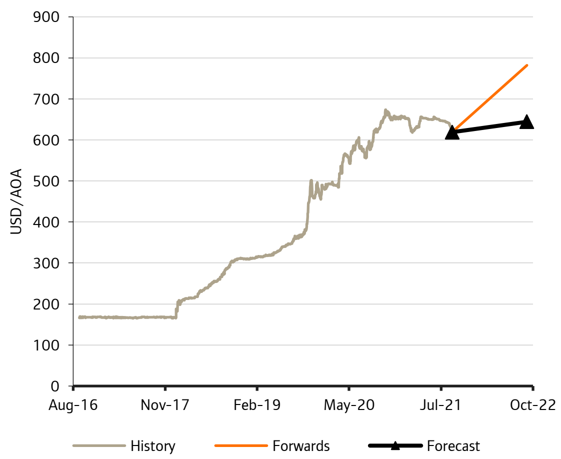
The USD/AOA pair rose by a cumulative 295% between Jan 18 and Dec 20, which helped contain import demand.

FX sales from the BNA were replaced by FX sales from oil companies and the Ministry of Finance. The FX interbank market too became more liquid.

This, combined with BOP's improvement and better FX liquidity conditions, saw the kwanza maintaining an appreciating bias this year, with the USD/AOA at 619.7 at the time of writing, from 656.2 at end 2020.

We see the USD/AOA as relatively stable, closing the year at 615.9, a 6.1% y/y decline, with a 6.2% y/y upward correction next year towards 653.9, consistent with the expected BOP performance.

USD/AOA: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: tight local currency liquidity

The multi-year kwanza depreciation, combined with still elevated dependency on imported food items despite import substitution efforts, has seen inflation sticky around 2% m/m since Jan mainly due to higher food prices accounting for over 70% of m/m inflation.

Food items produced locally are also recording material price increases, reflecting the passthrough effect from high input costs since a large portion of inputs remains imported. The FX rate passthrough effect is also being felt by expectations of m/m kwanza depreciation built into trader margins.

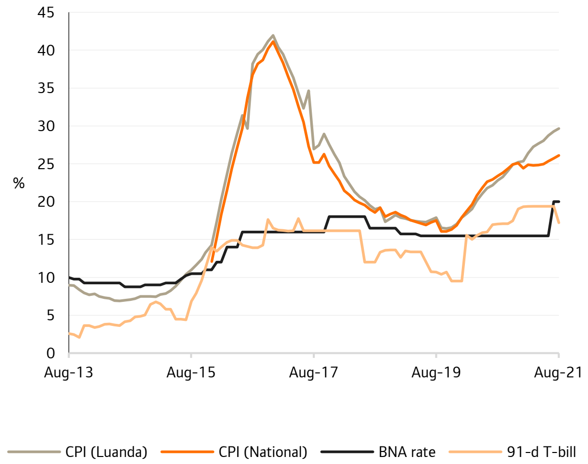
Headline inflation, last reported at 26.1% y/y in Aug at the national level, rose from 25.1% y/y in last Dec. We see inflation closing this year at 24.6% y/y, then easing to 17.5% y/y in 2022, supported by a relatively stable kwanza. Indeed, the government may use administrative measures to ease price pressures. In Sep 21, import duties on certain food items were removed to help contain inflation.

With inflation being mainly supply-side-driven, further monetary policy tightening too could support the kwanza but would be unlikely to materially contribute to easing inflation. For now, we expect the BNA rate to be kept on hold at 20%, after the 450 bps hike in Jul.

Monetary statistics reported to Jun show M2 growth accelerating to 16.5% y/y, from 15.8% y/y in May, but still lower than the 20.7% y/y of last Dec. This reflects the acceleration in local currency private sector credit growth to 21.8% y/y on higher demand for import substitution, which benefits from fixed interest rates.

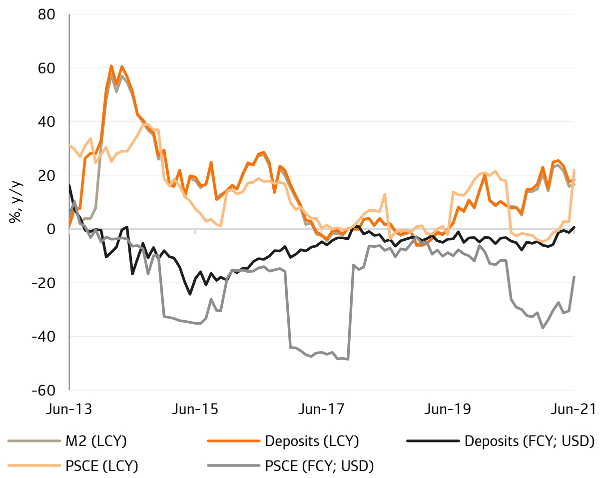
Gross loans to the government eased to 5.8% y/y in Jul, from 38.6% y/y last Dec on better fiscal performance.

Inflation and interest rates



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

Monetary statistics



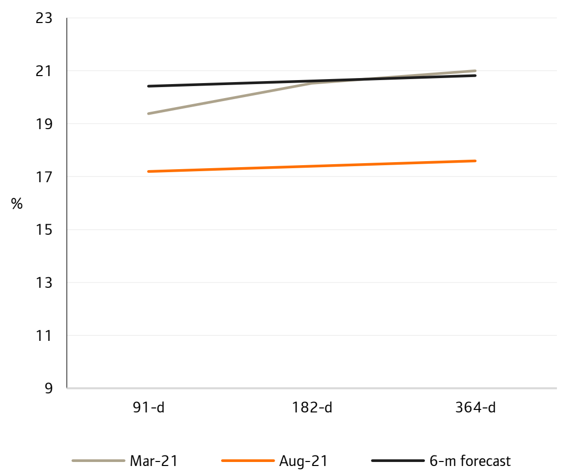
Source: Banco Nacional de Angola; Standard Bank Research

Yield curve outlook: upside bias

An easing bias for AOA yields has developed due to rising oil revenue and external debt reprofiling, which should ease domestic borrowing pressures. With T-bill issuances for the shorter tenors of 91-d and 182-d being put on hold, last issued at yields of 19.4% and 20.5% respectively in Mar when the 364-d was at 21%, yields on the latest 364-d issuance declined to 17.5%.

AOA yields may have upside bias next year as Treasury follows IMF advice for positive real interest rates. Jul data shows a 0.5% m/m decline, or 6% y/y increase, in domestic debt (bonds + T-bills), to AOA11,829.7bn (USD18.5bn), translating into government bonds stock easing by 0.5% m/m, or up by 2.8% y/y, to a balance of AOA11,252.8bn (USD17.6bn). The stock of T-bills declined by 1.6% m/m but rose by 163.8% y/y, to a balance of AOA576.8bn (USD0.9bn) in Jul.

Yield curve changes



Source: Banco Nacional de Angola; Standard Bank Research

Fiscal policy: possibly targeting fiscal consolidation

We estimate the break-even oil price from a fiscal perspective at USD56.6/bbl for the FY2021 (12-m ending Dec 21), which falls below the expected average oil price for the year at USD66.4/bbl and well above government budget oil price of assumption of USD39/bbl. The break-even oil price rises to USD62.9/bbl next year, assuming that oil revenue still accounts for 50% of fiscal revenue.

The implication is a fiscal surplus of around 2% of GDP for the FY2021, aligned to what the IMF predicts in the 5th evaluation report for the funded programme for Angola issued last Jul. Recall that the FY2021 budget targets a deficit of 2.2% of GDP.

Higher oil prices, combined with the positive impact of the DSSI which has been extended to Dec, and the impact of debt reprofiling with large Chinese creditors, should ease debt service pressures and thereby ensure a fiscal surplus.

Most likely the Ministry of Finance will target a fiscal surplus as they prepare the FY2022 budget to help achieve some level of fiscal consolidation. After all, public debt stock remains well above the long-term target of 60% of GDP. The IMF calculates public debt stock at 135% of GDP for 2020, comprising government debt stock of 125.2% of GDP, Sonangol debt of 8.3% of GDP, TAAG debt of 0.3% of GDP, and other public sector debt of 1.3% of GDP. Domestic debt is estimated at 34.4% of GDP, with external debt at 100.7% of GDP, and nominal GDP at USD58.5bn. The collateralised portion of the external debt stock was USD18.7bn in 2020.

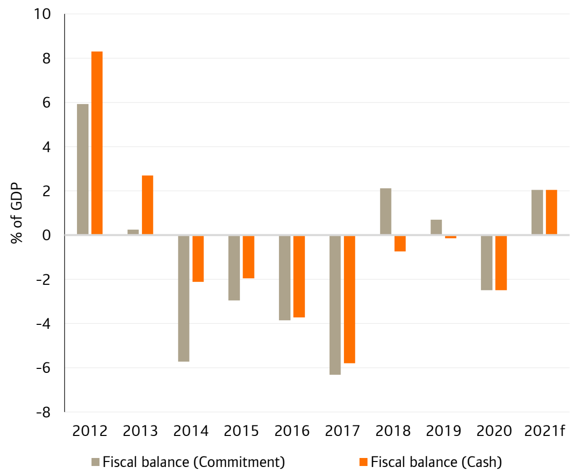
We see nominal GDP rising towards USD81.8bn in 2022 as the USD/AOA stabilises, which should help lower the government debt-to-GDP ratio to under 100%. Angola's debt-service ratios remain elevated, highlighting important vulnerabilities and risks despite overall debt being considered sustainable, per the IMF's latest DSA. Most likely Angola will only return to the Eurobond market after the general elections in 2022.

Central government budget

% of GDP	2019	2020	2021
Total revenue	21.4	22.5	22.5
Of which Oil	12.9	11.3	13.8
Total expenditure	20.7	24.9	20.5
- Recurrent	17.0	20.0	17.0
- Development	3.7	4.9	3.5
Overall balance (commitment)	0.7	-2.5	2.0
Overall balance (cash basis)	-0.1	-2.5	2.0
Net domestic borrowing	-0.9	-2.9	-7.2
Net foreign borrowing	3.4	5.4	5.2
Discrepancies	-2.3	0.0	0.0

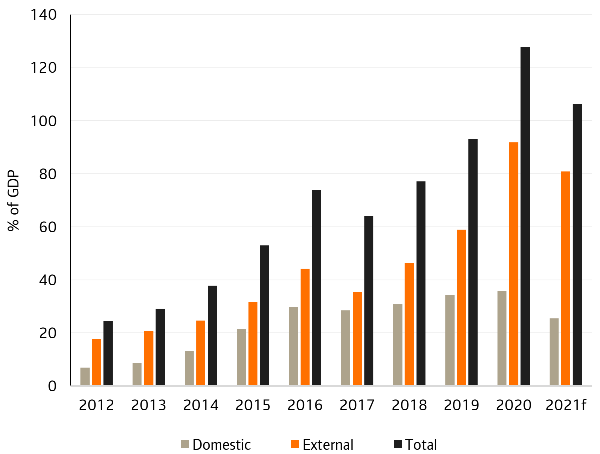
Source: IMF; Ministério das Finanças; Standard Bank Research

Fiscal balance



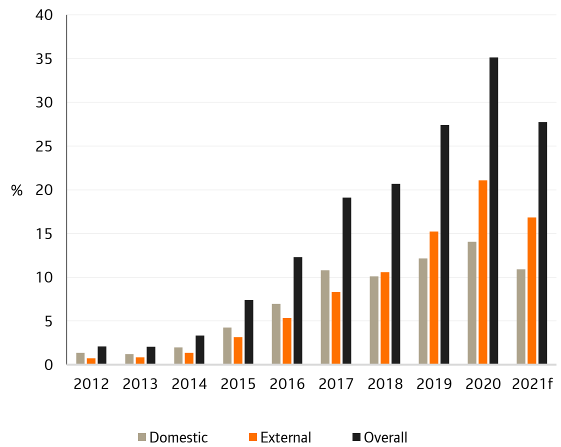
Source: IMF; Ministério das Finanças; Standard Bank Research

Public debt to GDP



Source: Ministério das Finanças; Standard Bank Research

Interest expenditure to revenue



Source: IMF; Ministério das Finanças; Standard Bank Research

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	27.5	28.4	29.3	30.2	31.4	32.1	33.1
Nominal GDP (AOA bn)	16 459.0	20 262.0	25 627.7	30 625.0	31 894.7	41 999.4	52 025.5
Nominal GDP (USD bn)	100.6	122.1	101.4	83.9	55.2	66.2	81.8
GDP / capita (USD)	3 656.6	4 306.2	3 465.1	2 781.9	1 754.2	2 063.7	2 470.8
Real GDP growth (%)	-2.6	-0.1	-2.0	-0.5	-5.4	-1.9	2.3
Oil output (m bpd)	1 718.9	1 632.4	1 477.7	1 383.1	1 271.5	1 135.8	1 149.5
LNG output (m BOE/d)	37.8	189.6	115.3	140.7	146.0	140.8	154.3
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.9	-6.3	2.1	0.7	-2.5	2.0	0.1
Budget balance (incl. Grants) / GDP (%)	-3.7	-5.8	-0.7	-0.1	-2.5	2.0	0.1
Domestic debt / GDP (%)	29.7	28.5	30.7	34.3	35.8	25.5	18.7
External debt / GDP (%)	44.1	35.5	46.4	58.9	90.9	80.8	69.4
Balance of Payments							
Exports of goods and services (USD m)	28.3	35.6	41.4	35.2	21.0	30.5	29.2
Imports of goods and services (USD m)	-25.7	-28.3	-25.9	-22.3	-15.1	-15.5	-15.6
Trade balance (USD m)	2.6	7.3	15.5	12.9	5.9	15.1	13.6
Current account (USD m)	-3.1	-0.6	7.4	5.1	0.9	9.5	7.4
- % of GDP	-3.1	-0.5	7.3	6.1	1.6	14.4	9.0
Financial account (USD m)	5.3	-4.2	-7.8	-3.2	-3.4	1.4	-0.6
- FDI (USD bn)	-0.5	-8.7	-6.5	-1.7	-2.0	-2.1	-0.8
Basic balance / GDP (%)	2.2	-3.9	-0.4	2.3	-4.5	16.5	8.3
FX reserves (USD m) pe	24.4	18.2	16.2	17.2	14.9	16.4	16.1
- Import cover (months) pe	11.4	7.7	7.5	9.3	11.8	12.7	12.3
Sovereign Credit Rating							
S&P	B	B-	B-	B-	CCC+	CCC+	CCC+
Moody's	B1	B2	B3	B3	Caa1	B3	B3
Fitch	B	B	B	B	CCC	CCC	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	30.4	30.4	19.7	17.1	22.2	25.3	21.1
Consumer inflation (%) pe	41.1	23.7	18.6	16.9	25.1	24.6	17.5
LCY M2 money supply (% y/y) pa	20.9	0.8	0.3	2.7	11.9	15.0	12.0
LCY M2 money supply (% y/y) pe	15.3	0.5	-6.2	14.1	20.7	9.5	10.4
Policy interest rate (%) pa	14.83	16.33	17.25	15.58	15.50	17.75	18.92
Policy interest rate (%) pe	16.00	18.00	16.50	15.50	15.50	20.00	16.50
3-m rate (%) pe	16.5	16.2	13.6	9.5	19.0	17.1	16.6
USD/AOA pa	163.7	165.9	252.9	364.8	578.3	634.0	636.3
USD/AOA pe	165.9	165.9	308.6	482.2	656.2	615.9	653.9

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

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

Botswana: an uneven economic recovery across sectors

Medium-term outlook: above long-term average, but on base effects

Due to the government's rebasing initiative, we now revise our GDP growth forecasts for Botswana to 8.3% y/y and 4.6% y/y for 2021 and 2022, from 7.2% y/y and 4.5% y/y respectively, following the GDP growth recovery in Q1:21 and downward revision of 2020 GDP to -8.5% y/y, from -7.9% y/y. In Q1:21, 0.7% y/y growth overshot our forecast, which now implies improved prospects for 2021, coupled with a much lower base for 2020. GDP growth should also find support from the combination of vaccine distribution, unwinding base effects, and government stimulus. The new Khoemacau copper mine too should support GDP growth.

Notably, the GDP estimates have been rebased by Statistics Botswana to the new 2016 base year from 2006, reflecting the current consumption pattern, prices of goods and services, and the structure of Botswana's economy. This has resulted in a 3.6% decrease in 2020 GDP, compared to the previously published current price GDP estimate, largely due to declining taxes on products, in line with harmonisation within the SACU region member states.

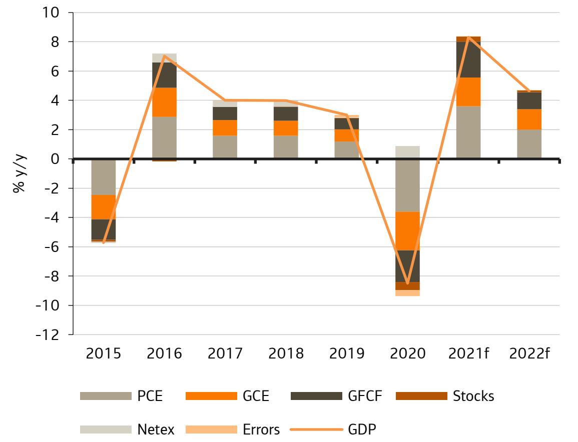
The new GDP series reports education, diamond traders and accommodation and food services GDP as separate sectors. Indeed, improved economic activity was evident across the various sectors bar agriculture, mining, manufacturing, construction and the accommodation and food services sectors. However, we expect these to recover from Q2:21, but admittedly largely due to base effects.

Notably, after contracting by 11.4% y/y in Q1:21, from a 23.6% contraction in Q4:20, mining production in Botswana increased by 214% y/y in Q2:21 (based on the diamond production data published by De Beers). De Beers has noted good demand for rough diamonds as global demand has been recovering.

The new Khoemacau copper mine too should benefit the mining sector. After the closure of the state-owned BCL mine towards end 2016 and Mowana copper mine in 2018, Botswana has lacked an operating copper mine. Therefore, copper production from the Khoemacau copper mine should further boost mining sector production for 2021.

Other sectors should be supported by less stringent economic restrictions than those in 2020. The government had imposed an alcohol ban along with restrictions on public gatherings by end Jun, which was lifted effective 6 Sep as Covid-19 cases declined. Also, over 10% of the population has by now been fully vaccinated. Botswana recently received 404,494 doses from Sinovac Biotech, with a further 1,009,974 doses of Sinovac, AstraZeneca, Johnson & Johnson and Moderna vaccines soon to arrive.

Composition of GDP by demand



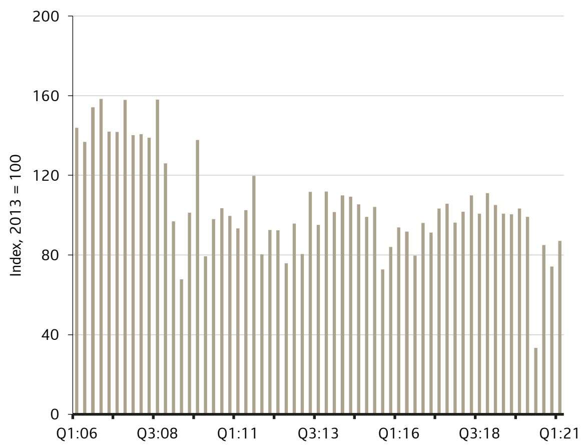
Source: Statistics Botswana; Standard Bank Research

Contribution to GDP by sector

% of GDP	2016	2019	2020
Agriculture	1.9	2.0	2.1
Mining	16.7	15.2	11.5
Manufacturing	5.0	5.3	5.4
Water & Electricity	1.2	1.0	1.3
Construction	6.6	6.8	6.8
Trade, hotels, restaurants	19.0	19.7	18.7
Transport & Comm.	6.1	6.2	5.8
Finance & Bus Serv.	14.2	14.5	15.3
General Gov	14.5	14.7	17.2
Soc & Per. Serv.	5.5	5.6	6.1
VA	90.8	90.9	90.2
Taxes on Imports	4.9	4.7	5.5
Other Taxes	4.8	4.9	4.8
Subs	-0.4	-0.4	-0.5
Total GDP	100.0	100.0	100

Source: Statistics Botswana; Standard Bank Research

Diamond production



Source: Statistics Botswana

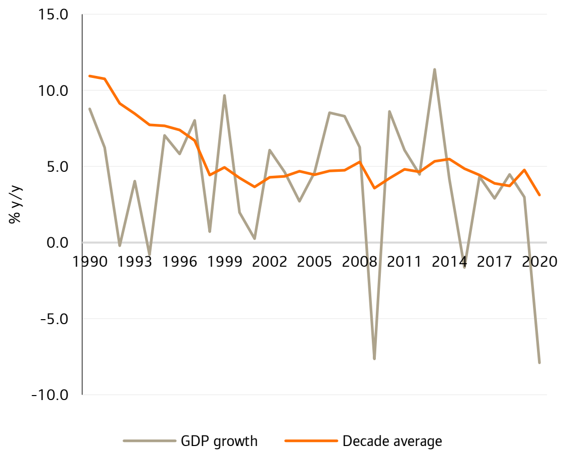
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	0.7	21.0	6.9	4.5	4.5	5.2	4.3	4.5	4.1	4.2	4.7	4.5	4.0	4.0	4.0	4.0
CPI (% y/y) pe	3.1	8.2	8.2	8.1	7.3	4.2	3.5	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.5
Bank rate (%) pe	3.8	3.8	3.8	3.8	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
6-m rate (%) pe	1.5	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
USD/BWP pe	11.03	10.91	11.16	11.12	11.14	11.15	11.16	11.18	11.20	11.22	11.24	11.37	11.39	11.41	11.44	11.44
Bull scenario																
GDP (% y/y) pa	0.7	23.2	9.5	6.7	6.2	6.9	6.0	6.3	5.6	4.2	4.7	4.5	4.0	4.0	4.0	4.0
CPI (% y/y) pe	3.1	8.2	9.0	9.3	9.2	6.1	5.7	5.3	5.3	4.7	4.2	4.2	4.2	4.2	4.2	4.2
Bank rate (%) pe	3.8	3.8	4.8	4.8	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
6-m rate (%) pe	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
USD/BWP pe	10.30	10.26	10.61	10.65	10.66	10.67	10.66	10.64	10.65	10.63	10.60	10.72	10.74	10.77	10.80	10.80
Bear scenario																
GDP (% y/y) pa	0.7	18.8	4.3	2.3	2.8	3.5	2.6	2.7	2.6	4.2	4.7	4.5	4.0	4.0	4.0	4.0
CPI (% y/y) pe	3.1	8.2	6.2	6.8	6.1	3.0	3.0	2.9	2.9	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Bank rate (%) pe	3.8	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	4.5	5.5	6.5	7.5
6-m rate (%) pe	1.5	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
USD/BWP pe	11.03	11.56	11.72	11.59	11.61	11.63	11.67	11.71	11.75	11.80	11.88	12.01	12.03	12.05	12.08	12.08

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

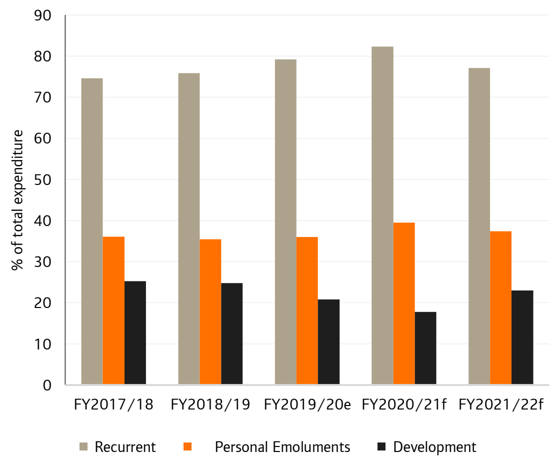
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Statistics Botswana

Composition of expenditure



Source: Ministry of Finance

Balance of payments: C/A deficit to narrow more

Relatively high diamond prices and improving global demand imply that Botswana's external position should improve this year, and further so next year. The C/A deficit may narrow to 3.0% of GDP in 2021, and further to 1.4% of GDP in 2022, from 9.8% of GDP in 2020. It may even return to a surplus due to the global recovery, coupled with copper production resuming.

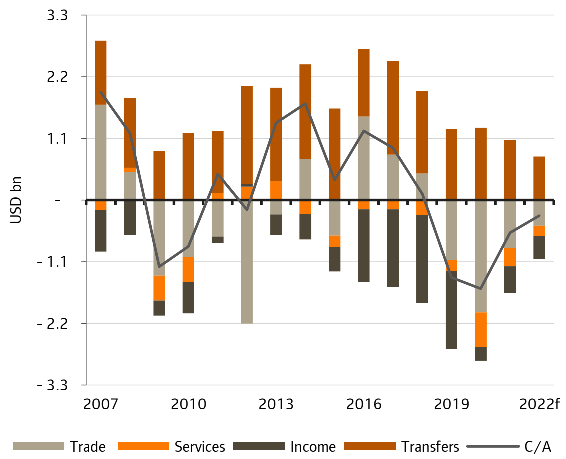
After sliding throughout 2020, polished diamond prices have been rising this year. Global demand for diamonds has been improving this year, allowing Botswana to lift export receipts. Although the C/A had turned to a surplus in Q1:21 due to improvements in trade balance and transfers, it proved short-lived. Indeed, after a USD78.2m surplus position in Q1:21, the trade balance slid to a USD492.7m deficit in Q2:21.

Overall, in H1:21 imports of goods rose 45% y/y due to diamonds, food, beverages and tobacco, fuel and machinery and electrical equipment, accounting for 36.9%, 11.3%, 11.2% and 11.1% respectively. Goods exports too increased, by 126% y/y in H1:21.

Transfers, which consist largely of SACU transfers, picked up in Q1:21 by 53.6% y/y. Considering that Q1:21 is part of FY2020/21, it was not affected by SACU transfers adjustment. SACU transfers are projected to decline by more than 27% y/y in both FY2021/22 and FY2022/23. Despite lower inward SACU transfers, we still expect the C/A balance to improve.

However, foreign investment will likely not be improving; FX reserves are therefore expected to find support from the C/A and external debt from the World Bank (USD250m) and AFDB (USD139m). The IMF's SDR allocation of USD269m in Aug boosted FX reserves too. Having declined to USD4.66bn in Jun 21, covering 8.6-m of goods and services imports (according to our estimates), FX reserves are likely to end 2021 at USD5.7bn.

Current account developments



Source: Bank of Botswana; Standard Bank Research

FX reserves

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

FX outlook: tracking the ZAR

With South Africa accounting for as much as 45% of Botswana's trade-weighted basket, USD/BWP will continue taking direction from USD/ZAR. We expect the ZAR to depreciate somewhat against the USD due to SA's now less supportive terms of trade. The USD/ZAR pair is expected at 14.70 by year-end, with the USD/BWP at 11.12.

However, we still believe that economic growth recovery, fiscal consolidation, still relatively strong SA terms of trade and an exceptionally supportive global setting will support the ZAR.

Indeed, our South Africa FX strategist maintains that the ZAR should recover further should weighted-average key export commodity prices recover. This ZAR forecast incorporates a risk premium — but note that the risks are biased to the stronger side of our forecasts in the near term.

USD/BWP forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: remaining accommodative

We now revise our 2021 average headline inflation forecast to 6.5% y/y, from 5.6% y/y we published in May. We expect the MPC to leave rates unchanged this year, then perhaps taking a hawkish stance in 2022.

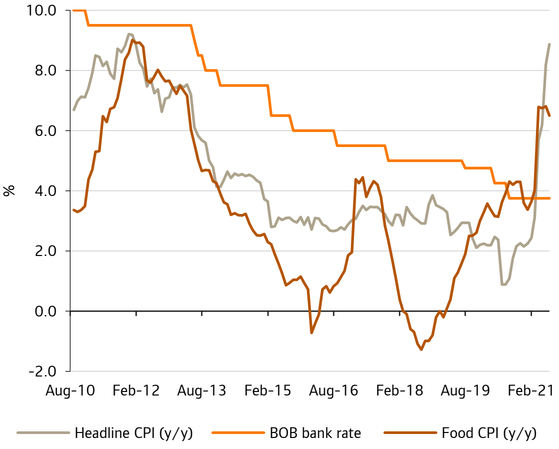
In keeping the bank rate unchanged in Aug, the MPC reiterated that higher inflation is being induced by transitory supply-side factors, which is unlikely to incur a monetary policy move. The MPC will therefore likely keep an accommodative stance for as long as needed to support economic recovery.

Were it not transitory, elevated headline inflation at 8.9% y/y in Jul from 8.2% y/y in Jun would be concerning, but inflation is still expected to revert to the 3%-6% objective range in the medium term. In 2020, headline inflation plunged to an average 1.9% y/y due to subdued domestic demand because of pandemic-related economic restrictions which reduced the low base substantially. Elevated headline inflation has been exacerbated by the increase in administered prices such as VAT, electricity tariffs, and the fuel levy. Moreover, the Botswana's Energy Regulatory Authority (BERA) increased retail pump prices for petrol and diesel as of 10 Jul. However, these increases should be eroding gradually.

We see inflation remaining elevated until Apr 22. However, any increases in administered prices, along with a projected electricity tariff increase of 5% in FY2022/23, may see inflation get sticky above the objective range beyond Apr 22, which may persuade the MPC to hike rates in Q2:21.

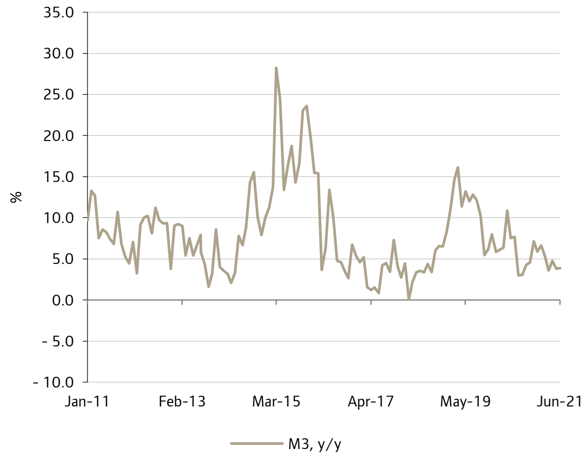
But then again, although the BOB has maintained a relatively easy monetary policy stance for some time now, average M3 money supply growth moderated to 6.0% y/y in 2020, from 11.1% y/y in 2019, and has continued to push even lower, to 3.8% y/y by Jun 21.

Inflation and interest rates



Source: Bank of Botswana; Statistics Botswana

Money supply



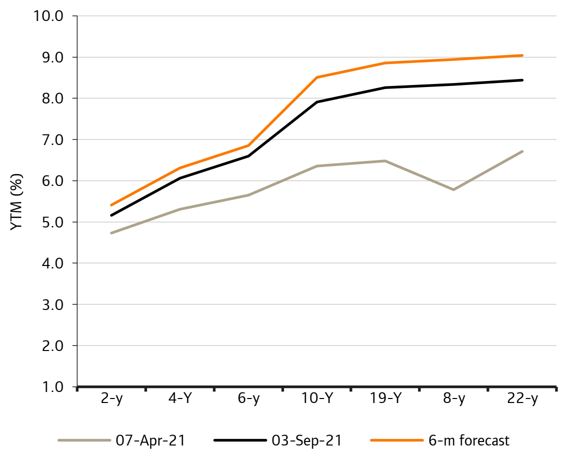
Source: Bank of Botswana

Yield curve outlook: still heading higher

Yields rose further over the past few months, reflecting strong supply for budget funding from the government. The relatively increased supply of government paper, coupled with the elevated inflationary developments, may continue driving upside in yields. Indeed, we expect the yield curve to push higher and steepen further over the next 6-m.

The country's financing needs remain elevated and, given that the BOB fell short of raising funds at its last few auctions, we expect larger sums on offer at upcoming auctions. The BOB could potentially seek to raise these funds across a wider range of instruments. However, over the medium term, with Covid-19 related expenditure subsiding and government revenue increasing, BWP yields should decline gradually.

Change in yield curve



Source: Bank of Botswana; Standard Bank Research

Fiscal policy: fiscal deficit narrowing gradually

With the C/A expected to narrow, the fiscal deficit should follow suit, reflecting rising revenue as global demand for diamonds improves further. Mineral revenue accounts for more than 30% of total revenue. And, we would expect fiscal expenditure to decline gradually as the government phases out Covid-19 support expenditure. Still, we doubt that the fiscal deficit will come to a halt imminently. In fact, the government reportedly revised the fiscal deficit to 3.6% of GDP in FY2021/22 during its budget strategy presentation, from 2.87% of GDP in the original budget.

On the revenue side, SACU revenue may delay substantial narrowing of the fiscal deficit. The impact of the pandemic on regional growth was substantial, and SACU revenue-sharing adjusts for forecast errors with a 2-year lag. Still, mineral revenue may more than offset the 27% y/y drop in SACU revenue in the next two years.

Revenue should nevertheless be boosted by tax increases such as VAT increase to 14%, from 12%, and withholding tax rate on dividends to 10%, from 7.5%, especially once real economic growth has improved meaningfully. Moreover, the offer of a tax amnesty regarding outstanding tax amounts is likely to improve tax revenues too. Taxpayers have been granted an opportunity to clear the principal amount owed in exchange for writing off interest and penalties charged.

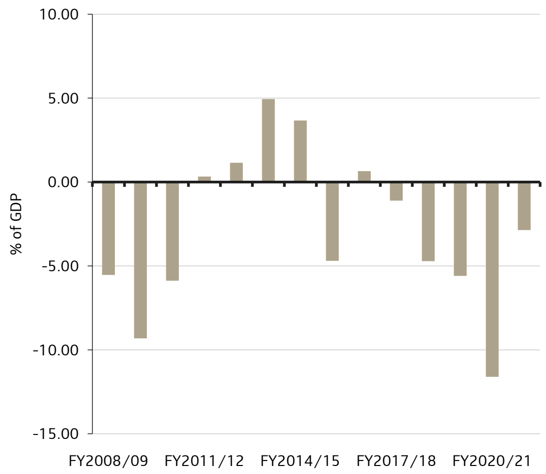
Also, Ministry of Finance and Economic Development data published by the Bank of Botswana suggest that the FY2020/21 deficit could well turn out to be better than the revised deficit. Indeed, in the first 10-m of FY2020/21, revenue was 92% of the full-year target, with expenditure at 78% of the full-year target.

Central government budget

% of GDP	F2019/2020	FY2020/2021	FY2021/22
Total revenue	27.4	27.3	30.7
Total expenditure	33.0	39.2	33.6
Recurrent	26.1	32.3	26.7
Overall balance (+ grants)	-5.6	-11.9	-2.9
Overall balance (- grants)	-5.6	-12.1	-2.9
Net domestic borrowing	1.5	4.8	2.5
Donor support (grants)	0.02	0.26	0.07

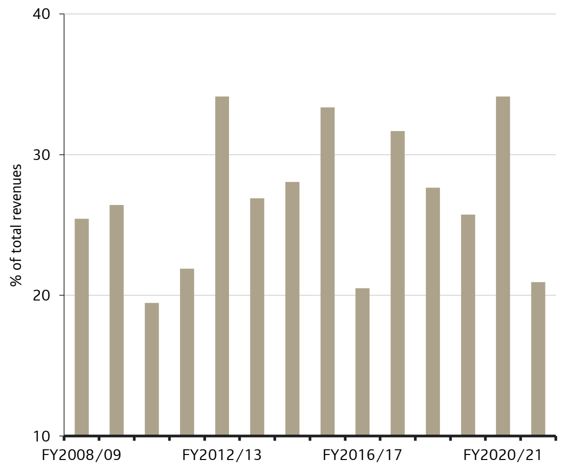
Source: Ministry of Finance; Statistics Botswana; Bank of Botswana; Standard Bank Research

Fiscal balance



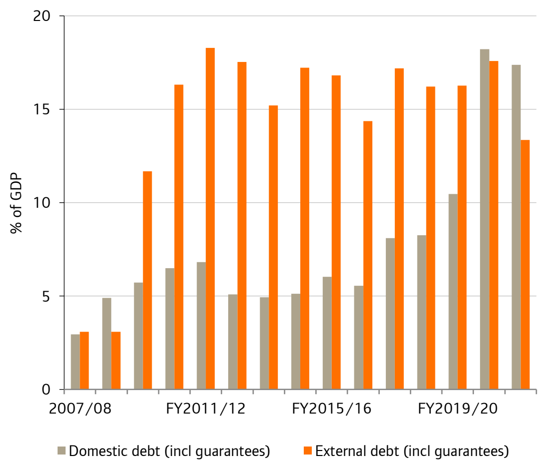
Source: Ministry of Finance

SACU revenue



Source: Ministry of Finance; Standard Bank Research

Domestic and external debt



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	2.1	2.2	2.3	2.4	2.4	2.4	2.4
Nominal GDP (BWP bn)	170.6	180.1	190.4	197.3	184.3	211.5	231.1
Nominal GDP (USD bn)	15.73	17.48	18.65	18.37	16.08	19.24	20.72
GDP / capita (USD)	7 537	7 944	7 992	7 731	6 772	8 016	8 545
Real GDP growth (%)	7.1	4.0	4.0	3.0	-8.5	8.3	4.6
Diamond ('000 carats)	20 892	22 941	24 496	23 686	16 868	21 892	22 730
Coal (thousand tons)	1 871	2 216	2 482	2 110	1 924	2 000	2 073
Central Government Operations							
Budget balance / GDP (%)	-4.1	0.6	-1.0	-4.5	-5.6	-11.6	-2.8
Domestic debt / GDP (%)	6.0	5.6	8.1	8.3	10.5	18.2	17.4
External / GDP (%)	16.8	14.4	17.2	16.2	16.3	17.6	13.4
Balance of Payments							
Exports of goods and services (USD bn)	7.5	6.1	6.5	5.2	4.2	5.7	6.3
Imports of goods and services (USD bn)	6.0	5.2	6.0	6.3	6.2	6.5	6.8
Trade balance (USD bn)	1.5	0.8	0.5	-1.1	-2.0	-0.9	-0.5
Current account (USD bn)	1.23	0.93	0.11	-1.38	-1.58	-0.58	-0.28
- % of GDP	7.8	5.3	0.6	-7.5	-9.8	-3.0	-1.4
Capital & Financial account (USD bn)	-0.04	-0.69	-0.71	0.96	0.97	1.79	1.84
- FDI (USD bn)	-0.63	-0.66	0.57	-0.46	0.01	0.07	0.14
Basic balance / GDP (%)	3.8	1.5	3.7	-10.1	-9.8	-2.7	-0.7
FX reserves (USD bn) pe	7.2	7.5	6.7	6.2	4.94	5.68	6.09
- Import cover (months) pe	14.4	17.2	13.2	11.9	9.5	10.4	10.8
Sovereign Credit Rating							
S&P	A-	A-	A-	A-	BBB+	BBB+	BBB+
Moody's	A2	A2	A2	A2	A2	A3	A3
Fitch	NR	NR	NR	NR	NR	NR	NR
Monetary & Financial Indicators							
Consumer inflation (%) pa	2.8	3.3	3.2	2.8	1.9	6.5	4.6
Consumer inflation (%) pe	2.9	2.9	3.5	2.2	2.2	8.1	3.4
M3 money supply (% y/y) pa	7.7	3.4	4.3	11.1	6.0	5.7	7.2
M3 money supply (% y/y) pe	5.4	2.7	8.3	8.0	5.9	6.3	6.8
BOB policy rate (%) pa	5.8	5.4	5.0	4.88	4.17	3.75	3.94
BOB policy rate (%) pe	5.5	5.0	5.0	4.75	3.75	3.75	4.00
6-mnth rate (%) pe	1.0	1.3	1.6	1.8	1.3	1.5	1.5
5-yr rate (%) pe	4.3	4.1	4.4	4.2	5.0	6.7	6.3
USD/BWP pa	10.8	10.3	10.2	10.7	11.5	11.0	11.2
USD/BWP pe	10.7	10.2	10.7	10.6	10.8	11.1	11.2

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

Notes: pa – period average; pe – period end

Côte d'Ivoire: resilient, and on course to thrive

Medium-term outlook: raring to go

We now see GDP growth at 5.3% y/y in 2021 and 6.6% y/y in 2022. Thanks in large part to the diversified structure of this economy, GDP growth has remained quite resilient, compared to other economies in the region, expanding by 1.8% y/y in 2020 notwithstanding the pandemic's impact.

Following the sharp rise in infections in Feb and Mar 21, the government reimposed public health restrictions until May, after which some were lifted. Vaccine roll-out though remains sluggish, with only around 4.7% of the population having received their first vaccination dose as at 24 Aug. The government had targeted to have vaccinated 20% of its population by Sep 21.

Concerningly, the authorities now also have to ramp up Ebola vaccinations after Ivory Coast reported its first case in nearly 25-y. At this point, it's hard to call this an outbreak; however, should contagion spread, it could disrupt the recovery in GDP growth.

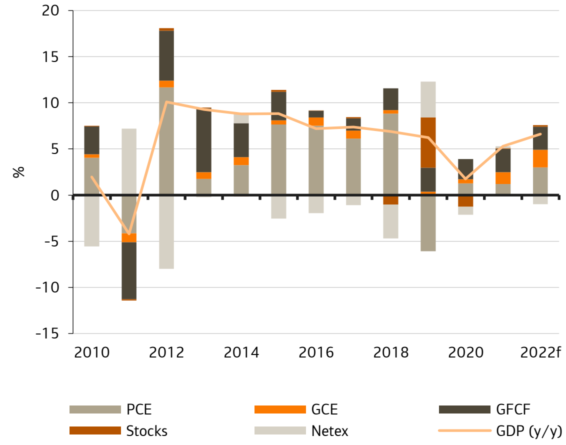
GDP growth reached 3.5% y/y in Q1:21, from 2.1% y/y in Q4:20. However, given the power outages and challenges related to electricity rationing in Q2:21, economic activity likely faltered. But still, favourable base effects, owing to the sharp contraction in GDP growth in Q2:20, should limit the downside for Q2:21 GDP.

The agrarian sector could also be negatively impacted by the power outages of Q2:21. Cocoa grinding for instance is likely to have notably subsided during this period.

However, with weather conditions improving from Jun 21, we expect both cocoa production and increased hydropower generation capacity to support economic activity in H2:21.

The economy's robust pre-pandemic growth momentum is likely to follow through from 2022, mostly contingent on how vaccine roll-out advances and dependent on whether stringent and lengthy public health restrictions recur, but this isn't our current core scenario.

Composition of GDP by demand



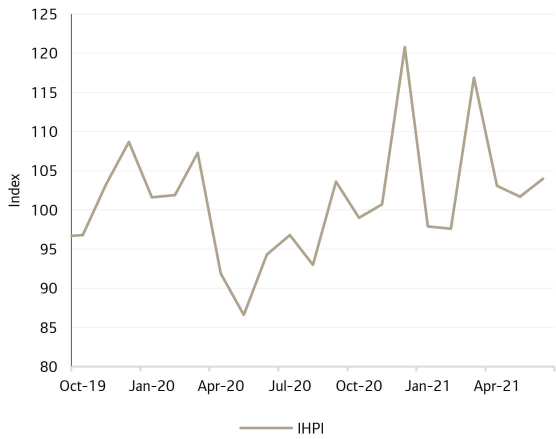
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; International Monetary Fund; Standard Bank Research

Composition of GDP by sector

% of GDP	2015	2018	2020
Food crops	4.6	8.8	8.8
Export crops	10.3	9.2	10.0
Extractive industries	3.3	2.8	3.3
Agroprocessing	5.8	4.3	4.4
Water and Electricity	0.9	2.6	2.5
Construction	4.5	3.7	3.8
Transport and Storage	10.1	5.9	6.6
Information and Communication	2.7	3.9	4.0
Trade and Repair	14.0	17.3	16.5
Financial and Insurance Activities	1.9	1.3	1.4

Source: Institut National de la Statistique

Harmonised index of industrial production



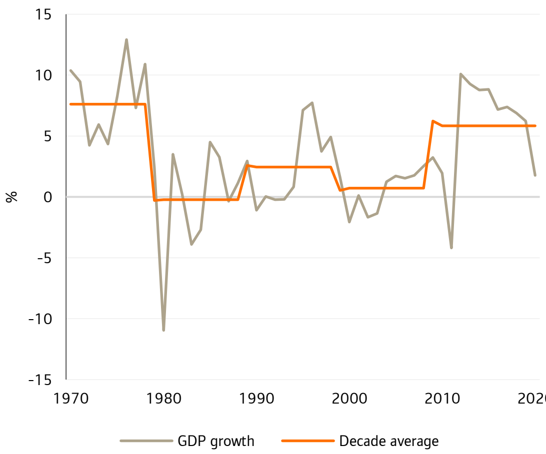
Source: Institut National de la Statistique

Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	3.5	7.8	5.7	4.0	6.0	5.2	7.3	7.8	7.1	6.7	6.9	7.2	6.5	6.7	6.2	6.4
CPI (% y/y) pe	3.3	3.5	4.8	3.4	2.6	2.0	2.2	2.1	2.0	1.5	1.4	1.4	1.3	1.5	1.6	1.8
Policy interest rate (%) pe	4.0	4.0	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	2.6	2.5	2.3	2.2	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2	1.1	1.0
6-m rate (%) pe	2.7	2.6	2.5	2.4	2.3	2.2	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2
USD/XOF pe	559.3	553.1	557.9	557.4	531.8	512.4	500.7	485.9	473.0	470.7	467.4	465.2	461.9	458.7	456.5	471.9
Bull scenario																
GDP (% y/y) pa	3.5	8.6	6.5	5.8	6.8	6.0	8.6	8.6	8.4	8.0	8.2	8.5	7.8	8.0	7.5	7.7
CPI (% y/y) pe	3.3	3.5	5.6	4.3	3.3	2.3	2.8	3.1	3.3	2.8	3.1	2.7	1.1	1.1	1.1	1.5
Policy interest rate (%) pe	4.0	4.0	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	2.6	2.5	4.1	4.0	3.9	3.8	3.7	3.6	3.5	3.4	3.3	3.2	3.8	3.8	3.8	3.8
6-m rate (%) pe	2.7	2.6	4.0	3.6	3.5	3.1	3.0	2.9	2.8	2.7	2.6	2.5	4.8	4.8	4.8	4.8
USD/XOF pe	559.3	553.1	557.9	549.9	524.3	504.9	493.2	478.4	465.5	463.2	459.9	457.7	454.4	451.2	449.0	464.4
Bear scenario																
GDP (% y/y) pa	3.5	5.1	4.0	2.8	5.3	4.5	6.6	7.3	6.9	6.5	6.7	7.0	5.5	5.7	5.2	5.4
CPI (% y/y) pe	3.3	3.5	4.1	3.3	2.2	1.6	2.0	1.9	1.8	1.3	1.2	1.2	1.8	2.0	2.1	2.3
Policy interest rate (%) pe	4.0	4.0	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	2.6	2.5	1.7	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2	1.1	2.3	2.3	2.3	2.3
6-m rate (%) pe	2.7	2.6	1.9	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3	4.0	4.0	4.0	4.0
USD/XOF pe	559.3	553.1	557.9	565.4	564.9	539.3	519.9	508.2	493.4	480.5	478.2	474.9	472.7	469.4	466.2	464.0

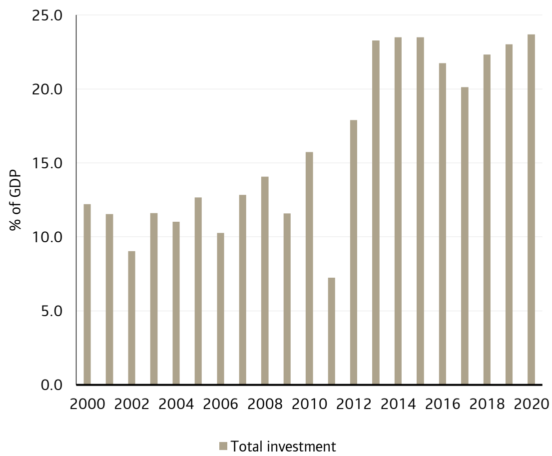
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; Bloomberg; Standard Bank Research

Long-term growth performance



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

Investment spending



Source: International Monetary Fund

Balance of payments: slow improvements

The C/A deficit will probably improve in 2021. We estimate it at 1.9% of GDP in 2021 and 1.3% of GDP in 2022, likely driven by a recovery in the trade surplus that deteriorated in 2020. The terms of trade may improve as cocoa prices seem to be stabilising, further anchored by robust agricultural production.

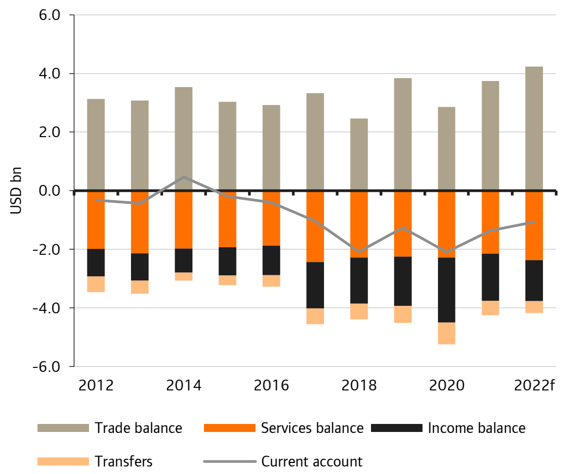
In 5-m to May, the ministry of economy and finance reported that exports had increased by 17.5% y/y, while imports had risen by 10.2% y/y. The increase in exports emanated from an increase in sales of cocoa beans (up by 18.3% y/y), natural rubber (up by 46.8% y/y) and cashew nuts (up by 26.1%% y/y).

The 2021 budget assumes cashew production rising by 7% y/y, to 9.65m tonnes, from 9.02m tonnes in 2020. Meanwhile, cocoa production is expected to grow by 4% y/y, to 2.1m tonnes, from 2.05m tonnes in 2020. Indeed, the combination of stabilizing prices and robust production should bode well for the C/A balance.

Granted, the non-oil import bill is likely to grow faster amid the ongoing economic recovery and public investment, but we expect it to be outpaced by growth in exports as capital spending was cut by 6.7% y/y in the budget. Furthermore, we expect the primary income deficit to widen, attributable to rising debt-service costs. Total external debt service costs including principal repayments are expected to shoot up to USD600m in Dec alone but may then ease somewhat due to potential DSSI savings.

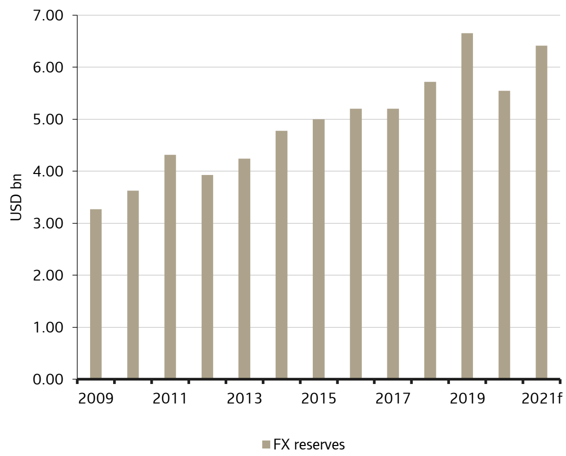
The C/A deficit is likely to be financed by external borrowing, with proceeds from the issuance of reopening EUR850m in Eurobonds earlier in the year serving as a buffer. The government also plans to issue additional EUR1.2bn. Besides, the IMF's SDR allocation of about USD886m should also serve as a buffer.

Current account development



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

FX reserves



Source: Bloomberg; Standard Bank Research

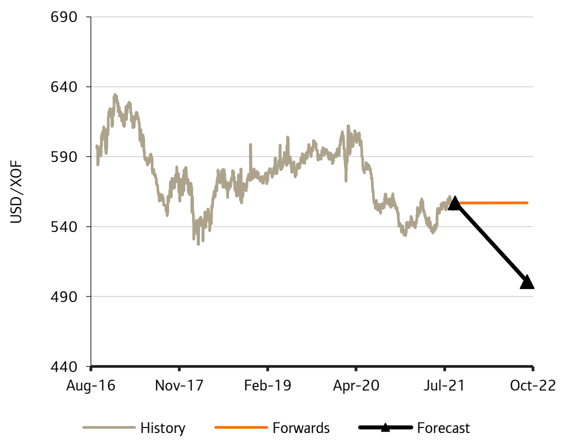
FX outlook: XOF still tracking the EUR

The XOF peg to the EUR is likely to remain in place over our forecast period.

Although the euro zone economic recovery seems to be lagging the US by one to two quarters, real yields are key, and it is likely that the US's more significant inflation risk means that higher nominal treasury yields are unlikely to give the dollar much of a lift. The ECB should still be able to pare back the stimulus from quantitative easing once it meets its EUR1.85tr target for the Pandemic Emergency Purchase Programme (PEPP) in Mar. These increases in bond yields that would probably follow won't lift the euro given that many other bond markets, particularly the US treasury market, will likely see yields rise more.

Our G10 strategist forecasts EUR/USD at 1.17 by year-end, so the bias is for USD/XOF around 557.4.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: eco postponed

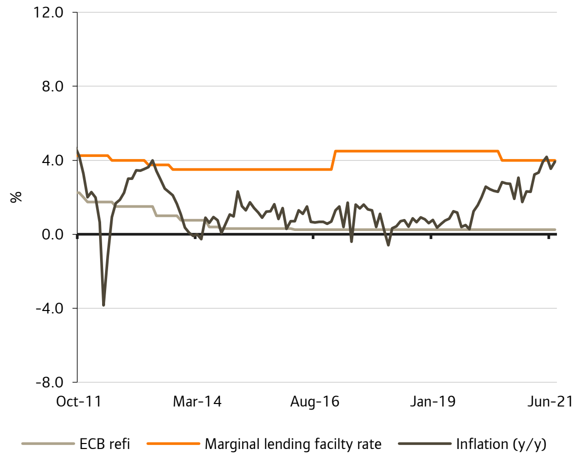
It is likely that the BCEAO's MPC will leave the monetary policy stance unchanged for the next year. The apex bank sees inflation remaining within its target range of 1.0% -3.0% for the next 2-y. The BCEAO prioritises inflation-targeting and maintaining the CFA franc's peg to the euro. The BCEAO's policy stance is likely to continue tracking the ECB's policy stance over the medium term.

After reducing the minimum bid rate to 2.0% in Jun 20, the BCEAO has held this rate unchanged. The BCEAO's accommodative monetary policy stance is likely to support the economic recovery. At the onset of the pandemic, the central bank focused on increasing banking system liquidity across the region to spur credit extension. M2 money supply rose by 25% y/y in May 21, from 21% y/y in Dec 20 and 16% y/y in Jun 20.

The Economic Community of West African States (ECOWAS) has postponed its plans to adopt a new currency, the eco, to 2027. It will allow each country to contain the economic impact of the pandemic. Moreover, these states can use this time to expedite the implementation of reforms, including legal and regulatory reforms, required to achieve a common currency area.

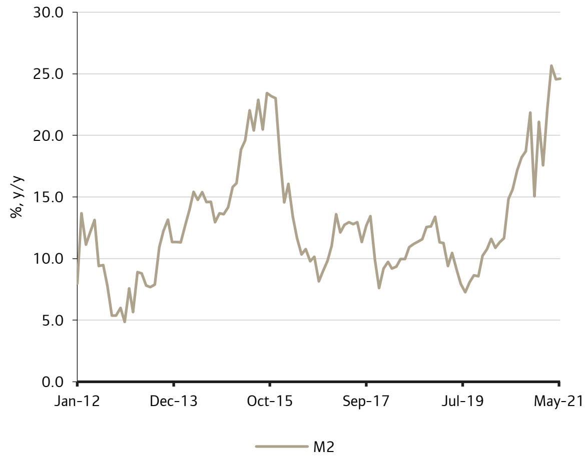
Although the current currency peg tends to anchor prices, we see inflation averaging higher at 3.8% y/y in 2021, before subsiding to 2.4% y/y in 2022. Food prices have a meaningful impact on the overall price level by accounting for almost 30% of the inflation basket. Though food inflation moderated on both an annual and monthly basis in Jul, between Feb and Jun it sustained upward pressure on overall headline inflation. Electricity rationing has impacted some input prices, adding upside pressure to inflation. However, these domestic supply-side disruptions may present upside risks to our inflation outlook.

Inflation and interest rates



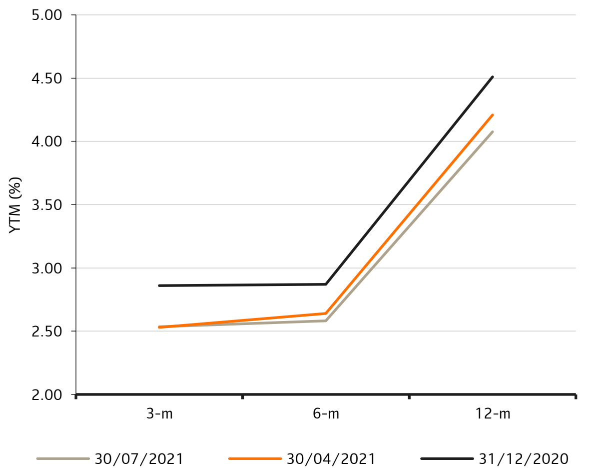
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; European Central Bank

Money supply growth



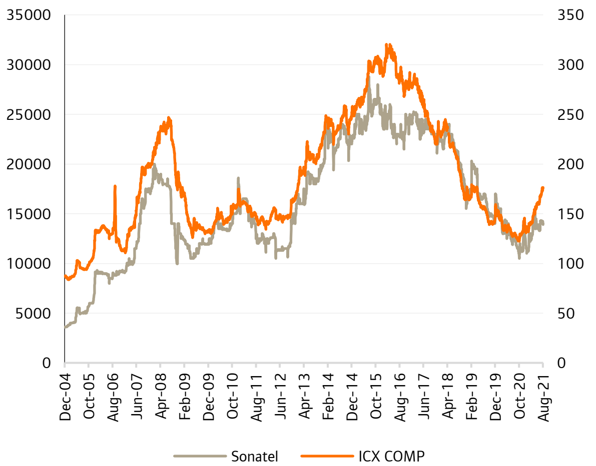
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Yield curve



Source: Bloomberg

Capital market outlook



Source: BRVM; Bloomberg

Fiscal policy: revenue surprisingly good

The fiscal deficit outturn for 2020 was 5.6% of GDP, around 30bps lower than the budgeted 5.9%, as the non-tax revenue performance was surprisingly good.

In the revised budget for 2021, the government planned on further fiscal economic support during the pandemic, to be funded by higher revenue and domestic borrowing. Expenditure was revised 6% higher, with revenue 11% higher. However, the fiscal deficit is now forecast to be higher due to a 28% reduction in grants. It is expected to be slightly higher than the original budget, at 5.6% of GDP in 2021. The government plans to meet the WAEMU fiscal deficit objective of 3% of GDP in 2024. In the next 2-y, it is forecast to decline to 4.7% and 3.8% of GDP in 2022 and 2023 respectively.

Pleasing revenue performance has continued into 2021. Fiscal government revenue over the first 5-m of 2021 was 9% ahead of the pro-rated annual budget largely on account of non-tax revenue which was 15% ahead of target. Non-tax revenue benefited from higher oil prices in 2021 despite lower production. With the government gradually lifting stringent public health restrictions from Jun, the outlook for government tax revenues may be positive.

Expenditure, meanwhile, has been 14% lower than the pro-rated annual budget. The slower budget absorption was primarily driven by development expenditure which was 43% behind budget. Recurrent expenditure was 3% lower than budgeted as higher-than-budgeted wages made up for lower interest payments.

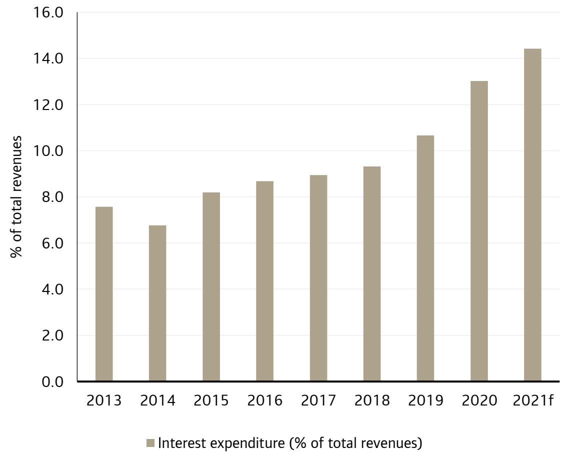
The better performance of revenue relative to expenditure has resulted in a lower-than-budgeted fiscal deficit of XOF325.7m. Financing for the 2021 fiscal deficit was biased in favour of external financing (63% of cash fiscal deficit) as net domestic borrowing is now budgeted at 17% y/y higher.

Central government budget

(%of GDP)	2020	2021	2021 Revised
Tax revenue	12.4	11.1	12.3
Non-tax revenue	2.1	1.6	1.9
Grants	0.5	0.7	0.5
Total expenditure	20.6	19.0	20.3
Recurrent expenditure	15.2	14.1	14.8
- Of which: interest due	1.9	2.0	2.0
- Of which: wages	5.2	4.9	4.9
Capital expenditure	5.4	4.9	5.4
Budget deficit (incl. grants)	-5.6	-5.5	-5.6
Budget deficit (excl. grants)	-6.1	-6.3	-6.1
Domestic financing	1.9	1.7	2.1
External financing	3.4	3.5	3.6

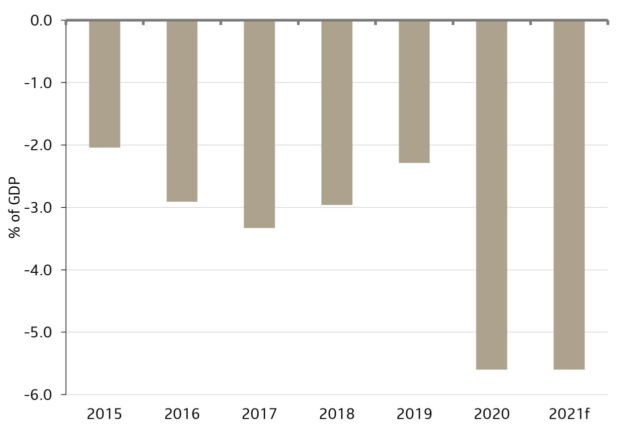
Source: Ministère de l'Economie et des Finances; ; International Monetary Fund

Interest expenditure



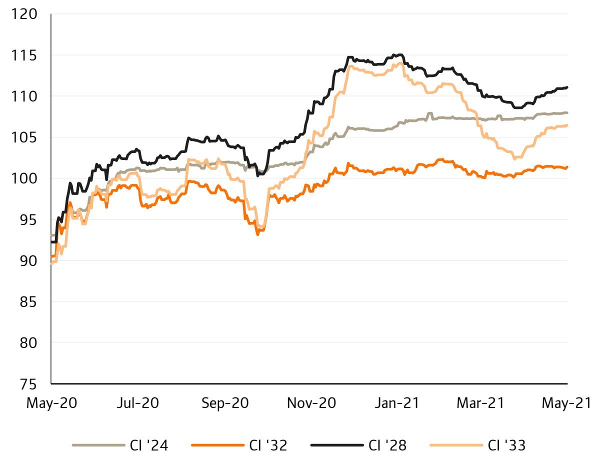
Source: Ministère de l'Economie et des Finances

Budget deficit (incl. grants)



Source: Ministère de l'Economie et des Finances

Eurobond prices – mid



Source: Bloomberg

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	24	25	25	26	26	26	27
Nominal GDP (XOF bn)	20 931	29 995	32 848	34 981	36 284	39 215	42 767
Nominal GDP (USD bn)	33.7	50.9	59.5	70.5	63.7	70.0	82.7
GDP / capita (USD)	1 403	2 038	2 378	2 713	2 432	2 652	3 086
Real GDP growth (%)	7.2	7.4	6.9	6.2	1.8	5.3	6.6
Oil production (m bbl)	10.0	11.0	11.0	13.0	15.0	15.5	15.7
Cocoa production (m tonnes)	1.6	2.0	2.0	2.2	2.1	2.2	2.3
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-5.6	-4.2	-3.8	-3.0	-6.1	-6.1	-4.5
Budget balance (incl. grants) / GDP (%)	-3.9	-3.3	-2.9	-2.2	-5.6	-5.6	-4.7
Domestic debt / GDP (%)	19.3	14.3	12.2	12.1	13.2	12.5	10.2
External debt / GDP (%)	23.8	19.2	22.9	26.1	30.8	30.8	33.0
Balance of Payments							
Exports of goods (USD bn)	10.4	11.7	12.0	14.7	12.0	12.4	13.7
Imports of goods (USD bn)	-7.4	-8.4	-9.5	-10.9	-9.2	-8.7	-9.5
Trade balance	2.9	3.3	2.5	3.8	2.9	3.7	4.2
Current account (USD bn)	-0.4	-1.0	-2.1	-1.3	-2.1	-1.4	-1.1
- % of GDP	-1.2	-2.0	-3.5	-1.8	-3.3	-1.9	-1.3
Capital & Financial account (USD bn)	0.3	1.0	2.6	2.2	3.2	3.2	3.4
- FDI (USDbn)	0.5	0.3	0.5	0.6	0.4	0.5	0.6
Basic balance / GDP (%)	0.4	-1.5	-2.7	-0.9	-2.7	-1.3	-0.5
FX reserves (USD bn) pe	5.2	5.2	5.7	6.7	5.5	6.4	6.8
- Import cover (months) pe	8.4	7.4	7.2	7.3	7.2	8.9	8.6
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	BB-	BB-
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	B+	B+	B+	B+	B+	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.7	0.4	0.6	0.8	2.4	3.8	2.4
Consumer inflation (%) pe	-0.2	1.3	0.6	1.6	2.3	3.4	2.1
M2 money supply (% y/y) pa	11.2	11.8	11.0	9.4	15.7	22.4	11.9
M2 money supply (% y/y) pe	11.0	9.2	13.4	10.8	21.1	17.9	10.8
Marginal lending facility (%) pe	3.5	4.5	4.5	4.5	4.0	4.0	4.0
USD/XOF pa	621.8	579.3	572.7	591.7	577.7	556.9	507.7
USD/XOF pe	612.0	558.2	580.3	585.7	570.3	557.4	485.9

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

DRC: outlook elevated by mining expansion

Medium-term outlook: extractive sector leads growth

We see GDP growth at 4.5% y/y in 2021 and 5.0% y/y in 2022, and thereafter perhaps exceeding 5.0% y/y from 2023. However, notwithstanding improved prospects for investment, structural deficiencies and poor infrastructure may limit growth.

Contrary to the extractive sector, the non-extractive sector has faced a more pronounced impact from public health restrictions. And, vaccinations have been particularly slow, with only 83k of the population having received one dose thus far.

Indeed, the vaccination drive faces poor healthcare infrastructure and a large population spread over a vast country. However, the Ministry of Health expects vaccine supply to pick up from Sep, which should bode well for the non-extractive sector's recovery in the medium term.

Meantime, the extractive sector should still lead growth in the medium term as mines have been benefiting from robust international prices. During 2020, copper and cobalt production rose by 12% y/y and 10% y/y, to 1.59m tons and 85.8k tons respectively.

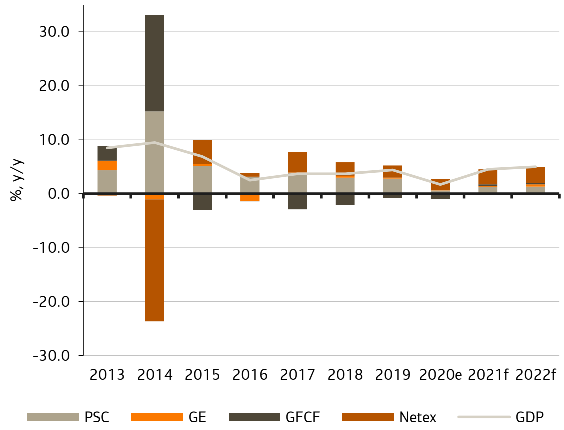
A large copper mining operation having resumed production in stages from May too should add to overall production until 2023. Moreover, the ancillary impact of the mining sector's performance is significant because it supports the fuels, chemicals, machinery and transportation sub-sectors.

Medium-term growth should also benefit from the resumption of public and private investment. Progress with the IMF's 3-y ECF may repair relationships with the wider donor community, which should see aid inflows resume and the sovereign's financing conditions improve. Over time, fiscal constraints too should ease.

Our bear case factors in the impact of disappointing mining production and a protracted pandemic impact. Here, we foresee growth at just 3.3% y/y in 2021, then perhaps over 4.0% y/y from 2022.

Our bull case sees a strong economic recovery from 2021 after avoiding a contraction in 2020. Growth thereafter averages 5.9% y/y for 2022-25. Indeed, a likely strong performance by the extractive sector in the near term would support this outlook. Furthermore, higher levels of investment in energy and infrastructure too should spur growth.

Composition of GDP by demand



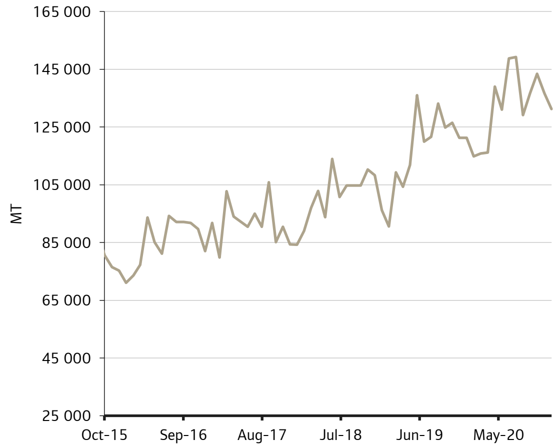
Source: Banque Centrale du Congo; Standard Bank Research

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

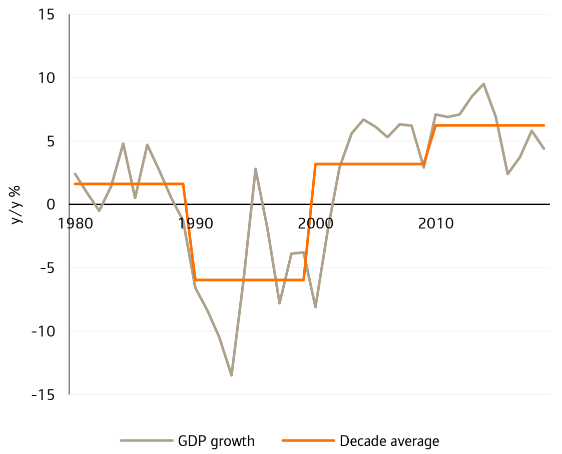
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	4.5	4.5	4.5	4.5	5.0	5.0	5.0	5.0	5.5	5.5	5.5	5.5	5.8	5.8	5.8	5.8
CPI (% y/y) pe	19.5	14.3	9.9	7.8	5.2	10.5	14.7	15.5	13.5	8.2	6.1	5.9	9.0	9.5	9.6	10.1
Policy rate (%) pe	15.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
USD/CDF pe	1964.0	1974.6	1998.3	2022.3	2042.5	2062.9	2087.7	2112.7	2123.3	2133.9	2144.6	2155.3	2166.1	2176.9	2187.8	2198.7
Bull scenario																
GDP (% y/y) pa	6.0	6.0	6.0	6.0	5.2	5.2	5.2	5.2	5.8	5.8	5.8	5.8	6.6	6.6	6.6	6.6
CPI (% y/y) pe	19.5	14.3	7.1	6.0	3.4	8.7	12.9	13.7	11.5	7.1	5.0	4.8	8.1	8.6	8.7	9.2
Policy rate (%) pe	15.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	7.0	7.0	7.0	7.0	7.0	7.0
USD/CDF pe	1964.0	1974.6	1988.4	2012.3	2036.4	2056.8	2077.4	2098.1	2108.6	2119.2	2129.8	2140.4	2151.1	2161.9	2172.7	2183.5
Bear scenario																
GDP (% y/y) pa	3.3	3.3	3.3	3.3	4.3	4.3	4.3	4.3	4.9	4.9	4.9	4.9	4.6	4.6	4.6	4.6
CPI (% y/y) pe	19.5	14.3	14.9	12.8	10.2	15.5	17.7	18.5	16.3	11.2	9.1	8.9	11.5	11.9	12.1	12.6
Policy rate (%) pe	15.5	8.5	8.5	8.5	8.5	8.5	13.5	13.5	13.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0
USD/CDF pe	1964.0	1974.6	2024.0	2074.6	2116.1	2137.2	2158.6	2180.2	2202.0	2219.6	2237.3	2255.2	2273.3	2291.5	2309.8	2328.3

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

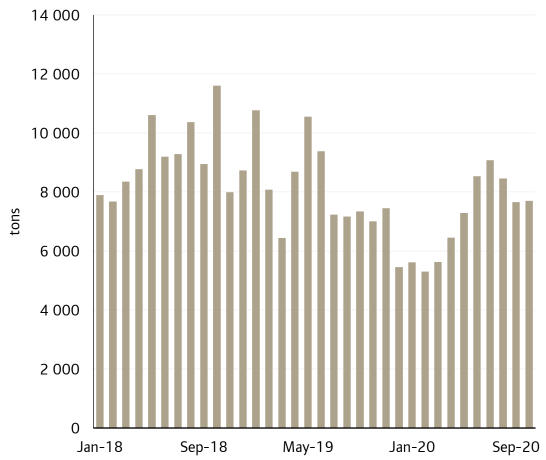
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Standard Bank Research

Cobalt production



Source: Banque Centrale du Congo; Standard Bank Research

DRC

Balance of payments: IMF funding to support FX reserves

Trade flows from mineral exports should still support the balance of payments. Since mineral exports account for near 90% of total DRC exports, the export base will benefit from buoyant international copper prices.

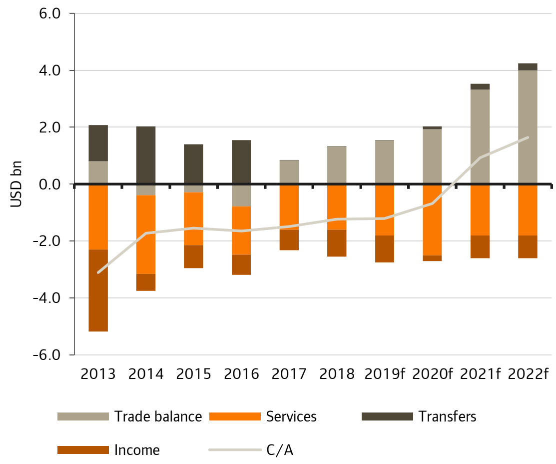
Notwithstanding pandemic-induced economic disruptions, imports of basic goods will remain high due to DRC's high import dependence. Recovering economic conditions and higher oil prices may incur a larger energy import bill. We see the C/A surplus at 1.6% of GDP in 2021. However, the concentrated structure of the export base presents downside risks to this outlook.

Mineral exports (copper, cobalt, and zinc) may too remain robust. The Kamoa-Kakula mine should further bump up mineral production in Q3:22. Phase 1 of production, which commenced in May, should produce 200k tonnes of copper a year, with phases 1 and 2 combined 400k tonnes.

We see current transfers rising as DRC continues to engage with the donor community. Moreover, the sovereign's external financing options are likely to expand as it continues on the IMF's ECF. FDI and government borrowing usually are dominant flows within the capital and financial accounts. With mines planning expansion, the extractive sector will attract most of these investment flows. Infrastructure projects too could attract investment inflows.

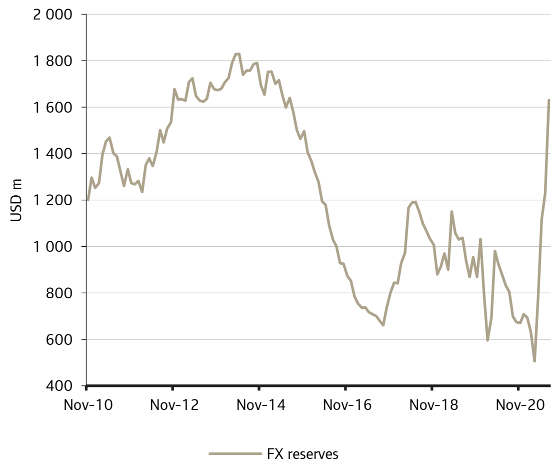
Disbursements under the IMF's ECF should improve FX reserves which had reached USD1.6bn at end Jul, from USD505.6m at end Mar. This level of FX reserves is consistent with 6-w of import cover.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves



Source: Banque Centrale du Congo

FX outlook: a steadier CDF

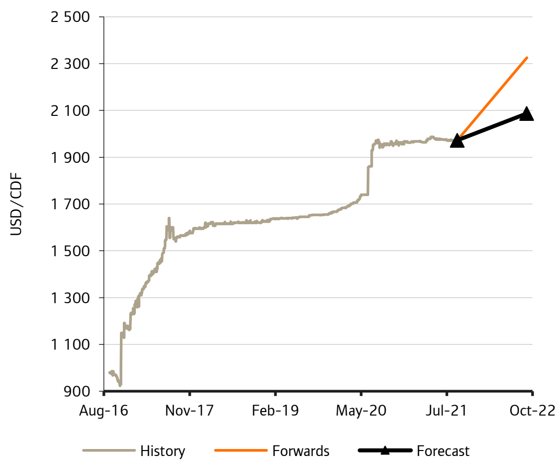
We expect USD/CDF to end Q3:21 at 1,998 and Q4:21 at 2,022, with strong trade dynamics likely supporting the currency and onshore FX liquidity in the near term.

Long term, CDF depreciation may be measured. This year the CDF has stabilised against the USD, declining 0.4% YTD, compared to 14.4% during the same period last year.

Our bear case sees pressure on the currency intensifying should mining inflows be disrupted. Here, we see the currency at 2,074 by end 2021 and 2,158 by end 2022.

However, the government's reliance on the central bank for financing could precipitate a series of devaluation, so the magnitude or timing of such depreciation is hard to pin down.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral; accommodative bias

The BCC's MPC will likely keep the policy rate unchanged at 8.5% for 2021. The MPC has already reduced the policy rate by a cumulative 700 bps this year. The MPC would have to move the rate by larger increments for it to be effective because the efficacy of the credit channel of monetary policy is being compromised by an underdeveloped transmission mechanism.

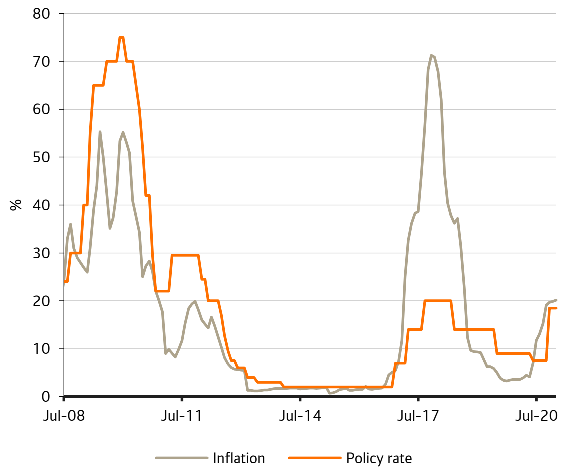
Should inflationary pressures ease, the currency remaining stable may support accommodative policy. Inflation eased to 0.07% w/w mid-Jul and 7.32% y/y, close to the BCC's medium-term target of 7.0%. Indeed, the BCC forecasts inflation of an even much softer 4.83% y/y by year-end.

However, we see inflation at 9.9% y/y at end Q3:21, then 7.8% y/y by Q4:21. Our bear case sees a weaker currency elevating inflation to a heated 18.5% y/y by Dec 22.

DRC's IMF programme sets limits on the changes in net credit from the central bank to the government, thereby constraining the fiscal risks posing upside risk to inflation. In the past, excessive money creation by the BCC, to meet some of the government's financing requirements, would have exerted upside pressure on inflation.

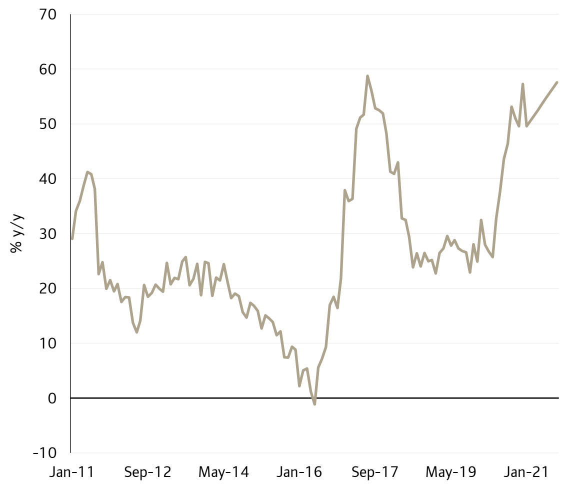
The IMF programme should also support measures to enhance the BCC's independence. It is likely that the discontinuation of advances to the government will be coupled with the prohibition of issuances of guarantees from the apex bank to the private sector.

Inflation and interest rates



Source: Banque Centrale du Congo; Standard Bank Research

Broad money supply growth



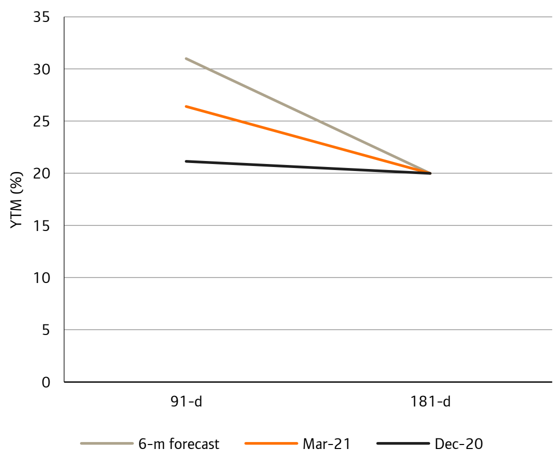
Source: Reuters; Standard Bank Research

Yield curve outlook: MOF issues new, USD-linked, bonds

The MOF has not issued 182-d T-bills since late last year and has also discontinued issuing 91-d T-bills regularly. It is unclear whether the Ministry of Finance will issue 91-d and 182- T-bills again, with authorities favouring the issuance of USD-linked 91-d T-bills. Perhaps the FY2022 budget will offer more insight.

While these auctions remained well subscribed, authorities remain price-sensitive, consistently rejecting higher bids. The issuance calendar had made provision for 182-d, USD-linked T-bill auctions; however, at the time of writing these instruments had not been issued. At an auction in Aug, the 91-d USD-linked T-bill yields averaged 6.17%.

Yield curve change



Source: Ministry of Finance; Standard Bank Research

Fiscal policy: IMF programme should relieve financing constrains

Excluding grants, the FY2021 budget foresees the deficit rising to 4.2% of GDP in FY2021, from 3.5% of GDP in FY2020. The DRC's IMF programme provides an additional source of financing for the sovereign. The FY2021 budget assumes that the government will secure CDF2,063bn (1.83% of GDP) in project financing and CDF593.2bn (0.53% of GDP) in budget support.

As DRC advances with the structural reforms recommended under this programme, the government's access to external financing should improve further.

In the first 7-m of FY2021, domestic tax revenue performed well, reaching 96% of the collection target due mainly to large corporate tax payments. We maintain that the FY2021 revenue forecasts seem viable. However, domestic revenue outside the extractive sector may underperform during this fiscal year.

Over the next few years, the government aims to increase the revenue-to-GDP ratio by 3.5 ppt. Some reforms to achieve this target include restoring normal functioning of VAT by ending exemptions granted to mining companies, rationalising non-tax and parafiscal charges, streamlining excise duties, and modernising revenue administration by reforming the governance structure of the three tax administrations, and digitising the revenue chain.

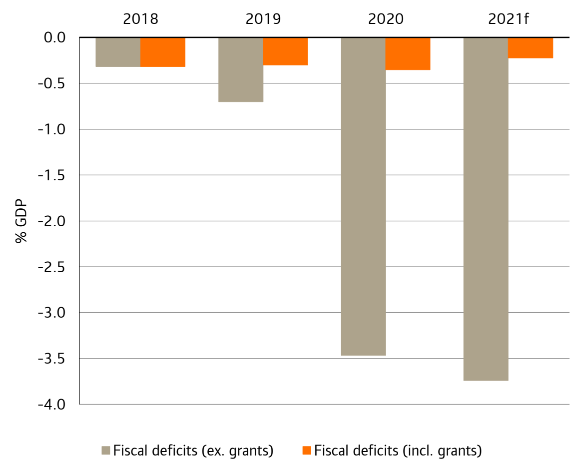
As at end Jul, expenditure exceeded the pro-rated target by 5%. Planned developmental expenditure in FY2021 is set at 61.3% above the estimated FY2020 outturn but, 7-m into the fiscal year, lags the execution target by 28%. Therefore, the developmental budget will likely be rationalised.

Central government finances

% of GDP	2018	2019	2020	2021f
Total central govt. revenue	9.5	12.4	7.1	9.0
Total central govt. expenditure	9.8	12.8	10.6	14.3
- Recurrent	9.8	8.6	7.2	8.9
- Interest	0.4	0.8	0.4	0.9
- Wages	3.6	4.6	4.8	5.2
- Development/transfers	0.8	2.4	0.8	1.5
Central govt. bal. (ex. grants)	-0.3	-0.7	-3.5	-4.2
Central govt. bal. (incl. grants)	-0.3	-0.3	-0.4	-0.3
Net domestic borrowing (saving)	0.0	0.2	0.4	0.3
Net external borrowing (saving)	0.0	0.0	0.0	0.0
Grants (incl. HIPC)	0.0	0.3	3.1	3.9

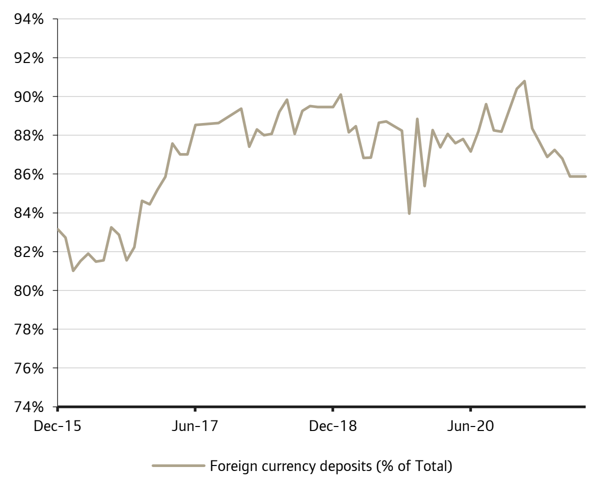
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Fiscal deficit



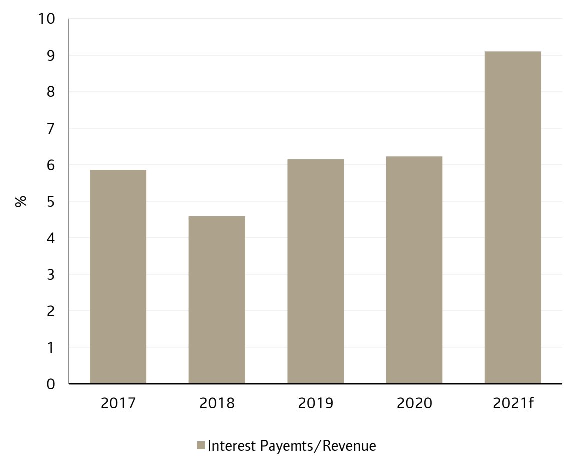
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

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

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	83.9	86.3	88.8	91.3	93.9	95.0	95.0
Nominal GDP (CDF bn)	37 936.0	59 446.6	74 750.9	80 959.4	99 504.6	111 730.5	134 648.8
Nominal GDP (USD bn)	36.6	39.6	46.2	49.8	50.6	56.2	64.8
GDP / capita (USD)	436.0	458.3	520.7	545.6	539.1	590.8	682.2
Real GDP growth (%)	2.5	3.7	3.8	4.4	1.7	4.5	5.0
Diamond production (m carats)	15.5	18.9	15.1	12.9	13.1	12.8	13.8
Crude oil ('000 barrels)	7 058.0	7 363.0	8 392.6	6 817.0	4 090.2	4 499.2	4 949.1
Copper ('000 tonnes)	1 024.0	1 090.0	1 225.3	1 420.4	1 590.9	1 718.1	1 855.6
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-1.3	-2.8	-0.3	-0.7	-3.5	-4.2	n.a
Domestic debt / GDP (%)	n.a	n.a	6.6	7.0	7.4	6.9	n.a
External debt / GDP (%)	17.6	16.9	13.7	14.3	14.4	14.6	15.5
Balance of Payments							
Exports (USD m)	8 199.0	10 780.0	12 970.0	15 930.0	13 789.0	17 000.0	20 400.0
Imports (USD m)	8 981.0	9 946.0	11 651.0	14 395.0	11 865.0	13 675.3	16 410.3
Trade balance (USD m)	-782.0	834.0	1 319.0	1 535.0	1 924.0	3 324.8	3 989.7
Current account (USD m)	-1 646.0	-1 485.8	-1 230.7	-1 214.7	-676.0	924.8	1 639.7
- % of GDP	-4.5	-3.8	-2.7	-2.4	-1.3	1.6	2.5
Financial account (USD m)	1 362.8	1 250.0	1 200.0	1 450.0	2 000.0	1 800.0	1 800.0
- FDI (USD m)	890.0	950.0	1 080.0	1 200.0	1 600.0	1 800.0	1 800.0
Basic balance / GDP (%)	-2.1	-1.4	-0.3	0.0	1.8	4.9	5.3
FX reserves (USD m) pe	852.1	844.0	879.5	1 031.0	708.9	1,100	1,300
- Import cover (months) pe	1.1	1.0	0.9	0.9	0.5	1.2	1.2
Sovereign Credit Rating							
S&P	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	B3	B3	B3	Caa1	Caa1	Caa1	Caa2
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Headline inflation (%) pa	5.8	53.0	21.9	4.3	14.8	13.8	11.5
Headline inflation (%) pe	25.0	46.8	7.7	3.9	21.2	7.8	15.5
M3 money supply (% y/y) pa	9.0	43.4	16.7	4.8	40.4	25.6	18.4
Policy bank rate (%) pa	4.5	18.5	14.0	10.3	15.8	10.8	8.5
Policy bank rate (%) pe	7.0	20.0	14.0	9.0	18.5	8.5	8.5
USD/CDF pa	1 037.1	1 503.0	1 617.4	1 625.2	1 871.0	1 989.8	2 076.5
USD/CDF pe	1 165.0	1 595.0	1 625.0	1 667.6	1 965.1	2 022.3	2 112.7

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 set on only a gradual recovery

Medium-term outlook: growth recovery slow

We forecast growth of 4.8% y/y for FY2021/22, from preliminary GDP growth of 3.3% y/y in FY2020/21 which had slightly overshot our 3.2% y/y forecast. GDP posted growth of 7.7% y/y in Q2:21 largely due to unwinding base effects.

However, the economy expanded by just 2.9% y/y in Q1:21, against our 3.2% y/y forecast, from 2.0% y/y in Q4:20. So, while GDP growth has been recovering from the 0.5% y/y average contraction in H1:20, the pace of recovery is proving much more gradual than we expected.

The accommodation and food service sub-sector contracted 26.4% y/y in Q1:21, following an average contraction of 64.8% y/y in the previous 3-q. Output here seems set to recover to pre-pandemic levels only by 2023 at the earliest despite the recovery in international tourist arrivals so far in 2021.

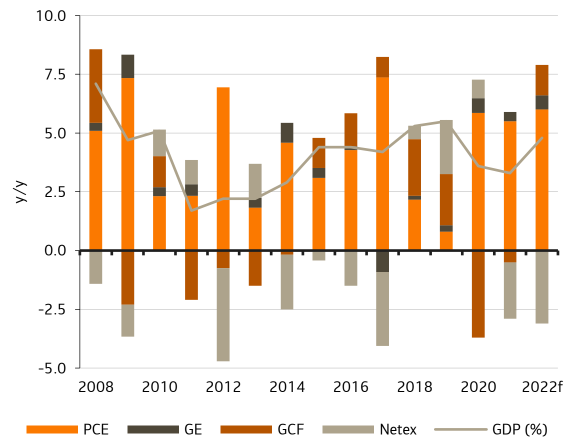
The government reinstated some restrictions after the spike in infections between Mar and May but then eased them in Jun as new cases declined. However, at the time of writing, the Ministry of Health was cautioning about a fourth wave, which may see renewed restrictions weighing on growth.

Vaccinations, still relatively slow, have picked up since early Aug 21. As at 15 Sep, around 7.7% of the population had received at least one dose. According to the Ministry of Health, Egypt has already locally produced and distributed one million vaccines domestically via the VACSERA facility and plans to build a new facility over the next 6-m, speeding up vaccinations locally in addition to potentially boosting supply for the rest of Africa.

Also, as external demand continues to improve, courtesy of the advanced vaccine roll-out in most developed markets, Egypt's net exports should further recover, driven mainly by goods exports rather than services.

As domestic vaccinations roll out more, tourism to Egypt should pick up. Indeed, the UK has removed Egypt from its red list for travel in Sep 21, perhaps also boding well for tourism and the wider services sector over the coming year.

Composition of GDP by demand



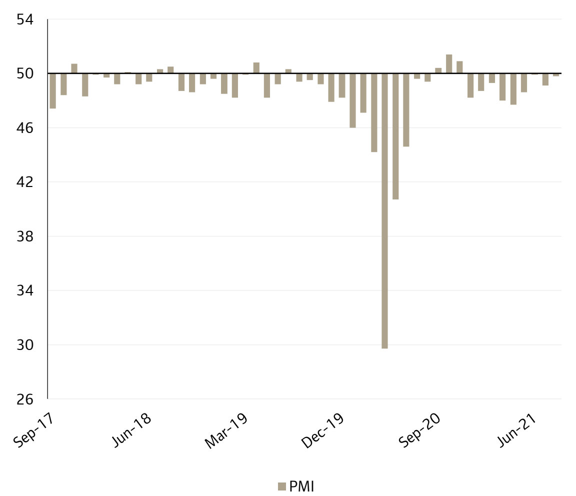
Source: Ministry of Planning; Standard Bank Research

Contribution to GDP by sector

% of GDP	FY2008/09	FY2010/11	FY2019/20
Agriculture	13.6	14.5	12.1
Petroleum	6.2	6.2	3.1
Natural gas	8.3	8.3	3.1
Manufacturing	16.6	16.5	17.1
- Petroleum refinement	1.0	1.1	4.3
Construction	4.4	4.6	6.7
Transport	4.1	4.1	5.0
Wholesale and retail trade	11.4	11.5	14.5
Financial intermediation	3.6	3.4	3.8
Real estate	2.7	2.6	11.2
General government	9.9	10.2	7.3

Source: Ministry of Planning

Egypt Markit PMI



Source: IHS Markit

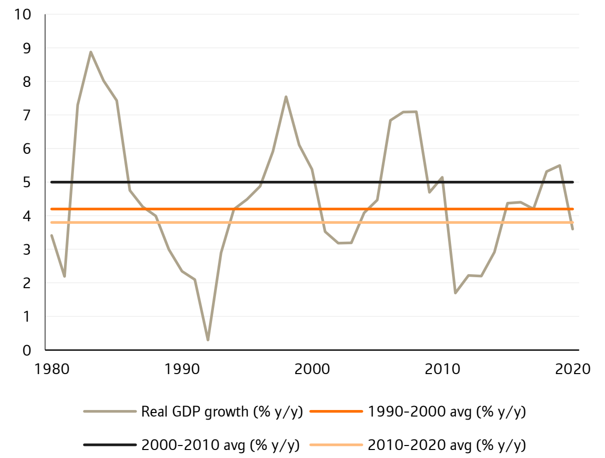
Medium-term economic scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	2.9	7.7	4.4	4.2	5.1	5.5	5.7	6.1	5.8	6.2	6.1	5.7	5.9	5.8	6.2	6.2
CPI (% y/y) pe	4.5	4.9	6.3	4.1	6.6	7.1	8.6	8.5	8.3	8.3	9.2	9.5	9.2	8.7	8.1	7.4
CBE prime lending rate (%) pe	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
3-m rate (%) pe	13.10	13.10	12.40	12.30	12.50	12.50	12.20	12.00	12.30	12.30	12.10	12.15	11.70	11.40	11.30	11.10
6-m rate (%) pe	13.40	13.35	12.65	12.50	12.70	12.70	12.50	12.40	12.50	12.40	12.30	12.20	12.10	11.80	11.70	11.50
USD/EGP pe	15.70	15.65	15.70	15.75	15.80	15.70	15.75	15.80	15.80	15.85	15.90	15.90	15.95	15.95	16.10	16.10
Bull scenario																
GDP (% y/y) pa	2.9	7.7	6.9	6.7	7.9	7.6	7.8	8.4	7.6	7.5	7.3	7.0	7.2	7.5	7.6	7.6
CPI (% y/y) pe	4.5	4.9	5.1	4.7	4.9	4.9	5.4	5.5	5.3	5.2	5.7	6.1	5.5	5.6	5.2	4.4
CBE prime lending rate (%) pe	9.25	9.25	9.25	9.25	9.25	8.75	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
3-m rate (%) pe	13.10	13.10	12.20	11.50	11.40	11.50	11.50	11.60	11.50	11.40	11.60	11.60	11.40	11.00	10.80	10.70
6-m rate (%) pe	13.40	13.35	12.40	11.70	11.70	11.70	11.80	11.80	11.70	11.60	11.70	11.80	11.70	11.60	11.20	11.00
USD/EGP pe	15.70	15.65	15.65	15.60	15.60	15.55	15.55	15.60	15.60	15.65	15.70	15.70	15.65	15.65	15.70	15.75
Bear scenario																
GDP (% y/y) pa	2.9	7.7	2.7	2.9	3.8	4.7	4.9	5.4	5.1	5.5	5.4	5.0	5.2	5.5	5.5	5.2
CPI (% y/y) pe	4.5	4.9	7.3	10.4	10.7	10.7	10.6	10.4	10.1	9.8	9.9	10.2	10.4	10.6	11.4	11.2
CBE prime lending rate (%) pe	9.25	9.25	9.25	9.50	10.25	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	13.10	13.10	14.10	14.30	14.40	14.30	14.40	14.20	14.20	14.10	13.90	13.90	14.20	14.20	14.10	14.30
6-m rate (%) pe	13.40	13.35	14.30	14.40	14.40	14.50	14.50	14.60	14.50	14.40	14.40	14.20	14.50	14.50	14.60	14.60
USD/EGP pe	15.70	15.65	15.80	16.00	16.25	16.25	16.30	16.40	16.40	16.50	16.55	16.60	16.60	16.80	16.80	17.00

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

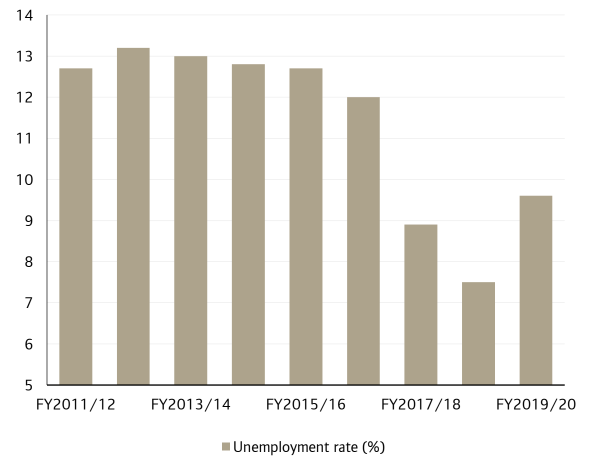
Notes: pa - period average; pe - period end

Long-term GDP performance (% y/y)



Source: IMF

Unemployment rate (%)



Source: Central Bank of Egypt

Balance of payments: C/A likely to narrow in 2021

We still expect the C/A deficit to narrow to 2.7% of GDP in 2021, from 5.0% in 2020, primarily due to higher exports receipts.

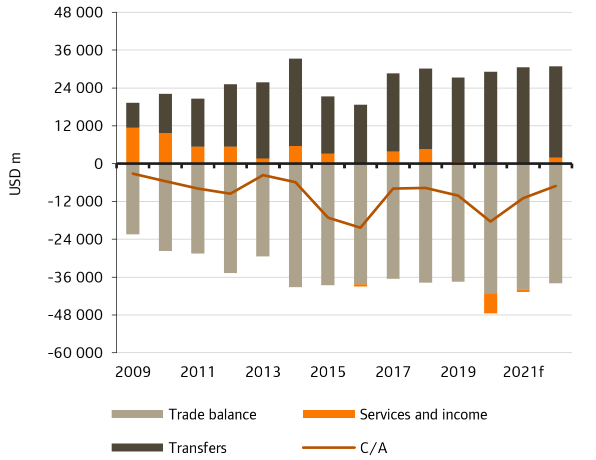
Thanks in large part to higher international oil prices, petroleum exports rose by 46.5% in Q1:21, to USD2.3bn, from USD1.6bn in Q3:20, which should continue over the next 6-m or so.

Even tourism receipts have recovered, to USD1.3bn in Q1:21, from USD986m and USD801m in Q4:20 and Q3:20 respectively. However, this is still below the USD3.1bn average received from tourism earnings Sep 19 to Mar 20. We see tourism receipts recovering to pre-pandemic levels only by 2023 but it may be sooner, in H2:22, should Egypt indeed speed up domestic vaccinations.

Total imports of goods grew by 28.2%, to USD19.0bn in Q1:21, from Q3:20, largely due to a higher oil import bill. Petroleum imports increased by 45.3% in Q1:21. As domestic demand recovers, the oil import bill may remain elevated unless international oil prices plummet.

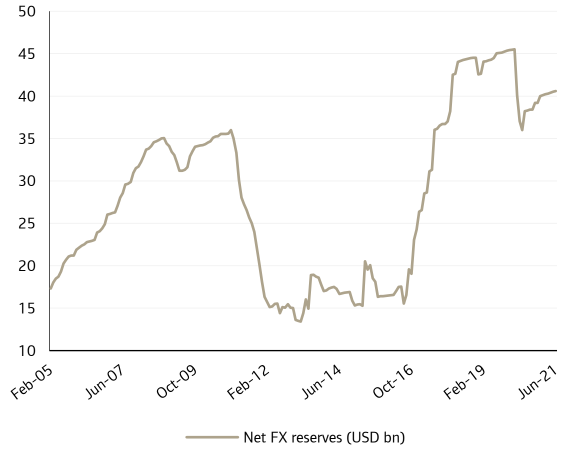
Gross FX reserves were above USD40bn in H1:21, from USD38.1bn in Jun 20. Indeed, FX reserves are likely to be underpinned as the USD2.77bn new IMF SDR allocation is reflected from Aug 21.

Current account developments



Source: Central Bank of Egypt; Standard Bank Research

Net FX reserves (USD bn)



Source: Central Bank of Egypt

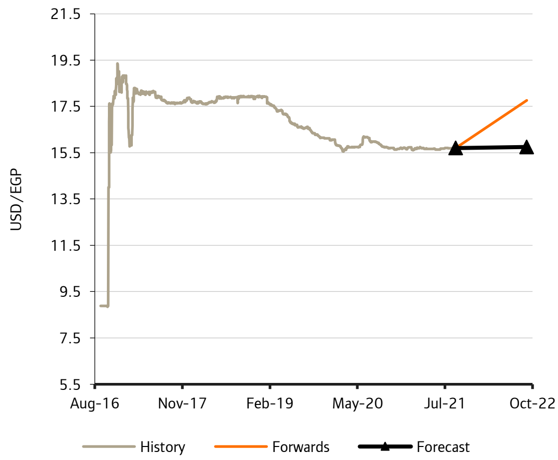
FX outlook: stability, with some near-term risks

We see the USD/EGP pair within the 15.70-15.75 range by year-end; our earlier forecast was 15.80-15.90.

In addition to the expected narrowing of the C/A balance, the net increase in foreign portfolio investment so far in 2021 has been supporting EGP stability. However, a notable risk to our core view is linked to the potential of portfolio outflows in Q4:21 or in Q1:22, should advanced economies' central banks taper bond purchases or increase policy rates.

However, real EGP yields remain highly attractive to offshore investors, which may imply that any EGP weakening from deteriorating global risk sentiment should prove transitory as FX entry levels would improve but only just.

USD/EGP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral, for now

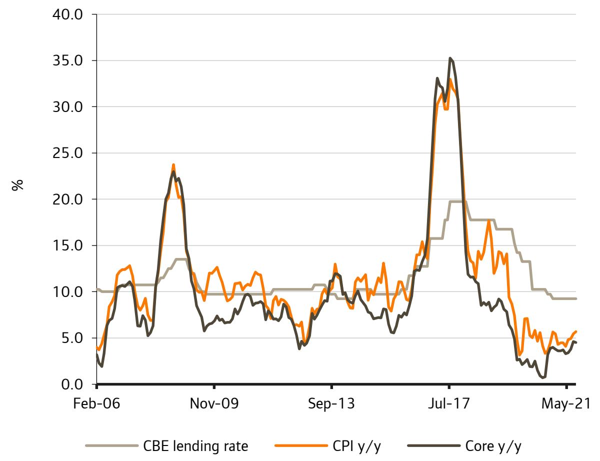
Though we expect the MPC to leave rates unchanged, there may be an easing bias over the coming year as economic activity will likely only pick up modestly. However, in the near term, the MPC may be a lot more cautious given the imminent tapering of bond purchases in the US, especially considering increased foreign participation in the EGP debt market over the last year or so.

Headline inflation has been rising in line with our expectations, to 5.7% y/y in Aug 21, from 4.1% y/y in Apr 21 and 3.7% y/y in Sep 20. Core inflation too has increased, to 4.5% y/y in Aug 21, from 3.3% in Apr 21 and 0.8% y/y in Aug 20.

Owing to unfavourable food inflation base effects, headline inflation could remain elevated over the next 2-m but thereafter decline to 4.1% y/y in Dec 21 before approaching 6.6% y/y in Mar 22 and 7.1% y/y in Jun 22. By then, economic activity is likely to have picked up, incurring increased underlying inflationary pressures.

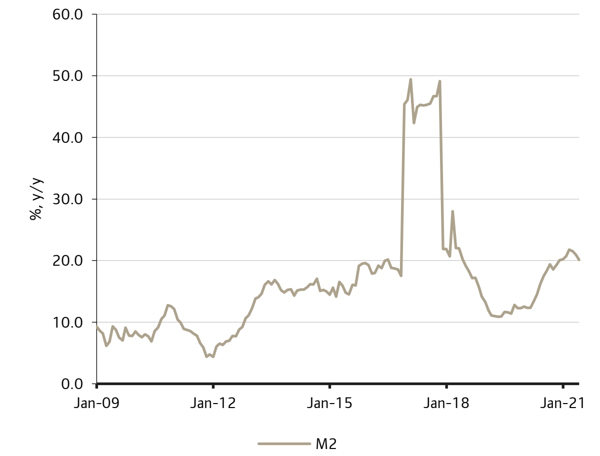
However, amidst the notable food inflation volatility over the past few years, the CBE has notified the government of 11 commodities largely incurring that volatility. As a result, the government has already been addressing these concerns via upgrading silos, repairing logistical issues, and improving warehouse access. Still, downside risks to our current inflation forecasts may abide over the coming year or so.

Inflation and interest rates



Source: Central Bank of Egypt

Money supply growth



Source: Central Bank of Egypt

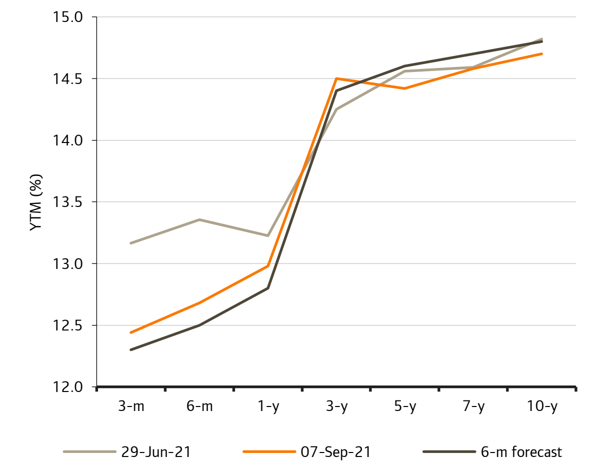
Yield curve outlook: yields at long end still to rise

We expect EGP yields at the longer end of the curve to rise further over the next 6-m, while short end yields may remain stable.

As a prerequisite to GBI-EM inclusion, the government had ramped up issuances of bonds, placing upside pressure on long-end yields. Egypt had been placed on watchlist for inclusion in the GBI-EM, which looks set to be completed around Nov 21. However, access to the Euroclear platform may be postponed to Q1:22, according to the Ministry of Finance.

As bond market liquidity improves from the inclusion in the index and even once local debt becomes euro-clearable, government bond yields could ease gradually. However, the near-term upside risk for EGP yields is imminent US bond purchase tapering, particularly as foreign portfolio investors now hold around USD20.0bn in T-bills and USD8.0bn in government bonds.

Changes in the yield curve



Source: Standard Bank Research; Central Bank of Egypt

Fiscal policy: impressive performance despite pandemic

The FY2021/22 budget deficit is expected to decline to 6.7% of GDP, from an expected of 7.7% in FY2020/21. Notably, the government managed to lower the fiscal deficit from 7.9% of GDP in FY2019/20 despite the pandemic.

Indeed, the government is keen on maintaining fiscal consolidation over the next 2-y while ensuring continued economic growth driven by both investment and the private sector.

EGP8.0bn has been allocated in the FY2021/22 budget for the export subsidies program, down from USD28.0bn in FY2020/21.

The Ministry of Finance has no plans to raise taxes in FY2021/22 but will rather focus on improving governance, enhancing the efficiency of tax collection, and searching for ways to formalise the informal sector by digitising processes.

Indeed, the relative resilience of economic growth in FY2020/21 is a notable indication that the government's stimulus efforts have been bearing fruit, even during a pandemic.

As the government finalises inclusion in the GBI-EM towards Nov 21, they should be able to extend duration of domestic liabilities via increased issuance of government bonds. This would be enhanced once access to the Euroclear platform is also secured over the 6-m or so.

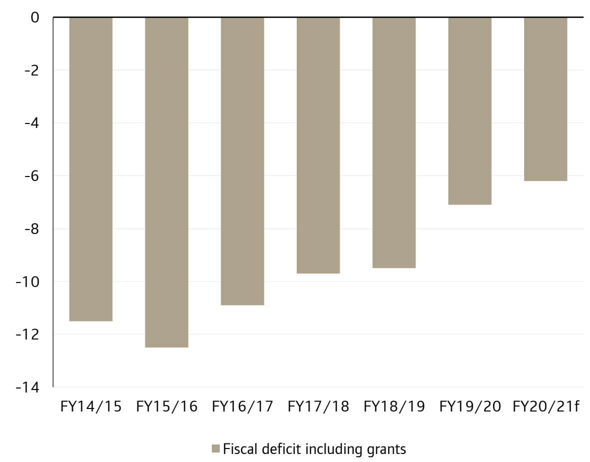
In FY2021/22, the government seeks to raise USD5.0bn externally.

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

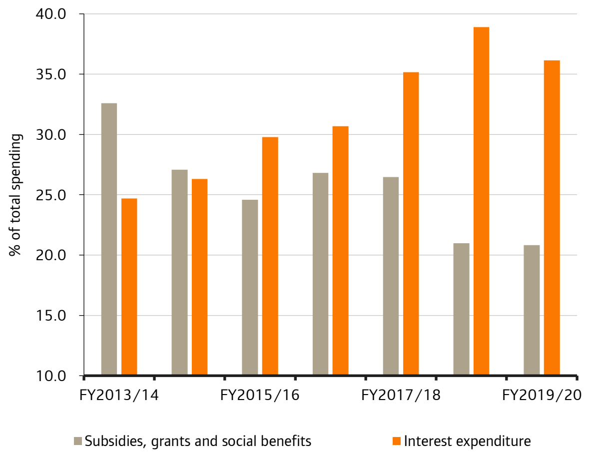
Source: Ministry of Finance

Fiscal deficit incl. grants (% of GDP)



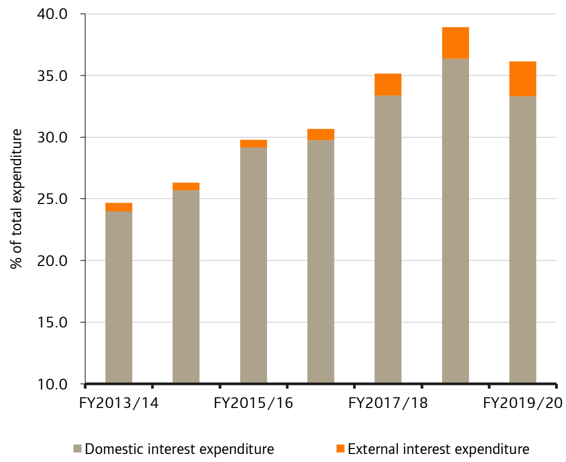
Source: Ministry of Finance

Components of expenditure



Source: Ministry of Finance

Composition of interest expenditure



Source: Ministry of Finance

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	91.0	95.2	97.1	99.3	101.7	104.0	106.3
Nominal GDP (EGP bn)	2 709	3 470	4 437	5 332	5 820	6 353	7207
Nominal GDP (USD bn)	269.3	193.1	248.3	321.2	367.4	404.6	457.3
GDP / capita (USD)	2 960	2 028	2 557	3 235	3 612	3 891	4 302
Real GDP growth (%)	4.4	4.2	5.3	5.5	3.6	3.3	4.8
Oil Production ('000 b/d)	651.0	627.0	638.0	622.0	586.0	675.0	670.0
Gas Production (bcm)	34.6	42.1	45.0	50.0	55.0	65.0	68.5
Central Government Operations							
Budget balance (incl grants) / GDP (%)	-12.50	-10.90	-9.70	-9.50	-7.10	-6.20	-6.8
Budget balance (excl grants) / GDP (%)	-12.60	-11.20	-9.80	-9.60	-7.20	-6.30	-6.7
Domestic debt / GDP (%)	104.17	98.12	91.25	85.71	83.93	79.64	80.45
External debt / GDP (%)	19.47	20.82	20.55	18.89	18.93	19.64	20.23
Balance Of Payments							
Exports of goods and services (USD bn)	33.62	42.87	51.62	53.52	40.10	51.45	60.25
Imports of goods and services (USD bn)	-68.28	-70.22	-76.33	-78.95	-76.66	-78.55	-85.22
Trade balance (USD bn)	-34.65	-27.35	-24.71	-25.43	-36.56	-27.10	-24.97
Current account (USD bn)	-20.34	-7.92	-7.68	-10.21	-18.41	-10.92	-7.10
- % of GDP	-7.55	-4.10	-3.09	-3.18	-5.01	-2.70	-1.55
Capital & Financial account (USD bn)	32.72	23.84	14.70	11.97	9.92	18.77	22.25
- FDI (USD bn)	8.11	7.41	7.82	9.00	5.80	8.50	10.2
Basic balance / GDP (%)	-4.54	-0.26	0.05	-0.38	-3.43	-0.60	0.68
FX reserves (USDbn) pe	24.27	37.00	42.55	45.42	40.00	44.80	47.5
- Import cover (mths) pe	4.26	6.32	6.69	6.90	6.73	6.84	6.69
Sovereign Credit Rating							
S&P	B-	B-	B	B	B+	B+	B+
Moody's	B3	B3	B3	B2	B2	B2	B2
Fitch	B	B	B	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%, y/y) pa	13.72	29.61	14.40	9.37	5.00	4.90	7.5
Consumer inflation (%, y/y) pe	23.30	21.87	11.98	7.07	5.40	4.10	8.5
M2 money supply (%, y/y) pa	26.0	39.7	17.9	11.3	16.8	18.4	19.3
M2 money supply (%, y/y) pe	46.1	21.9	13.3	11.5	20.2	15.3	18.8
CBE overnight lending rate (%) pa	12.58	18.08	18.00	15.63	10.00	9.25	9.25
CBE overnight lending rate (%) pe	15.75	19.75	17.75	13.25	9.25	9.25	9.25
3-m rate (%) pe	18.92	18.77	19.50	16.20	12.60	12.30	12.0
1-y rate (%) pe	19.32	18.50	19.80	16.30	12.70	12.80	12.5
5-y rate (%) pe	16.72	15.73	18.80	14.70	14.10	14.40	13.7
USD/EGP pa	10.06	17.97	17.87	16.60	15.84	15.70	15.76
USD/EGP pe	18.14	17.81	17.92	16.04	15.70	15.75	15.80

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: facing challenges on many fronts

Medium-term outlook: ample downside risks

Relative to the long-term average, we expect lethargic GDP growth over the short- to medium term, albeit returning to the long-term average once political uncertainties abate and macroeconomic imbalances are addressed. We still see GDP growth of 6.8% y/y for FY2021, then slowing to 6.5% y/y in 2022, but risks are skewed to the downside amid ongoing political conflict and the likely lack of funds to complete projects.

Political rigidities are still evident despite efforts by the government to ease ethnic tensions. Notably, the 10-m conflict that began in Tigray has escalated to other regions. Probably related to the conflict, the NBE has suspended commercial banks from extending any collateral-backed loans, which may negatively affect household and private sector activities.

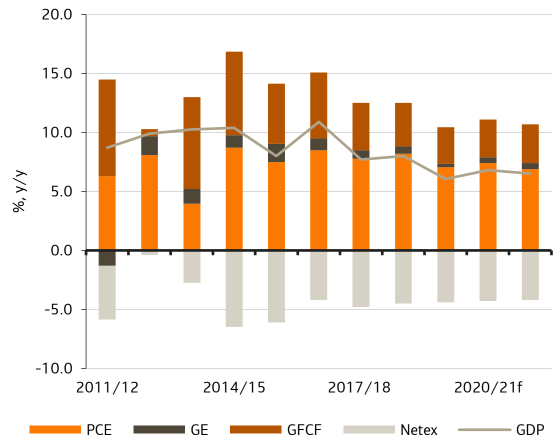
But, the public-investment-led growth model, which has driven the economy over the past decade, may disappoint. According to media reports, the EximBank of China is withholding disbursement of as much as USD339m in credit on concerns that it may exacerbate the repayment burden. This may be due to Ethiopia taking up the G20 Common Framework.

Although there has been substantial external funding from the World Bank (about USD1.6bn so far this year), there may be some concerns around access to commercial and bilateral external debt, which could limit the government's capacity to continue spending on ongoing and new infrastructure projects, thereby delaying ongoing projects and crimping economic activity.

The agricultural sector's outlook is also bleak; it contributes over 30% to GDP. Although the recent seasonal rainfall has helped with harvest in some areas of the country, in regions like Tigray conflict is ongoing. Thus, farmers have likely missed the planting season, so the agricultural sector may underperform for most of FY2021/22. This could be exacerbated by desert locusts, considering that the control operation has been halted in the Afar region due to ongoing conflict.

However, a decision to privatise the telecommunication sector, along with giving a minority stake in Ethio telecom, is a market-friendly move, accompanied by efforts to privatise the sugar sector. This should provide a solution to FX availability challenges over the medium term but, for the time being, is unlikely to be material due to gaps created by the pandemic and rebuilding the infrastructure damaged by conflict.

Composition of GDP by demand



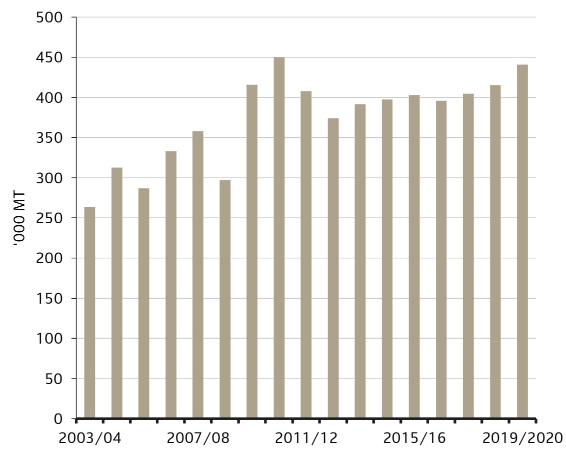
Source: National Bank of Ethiopia; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010/11	2015/16	2019/20
Agriculture, hunting, fishing and forestry	44.6	37.2	32.7
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

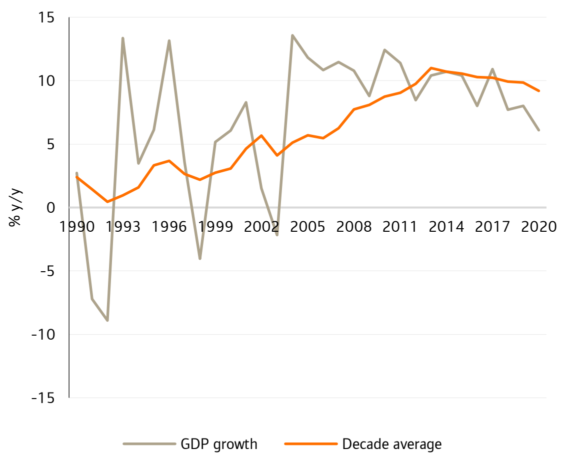
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	6.8	6.8	6.8	6.8	6.5	6.5	6.5	6.5	7.2	7.2	7.2	7.2	7.0	7.0	7.0	7.0
CPI (% y/y) pe	20.6	24.5	34.4	39.7	35.2	28.4	20.9	14.9	14.5	14.7	14.6	14.9	14.9	14.5	14.7	14.6
Policy rate (%) pe	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
3-m rate (%) pe	9.0	13.4	13.0	13.2	13.4	13.6	13.8	14.0	14.2	14.4	14.6	14.8	15.0	15.2	15.4	15.6
6-m rate (%) pe	7.0	12.5	9.4	12.9	9.8	13.3	10.2	13.7	10.6	14.1	11.0	14.5	11.4	14.9	11.8	15.3
USD/ETB pe	41.51	43.78	46.21	48.46	49.78	51.14	52.53	53.97	55.44	56.95	58.50	60.09	61.73	63.41	65.14	66.91
Bull scenario																
GDP (% y/y) pa	9.0	9.0	9.0	9.0	8.2	8.2	8.2	8.2	8.7	8.7	8.7	8.7	7.0	7.0	7.0	7.0
CPI (% y/y) pe	21.1	25.2	35.2	40.9	37.1	30.3	23.1	16.8	16.4	16.0	15.4	15.6	15.2	14.8	15.0	14.9
Policy rate (%) pe	9.5	9.5	9.5	9.5	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	9.2	13.6	13.2	13.4	13.6	13.8	14.0	14.2	14.4	14.6	14.8	15.0	15.2	15.4	15.6	15.8
6-m rate (%) pe	7.2	12.7	9.6	13.1	10.0	13.5	10.4	13.9	10.8	14.3	11.2	14.7	11.6	15.1	12.0	15.5
USD/ETB pe	41.11	43.28	45.96	48.31	49.63	50.89	52.33	53.77	55.24	56.75	58.30	59.89	61.53	63.21	64.94	66.71
Bear scenario																
GDP (% y/y) pa	3.3	3.7	4.3	4.3	4.0	4.0	4.0	4.8	5.5	4.5	5.4	5.7	5.2	5.2	5.3	5.3
CPI (% y/y) pe	20.1	23.8	33.6	38.5	33.3	26.5	18.7	13.0	12.6	13.4	13.8	14.2	14.7	14.2	14.4	14.4
Policy rate (%) pe	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
3-m rate (%) pe	8.9	13.3	12.9	13.1	13.3	13.5	13.7	13.9	14.1	14.3	14.5	14.7	14.9	15.1	15.3	15.5
6-m rate (%) pe	6.9	12.4	9.3	12.8	9.7	13.2	10.1	13.6	10.5	14.0	10.9	14.4	11.3	14.8	11.7	15.2
USD/ETB pe	41.91	44.28	46.46	48.61	49.93	51.39	52.73	54.17	55.64	57.15	58.70	60.29	61.93	63.61	65.34	67.11

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

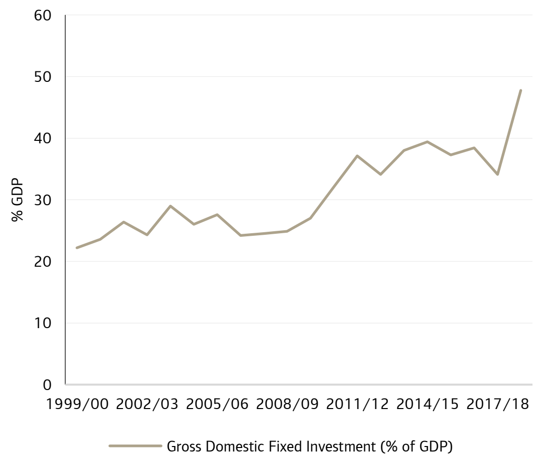
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; National Bank of Ethiopia

Domestic fixed investment



Source: National Bank of Ethiopia

Ethiopia

Balance of payments: C/A may narrow

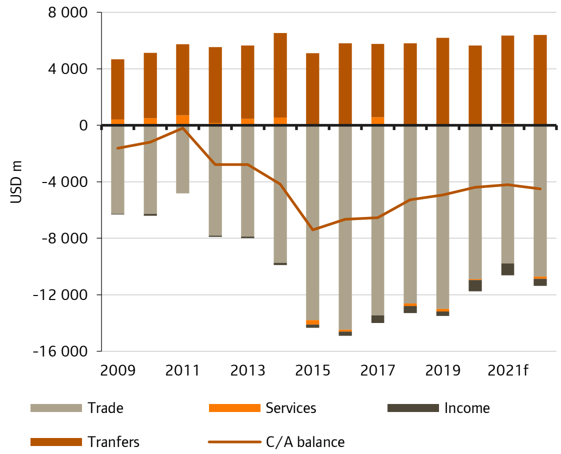
We now expect the C/A deficit to narrow to 4.2% of GDP in FY2020/21, from 4.4% of GDP in FY2019/20. But we expect the C/A deficit to widen in 2022, though the risks here are to the upside.

Underpinning this lower forecast for the C/A deficit is a change in our forecast for an increase in exports and slight decrease in goods imports. In Q3:2020/21, goods imports were 1.4% y/y lower, whereas exports were 16.6% y/y higher. The most recent pick-up in goods exports is attributable to gold exports rising 7-fold on average due to efforts to bring miners into the formal market. In fact, the share of gold in total goods exports rose to 13.0% in Q3:2020/21, from 1.8% in Q3:2019/20.

Despite a downward trend in imports, cereal imports have been rising, up 40.2% y/y in Q3:2020/21. While the increase in cereal imports may prove enduring as local agriculture production is likely to disappoint, a reduction in overall imports for the year still seems likely. Furthermore, investment spending has slowed, which could reduce capital imports which account for over 30% of imports.

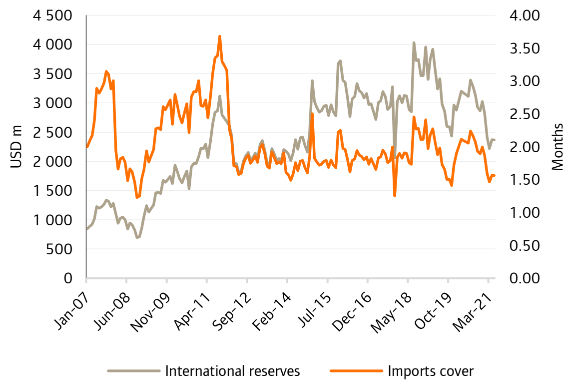
FX reserves are likely to rise marginally over the next couple of months. By Dec this year, FX reserves could pick up to USD3.2bn, covering 2.1-m of goods imports. FX reserves were USD2.4bn in May. Indeed, the IMF disbursements under the program is likely to support the BOP. The proposed revised schedule for disbursements is four equal instalments of SD358.335, or roughly USD512.4m on 15 May and 15 Nov 2021, and 15 May and 15 Nov 2022. In addition, the SDR allocation of around USD410m too may have boosted FX reserves.

Current account developments



Source: National Bank of Ethiopia; Standard Bank Research

FX reserves



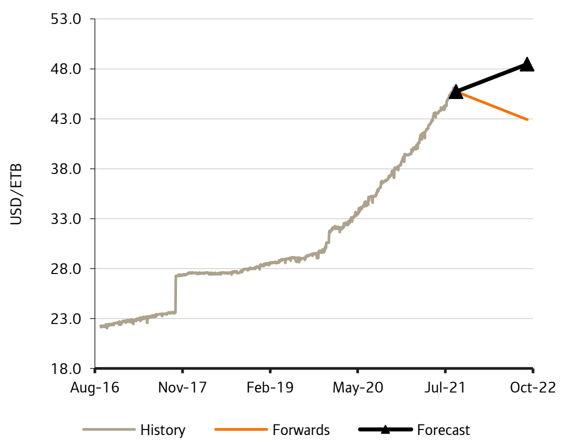
Source: Bloomberg; National Bank of Ethiopia

FX outlook: tilted to the upside for USD/ETB

We leave our FX forecasts unchanged, expecting the USD/ETB pair at 48.5 by year-end and 54.0 by end Dec 2022. The authorities' preferred policy is for an upward move in the pair, with commitment to implementing an FX roadmap to lay the groundwork for eventually shifting to a market-clearing exchange rate. Indeed, since late 2019, the pair has risen at an annualised pace of over 10%.

Despite indications of an improving BOP position, the ETB is unlikely to follow suit. Based on our estimates, the REER indicates that the ETB is overvalued by about 20%. This is likely to be expanding due to elevated inflation levels, resulting in the ETB moving much further from its fair value.

USD/ETB: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: signs of tightening

Headline inflation is likely to keep rising, perhaps peaking in Q4:21. The upward momentum in headline inflation seems likely to push inflation to 39.7% y/y in Dec 21. In line with higher international oil prices and the reduction in government fuel subsidy to reduce expenditure, the average retail price of fuel in Addis Ababa rose 20.1%, to ETB28.7 per litre, from ETB23.6 per litre a year ago.

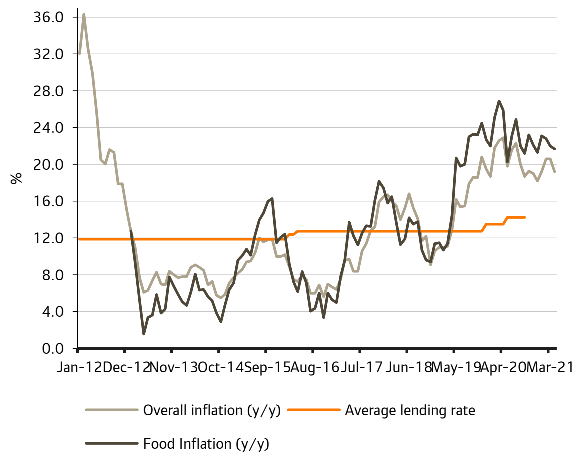
The trajectory of headline inflation will depend largely on the movement of food inflation. Food inflation has been increasing, to 32% y/y in Jul, from 28.7% in Jun and an 22.89% average in the prior 12-m. Indeed, the possibility of lower agricultural produce implies that food inflation will rise further.

Specifically, the impact of the conflict in Tigray and other key agricultural regions has yet to dissipate. The locust swarms could be another problem, with the FAO reporting that hatching, and hopper band formation, could be underway in Afar, but it is something that cannot be confirmed or even addressed due to poor security. Thus, the possibility of food shortages, along with increased fuel prices, implies protracted food price pressures.

However, money supply growth is likely to decline into Dec. It increased sharply in Q3:2020/21 to 27.7% y/y, after dropping consistently, to 17.0% in Q4:2019/2020. We anticipate it to moderate this year after the NBE doubled the statutory reserve requirement to 10%. Both money supply growth and credit growth have been far lower than the historical trends.

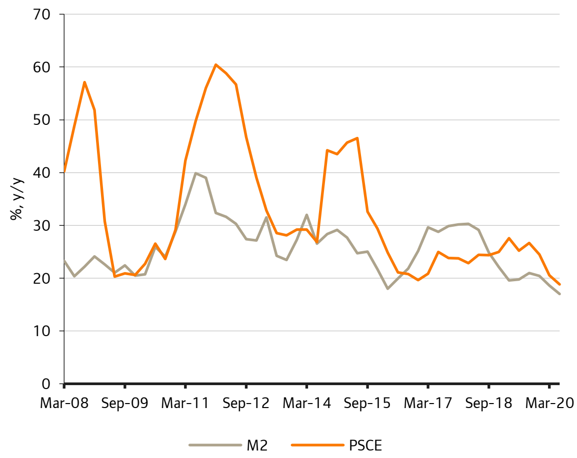
Moreover, Ethiopia has lowered taxes and duty on some imported and locally produced goods, which too should contain inflationary pressures.

Inflation and interest rates



Source: National Bank of Ethiopia; Central Statistics Agency

Monetary aggregates



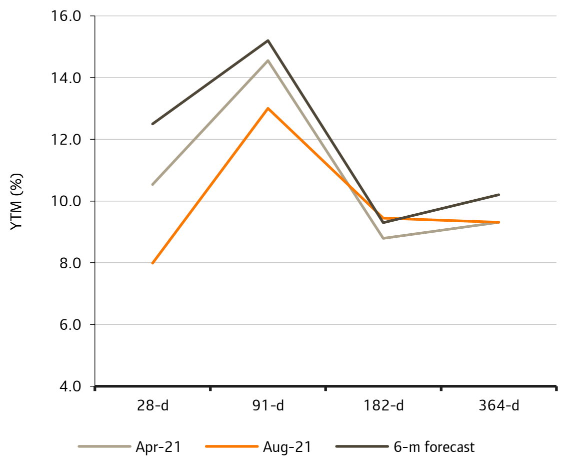
Source: National Bank of Ethiopia

Yield curve outlook: likely further upside

Our core view is that there could be further variations to yields over the coming 6-m. Perhaps ETB yields will rise, with the expectation that market forces are likely to play the biggest role. The NBE has revamped the primary market, and it could improve liquidity and functionality in the market. Recall, commercial banks are now not required to channel 27% of their deposit base towards government debt. Moreover, the government plans to partly rely on issuing T-bills to finance their deficit, and part ways with depending on direct financing from the NBE.

The NBE increased the statutory reserve requirement to 10% from 5%, effective from 11 Sep, which should reduce liquidity in the market and induce yields to rise in the near term. However, we expect this move to lower inflation in the medium- to long term, which should cap ETB yields.

Yield curve change



Source: National bank of Ethiopia; Standard Bank Research

Fiscal policy: external borrowing challenges

The FY2021/22 budget projects a deficit of ETB12.7, or 2.7% of GDP. External borrowing, at ETB56.9bn and ETBB68.9bn in domestic borrowing respectively, will make up financing for the FY2021/22 deficit. However, financing the budget via external sources could become a challenge this year.

Efforts in enhancing tax collection may see revenues increase. In fact, revenue increased by 19% y/y in the first 11-m of FY2020/21. However, we would expect expenditure to remain high. Other than development projects, the 10-m conflict in Tigray which has escalated to other regions, will increase budget needs for repairing infrastructure and social expenditure for affected citizens.

Financing this budget could be a challenge due to limited sources of domestic financing. Indeed, the government plans to partially use the T-bills to finance the deficit this year. Even though the size of the market has expanded over the past year, it still seems too thin to fully finance the budget. Yet, domestic debt includes claims by the central government which picked up sharply in recent years. The central bank's gross claims on the government increased by 13.8% y/y, to ETB251.9bn by Mar 21. Even this source of finance may not be favourable, with the government now pressed to ease inflationary pressures.

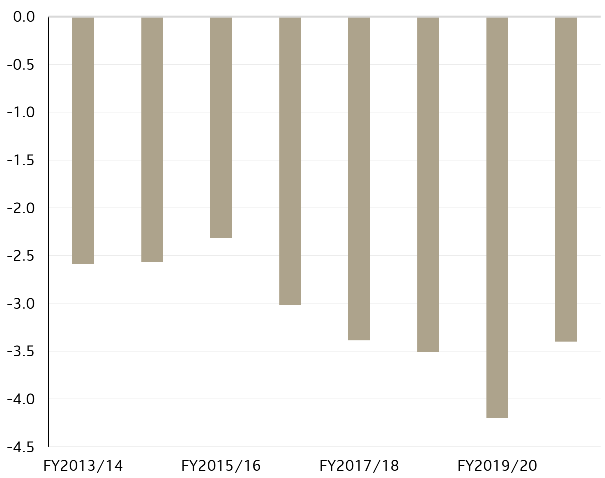
The government's deficit financing from external sources will likely remain onerous. However, grants and concessional financing would need to come through meaningfully, considering that commercial and bilateral funding is unlikely to be easily accessible, perhaps due to the take-up of G20 Common Framework. Just recently, it was reported that the EximBank of China had withheld its disbursement.

Central government budget

% of GDP	FY2020/21	FY2021/22
total revenue	9.3%	10.9%
tax revenue	7.3%	9.9%
current expenditure	3.6%	4.8%
capital expenditure	4.3%	5.4%
regional transfers	4.7%	6.0%
total expenditure	12.7%	16.6%
Deficit (+ grants)	-3.4%	-2.7%
Deficit (- grants)	-4.6%	-4.1%
net external borrowing	1.3%	1.7%
net domestic borrowing	2.1%	2.0

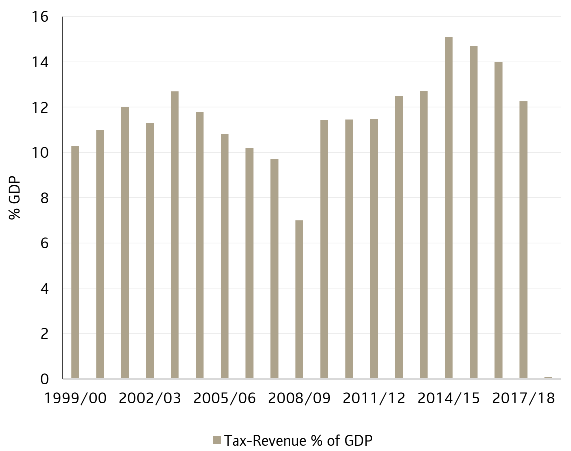
Source: Ministry of Finance

Fiscal deficit excl. grants (%) of GDP



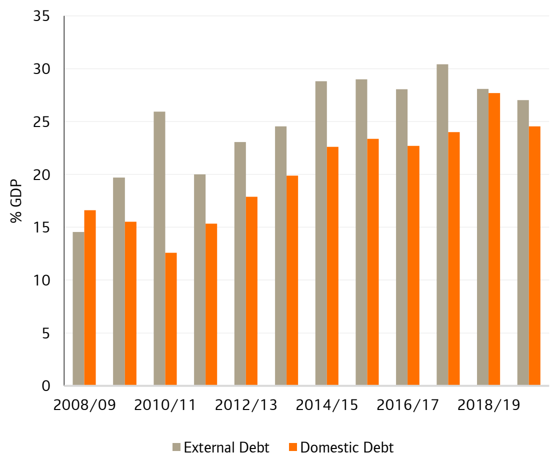
Source: Ministry of Finance

Tax revenue



Source: National Bank of Ethiopia

Debt % GDP



Source: Ministry of finance

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	91.2	93.4	95.5	97.6	99.8	102.1	104.5
Nominal GDP (ETB bn)	1568.1	1717.1	1834.1	1987.2	2225.6	2492.7	2791.8
Nominal GDP (USD bn)	74.3	81.8	84.4	96.1	107.7	120.6	135.0
GDP / capita (USD)	814.7	875.4	883.3	984.7	1078.3	1180.5	1292.4
Real GDP growth (%)	8.0	10.9	7.7	8.0	6.1	6.8	6.5
Coffee production ('000 MT)	402.8	396.0	404.7	415.5	441.0	457.3	474.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.0	-3.6	-3.6	-3.0	-4.2	-4.6	-4.1
Budget balance (incl. Grants) / GDP (%)	-3.0	-3.4	-3.5	-2.8	-3.1	-3.4	-2.7
Domestic debt / GDP (%)	23.4	27.5	29.2	28.6	27.1	24.5	21.3
External debt / GDP (%)	29.0	28.6	31.6	28.3	29.5	31.3	32.8
Balance of Payments							
Exports (USD bn)	6.1	6.3	7.1	7.7	7.7	8.2	8.4
Imports (USD bn)	20.6	19.7	19.7	20.7	18.2	18.0	19.1
Trade balance (USD bn)	-14.5	-13.5	-12.6	-13.0	-10.5	-9.8	-10.7
Current account (USD bn)	-6.7	-6.5	-5.3	-4.9	-4.4	-4.2	-4.5
- % of GDP	-9.0	-8.0	-6.3	-5.1	-4.6	-4.4	-4.2
Financial and Capital account (USD bn)	6.6	6.9	6.2	4.8	4.2	4.7	5.0
- FDI (USD bn)	2.6	4.2	3.7	3.0	2.4	2.9	3.2
Basic balance / GDP (%)	-5.5	-2.9	-1.9	-2.0	-1.8	-1.1	-1.0
FX reserves (USD bn) pe	3.7	3.0	2.8	3.7	3.0	3.2	2.7
- Import cover (months) pe	2.2	1.8	1.7	2.2	2.0	2.1	1.7
Sovereign Credit Rating							
S&P	B	B	B	B	CCC+	CCC+	CCC+
Moody's	B1	B1	B1	B1	B2	B2	B3
Fitch	B	B	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.3	10.9	13.9	15.7	20.4	27.4	27.6
Consumer inflation (%) pe	6.7	13.2	10.6	19.5	18.2	39.7	14.9
M2 money supply (% y/y) pa	21.2	29.6	26.6	20.2	23.9	18.4	16.6
M2 money supply (% y/y) pe	25.1	30.2	22.2	26.0	24.2	17.6	15.7
Policy rate (%) pa	5.0	5.9	7.0	7.0	7.0	8.0	8.0
Policy rate (%) pe	5.0	7.0	7.0	7.0	7.0	8.0	8.0
USD/ETB pa	22.0	24.2	27.7	29.4	34.8	45.0	54.0
USD/ETB pe	22.4	27.6	28.3	32.0	38.7	48.5	54.0

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

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

Ghana: waning base effects

Medium-term outlook: relatively robust

We now forecast GDP growth of 4.3% y/y for 2021, from 7.3% y/y in our May edition after Q2:21 GDP underwhelmed our expectation, coming in at 3.9% y/y.

Provisional data indicates that GDP growth eased slightly in Q1:21, by 3.1% y/y, from 3.3% y/y in Q4:20, with the cocoa sub-sector rising to 5.7% y/y, from 2.7% y/y, while the construction sector grew by 14.2% y/y, from 8.5%.

As base effects unwind further inQ3:21, to some extent, we expect GDP growth will be numerically boosted for 2021. With growth coming in lower than expected in Q2:21, base effects will probably be favourable in 2022. Thus, we see GDP growth increasing to 6.4% y/y in 2022.

We've turned more cautious on the FDI outlook for the oil and gas sector over the coming year. Oil production subsided to an average of 187.4/bbl in Q1:21, from 194.8/bbl in H2:20. The ongoing delays in the drilling of oil wells may further weigh down oil production in H2:21. Indeed, the oil and gas sub-sector contracted by 16.2% in Q1:21, from an average contraction of 4.9% in H2:20.

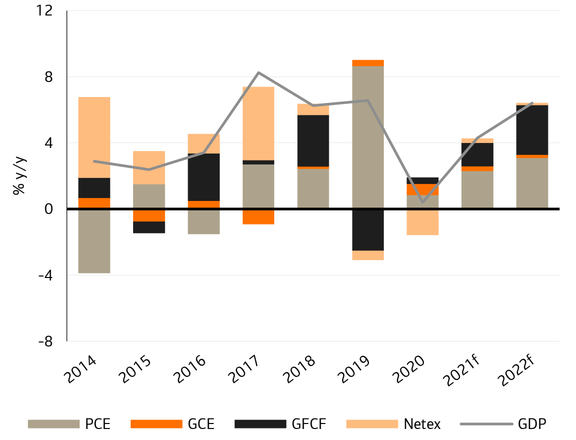
The mining and quarrying sub-sector too contracted, by an average 11.5% y/y Sep 20 to Mar 21. The outlook for the gold sector still doesn't look promising over the coming year after a key mine was closed due to an accident in May.

However, the cocoa sector should still perform well as external demand has improved. In fact, despite earlier concerns around the Living Income Differential (LID) premium borne of the Abidjan agreement with the government of Côte d'Ivoire, exports of cocoa over the coming year should be stable.

We still see renewed public health restrictions as the most notable downside risk to our growth outlook for 2021 and 2022. Indeed, earlier this year saw certain public health restrictions reinstated but not as stringent or protracted as those of last year.

Infection cases have been rising again since end Jun. At the time of writing, the 7-d average of new cases was 550, from less than 50 in early Jun. The vaccination drive remains slow but the government expects an additional 18m doses by Oct 21.

Composition of GDP by demand



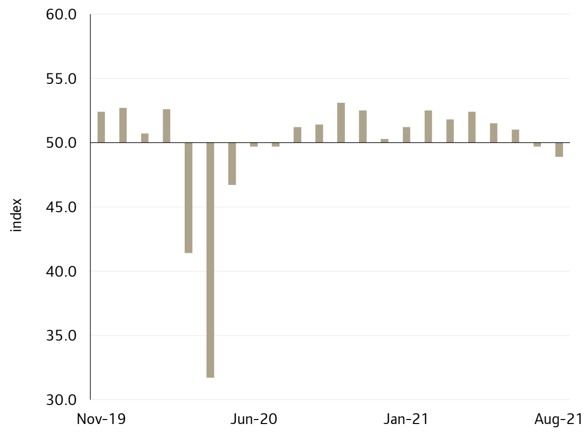
Source: Ghana Statistical Services; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2017	2019	2020
Crops	14.6	14.5	14.3	15.5
- Cocoa	1.7	1.7	1.7	1.7
Livestock	3.7	2.6	2.5	2.7
Mining and Quarrying	13.6	13.4	16.5	14.6
- Oil and gas	5.8	7.7	8.4	8.0
Manufacturing	12.4	11.8	11.5	11.6
Construction	9.1	8.8	7.6	7.7
Trade	11.2	10.5	9.9	9.7
Hotels and Restaurants	3.9	3.7	3.6	2.3
Transport and Storage	6.0	5.8	5.4	5.6
Financial services	5.1	4.9	4.0	4.2
Public administration	3.7	3.3	3.2	3.4
Education	4.0	3.9	4.0	4.2

Source: Ghana Statistical Service

Purchasing Managers Index



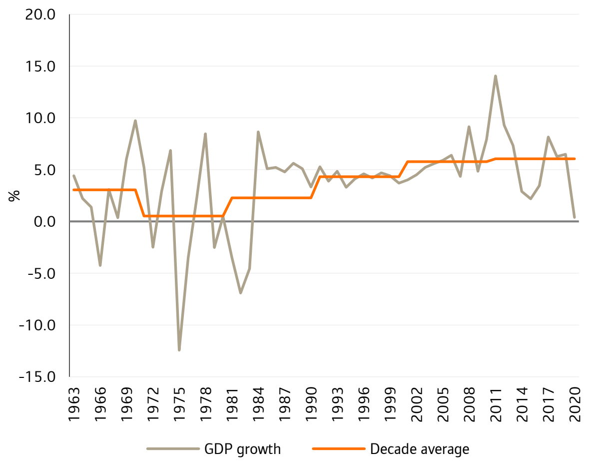
Source: IHS Markit; Bloomberg

Medium-term economic scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pe	3.1	3.9	5.6	4.7	5.2	12.7	5.5	2.0	2.3	7.3	6.6	5.4	5.1	5.1	5.8	6.0
CPI (% y/y) pe	10.4	7.8	10.1	13.2	13.1	11.7	8.8	6.8	6.9	7.2	7.6	8.1	8.7	9.1	9.3	9.6
Policy rate (%) pe	14.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
3-m rate (%) pe	12.87	12.63	12.45	12.6	12.60	12.50	12.50	12.50	12.44	12.40	12.40	12.40	12.38	12.30	12.25	12.20
6-m rate (%) pe	13.7	13.4	13.2	13.50	13.50	13.45	13.40	13.40	13.45	13.50	13.40	13.33	13.30	13.31	13.20	13.15
USD/GHS pe	5.76	5.93	6.04	6.13	6.20	6.38	6.46	6.50	6.61	6.90	7.05	7.15	7.39	7.65	7.83	8.01
Bull scenario																
GDP (% y/y) pe	3.1	3.9	8.9	8.5	8.7	14.9	8.1	4.2	4.0	9.0	8.3	7.2	6.6	5.1	5.8	6.0
CPI (% y/y) pe	10.4	7.8	10.4	13.4	13.6	12.4	9.6	8.0	8.8	9.1	9.8	10.0	10.6	10.4	10.1	10.3
Policy rate (%) pe	14.5	13.5	13.5	13.50	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
3-m rate (%) pe	12.9	12.6	12.5	12.3	12.3	12.2	12.0	12.0	12.3	12.3	12.3	12.3	12.2	12.2	12.1	12.1
6-m rate (%) pe	13.7	13.4	13.2	13.2	13.2	13.1	12.9	12.9	13.3	13.4	13.3	13.2	13.2	13.2	13.1	13.0
USD/GHS pe	5.76	5.93	6.04	5.82	5.80	5.88	6.21	6.35	6.46	6.65	6.85	6.95	7.19	7.45	7.63	7.81
Bear scenario																
GDP (% y/y) pe	3.1	3.9	2.3	0.9	1.7	10.5	2.9	-0.2	0.6	5.6	4.9	3.6	3.6	5.1	5.8	6.0
CPI (% y/y) pe	10.4	7.8	9.8	13.0	12.6	11.0	8.0	5.6	5.0	5.3	5.4	6.2	6.8	7.8	8.5	8.9
Policy rate (%) pe	14.5	13.5	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
3-m rate (%) pe	12.87	12.63	12.77	12.95	12.92	12.82	13.00	13.00	12.59	12.55	12.55	12.55	12.53	12.45	12.40	12.35
6-m rate (%) pe	13.65	13.38	13.5	13.8	13.8	13.8	13.9	13.9	13.6	13.7	13.6	13.5	13.5	13.5	13.4	13.3
USD/GHS pe	5.8	5.9	6.04	6.44	6.60	6.88	6.71	6.65	6.76	7.15	7.25	7.35	7.59	7.85	8.03	8.21

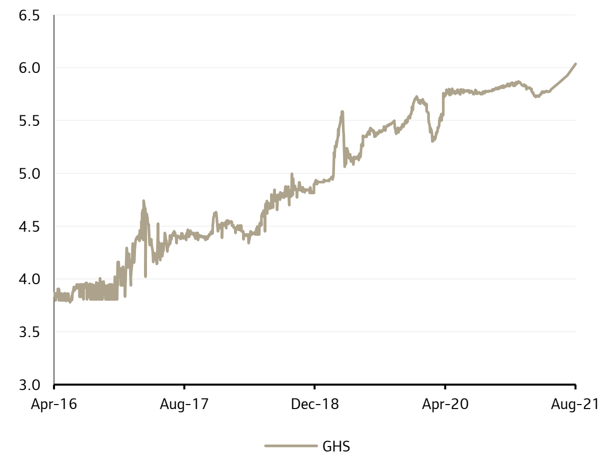
Source: Bank of Ghana; Ghana Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

Long-term GDP performance



Source: World Bank, Ghana Statistical Service

USD/GHS 5-y trend



Source: Bloomberg; Standard Bank Research

Balance of payments: stable

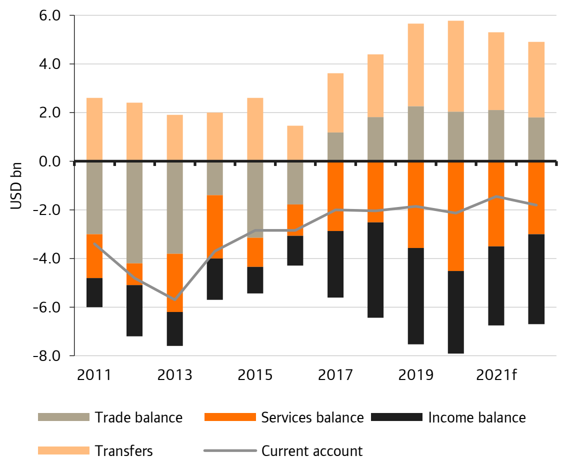
Having climbed to 4.7% of GDP in 2020, the C/A deficit will probably narrow to 2.9% GDP in 2021 and then widen to 3.2% in 2022. Exports will likely be boosted by rising cocoa production, oil receipts and improvements in service exports (off a low base). But gold exports are likely to disappoint due to production disruptions.

In H1:21, the C/A deficit widened by 69% y/y, to 1.3% of GDP, compared to -0.9% of GDP in H1:20, as indicated by the BOG's MPC. Still, the C/A deficit is likely to have narrowed by 15% y/y in Q2:21 and 50% q/q. We expect this to continue into year-end, bar Q3 when the C/A could narrow on a q/q basis due to the usual cyclical decline in Q3. Cocoa accounts for about 10% of total exports. Cocoa production should post robust growth, supported by relatively favourable weather. Also, oil exports, accounting for c.30% of total exports, were up 19% q/q in Q1:21.

Trade balance movements may incur a reduction of the C/A deficit, and the slow recovery in aggregate demand should ensure that import demand grows only marginally, after growing by 9% y/y in Q1:21. Still, the government could loosen fiscal policy further, thereby negating any narrowing of the C/A deficit.

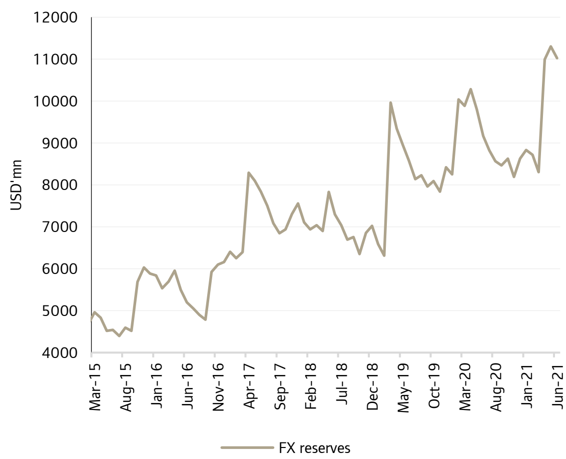
Another key risk to the BOP is capital outflows. Foreign holdings of local bonds at 19.6% of the total domestic debt stock may reverse, in line with the US tapering of asset purchases towards end 2021 or in H1:22. But the IMF's SDR allocation of about USD1bn, along with the USD1bn expected from the issuance of the social bond likely to be issued in Nov, should boost gross FX reserves to USD12.5bn by year-end, covering 11.5-m of imports

Current account development



Source: Bank of Ghana; Standard Bank Research

FX reserves



Source: Bloomberg; Bank of Ghana

FX outlook: USD/GHS upside risks

We see USD/GHS ending at 6.13 by year-end as, YTD, the GHS has depreciated by 2.86% against the USD. The pair has been stable, particularly in H1:21, benefiting from foreign portfolio investment inflows. However, as global liquidity conditions change, a sudden reversal of flows would incur upward pressure on the GHS. The pair has been moving higher since Jun.

Although gross FX reserves remain at USD11.02bn (end Jun), bolstered by the USD3.0bn financing the government secured from the Eurobond market in Apr, the BOG's sell-side support, key in maintaining the pair's stability, has waned. The central bank was slower to intervene and favoured smaller tranches. Perhaps it was the sovereign's higher external debt service May to Jul that limited sell-side support. Notably, external debt service for Sep, Nov and Dec were still above USD200m per month.

USD/GHS: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: still neutral

The BOG is likely to maintain a neutral monetary policy stance this year. We had expected the MPC to cut the Monetary Policy Rate (MPR) in H2:21 but they did so in May, by 100 bps, to 13.5%, citing the near-term risks to the inflation outlook as having receded.

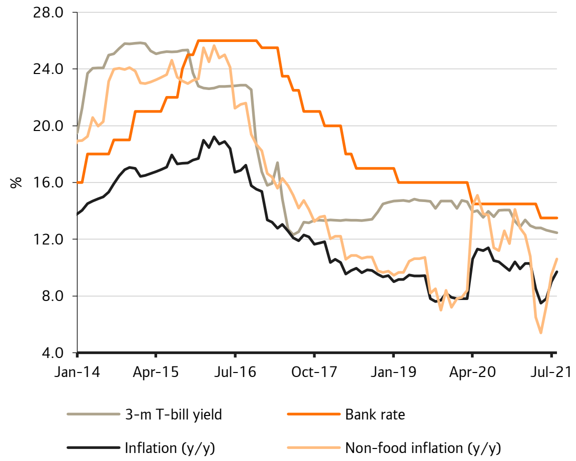
Still, that early cut wasn't followed by currency weakness as the BOG had room to reduce the MPR. After all, an output gap remained, as the economy recovered from the pandemic, and inflation had fallen within the BOG's target range in Apr, after remaining above 10% y/y since Nov 20.

We see inflation above the upper band of the BOG's target this year, averaging 9.6% y/y in Q3:21 and 12.4% y/y in Q4:21. Between Aug and Oct food inflation is typically contained.

However, m/m inflation was higher in Aug on upward momentum in the sub-index, indicating that food inflation is unlikely to be contained in the coming months. Indeed, excessive currency depreciation too would sustain upside risks to non-food inflation. Expected changes in global monetary policy could reinforce this risk. Notwithstanding weak private sector credit extension, the MPC may be apprehensive about further rate cuts, especially as developed market central banks start hiking.

Monetary policy easing has culminated in easier liquidity conditions as broad money supply (M2) growth remains robust, reaching 24.2% y/y in May 21, after averaging 32.7% y/y in Q1:21, from an average of 15.6% in H1:20. However, a deterioration of asset quality would likely limit private sector credit growth. Moreover, the macroeconomic slowdown in 2020 is likely to have had a lagging impact on asset quality. Non-performing loans reached 14.7% in Mar 21, from 14.8% in Dec 20 and 5.8% in Sep 20.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

Money supply growth

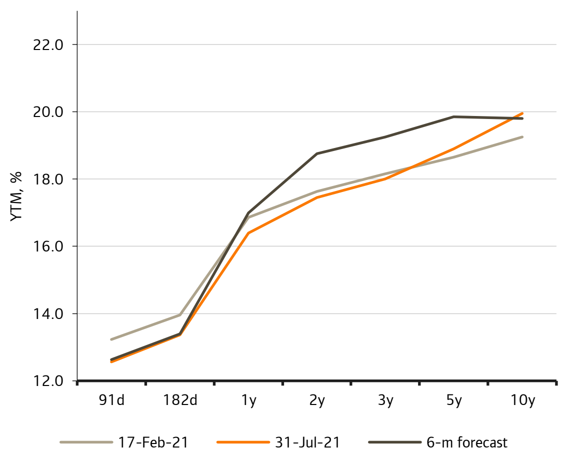
Source: Bank of Ghana; Bloomberg

Yield curve outlook: duration trade still in play

GHS yields could rise into year-end. While we acknowledge the 43% y/y reduction in the domestic borrowing target, we anticipate increased issuances by government over the last 4-m of 2021 as it tries to catch up with the domestic borrowing target and refinance several upcoming redemptions. The government had managed to raise only GHS7.0bn in H1:21, against an annual borrowing target of GHS25.4bn

Furthermore, there are redemptions worth GHS26.2bn between Aug and Dec, which the government needs to refinance. We maintain our long position in the Ghana '29s due to its attractive coupon. While the total return on the trade has declined since May, because of a reversal in some of the FX and duration gains, we believe that the coupon of 19.8% should be sufficient to mitigate further FX losses, even once the US Fed starts tapering bond purchases.

Yield curve changes



Source: . Bank of Ghana; Standard Bank Research

Fiscal policy: still far from fiscal responsibility act threshold

There were marginal changes in the revised 2021 budget published on 27 Jul. The most significant changes were: 1) an upward revision in the nominal GDP estimate; 2) an increase in the primary budget deficit due to lower interest payments following the implementation of the domestic liability management strategy; and 3) a 4% increase in the base pay of civil servants following interest savings.

While budget performance in H1:21 was close to targeted levels, financing for the fiscal deficit was skewed in favour of domestic financing. On the revenue side, the government achieved 87.5% of its revenue collection target despite lockdowns being imposed in Apr. Budget absorption was improved, with 91.9% of the targeted expenditure achieved. As a result, the fiscal deficit largely met expectations. While most of the financing for the fiscal deficit came from external sources, net external borrowings of GHS15,2bn were still lower than targeted levels of GHS19.9bn. Domestic borrowing in H1:21 overshot budget, at GHS7.0bn, against projections of GHS2.9bn for H1:21.

Regarding additional external debt, the sovereign plans to raise USD2.0bn in a social bond sale later this year. However, authorities could cut back on this issuance since Ghana plans to use its new allocation of USD1.0bn in Special Drawing Rights (SDR) from the IMF to finance Covid-19 initiatives and economic development.

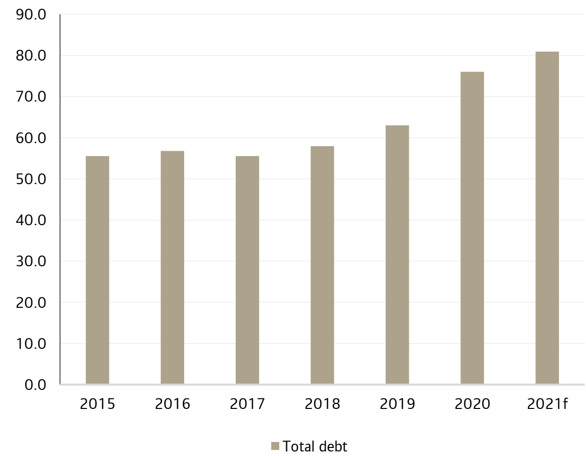
Public debt, including financial and energy sector bailouts, reached 77.1% of GDP at the end of Jun from 76.0% of GDP in Dec 20. 48% of public debt is denominated in foreign currency. Around 51% of Ghana's external debt is held by commercial lenders. Within the domestic debt stock, the implementation of the domestic liability management strategy and looser monetary policy underpinned a reduction in the cost of borrowing.

Central government budget

	2020	2021	
% of GDP	Actual	Budget	Revised
Revenues	14.1	16.7	16.5
Expenditure	26.1	26.2	25.9
- Wages	7.4	7.0	7.2
- Interest	6.4	8.2	7.4
- Capital	3.2	2.7	2.8
- Arrears clearance	0.4	0.9	0.8
Budget deficit (- grants)	-12.0	-9.9	-9.7
Budget deficit (+ grants)	-11.7	-9.5	-9.4
Net domestic financing	8.4	5.9	5.8
Net external financing	4.8	3.7	3.6
Other financing	0.0	0.3	0.0
Petroleum funds	0.3	-0.1	-0.1
Sinking fund	0.3	-3.7	-0.2
Contingency fund	0.0	0.0	0.0
Grants	0.3	0.3	0.3

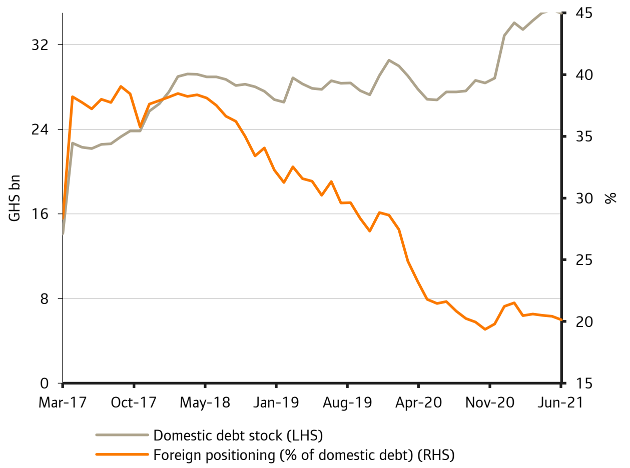
Source: Ministry of Finance

Total debt (% GDP)



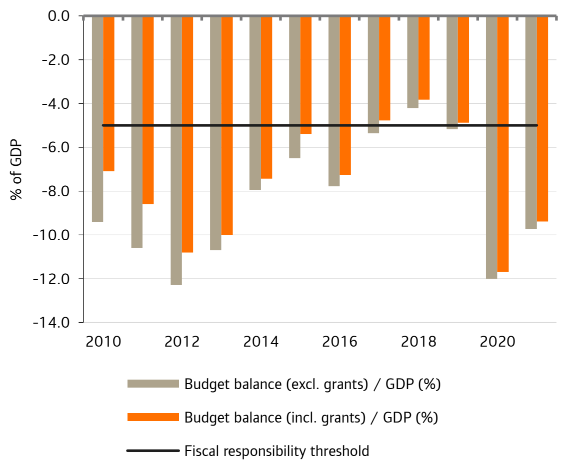
Source: Ministry of Finance; Standard Bank Research

Domestic debt held by foreigners



Source: Central Securities Depository

Fiscal balance



Source: Ministry of Finance

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	28.5	29.1	29.8	30.4	31.3	32.0	32.7
Nominal GDP (GHS bn)	220	263	263	263	263	301	352
Nominal GDP (USD bn)	56	60	56	49	46	51	55
GDP / capita (USD)	1 959	2 050	1 880	1 610	1 467	1 584	1 696
Real GDP growth (%)	3.4	8.2	6.3	6.6	0.4	4.3	6.4
Gold Production ('000 FO)	3 300	3 795	4 175	4 279	4 429	4 034	4 412
Cocoa bean production ('000 MT)	778	969	905	812	800	850	869
Oil production (k bpd)	101.7	81.2	135.4	199.0	200.0	206.0	220.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-7.6	-5.4	-4.2	-5.2	-12.0	-9.7	-7.6
Budget balance (incl. grants) / GDP (%)	-7.1	-4.8	-3.8	-4.9	-11.7	-9.4	-7.5
Domestic debt / GDP (%)	24.8	26.0	29.1	30.5	39.1	43.5	44.5
External debt / GDP (%)	32.0	29.5	28.8	32.5	37.0	37.4	40.3
Balance of Payments					76.0		
Exports (USD bn)	11.1	13.8	14.9	15.7	14.5	15.2	15.6
Imports (USD bn)	-12.9	-12.6	-13.1	-13.4	-12.4	-13.1	-13.8
Trade Balance	-1.8	1.2	1.8	2.3	2.0	2.1	1.8
Current account (USD bn)	-2.8	-2.0	-2.0	-1.9	-2.1	-1.5	-1.8
- % of GDP	-5.1	-3.4	-3.7	-3.8	-4.7	-2.9	-3.2
Capital & Financial account (USD bn)	2.6	3.0	1.5	3.1	2.1	1.8	2.0
- FDI (USD bn)	3.5	3.2	2.9	2.3	0.5	0.5	1.0
Basic balance / GDP (%)	1.1	2.0	1.5	0.9	-3.6	-1.9	-1.4
Gross FX reserves (USD bn) pe	6.2	7.6	7.0	7.8	8.6	12.5	11.1
- Import cover (months) pe	5.7	7.2	6.4	7.0	8.3	11.5	9.6
Sovereign Credit Rating							
S&P	BB-	B-	B-	B-	B-	B-	B-
Moody's	B3	B3	B3	B3	B3	B3	B3
Fitch	BB	B	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	17.5	12.4	9.8	8.6	9.9	10.0	10.7
Consumer inflation (%) pe	15.4	11.8	9.4	7.7	10.5	13.2	6.8
M2 money supply (% y/y) pa	24.2	28.5	33.8	5.6	23.0	22.7	23.7
M2 money supply (% y/y) pe	24.1	21.9	53.7	-9.5	33.5	35.1	30.7
BOG prime rate (%) pa	25.9	22.7	17.9	16.1	14.9	13.9	13.5
BOG prime rate (%) pe	25.5	21.0	17.0	16.0	14.5	13.5	13.5
3-m rate (%) pe	19.0	11.5	16.5	15.1	14.1	12.6	12.5
1-y rate (%) pe	20.5	14.8	19.5	15.5	17.0	16.4	15.8
2-y rate (%) pe	20.9	18.0	21.3	19.3	19.1	17.4	17
5-y rate (%) pe	19.0	17.9	21.5	19.0	19.7	18.5	18
USD/GHS pa	3.93	4.40	4.70	5.37	5.73	5.94	6.35
USD/GHS pe	4.22	4.51	4.90	5.69	5.87	6.13	6.50

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

Kenya: some recovery ahead of 2022 elections

Medium-term outlook: positive base effects

We now trim our GDP growth forecasts after the revision and re-basing of GDP; GDP growth 2015-2019 has been revised lower by an average of 90 bps per annum. We therefore adjust our forecasts down by an average of 85 bps over the next 2-y to account for that and the newly published Q4:20 GDP numbers.

We forecast GDP growth of 4.5% in 2021 and 4.2% in 2021, from -0.3% in 2020, from earlier forecasting 5.6% in 2021 and 4.8% for 2022. The 2019 nominal GDP has been revised 5% higher, implying slightly lower key economic metrics that are reported relative to it, such as debt, the current account deficit, and the fiscal deficit.

In 2021, we expect most of the growth to be driven by a recovery in sectors that were most negatively affected by the pandemic and associated public health restrictions. These sectors include manufacturing, trade, transport and education. With fewer public health restrictions in 2021 relative to 2020, these sectors could record faster-than-average growth rates as they regain the lost ground of 2020. However, activity here will only exceed pre-pandemic levels by 2023. The tourism sector will likely take longer.

This base-effect driven growth is likely to be supported by positive underlying growth in the construction and agricultural sectors. The construction sector is also likely to benefit from increased infrastructure spending by the government ahead of the elections.

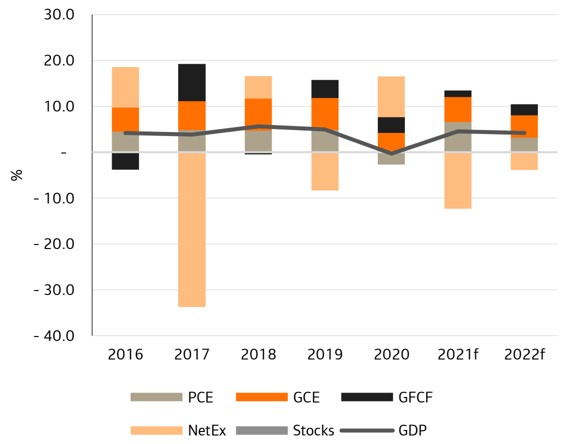
During the long rain season (Mar to May), most of Kenya saw near- to above-average rainfall, implying higher agricultural production. However, weather forecasts now expect below- to average rainfall during the short rain season (Oct to Dec), which could see slightly lower crop production.

The main risk to our 2021 outlook remains the pandemic. At the time of writing, hospitalisation cases remain high (at 1,525 admissions) but new cases have been declining. Additionally, 3.2m of the 5.4m available doses have been administered. The government is targeting 10m vaccinations by end 2021. Political risk in 2021 is likely to be subdued after the Court of Appeal ruled against the BBI referendum. However, it could rise in 2022 ahead of the Aug 22 elections, resulting in a slowdown in business activity, underpinning our lower growth estimate.

Our bull case sees growth of 5.4% and 5.1% for 2021 and 2022 respectively. Here, we assume the remaining public health restrictions being lifted this year.

Our bear case sees growth of 3.7% in 2021 and 3.2% in 2022 should infections resurge, leading to lockdowns and likely structural damage to the economy.

Composition of GDP growth by demand



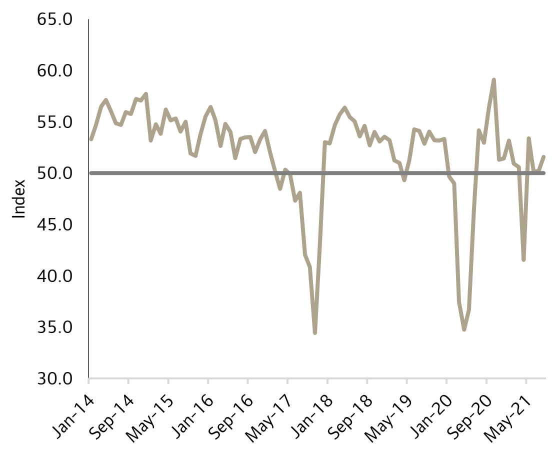
Source: Kenya National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2019	2020
Agriculture	19.5	21.2	23.0
Mining & quarrying	1.3	0.7	0.7
Manufacturing	10.0	7.9	7.6
Electricity & water	2.6	2.2	2.1
Construction	5.1	6.0	7.0
Wholesale & retail trade	8.5	8.2	8.1
Accommodation	0.9	1.2	0.7
Transport & storage	10.4	11.7	10.8
ICT	2.7	2.5	2.5
Financial & insurance	7.1	6.4	6.5
Public administration	5.6	5.4	5.5
Real estate	9.0	9.2	9.3
Education	4.6	4.2	3.8

Source: Kenya National Bureau of Statistics

Stanbic Bank Kenya PMI (index)



Source: IHS Markit

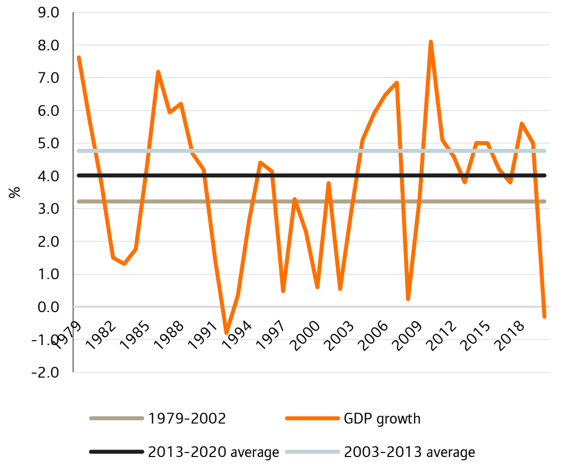
Medium-term economic growth forecasts

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	0.0	8.1	7.2	2.9	3.8	4.5	3.9	4.3	5.0	5.4	5.0	5.3	5.3	5.3	5.3	5.3
CPI (% y/y) pe	5.9	6.3	7.0	6.3	6.9	7.4	7.0	5.6	6.1	6.5	6.6	6.8	6.3	5.9	5.8	5.6
Policy rate (%) pe	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.25	7.25	7.25	7.25	7.25	7.25
3-m rate (%) pe	7.1	7.0	6.9	7.0	7.0	6.8	6.8	6.9	6.8	6.6	6.5	6.6	6.5	6.3	6.2	6.3
6-m rate (%) pe	7.9	7.8	7.7	7.8	7.7	7.6	7.5	7.6	7.5	7.3	7.2	7.2	7.1	6.9	6.7	6.8
USD/KES pe	109.5	107.9	109.5	109.5	109.9	112.2	114.2	114.0	114.3	116.0	117.3	117.2	117.7	120.2	122.2	122.1
Bull scenario																
GDP (% y/y) pa	0.6	9.2	8.0	3.9	4.8	5.5	4.9	5.3	5.9	6.4	6.0	6.3	6.3	6.3	6.3	6.3
CPI (% y/y) pe	5.9	6.3	6.9	5.7	5.2	5.0	4.4	3.1	3.6	4.0	4.1	4.3	3.8	3.4	3.3	3.1
Policy rate (%) pe	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.75	6.75	6.75	6.75	6.50	6.50	6.50	6.50	6.50
3-m rate (%) pe	7.1	7.8	8.2	7.7	7.9	8.4	8.5	8.3	8.7	9.6	9.9	9.5	9.7	10.1	10.3	10.0
6-m rate (%) pe	7.9	8.5	9.1	8.7	8.9	9.4	9.7	9.5	9.9	10.9	11.5	11.1	11.3	11.8	12.1	11.9
USD/KES pe	109.5	107.9	109.1	109.2	109.3	109.6	109.9	109.9	109.9	109.5	109.2	109.2	109.3	109.6	109.9	109.9
Bear scenario																
GDP (% y/y) pa	-0.6	7.0	6.5	1.9	2.9	3.5	3.0	3.4	4.0	4.5	4.1	4.3	4.3	4.3	4.3	4.3
CPI (% y/y) pe	5.9	6.3	7.1	6.9	8.5	9.9	9.5	8.1	8.7	9.1	9.2	9.4	8.9	8.5	8.4	8.1
Policy rate (%) pe	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.25	7.25	7.25	7.25	7.50	7.50	7.50	7.50	7.50
3-m rate (%) pe	7.1	6.5	6.1	6.6	6.3	5.6	5.4	5.7	5.5	5.1	4.9	5.1	5.0	4.8	4.7	4.8
6-m rate (%) pe	7.9	7.4	6.8	7.2	6.9	6.1	5.7	6.0	5.8	5.3	5.0	5.2	5.1	4.8	4.7	4.8
USD/KES pe	109.5	107.9	109.9	109.8	110.6	114.9	118.5	118.3	119.0	122.8	126.0	125.7	126.6	131.6	135.8	135.5

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

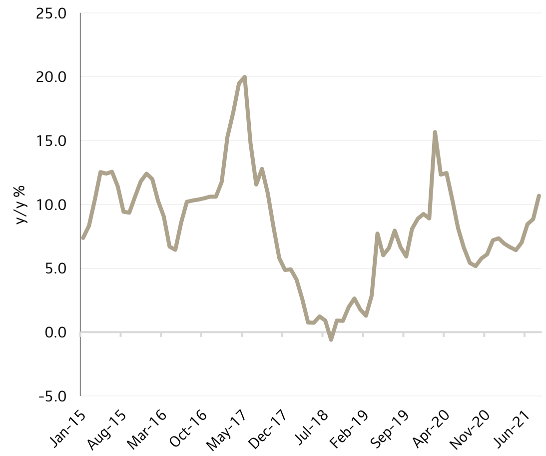
Notes: pe – period end; pa –a period average

Long-term GDP performance



Source: Kenya National Bureau of Statistics; World Bank

Food inflation



Source: Kenya National Bureau of Statistics

Balance of payments: widening C/A account

We expect the C/A deficit to widen to 5.0% in 2021, from 4.6% of GDP in 2020, driven by a larger trade deficit and subdued tourism receipts. The wider C/A deficit is likely to be financed using increased external debt receipts.

The trade deficit could widen in 2021 but higher remittances are likely to partly mitigate that. Oil and consumer goods imports are likely to rise as the economy recovers due to fewer public health restrictions. Also, capital goods imports could remain elevated due to heightened infrastructure spending by the government. In H1:21, goods exports grew by 11% y/y, while goods imports were up 22% y/y, resulting in the trade deficit widening. Remittances, however, have exceeded the already impressive 2020 growth levels of 11% y/y, having grown by 20% y/y so far in 2021.

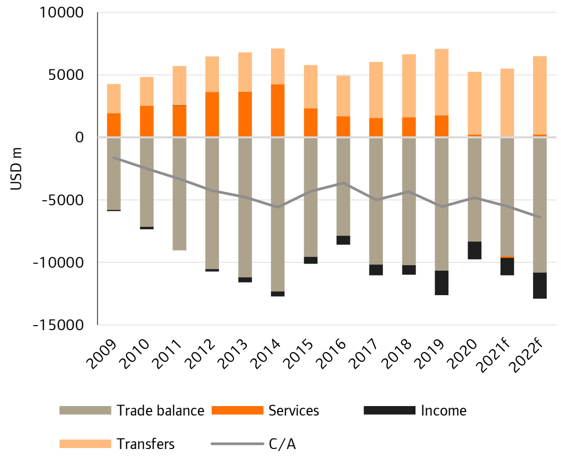
Interestingly, further lockdowns would flatter the trade balance as they could lead to lower demand for oil and consumer goods imports.

We expect external debt receipts and fewer debt repayments to partially finance the C/A deficit this year. The government expects to receive USD1.0bn from a Eurobond issue before year-end and USD266m from the third disbursement of the IMF financing agreement in Nov. Also, the debt service suspension initiative (DSSI) was extended to end 2021. The Paris Club group of bilateral lenders agreed to extend the DSSI to Dec 21, enabling the government to save an additional USD361m in external debt service payments during H2:21.

Infrastructure project financing could also support the funding of the C/A deficit as the government is keen to complete several flagship projects before the elections in Aug 22.

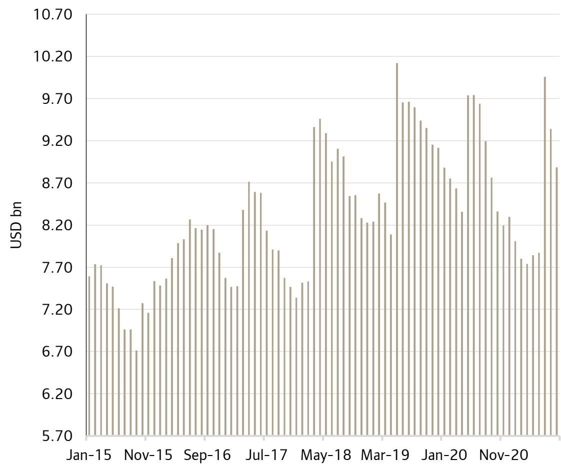
FX reserves currently stand at USD9.6bn, including USD738m from the IMF's SDR allocation initiative. The current reserves (excluding the SDR allocation) amounts to 5.9-m of import cover, against an East African convergence criterion of 4.5-m.

Current account developments



Source: Central Bank of Kenya; Standard Bank Research

FX reserves



Source: Central Bank of Kenya

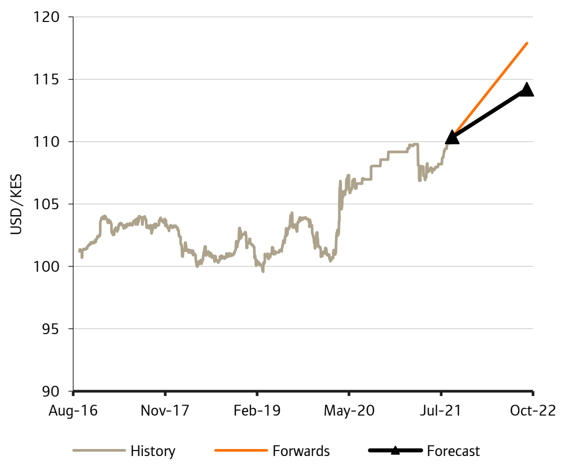
FX outlook: stronger KES near term

We expect the KES to strengthen and end 2021 at 109.50 against the USD, based on a bias for more USD inflows than outflows for this year.

We see USD inflows coming from higher remittances, flower exports in Oct, external debt receipts in Nov, and ongoing Chinese contractor receipts. Outflows meanwhile are likely to relate to dividends which are lower due to pandemic-induced financial difficulties and foreign debt repayments which could also decline due to the extension of DSSI to H2:21.

The central bank should have adequate reserves to defend the KES if needed. In addition to current FX reserves of USD9.6bn, the Central Bank will receive USD1.3bn from debt receipts in Nov.

USD/KES: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral for 2021 and 2022

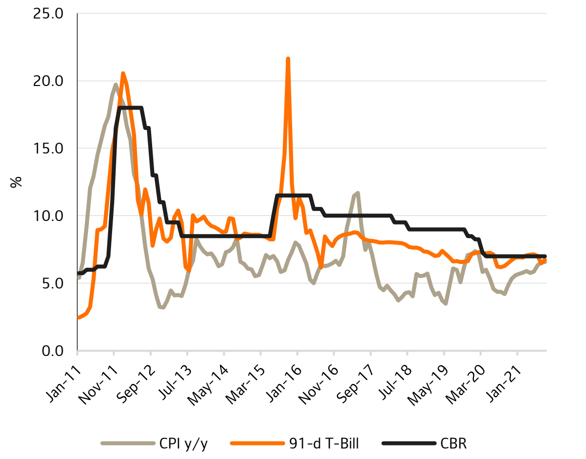
We expect the MPC to hold the policy rate at 7.0% in 2021 and 2022 to drive a recovery in private sector credit growth which, in turn, should tighten the output gap. The MPC may be unconcerned about inflation because the recent rise in inflation will likely be transitory. Still, we cannot rule out further cuts in the CBR should private sector credit growth deteriorate further.

In Jun, private sector credit growth reached 7.7% y/y, bringing the 12-m average to 8.0%, which is lower than both the Central Bank targeted levels of 12-15% and the 21% it averaged in the 5-y period prior to the interest rate caps.

The recent rise in inflation is unlikely to require monetary policy tightening; the rise will likely be transitory as well as remain within the CBK target. Inflation in Aug was 6.6% y/y, a continuation of a 4-m trend of rising inflation. Higher inflation has been due to base effects from the low inflationary period in 2020 when the pandemic negatively affected aggregate demand. We expect inflation to peak in Sep (from a 2020 low of 4.2%) before starting to decline in Oct. This is despite the possibility of higher food and fuel prices. Indeed, food prices could rise in Q4:21 on account of lower-than-average rainfall during the short rain season. Also, the energy regulator withdrew fuel subsidies in Sep, resulting in a 9% m/m increase in pump prices. The increase will affect headline inflation as the transport component accounts for 9.7% of the CPI.

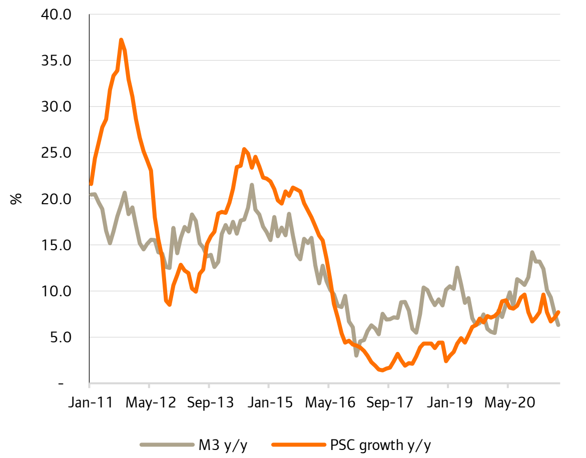
The CBK published a White Paper where it outlined plans to modernise monetary policy and strengthen the transmission mechanism. Amongst the initiatives that it would be looking at are: 1) introducing of an interest rate corridor around the policy rate as a target for the interbank rate; 2) improving the transparency around loan pricing; 3) using forward-looking monetary tools; and 4) improving communication with the market.

Inflation and interest rates



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

Monetary aggregates



Source: Central Bank of Kenya

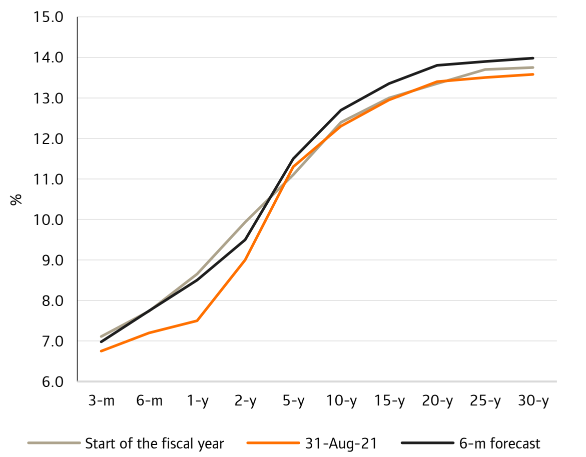
Yield curve outlook: steepening over the next 6-m

Over the next 6-m, the yield curve may steepen, driven by an average 40ps increase in yields, with bonds longer than 5-y seeing most of the rise s due to a larger domestic borrowing target and the government's bias to issue more longer-dated paper.

The net domestic borrowing target has been increased by 22% which may also place upside pressure on yields. Also, the medium-term debt strategy seeks to extend the duration of domestic debt and reduce the stock of T-bills, implying a bias to issuing longer-term bonds.

T-bill yields could remain relatively subdued in the near term, based on high liquidity in cash markets. We see interbank liquidity abating somewhat in Q1:22 when banks start lending more aggressively to the private sector as the vaccination drive picks up. However, asset quality concerns ahead of the Aug elections could remain elevated.

Changes in the yield curve



Source: Central Bank of Kenya; Standard Bank Research

Fiscal policy: consolidation begins

The government plans to begin fiscal consolidation in FY2021/22. Fiscal consolidation before elections typically proves challenging as officials try to deliver on election promises. However, we expect fiscal discipline on account of government officials not wanting to risk further disbursements of the IMF's USD2.3bn programme by missing fiscal targets.

In FY2021/22, the fiscal deficit (incl. grants) is budgeted to narrow by 100 bps, to 7.7% (KES952.9bn), from 8.7% of GDP (KES970.9bn). The narrower deficit should be driven by faster growth in total revenue (+10% y/y) relative to expenditure (+6% y/y). The increase in total revenue to KES2.0tr (16.4% of GDP from 16.5%) will come from higher tax revenues (+11% y/y) following a rise in income and value-added and excise taxes which should cumulatively net an additional KES211bn for the government.

Meanwhile, total expenditure is expected to rise by 6% y/y, to KES3.1tr (24.6% of GDP from 25.9%). Recurrent expenditure will grow at 10% y/y, to KES2.2tr (16.3% of GDP from 16.4%), driven by higher wages and interest payments. The prioritisation of key development projects and the postponement of others due to fiscal consolidation led to a 5% y/y drop in development expenditure, to KES620bn (5.0% of GDP from 5.8%).

The narrower deficit will be financed by a larger portion of domestic borrowing as net external borrowing declines. Net financing from domestic debt is expected to rise by KES118bn in FY2021/22, to KES662bn. However, net external financing declines by 32% y/y, to KES291bn. The sources of that debt include: 1) USD 1.1bn from a Eurobond; 2) USD700m from the World Bank; and 3) USD550m from the IMF.

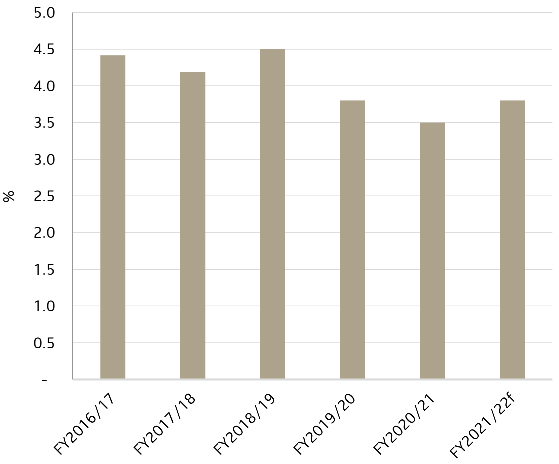
As a result of increased borrowing, the deb- to-GDP ratio is expected to reach 70% at end FY2021/22. To mitigate the impact of higher debt on debt service, the government plans to re-finance some of its expensive external debt once the debt ceiling has been raised from KES9tr.

Central government budget

% of GDP	FY2020/21	FY2021/22
Total revenue	16.5	16.4
Total expenditure	25.9	24.6
Wages	4.4	4.2
Interest	4.1	4.5
Development	5.8	5.0
Overall balance (+ grants)	-8.7	-7.7
Overall balance (- grants)	-9.3	-8.2
Net external borrowing	3.8	2.4
Net domestic borrowing	4.9	5.3
Donor support	0.7	0.5

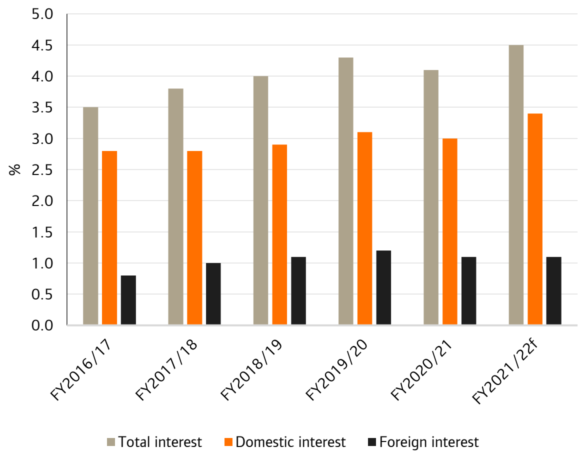
Source: National Treasury

VAT collections (% of GDP)



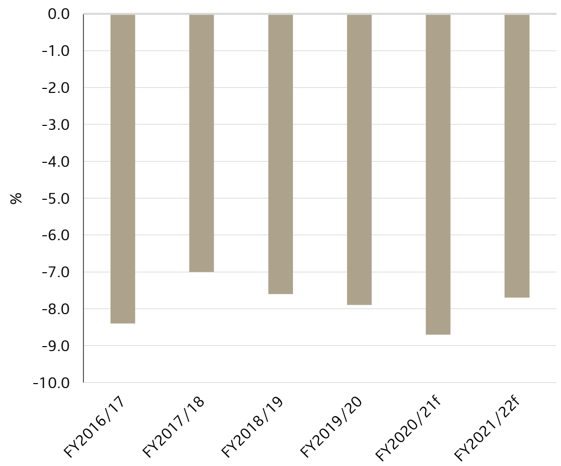
Source: National Treasury

Debt service (% of GDP)



Source: National Treasury

Fiscal deficit incl. of grants (% of GDP)



Source: National Treasury

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	44.3	45.4	46.5	47.6	48.7	49.7	50.8
Nominal GDP (KES bn)	7 594	8 483	9 340	10 226	10 753	11 960	13 292
Nominal GDP (USD bn)	69.1	79.0	87.8	95.4	101.0	109.6	118.1
GDP / capita (USD)	1 521	1 693	1 829	1 931	2 075	2 204	2 323
Real GDP growth (%)	5.9	4.9	6.3	5.4	-0.3	4.5	4.2
Coffee production ('000 tons)	39.7	33.7	36.8	33.6	24.4	35.2	35.2
Tea production ('000 tons)	471.2	439.8	493.0	458.9	570.5	559.3	584.3
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-8.2	-9.0	-7.3	-7.9	-8.1	-9.3	-8.2
Budget balance (incl. grants) / GDP (%)	-7.4	-8.8	-7.0	-7.7	-7.8	-8.7	-7.7
Domestic debt / GDP (%)	27.5	27.5	28.4	24.5	26.3	28.8	31.3
External debt / GDP (%)	27.3	27.3	29.5	32.5	34.6	35.3	34.2
Balance of Payments							
Exports of goods (USD bn)	5.7	5.8	6.1	5.9	6.1	6.4	6.4
Imports of goods (USD bn)	13.6	15.9	16.3	16.5	14.4	15.9	17.2
Trade balance (USD bn)	-7.9	-10.1	-10.2	-10.6	-8.3	-9.5	-10.8
Current account (USD bn)	-3.6	-5.1	-4.4	-5.5	-4.8	-5.5	-6.4
- % of GDP	-5.2	-6.5	-5.0	-6.0	-4.6	-5.0	-5.4
Financial account (USD bn)	4.1	4.6	5.3	6.2	2.8	5.3	5.4
- FDI (USD bn)	0.4	0.6	0.8	0.7	0.6	0.9	1.0
Basic balance / GDP (%)	-4.6	-5.8	-4.2	-5.0	-4.2	-4.2	-4.6
FX reserves (USD bn) pe	7.0	7.1	8.0	8.8	7.8	7.5	6.5
- Import cover (months) pe	4.5	4.7	5.2	5.4	4.8	4.8	4.3
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B	B
Moody's	B1	B1	B2	B2	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	6.3	7.8	5.0	4.9	5.4	6.4	6.7
Consumer inflation (%) pe	6.4	4.5	5.7	5.8	5.6	6.3	5.6
M3 money supply (% y/y) pa	7.7	7.4	8.7	8.4	8.0	8.5	8.7
M3 money supply (% y/y) pe	3.6	9.5	10.1	5.6	7.7	5.8	4.8
Policy interest rate (%) pa	11.00	10.00	9.10	8.90	7.25	7.00	7.00
Policy interest rate (%) pe	10.00	10.00	9.00	8.50	7.00	7.00	7.00
3-m rate (%) pe	8.6	8.1	7.3	7.2	6.9	7.0	6.9
1-y rate (%) pe	11.0	11.1	10.0	9.8	8.3	8.0	8.3
2-y rate (%) pe	12.6	11.7	10.8	10.4	9.3	9.2	9.3
5-y rate (%) pe	14.4	12.5	11.6	11.5	10.5	11.0	11.5
USD/KES pa	101.6	103.3	101.3	102.1	106.5	109.1	112.6
USD/KES pe	102.5	103.3	102.0	101.4	109.6	109.5	114.0

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: an admirable agricultural performance

Medium-term outlook: hinges on good rainfall

We forecast GDP growth of 2.0% y/y in 2021 and 4.2% y/y in 2022. Notwithstanding unwinding base effects that should be boosting growth in 2021, we now revise our growth forecast down from 2.2% y/y due to further public healthcare restrictions around mid-2021.

Since only a small amount of Malawi's population is vaccinated and the evolution of the pandemic is impossible to predict, additional sets of public health restrictions, especially in the near term, cannot be ruled out. Our bear case scenario therefore models a longer duration of economic shocks due to the pandemic. Here, GDP growth remains below 3.0% y/y until 2023.

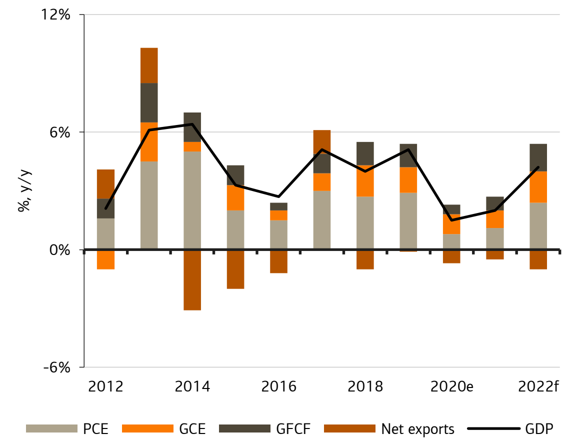
Public health restrictions typically disrupt economic activity, particularly in the services sector. Authorities plan to have vaccinated 60% of Malawi's population by end 2022. Progress though has been slow given that less than 3.0% of the population has been fully vaccinated. Also, vaccination supply remains constrained, which is perhaps why authorities may fall short of vaccination targets.

Agriculture is a large source of employment; a strong agricultural outturn is therefore typically consistent with overall economic prosperity. Hence, favourable rainfall remains a key factor for Malawi's medium-term outlook. However, adverse weather conditions related to climate change have become more common, underscoring downside risk to the outlook.

The 2020/21 agricultural cycle benefited from normal- to above-normal rainfall. This, combined with greater uptake of the government's Affordable Inputs Programme (AIP), could see national maize output rise to 4.5m tons during the 2020/21 harvest season, which would be 1.1m tons above the national requirement. Though excess maize will be exported this year, the Ministry of Agriculture plans to reduce access to the AIP programme, which will reduce production in the 2021/22 harvest season, limiting scope for exports.

The tobacco marketing season, which usually runs between Apr to Sep each year, ended after 18-w in Aug. The official tobacco crop estimates put production 7.9% y/y higher, at around 123m kg for the 2021 marketing season, compared to demand of around 132m kg. Moreover, on average tobacco prices have been higher during the 2021 season. With the demand for tobacco on the decline globally, the Ministry of Agriculture is reviewing alternative crops, such as cannabis, which may in time replace tobacco as Malawi's main agrarian export.

Composition of GDP by demand



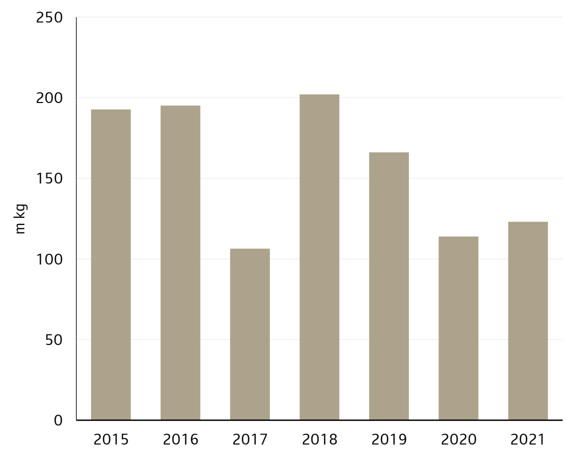
Source: Reserve Bank of Malawi; Standard Bank Research

GDP composition by sector (%)

	2017	2018	2019
Agriculture, forestry & fishing	23.33	22.41	22.45
Mining & quarrying	0.70	0.73	0.74
Manufacturing	11.50	11.75	11.97
Electricity gas &water supply	2.76	2.86	2.91
Construction	3.11	3.19	3.25
Wholesale and retail trade	12.94	12.80	12.84
Transport and storage	4.54	4.64	4.78
Accommodation and food	1.56	1.56	1.52
Information and communication	5.31	5.57	5.76
Financial and insurance services	5.98	6.12	6.08
Real estate activities	7.25	6.73	6.55
Professional & support services	1.22	1.26	1.30
Public administration & defence	3.03	3.09	3.06
Education	4.38	4.39	4.35
Health and social work activities	4.35	4.42	4.44
Other services	1.73	1.81	1.86
Plus: Taxes less Subsidies on products	6.31	6.67	6.13
GDP	100.0	100.0	100.0

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

Tobacco auctions sales



Source: Reserve Bank of Malawi

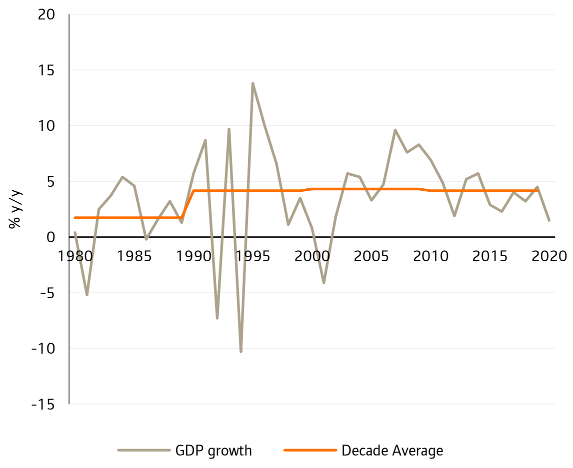
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	2.00	2.00	2.00	2.00	4.20	4.20	4.20	4.20	4.80	4.80	4.80	4.80	5.50	5.50	5.50	5.50
CPI (% y/y) pe	10.17	9.05	9.14	8.52	7.32	8.61	9.08	8.64	8.29	7.88	7.77	7.94	8.60	9.64	9.56	9.78
Policy rate (%) pe	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
3-m rate (%) pe	9.80	10.00	10.20	10.67	10.30	10.00	9.85	9.10	8.90	8.20	8.25	8.80	8.50	8.40	7.74	8.00
6-m rate (%) pe	12.80	12.80	12.80	12.52	12.63	12.33	13.18	12.43	12.23	11.53	11.58	12.13	11.83	11.73	11.07	11.33
USD/MWK pe	786.31	805.10	829.25	854.13	878.05	902.63	927.91	946.46	965.39	984.70	1004.4	1014.4	1024.6	1031.8	1038.9	1046.3
Bull scenario																
GDP (% y/y) pa	3.80	3.80	3.80	3.80	4.90	4.90	4.90	4.90	5.20	5.20	5.20	5.20	6.10	6.10	6.10	6.70
CPI (% y/y) pe	9.57	9.05	8.44	8.12	6.92	8.21	8.78	8.34	7.99	7.58	7.47	7.64	8.20	9.24	9.16	9.38
Policy rate (%) pe	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00
3-m rate (%) pe	9.57	10.00	9.97	10.17	9.80	9.50	9.35	8.60	8.40	7.70	7.75	8.30	8.00	7.90	7.24	7.50
6-m rate (%) pe	12.97	12.80	13.37	13.57	13.20	12.90	12.75	12.00	11.80	11.10	11.15	11.70	11.40	11.30	10.64	10.90
USD/MWK pe	776.31	805.10	819.25	842.13	866.05	890.63	915.91	934.46	950.39	974.70	994.39	1004.4	1009.6	1016.8	1023.9	1031.3
Bear scenario																
GDP (% y/y) pa	1.40	1.40	1.40	1.40	2.20	2.20	2.20	2.20	3.00	3.00	3.00	3.00	3.80	3.80	3.80	3.80
CPI (% y/y) pe	11.67	9.05	12.64	13.02	13.07	14.36	14.83	14.39	12.04	11.63	10.52	10.69	9.35	10.39	10.31	10.53
Policy rate (%) pe	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00
3-m rate (%) pe	12.00	10.00	12.40	12.87	12.50	12.20	12.05	11.30	10.15	9.45	9.50	10.05	9.75	9.65	8.99	9.25
6-m rate (%) pe	15.40	12.80	15.80	16.27	15.90	15.60	15.45	14.70	13.55	12.85	12.90	13.45	13.15	13.05	12.39	12.65
USD/MWK pe	798.50	805.10	863.66	898.21	916.17	934.49	953.18	970.34	987.81	1005.6	1023.7	1039.0	1054.6	1070.5	1086.5	1102.8

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

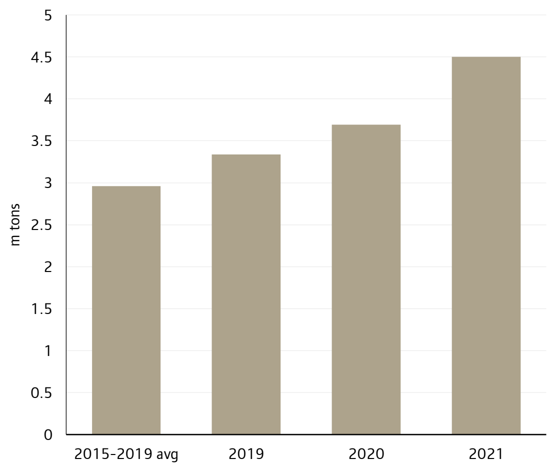
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF, Reserve Bank of Malawi

Maize production



Source: Reserve Bank of Malawi , United Nations

Balance of payments: agrarian exports should perform well

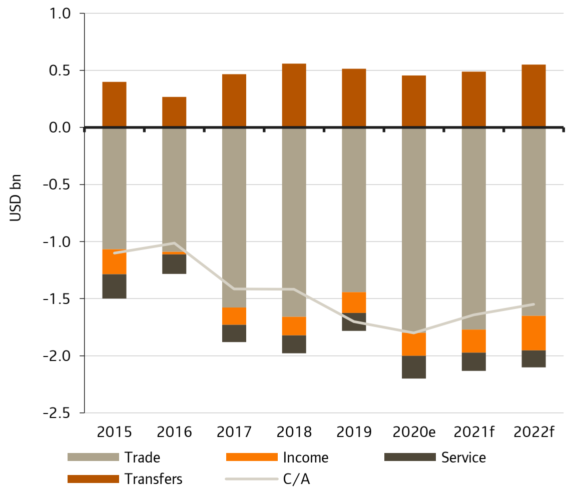
We expect the C/A deficit to remain elevated at just above 14% of GDP in 2021. Agrarian exports are likely to yield a bumper harvest in 2021, supporting stronger export performance. However, the economy's recovery could be laboured, which may see a slower recovery in consumer imports. The higher prices of essential imports such as fertilizer and oil could keep the import bill elevated in 2021.

The disruption within services and current transfers is likely to persist into 2022. Transport inflows are likely to recover much sooner than travel inflows since we expect that trade conditions will continue normalising. Our base case sees tourism inflows recovering more meaningfully into 2023 as vaccinations should be administered more extensively. Indeed, within current transfers, diaspora remittance flows should recover at a more measured pace in 2021 and 2022, consistent with improvements in global economic conditions.

FX reserves tend to decline rather increase, capturing underlying BOP pressures. FX reserves reached USD404m, or 1.62-m of import cover in Jul, from USD410m (1.96-m) in Mar and USD502m (2.4-m) in Jan. Towards the end of 2020, IMF disbursements temporarily propped up FX reserves. We expect loan disbursements and the IMF's additional SDR allocation to boost FX reserves towards the end of the year, taking it to around USD550m by year-end.

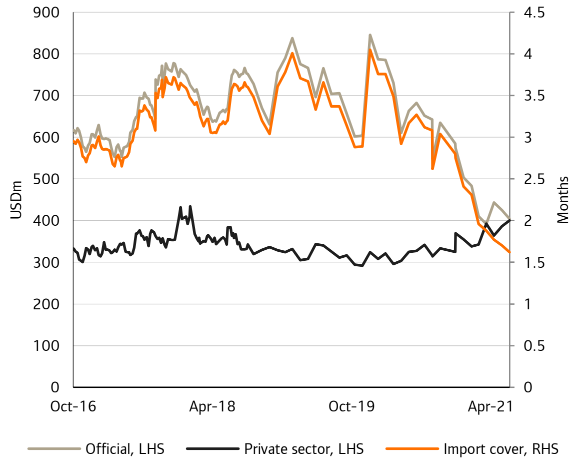
The government has started issuing infrastructure bonds over time as this segment of the market develops, which could encourage increased portfolio investment inflows. For now, however, external borrowing still remains a key source of external financing. Negotiations between the government and the IMF are ongoing, and we expect Malawi to secure financing in FY2021/22. Moreover, it appears that Malawi has reached out to other DFIs for financing.

Current account developments



Source: Reserve Bank of Malawi

FX reserves



Source: Reserve Bank of Malawi

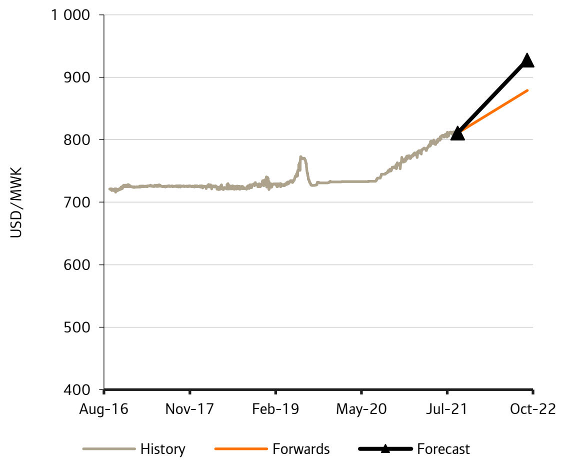
FX outlook: upwards

Our base case puts the currency at 829.25 at end Q3:21 and 854.13 at end Q4:21.

In the first 7-m of this year, the MWK has depreciated by 4.3% against the USD; it is likely that the pace of depreciation picks up into year-end since flows from the tobacco crop typically start to wane from Aug. Outside of the tobacco marketing season, FX liquidity shortages could return as BOP pressures remain. However, the RBM has mandated that all exporters are now required to sell a minimum of 30% of their export proceeds to authorised dealer banks, which may support onshore FX liquidity.

Furthermore, onshore FX trading policies are likely to slow the currency's move higher. Recall that authorised dealer banks may only revise their rates for transactions greater than or equal to USD2.0m.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral

The Reserve Bank of Malawi's neutral policy stance will likely stand for the next year. Indeed, the MPC has kept the policy rate unchanged at 12.0% since Nov 20.

Moreover, the RBM has kept the reserving ratio applied to LCY and FCY deposits unchanged at 3.75%. The Lombard rate is set at 20 bps above the policy rate. The overnight bank rate seems to have levelled off by remaining just under 12% since May, after rising 200bps since beginning Mar.

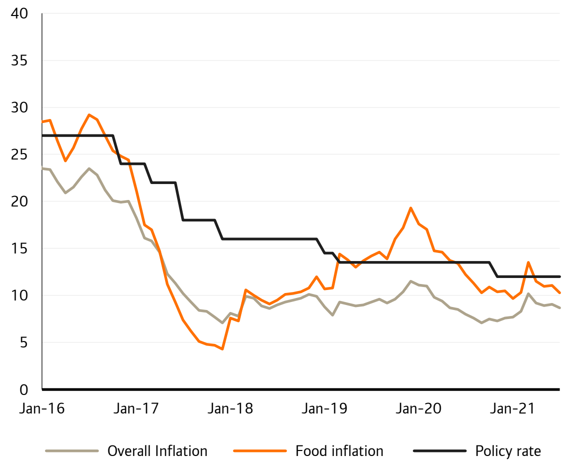
At the Jul meeting, the RBM forecast a higher trajectory of inflation, compared with the previous MPC meeting, due to rising non-food inflation. Indeed, we expect annual headline inflation to average 8.84% in 2021, which is higher than the RBM's medium-term inflation target of 5.0% y/y, with a 200-bps corridor.

Lower international oil prices last year created a low base for the transport sub-index. Non-food inflation is likely to pick up as base effects unwind. Non-food inflation averaged 7.1% y/y in Q2:21, compared with 6.4% y/y in Q1:21. Moreover, heightened currency depreciation, outside the tobacco marketing season, underscores upside risk to non-food inflation.

Although food inflation has moderated in Q2:21, this is consistent with seasonal patterns, and food inflation is set to rise again from end Q3:21 towards the end of maize harvesting season.

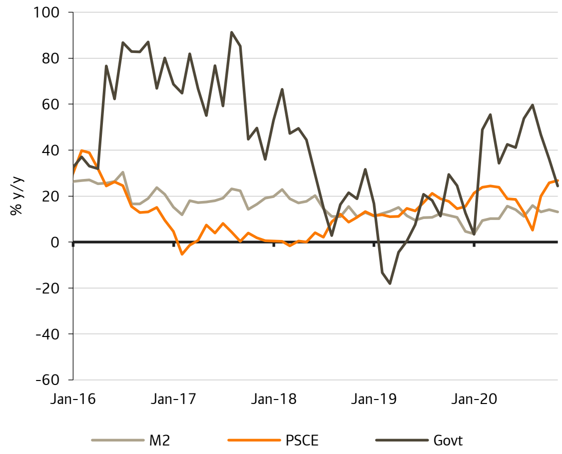
Though private sector credit extension appears elevated, it is off a small base. Government borrowing still tends to dominate credit extension from the banking sector as credit to the private sector remains muted. Admittedly, asset quality concerns, following the impact of the pandemic on the economy, may be another factor impeding bank-lending to the private sector.

Inflation and interest rates



Source: Reserve Bank of Malawi; Standard Bank Research

Money supply growth



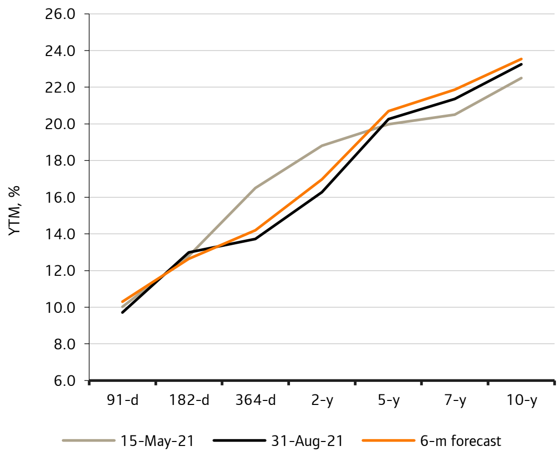
Source: Reserve Bank of Malawi; Standard Bank Research

Yield curve outlook: slightly higher in 6-m

While the government's intention to source the bulk of financing requirements in the local market could sustain upside pressure on yields, improving liquidity towards the end of the year could keep yields steady or even push them lower, particularly at the short-end of the curve.

The government continues to lengthen the maturities of its domestic debt stock through the issuance of more 2 and 3-y bonds and potentially increasing the proportion of 5 and 7-y bonds within the public debt stock. Between end May and Aug, yields on the 5-y, 7-y and 10-y bonds are 28bps, 86bps and 75bps higher. During the same period, yields on 1-y and 2-y bonds collapsed, declining by 278bps and 253bps.

Yield curve changes



Source: Reserve Bank of Malawi; Standard Bank Research

Fiscal policy: new fiscal cycle to match agricultural cycle

The FY2021/22 budget is set to run between Jun 21 and Apr 22. The new fiscal cycle, which will run between May 22 and Apr 23, aligns with the agricultural cycle, and should support a more efficient budgeting process. Additionally, Malawi had rebased its GDP in Oct 20, setting the base year at 2017, from 2010 previously. As a result, the fiscal balance relative to GDP now appears stronger.

For the 9-m of FY2021/22, the budget deficit (incl. grants) is expected to reach c.6.8% of GDP. The government plans to finance 80% of the fiscal deficit locally. The government will source the remainder of the financing externally. Funding from the IMF is likely to contribute to the government's external financing target. Moreover, following the IMF's change in SDR allocations, Malawi now has access to an additional USD189m.

Interest payments for FY2021/22 comprise 27.2% of domestic revenue, highlighting the narrow domestic revenue base. The economic recovery, changes in the PAYE tax thresholds, combined with electronic tax collections, which should limit revenue leakages, underpinning higher revenue mobilisation.

Notwithstanding the shorter fiscal year, grant funding is budgeted to decline 50% y/y, to around 1.8% of GDP. In Malawi, lower aid flows typically correlate with lower levels of growth. However, as the government clears payment arrears, private sector -led growth should follow. Indeed, the Auditor General is conducting an audit of the government's payment arrears dating back as far as 2015.

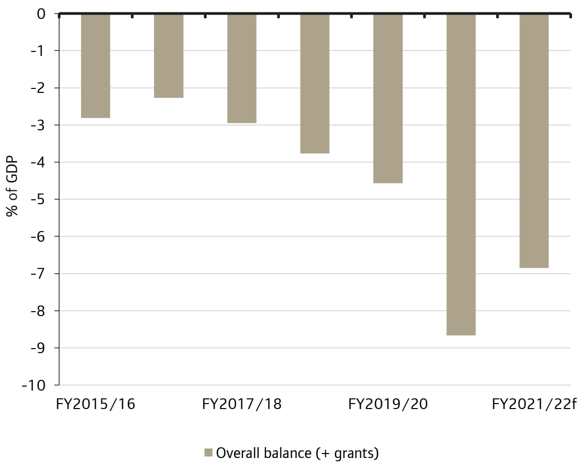
The budget allocates MWK142.0bn, or 1.4% of GDP, to the Affordable Inputs Programme. While this programme was expected to reach 3.5m subsistence farmers during FY2021/22, compared with 3.4m in FY2020/21, the Ministry of Agriculture indicated that this programme will be scaled back due to the higher cost of fertilizer. Now, this programme will reach only 2.7m subsidence farmers.

Central government budget

% of GDP	FY2019/20	FY2020/21e	FY2021/22f
Total revenue	14.4	16.3	12.1
Total expenditure	19.0	24.9	18.9
- Recurrent	15.1	18.3	13.5
- Development	3.9	6.6	5.4
Overall balance (- grants)	-4.6	-8.7	-6.8
Overall balance (+grants)	-5.9	-12.3	-8.5
Net domestic borrowing	5.3	6.0	5.6
Net foreign borrowing	0.6	2.6	1.3

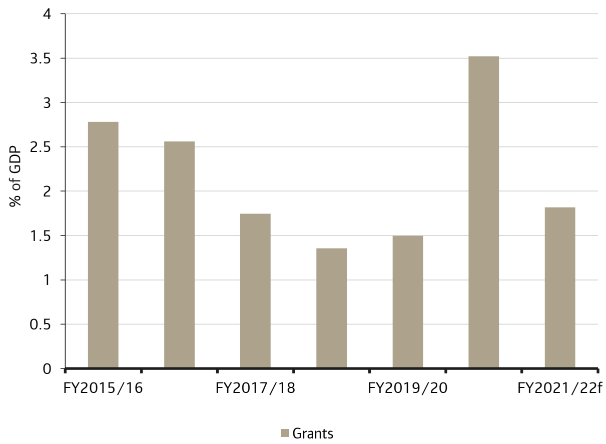
Source: Ministry of Finance

Fiscal deficits



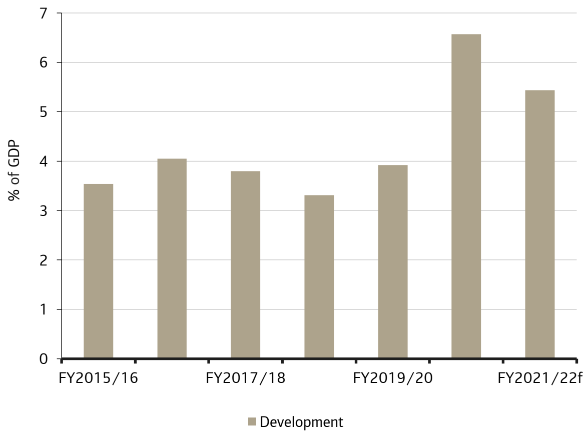
Source: Ministry of Finance; Standard Bank Research

Budget grants



Source: Ministry of Finance; Standard Bank Research

Developmental spending



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	16.65	17.00	17.30	17.50	17.83	18.03	18.21
Nominal GDP (MWK bn)	5 116.78	6 417.32	7 113.14	8 098.52	8 890.19	9 853.65	11 149.19
Nominal GDP (USD bn)	7.19	8.85	9.78	10.93	11.52	11.54	11.78
GDP / capita (USD m)	432.06	520.58	565.17	624.67	646.19	639.90	646.80
Real GDP growth (%)	2.70	5.10	4.00	5.10	1.50	2.00	4.20
Tobacco auction sales (million kgs)	195.10	106.50	202.00	166.10	114.02	123.12	124.00
Tea production (million kgs)	43.61	46.20	50.50	48.20	48.92	49.90	52.00
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.59	-4.45	-4.50	-5.12	-5.92	-12.26	-8.47
Budget balance (incl. Grants) / GDP (%)	-2.81	-2.27	-2.95	-3.77	-4.57	-8.66	-6.85
Domestic debt / GDP (%)	18.90	29.00	21.00	25.00	38.80	43.80	46.50
External debt / GDP (%)	33.20	33.00	31.00	30.00	30.00	34.70	34.90
Balance of Payments							
Exports (USD m)	1 066.20	909.66	945.38	1 149.00	800.00	880.00	1 080.00
Imports (USD m)	-2 156.19	-2 486.51	-2 603.74	-2 593.00	-2 600.00	-2 652.00	-2 731.56
Trade balance (USD m)	-1 089.98	-1 576.85	-1 658.35	-1 444.00	-1 800.00	-1 772.00	-1 651.56
Current account (USD m)	-1 013.33	-1 414.16	-1 418.57	-1 700.00	-1 800.00	-1 642.00	-1 550.56
- % of GDP	-14.09	-15.98	-14.51	-15.55	-15.62	-14.23	-13.16
Financial account (USD m)	475.93	198.38	458.29	452.77	359.50	468.90	439.10
- FDI (USD m)	119.92	95.24	107.13	118.54	94.00	120.00	135.00
Basic balance / GDP (%)	-12.42	-14.90	-13.41	-14.47	-14.80	-12.91	-11.35
FX reserves (USD m) pe	606.93	759.00	730.00	700.00	574.30	550.00	690.00
- Import cover (months) pe	2.90	3.66	3.36	3.23	2.75	3.20	3.40
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	21.79	12.29	9.21	9.36	8.28	8.84	8.95
Consumer inflation (%) pe	19.98	7.10	9.90	11.50	7.64	8.52	8.64
M2 money supply (% y/y) pa	22.78	18.03	15.70	13.20	10.51	14.90	12.80
M2 money supply (% y/y) pe	15.22	19.74	11.36	3.55	24.41	14.27	11.20
Policy interest rate (%) pa	25.50	20.00	14.75	14.75	13.13	12.00	12.00
Policy interest rate (%) pe	24.00	16.00	16.00	13.50	12.00	12.00	12.00
3-m rate (%) pe	23.99	14.50	11.50	10.89	9.50	10.67	9.10
USD/MWK pa	711.27	725.13	727.51	740.83	747.34	818.70	913.76
USD/MWK pe	728.00	725.52	736.78	730.00	771.50	854.13	946.46

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

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

Mauritius: tourism plunges deeply, outlook obscure

Medium-term outlook: mired in uncertainties

We see little to imply that underlying aggregate demand in Mauritius will improve significantly this year. While base effects from a challenging 2020 could see headline numbers improve, underlying growth will likely remain poor. The pandemic has decimated this economy, and the outlook for tourism specifically remains uncertain. The disappointingly deep contraction in Q1:21 now cuts our GDP growth forecast to 5.3% y/y for 2021, and it remains subject to downside risks.

However, base effects are likely to raise 2022 GDP growth to 7.0% y/y. Still, in the medium- to long term, GDP growth overshooting the long-term average of 4.0% y/y seems slim. Indeed, GDP growth contracted by 8.4% y/y in Q1:21 largely due to the contractions in accommodation and food service activities (-82% y/y), transportation and storage (-19.1% y/y), art, entertainment, and recreation (-29.8% y/y), and manufacturing (-5.6% y/y).

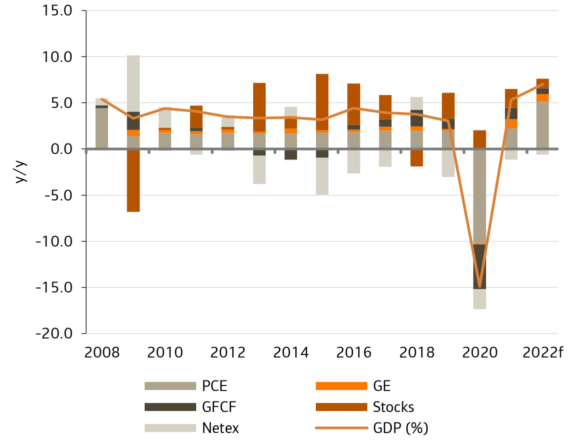
In fact, the tourism sector has been contracting since Q3:19. Accommodation and food services decelerated by 82.0% y/y in Q1:21, after having contracted by 65.8% y/y and 1.0% y/y in 2020 and 2019 respectively. Despite the low base of 2020, tourism sector y/y growth will likely disappoint. In 7-m to Jul, tourist arrivals were a mere 4,462, compared to 304,926 in the comparable period in 2020. Thus, tourist arrivals would have to average 60,091 between Aug and Dec this year to remain unchanged from 2020. However, some of the other sectors that contracted in 2020 (particularly transport and manufacturing) could grow meaningfully on base effects. Moreover, seasonality could favour faster growth over the rest of 2021 as production tends to be low in Q1, before increasing gradually in Q2 and Q3 and usually peaking in Q4.

Growth might have been sluggish in Q2:21 as Covid-19 cases resurged, leading to a lockdown on 11 Mar, with a gradual reopening from 1 Apr. Notably, most of the impact of this lockdown was felt in Q1:21. Some sectors that posted growth in Q1:21 should therefore continue to do so. These include agriculture (11.3% y/y, construction (0.6% y/y), financial services (2.3% y/y), and ICT (5.8% y/y).

The progression of the pandemic will likely determine the broad-based improvement in domestic demand. Positively, close to 60% of the population has been fully vaccinated and the government aims to have vaccinated 100% of the population by year-end, hopefully thereby ensuring that domestic demand is not further constrained.

Investment spending too could improve, as evidenced by the slower contraction in Q1:21 of -5.5%, from -9.1% y/y in Q4:20. Investment growth in building and construction work was positive in Q1:21 but was offset by reduced spending on machinery and equipment. However, as the business climate improves in the near term, so should private investment.

Composition of GDP by sector



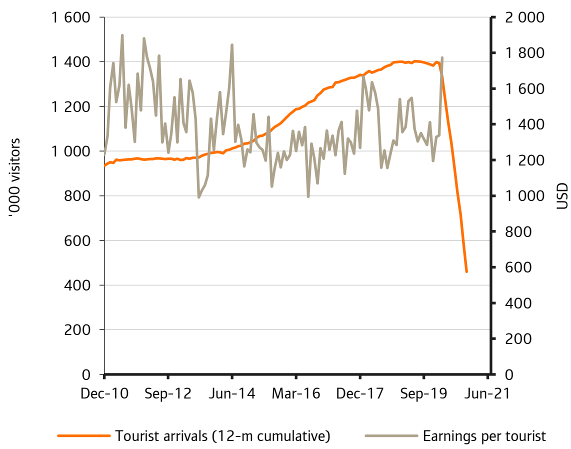
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector

% of GDP	2014	2016	2020
Agriculture	3.3	3.2	3.4
- Sugarcane	0.8	0.8	0.4
Manufacturing	13.6	12.4	10.7
- Food excl. sugar	4.8	4.4	4.2
- Textiles	4.1	3.7	2.5
Construction	4.2	3.7	3.9
Wholesale and retail trade	10.6	10.6	11.4
Transport and storage	5.4	5.6	4.9
Accommodation and food services	5.5	6.1	2.5
Financial and insurance services	10.5	10.7	11.5
Real estate services	5.4	5.2	5.9
Public administration	5.5	5.7	6.6
ICT	3.8	3.8	4.5
Education	4.2	4.4	4.8

Source: Statistics Mauritius

Tourism trend



Source: Statistics Mauritius

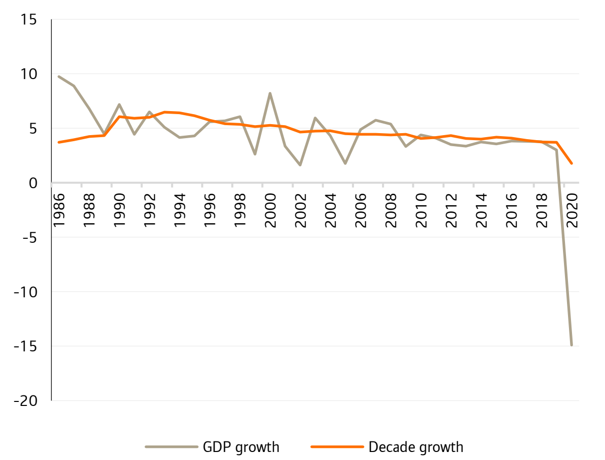
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	-8.4	15.0	6.1	8.8	4.1	8.5	7.0	8.3	3.7	4.0	4.2	4.3	3.7	4.3	3.9	4.4
CPI (% y/y) pe	1.0	5.9	5.6	5.6	6.0	2.6	2.3	2.3	2.9	2.8	2.8	2.7	2.5	2.6	2.7	2.8
BOM policy rate (%) pa	1.85	1.85	1.85	1.85	1.85	2.00	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
3-m rate (%) pe	0.1	0.6	0.6	1.0	1.0	1.3	1.6	1.9	2.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5
6-m rate (%) pe	0.3	1.2	0.8	1.1	1.1	1.4	1.7	2.0	2.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6
USD/MUR pe	39.85	42.65	42.80	41.60	40.26	39.67	38.90	38.36	37.85	37.92	37.81	37.50	37.76	37.46	37.72	37.42
Bull scenario																
GDP (% y/y) pa	-8.4	15.9	7.0	9.7	5.0	9.4	7.9	9.2	4.6	4.9	5.1	5.2	4.6	5.2	4.8	5.3
CPI (% y/y) pe	1.0	6.6	6.4	6.4	6.8	3.4	3.1	3.1	3.7	3.6	3.6	3.4	3.2	3.3	3.4	3.5
BOM policy rate (%) pa	1.85	3.35	3.35	3.35	3.35	3.50	3.50	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
3-m rate (%) pe	0.1	2.4	2.0	2.3	2.0	2.3	2.6	2.9	3.2	3.5	3.5	3.5	3.5	3.5	3.5	3.5
6-m rate (%) pe	0.3	2.9	2.1	2.4	2.1	2.4	2.7	3.0	3.3	3.6	3.6	3.6	3.6	3.6	3.6	3.6
USD/MUR pe	39.85	41.95	42.00	40.80	39.46	38.87	38.10	37.56	37.05	37.12	37.01	36.80	37.06	36.76	37.02	36.72
Bear scenario																
GDP (% y/y) pa	-8.4	14.1	5.2	7.9	3.2	7.6	6.1	7.4	2.8	3.1	3.3	3.4	2.8	3.4	3.0	3.5
CPI (% y/y) pe	1.0	5.2	4.8	4.8	5.2	1.8	1.5	1.5	2.1	2.0	2.0	2.0	1.8	1.9	2.0	2.1
BOM policy rate (%) pa	1.85	0.35	0.35	0.35	0.35	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-m rate (%) pe	0.1	0.1	0.3	0.6	0.7	1.0	1.3	1.6	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2
6-m rate (%) pe	0.3	0.3	0.4	0.8	0.9	1.2	1.5	1.8	2.1	2.4	2.4	2.4	2.4	2.4	2.4	2.4
USD/MUR pe	39.85	43.35	43.60	42.40	41.06	40.47	39.70	39.16	38.65	38.72	38.61	38.20	38.46	38.16	38.42	38.12

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

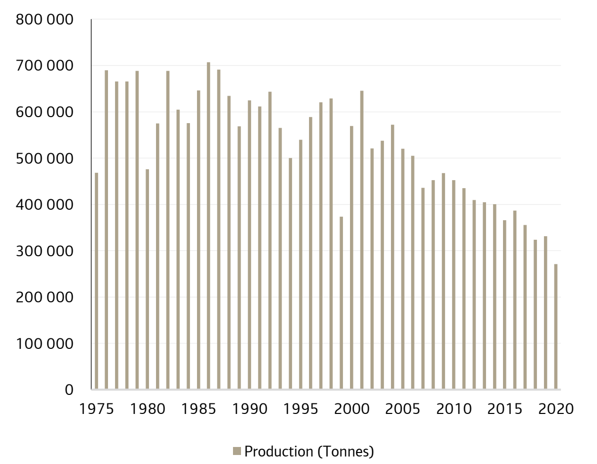
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; Statistics Mauritius

Sugar production



Source: Statistics Mauritius

Balance of payments: C/A deficit to widen further

The C/A deficit could increase to 15.3% of GDP this year, before declining to 8.9% of GDP in 2022. The goods trade deficit is expected to widen, while the services account is likely to remain in deficit. Import demand is likely to recover this year and into 2022, with the increase in goods exports unlikely to offset rising imports.

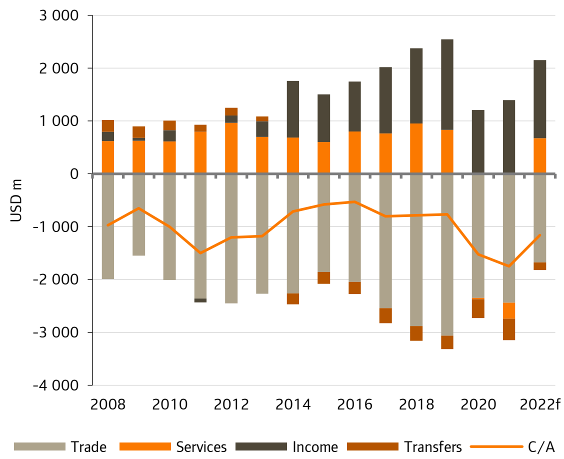
In H1:21, goods exports increased 17.9% y/y, while goods imports equally rose 17.9% y/y. The rise in goods exports was supported by manufactured goods (48.6% y/y), miscellaneous manufactured articles (42.6% y/y), machinery and transport (40.9% y/y), and crude materials, inedible, except fuels (39.0% y/y). We do not foresee a material turnaround in the goods trade deficit this year.

The tourism sector, having suffered travel restrictions and border closures, seems far from a meaningful recovery. The services account recorded a deficit of USD82m in Q1:21, compared to a surplus of USD177m in Q1:20, mainly due to tourism and transport. Tourism earnings decreased to USD12m in Q1:21, compared to USD336m in Q1:20, while transport receipts plunged by 77% y/y in Q1:21.

However, robust capital inflows partly financed the C/A deficit. FDI and other investments recorded a net inflow of about USD1.1bn, more than sufficient to offset portfolio outflows of USD411m. In fact, favourable price movements of some of the foreign reserve assets (gold) and external borrowing have helped keep reserves above USD7bn despite major changes to the global business sector, in line with OECD BEPS Project and especially the termination of grandfathering of the GBC Licences issued after 16 October 2017.

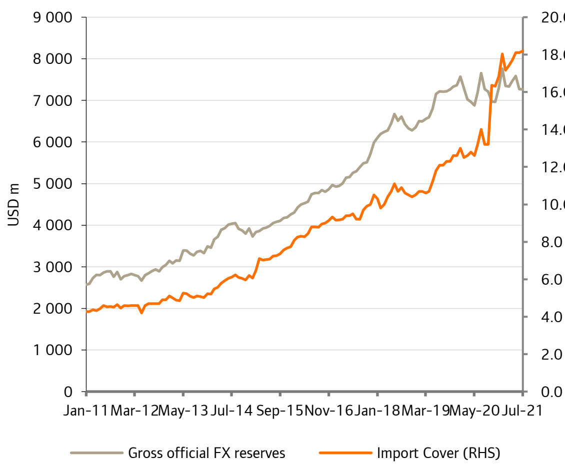
We expect capital inflows to remain plentiful should Mauritius be removed from the list of jurisdictions facing increased monitoring by the Financial Action Task Force (FATF) in Oct.

Current account developments



Source: Bank of Mauritius; Standard Bank Research

FX reserves



Source: Bank of Mauritius

FX outlook: upside risks

We see the USD/MUR ending 2021 at 41.60 and 2022 at 38.36. The USD/MUR is likely to remain stable until year-end but recovering tourism arrivals may see it track the EUR/USD. Indeed, we foresee tourist arrivals increasing with the full re-opening of the sector to vaccinated tourists in Oct. Unvaccinated travellers will still be subject to quarantine.

The IMF has indicated that the MUR could be overvalued by about 30- 40%, due to elevated uncertainty on the C/A. Therefore, the IMF has indicated that the foreign exchange intervention strategy should be revised to support exchange rate flexibility, while smoothing extreme exchange rate volatility and ensuring market liquidity. The IMF has also recommended that the BOM should discontinue its market-clearing approach.

USD/MUR: forwards versus forecasts

Monetary policy: to stand pat

After lowering the policy rate by 150 bps in 2020, the BOM's MPC will likely stand pat this year. We expect headline inflation to average (12-m) 3.9% y/y in 2021, and end the year at 5.6% y/y.

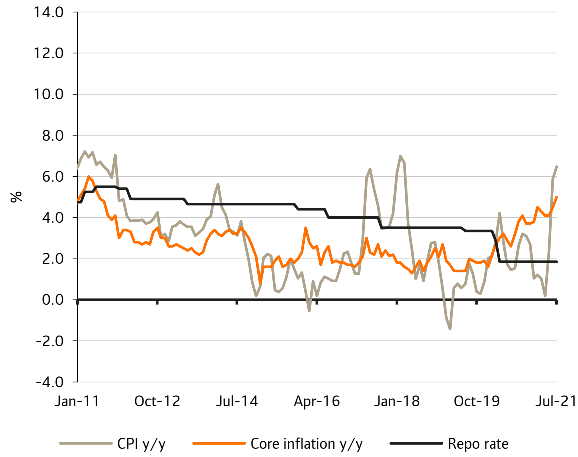
Mauritius imports food and fuel, and inflation has been rising for its main trading partners. Higher inflation in those countries has affected Mauritius largely due to higher food prices, energy prices, supply-side influences, and base effects. And, imported inflation has been intensified by the weakening of the MUR against major currencies.

Domestic inflation rose to 6.5% y/y in Jul, from 5.9% y/y in Jun on inflationary pressures, including higher excise duties on alcoholic beverages and tobacco and higher petroleum levies. The FY2021/22 national budget introduced a levy of MUR2 per litre on mogas and diesel, effective 1 Jul, to finance vaccines. We expect y/y inflation to remain elevated until Q2:22 when supply-demand mismatches should correct and base effects turn favourable.

Core inflation, as derived from the index that excludes food, beverages, tobacco, mortgage interest, energy and administered prices from headline CPI, has been above its 2.5% y/y historical average. It was 5.0% in Jul, from 4.5% y/y in Jun, and 4.1% y/y in May.

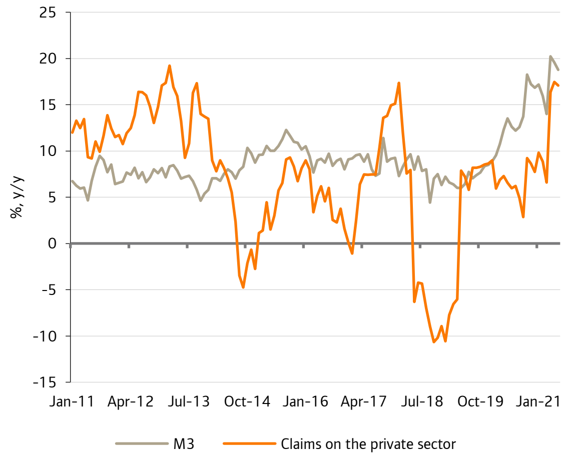
At its last meeting the MPC highlighted that the increase in headline inflation should be transient. The MPC extended its pandemic support measures to Jun 22 and is therefore likely to keep the policy rate unchanged until Q2:22 as its accommodative monetary policy should complement those measures.

Inflation and interest rates



Source: Bank of Mauritius; Statistics Mauritius

Money supply



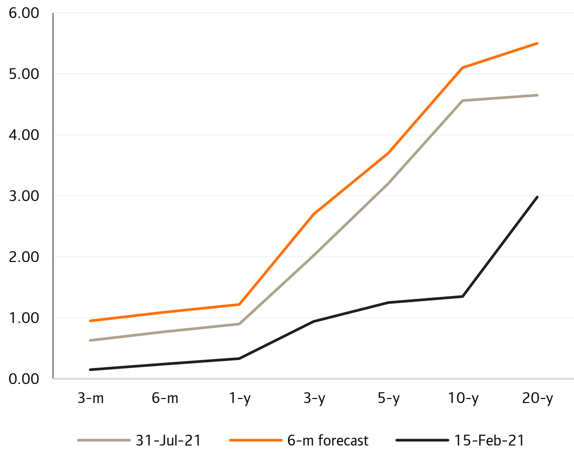
Source: Bank of Mauritius

Yield curve outlook: marginal upside

Yields should be marginally higher over the next 6-m. The government plans to issue considerably more debt in the domestic market to finance the budget deficit, which should ensure an upward bias for yields in the near term. It is difficult to argue for larger movements in yields over the next 6-m due to excessive liquidity. The BOM has been draining excess liquidity from the money market, as evidenced by the Port Louis Interbank Offered Rate which has been on a gradual upward trend. Indeed, given ample liquidity the IMF has recommended that the government finance its fiscal deficit by issuing debt in the domestic markets.

In line with the authorities' policy of lengthening the maturity profile of public securities, yields may rise more on the longer end of the curve. This loose monetary policy stance is unlikely to incur further downside for yields.

Yield curve change



Source: Bank of Mauritius; Standard Bank Research

Fiscal policy: budget deficit narrowing gradually

The pandemic has hammered public finances, with a meaningful hit to revenue, alongside increased expenditure. The FY2021/22 deficit is projected at MUR24.9bn (5.0% of GDP), from 5.6% of GDP in FY2020/21; thereafter, it should improve further in the medium- to long term. The budget deficit is projected to decline gradually over the next three years as the economy recovers.

The FY2021/22 budget estimates that total expenditure could be MUR160.6bn, or 32.5% of GDP, which is about 11% y/y less than the 2020 budget. The government has extended most of the assistance programmes that it had provided to vulnerable businesses and individuals last year. The Wage Assistance and Self-Employed Assistance Scheme to tourism-related companies was extended to Sep 21, while the salary compensation of MUR375 monthly for SMEs will run to the next financial year. This implies that the government is unlikely to reduce recurrent expenditure; it is expected to ease by just 0.8% y/y in FY2021/22.

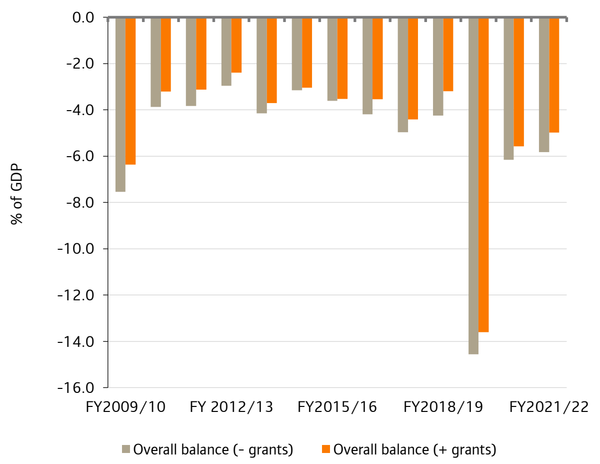
Notably, the government has refrained from increasing taxes, other than the10% increase in excise duty and introducing a levy of MUR2 per litre on mogas and diesel for the purchase of vaccines. Instead, the government is offering incentives that could reduce tax revenue in the short- to medium term.

Public sector debt was expected to reach 95% of GDP by end Jun 21, before falling to 91% of GDP by end FY2021/22. The aim is to reduce it to less than 80% of GDP by end Jun 25, and to 70% by end Jun 30. In FY2021/22, the government plans on financing the deficit through borrowing. The government will borrow a total of MUR32.9bn domestically and repay MUR2.3bn of external debt. We doubt that funding the budget deficit could be challenge, considering ample MUR liquidity in the domestic market.

% of GDP	FY2020/21	FY2021/22
Total revenue	35.2	27.5
Total expenditure	40.8	32.5
- Interest	2.8	2.7
- Wages	7.3	7.1
- Capital expenditure	9.9	5.5
Net lending	3.5	1.2
Overall balance (- grants)	-6.2	-5.8
Overall balance (+ grants)	-5.6	-5.0
Net lending to parastatals	0.2	0.2
Net external borrowing	2.3	-0.5
Net domestic borrowing	-2.6	6.6
Donor support (grants)	0.6	0.8

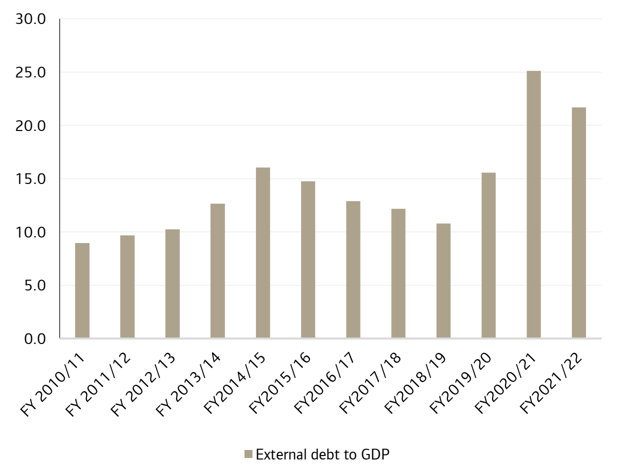
Source: Ministry of Finance and Economic Development

Fiscal deficit



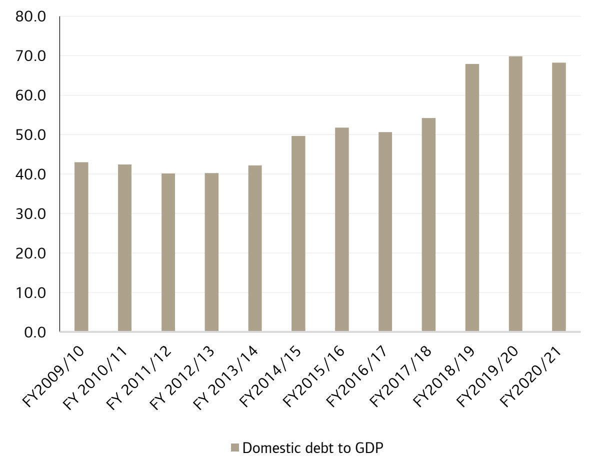
Source: Ministry of Finance and Economic Development

External debt growth



Source: Ministry of Finance and Economic Development

Domestic debt growth



Source: Ministry of Finance and Economic Development

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	1.265	1.265	1.266	1.265	1.266	1.272	1.280
Nominal GDP (TND bn)	434.8	457.2	481.3	498.3	498.3	478.3	513.0
Nominal GDP (USD bn)	12.2	13.3	14.1	14.0	12.6	11.5	13.1
GDP / capita (USD)	9650.3	10501.8	11174.6	11031.4	9982.1	9014.0	10197.7
Real GDP growth (%)	4.4	3.8	3.8	3.0	-14.9	5.3	7.0
Sugar production ('000 Tonnes)	386.3	355.2	323.4	331.1	322.0	331.1	340.2
Tourism arrivals ('000)	1275.2	1341.9	1399.3	1541.5	309.0	400.0	1090.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.8	-3.7	-3.2	-4.2	-14.6	-6.2	-5.8
Budget balance (incl. Grants) / GDP (%)	-3.2	-3.1	-3.0	-3.2	-13.6	-5.6	-5.0
Domestic debt/GDP (%)	42.2	44.3	42.2	54.2	67.9	69.9	68.3
External debt/GDP (%)	13.1	13.3	16.0	10.8	15.6	25.1	21.7
Balance of Payments							
Exports of goods and services (USD bn)	5.2	5.2	5.3	5.2	3.4	3.5	5.2
Imports of goods and services (USD bn)	6.5	7.0	7.2	7.4	5.8	6.3	6.2
Trade balance (USD bn)	-1.2	-1.8	-1.9	-2.2	-2.4	-2.7	-1.0
Current account (USD bn)	-0.5	-0.8	-0.8	-0.8	-1.5	-1.7	-1.2
- % of GDP	-4.3	-6.1	-5.5	-5.5	-12.0	-15.3	-8.9
Capital & Financial account (USD bn)	1.3	2.2	1.3	0.6	-0.6	0.9	6.8
- FDI (USD bn)	13.0	9.9	7.0	2.7	3.2	4.1	4.1
Basic balance / GDP (%)	101.9	68.7	43.9	13.6	13.0	20.1	22.9
FX reserves (USD bn) pe	5.0	6.0	6.4	7.4	7.3	7.6	7.8
- Import cover (months) pe	8.7	9.5	10.5	12.6	16.8	12.5	12.8
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa1	Baa1	Baa1	Baa1	Baa1	Baa2	Baa2
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	1.0	3.7	3.2	0.5	2.5	3.9	3.4
Consumer inflation (%) pe	2.3	4.2	1.8	0.9	2.7	5.6	2.3
M2 money supply (% y/y) pa	8.8	9.0	7.7	7.1	13.2	16.8	9.7
M2 money supply (% y/y) pe	9.1	9.3	6.3	8.5	16.8	14.2	8.6
BOM Policy rate (%) pa	4.2	3.8	3.5	3.4	2.1	1.9	2.0
BOM Policy rate (%) pe	4.00	3.50	3.50	3.35	1.85	1.85	2.25
3-m rate (%) pe	2.8	2.4	3.4	2.2	0.2	1.0	1.9
5-y rate (%) pe	3.9	4.3	5.2	5.2	1.2	3.5	4.4
USD/MUR pa	35.6	34.4	34.0	35.7	39.4	41.7	39.3
USD/MUR pe	36.0	33.6	34.3	36.3	39.8	41.6	38.4

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

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

Mozambique: a slow recovery, still with risks

Medium-term outlook: improving security should support both FDI and growth

Growth will be slow to recover, with risks emanating from the pandemic's uncertainty, security challenges, slow FDI, and high sovereign debt.

Mozambique faces low vaccine availability – but government should secure additional doses to accelerate the vaccination campaign and, over time, ease restrictions. Aug data shows only 6.3% of the 17 million people targeted as fully vaccinated.

There have been positive developments in containing insurgency in Cabo Delgado province where the escalation of insecurity, first reported nearly 4-y ago in Oct 17, resulted in this April's force majeure declaration on Total's USD20bn two LNG trains project for 13mtpa of LNG.

On the account of joint military operations that started in Aug, the Mozambican National Defence and Security Forces (FDS), with the support of Rwandese troops and SADC military, regained control of most sites held by insurgents. The destruction though is visible across the recovered sites. Accurate timelines for the resumption of onsite construction for Total's LNG project seem a long way off.

Still, we expect progress on the implementation of the offshore USD10bn Coral South Floating LNG project (FLNG) for 3.4mtpa to remain on schedule, with first LNG exports expected in H2:22. This, combined with the expected easing of restrictions, should support economic activity next year, with GDP growth expected at 2.8% y/y, from 1.4% y/y for 2021.

Across our base, bull and bear cases, growth forecasts for the period 2021-24 have been slightly lifted to reflect improving security conditions and the likely easing of public health restrictions.

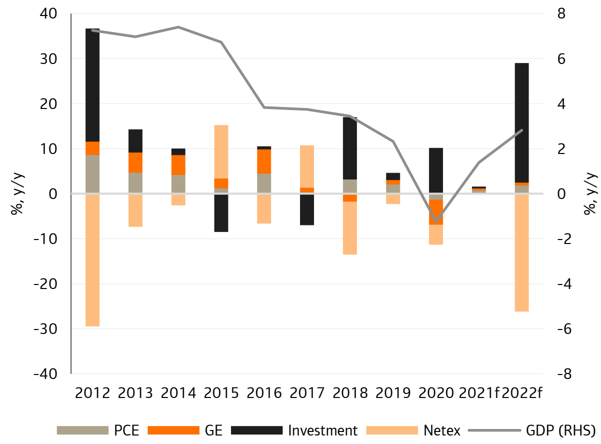
The base scenario sees average growth for the period 2021-24 close to population growth, at 2.7% per annum, 0.5 ppts higher than our May forecast of 2.2%.

Average growth in the bull scenario at 4.7% per annum is 1.8ppts higher.

The bear case sees average growth 0.5pp higher, at 2.1% per annum; these forecasts remain below pre-pandemic levels as they still incorporate assumptions of limited policy support and slow FDI recovery.

GDP growth was 2.0% y/y in Q2:21, from 0.1% y/y in Q1:21, as most sectors had exited recession. However, the PMI fell below the 50 benchmark, to 47.9 in Aug, from 51.8 in Jul, as restrictions had negatively affected growth in Q3:21.

Composition of GDP by demand



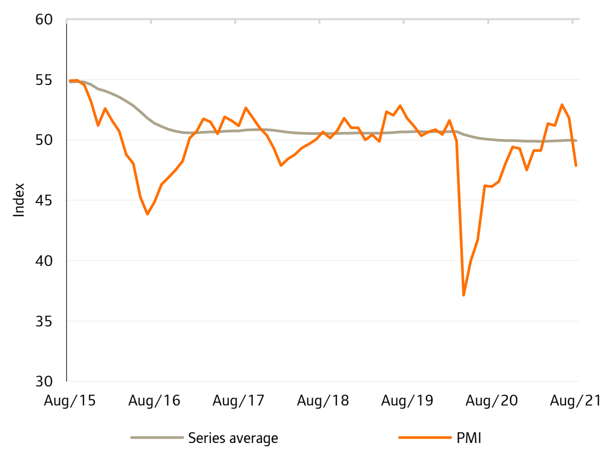
Source: Instituto Nacional de Estatística; Standard Bank Research

GDP composition by sector

	2016	2017	2018	2019	2020
Agriculture, forestry & fishing	23.2	23.2	23.2	23.0	24.0
Extractive industry	5.4	6.9	7.4	7.0	6.0
Manufacturing	8.1	8.0	7.9	7.8	7.8
Electricity & gas	2.9	2.7	2.5	2.4	2.5
Water supply	0.2	0.2	0.2	0.2	0.2
Construction	1.9	1.8	1.7	1.7	1.7
Trade and motor vehicle repairs	10.3	9.7	9.6	9.4	9.3
Transport and storage	6.9	6.9	6.9	7.0	6.9
Accommodation and food	1.9	1.8	1.8	1.8	1.4
Information and communication	3.2	3.2	3.3	3.4	3.4
Financial services	5.1	5.1	5.2	5.3	5.3
Real estate activities	5.0	4.8	4.9	4.9	5.1
Public administration & defence	6.6	6.5	6.4	6.5	6.1
Education	6.2	6.1	5.9	5.9	5.9
Health and social work activities	1.5	1.5	1.5	1.5	1.7
Other services	11.5	11.4	11.6	12.1	12.7
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; Standard Bank Research

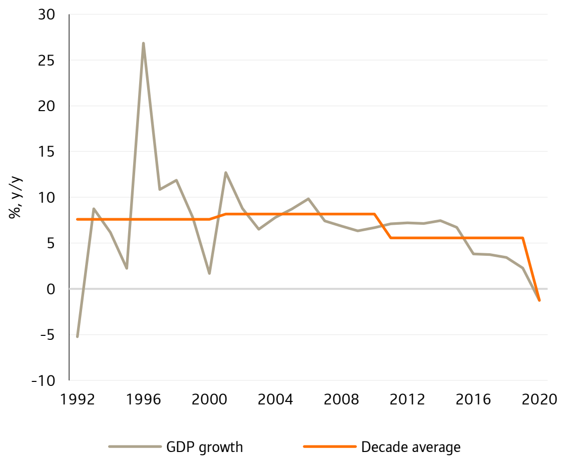
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	0.1	2.0	2.0	1.4	2.6	3.1	2.8	2.8	3.0	3.1	3.3	3.2	3.4	3.6	3.5	3.5
CPI (% y/y) pe	5.8	5.5	5.5	5.3	4.3	4.6	6.6	6.5	6.2	6.5	6.5	6.7	6.3	6.5	6.7	6.5
Policy rate (%) pe	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
3-m rate (%) pe	13.3	13.4	13.4	13.4	13.3	13.3	13.3	13.4	13.4	13.6	13.5	13.5	13.5	13.5	13.6	13.6
6-m rate (%) pe	13.3	13.4	13.4	13.4	13.4	13.3	13.3	13.4	13.5	13.6	13.6	13.6	13.6	13.6	13.6	13.6
USD/MZN pe	67.5	63.5	64.6	65.4	66.8	66.9	68.5	70.4	73.1	73.5	74.4	75.7	76.4	76.3	76.9	77.1
Bull scenario																
GDP (% y/y) pa	0.1	2.0	4.7	2.2	4.3	4.4	4.8	4.5	5.5	5.7	5.8	5.6	6.1	6.6	6.4	6.4
CPI (% y/y) pe	5.8	5.5	5.0	4.5	2.9	3.2	5.2	5.1	5.0	5.0	4.1	4.3	4.3	4.9	5.3	5.3
Policy rate (%) pe	13.25	13.25	13.25	13.25	13.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
3-m rate (%) pe	13.3	13.4	13.4	13.3	13.2	12.1	12.1	12.1	12.2	12.3	12.3	12.3	12.2	12.2	12.3	12.3
6-m rate (%) pe	13.3	13.4	13.4	13.4	13.2	12.2	12.2	12.2	12.3	12.4	12.4	12.3	12.3	12.3	12.3	12.4
USD/MZN pe	67.5	63.5	63.9	64.8	65.7	65.8	67.7	67.2	69.8	69.7	69.6	70.8	71.4	71.4	71.8	71.9
Bear scenario																
GDP (% y/y) pa	0.1	2.0	1.3	1.1	2.1	2.2	2.5	2.3	2.5	2.4	2.4	2.5	2.6	2.4	2.6	2.6
CPI (% y/y) pe	5.8	5.5	6.2	6.6	5.6	6.2	7.9	7.9	8.8	9.0	8.3	8.6	8.2	9.1	8.6	8.0
Policy rate (%) pe	13.25	13.25	13.25	13.25	13.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25
3-m rate (%) pe	13.3	13.4	13.4	13.5	13.5	14.4	14.5	14.5	14.7	14.8	14.9	14.9	14.9	14.9	15.0	14.9
6-m rate (%) pe	13.3	13.4	13.4	13.5	13.5	14.4	14.5	14.6	14.7	14.9	14.9	15.0	15.0	15.0	15.0	15.0
USD/MZN pe	67.5	63.5	65.1	66.4	68.9	68.8	71.6	74.5	78.2	77.9	77.8	78.9	80.1	80.4	80.9	81.1

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

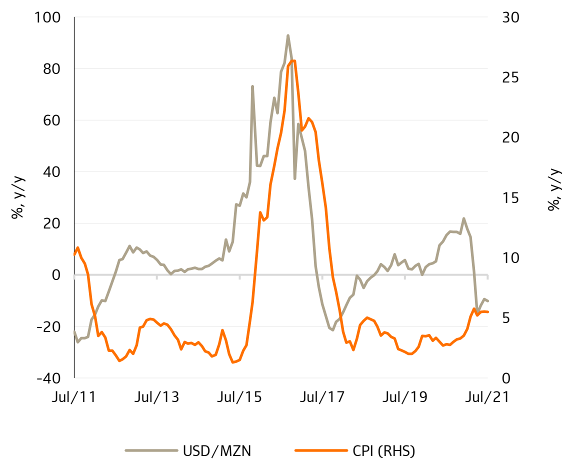
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Instituto Nacional de Estatística; Standard Bank Research

Annualised FX rate change versus inflation



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

Balance of payments: looming pressures

The current account (C/A) deficit could ease temporarily to 25.3% of GDP this year, on better export performance, from 27.2% of GDP last year, before approaching 42.4% of GDP next year.

The expected C/A deterioration in 2022 will likely reflect progress in the implementation of LNG projects that would accelerate goods and services imports. With this likely being funded by FDI inflows, it should not bring material FX liquidity pressures onshore. FX reserves should therefore decline only marginally.

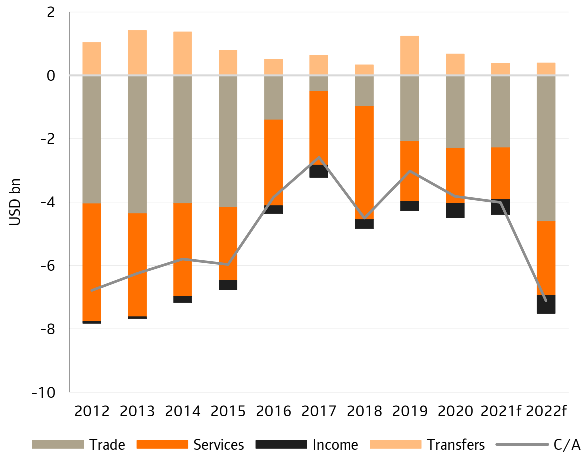
Coral South FLNG completion next year will likely see LNG exports from H2:22. There could be a higher increase in goods and services imports motivated by the implementation of the project, before the project starts adding a meaningful contribution on the export revenue side, at least next year.

Thereafter, the main transmission mechanism from FLNG exports to the rest of the economy will likely be the fiscal channel given the offshore nature of the project and limited connection with the larger economy.

This year, following an acceleration in the C/A deficit to 33% of GDP on a q/q basis during Q2:21, from 21.9% of GDP in Q1:21, mainly due to the higher increase in goods and services imports, in absolute terms of USD750m, compared with the USD437m increase in goods and services exports, we see the C/A deficit easing towards 23.7% of GDP and 22.5% of GDP respectively during Q3:21 and Q4:21, resulting in the 25.3% y/y of GDP C/A deficit, as the pandemic trims import demand when export revenues still benefit from better commodity prices.

FX gross reserves slid to USD3.6bn in Jul, from USD3.8bn in Jun and an historically high of USD4.1bn last Mar, reflecting ongoing FX liquidity pressures. The import cover ratio, at nearly 6-m, has been declining too. Still, the IMF's new SDR allocation of USD310m in Aug should support FX reserves temporarily.

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX reserves

Source: Banco de Moçambique; Standard Bank Research

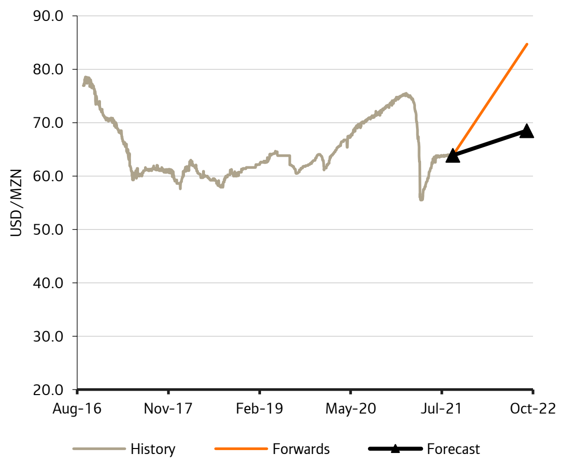
FX outlook: stable metical, for now

We expect the metical to remain relatively stable. We therefore maintain our May AMR FX rate forecasts of a closing USD/MZN level of 65.4 this year and 70.4 next year.

Following the rise in the USD/MZN pair during 2020, closing at 75, as a shock absorber for BOP pressures during the first year of the pandemic, the pair, trading at the 63.8 level at the time of writing, remains quite stable, after a sharp appreciation towards an historically low of 55 mid-Apr.

Rising inflation expectations early this year prompted the 300 bps policy rate hike in Jan, which, combined with supply-demand imbalances, led to sharp metical appreciation. However, projected metical stability should ease inflationary pressures.

USD/MZM: forwards versus forecasts



Source: Banco de Moçambique; Standard Bank Research

Monetary policy: policy rates on hold

We lower our year-end inflation headline forecast to 5.3% y/y for 2021 on positive crop performance which should help stabilise food prices, and the stable metical which supports import price stability given elevated import dependency, especially for manufactured items.

Headline inflation, last reported at 5.6% y/y in Aug, rose from 5.5% y/y in Jul and 3.5% y/y Dec 2020. It could well rise to 6.5% y/y by end 2022, pushing the 12-m moving average to 5.4% y/y in 2022, from an expected annual average of 5.3% y/y this year, as the metical resumes its long-term correction in 2022.

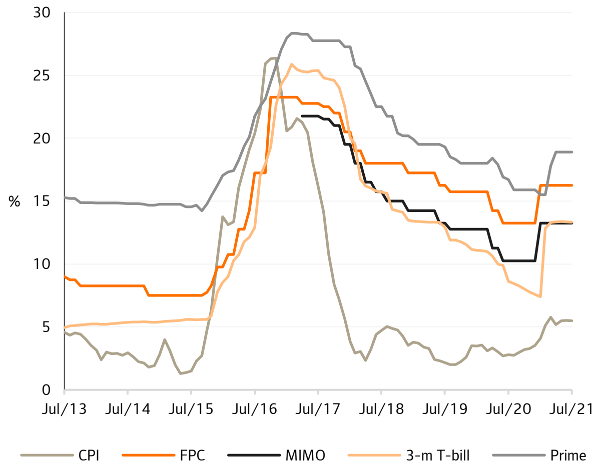
Our base case sees the main monetary policy rate, MIMO, on hold at 13.25%. The bull case sees a 100 bps policy rate cut, to 12.25%, in Jun 2022. The bear scenario, which considers a higher level of metical depreciation, sees a 100 bps policy rate hike next Jun, to 14.25%.

At the central bank MPC meeting held on 10 Sep, policy rates were kept on hold but there was a surprise cut in reserving requirements for banks. The local currency (LCY) reserve requirements ratio was cut by 1 ppt, to 10.5%, with the foreign currency (FCY) reserves ratio being cut by 23 ppts, to 11.5%. This will likely release MZN5.4bn in LCY liquidity and USD477m in FCY liquidity.

While this supports growth in LCY lending, it may take some time before it incurs higher growth in FCY lending. With limited lending opportunities in FCY, commercial banks may deploy excess FCY liquidity in offshore placements. It's not a clear-cut that this will ease FX liquidity pressures.

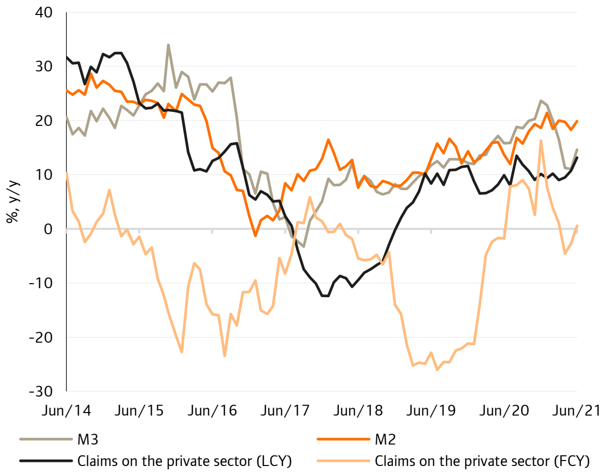
Despite higher interest rates, reflected in the 340bps ytd rise in the prime lending rate, monetary survey data for Jun shows that private sector credit extension (PSCE) growth in local currency (LCY) is picking up, consistent with the economy recovery.

Inflation and interest rates



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

Monetary statistics



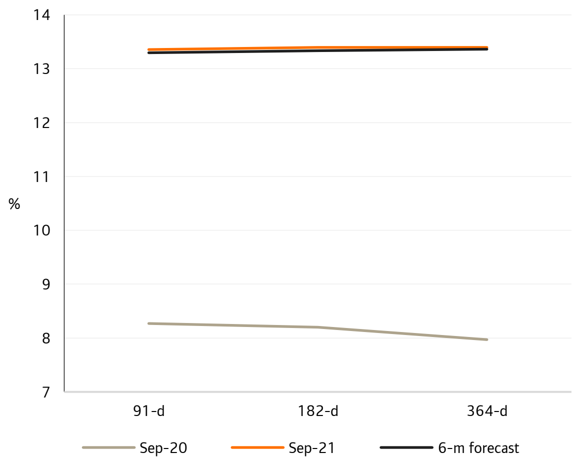
Source: Banco de Moçambique; Standard Bank Research

Yield curve outlook: relatively stable

Most likely, the yield curve will remain relatively stable as monetary policy rates remain on hold. Following the 300 bps monetary policy rate hike in Jan, T-bill yields rose more than proportionally ytd, by 580 bps for the 91-d, to 13.37%. The 182-d and 364-d T-bills yields rose by 589 bps and by 611 bps respectively, to 13.39% and 13.4%.

T-bills perform a triple role. End of Jun data shows that only 37.3% of the overall T-bill stock had been used to fund the treasury, with the balance of 62.7% being held for monetary policy purposes, mopping up LCY liquidity. Given the relatively low LCY loans to deposit ratio of 60%, T-bills represent an important source of income for commercial banks, especially in the current low growth environment. The yield curve beyond 12-m is non-existent since government bond yields are issued with floating interest, linked to short-term T-bill rates.

Yield curve changes



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: fiscal pressures imminent

With external debt ratios above IMF sustainability thresholds across all metrics, the government is targeting a zero-net-increase in external borrowing for the FY2021 (12-m ending Dec 21). This could well be the case for the FY2022, with the government expected to borrow externally only if highly concessional.

Limited long-term borrowing ability from the government, alongside with slow FDI, concurs with our relatively slow GDP growth forecasts in the base, bull bear scenarios.

The government has been targeting a decline in the fiscal deficit before grants, which is expected to ease towards 5.8% of GDP this year, from 7.9% of GDP last year, due to stronger revenue despite the pandemic and also due to prudent spending.

FY2021 half-year fiscal performance concurs to the low external borrowings goal. It shows the overall fiscal deficit before grants stable, at 3% of GDP on a q/q basis in Q2:21, the same as in Q1:21, due to both revenue growth and prudent spending. The result was net external loan repayments of MZN2.3bn during Q2:21, or 0.9% of GDP on a q/q basis, from net repayments of 1.2% of GDP in Q1:21. The increase in grants to 1.4% of GDP, from 1.2% of GDP, allowed net domestic borrowing to decline to 1.1% of GDP in Q2:21, from 3.9% of GDP in Q1:21.

Jun data shows a 12% ytd rise in the government domestic debt stock, to MZN219.5bn, or 21.1% of GDP, which highlights ongoing treasury pressures.

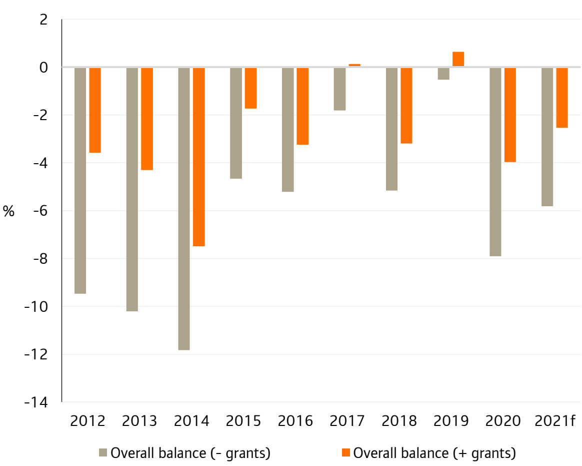
With external public debt at stock at 92.3% of GDP in 2020, which is deemed unsustainable, we may see the government contemplate an IMF program to strengthen structural reforms. Debt service pressures are muted for now, supported by DSSI and benefiting from the USD900m Eurobond repayment profile where large principal repayments will only begin in 2028.

Central government budget

% of GDP	2019	2020	2021
Total revenue	28.8	24.1	25.5
Total expenditure	29.3	32.0	31.4
- Recurrent	20.3	23.3	22.9
- Development	7.5	8.1	8.1
Overall balance (- grants)	-0.5	-7.9	-5.8
Overall balance (+grants)	0.6	-4.0	-2.5
Grants	1.2	3.9	3.3
Net domestic borrowing	1.5	3.6	2.3
Net external borrowing	2.0	2.2	0.0
Allocation of prev. year rev.	0.5	1.8	0.2
Changes in balances	-4.7	-3.6	0.0

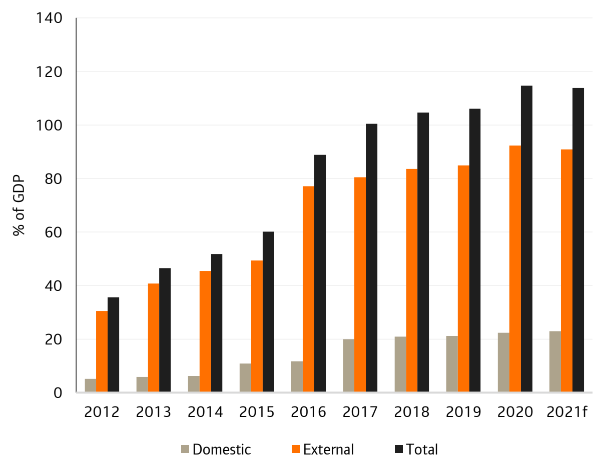
Source: Ministério da Economia e Financas: Standard Bank Research

Fiscal deficits



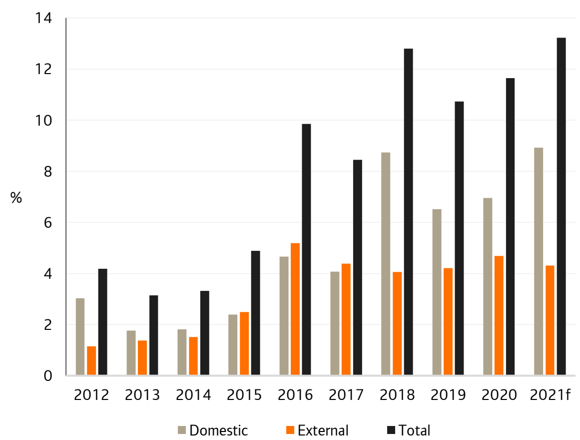
Source: Ministério da Economia e Finanças; Standard Bank Research

Public and publicly guaranteed debt



Source: Ministério da Economia e Finanças; Standard Bank Research

Interest expenditure to revenue



Source: Ministério da Economia e Finanças; Standard Bank Research

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	26.4	27.9	28.6	29.3	30.1	30.8	31.6
Nominal GDP (MZN bn)	752.7	840.5	895.6	962.6	974.5	1 040.0	1 130.6
Nominal GDP (USD bn)	12.0	13.2	14.9	15.4	14.0	15.9	16.8
GDP / capita (USD)	455.3	474.2	519.6	524.9	466.6	514.6	531.0
Real GDP growth (%)	3.8	3.7	3.4	2.3	-1.2	1.4	2.8
Coal production (MTPA)	6.2	11.8	15.2	10.3	8.1	9.6	15.1
LNG production (000 BOE/day)							20.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.2	-1.8	-5.2	-0.5	-7.9	-5.8	-5.8
Budget balance (incl. Grants) / GDP (%)	-3.2	0.1	-3.2	0.6	-4.0	-2.5	-2.7
Domestic debt / GDP (%)	11.7	20.0	21.0	21.1	22.3	22.9	22.3
External debt / GDP (%)	77.2	80.4	83.6	84.8	92.3	90.9	89.2
Balance of Payments							
Goods and Services Exports (USD bn)	3.8	5.4	6.0	5.6	4.4	5.4	6.0
Goods and Services Imports (USD bn)	-7.9	-8.2	-10.5	-9.6	-8.4	-9.3	-13.0
Trade balance (USD bn)	-4.1	-2.8	-4.5	-4.0	-4.0	-3.9	-6.9
Current account (USD bn)	-3.8	-2.6	-4.5	-3.0	-3.8	-4.0	-7.1
- % of GDP	-32.0	-19.6	-30.3	-19.6	-27.2	-25.3	-42.4
Capital and Financial account (USD bn)	3.9	2.5	4.5	3.0	3.8	4.0	7.1
- FDI (USD bn)	3.1	2.3	2.7	2.2	2.3	2.8	4.5
Basic balance / GDP (%)	-6.3	-2.2	-12.1	-5.3	-10.5	-7.6	-15.4
FX reserves (USD bn) pe	2.0	3.3	3.0	3.8	4.0	3.9	3.8
- Import cover (months) pe	3.0	4.2	3.5	4.7	4.7	5.1	3.5
- Import cover excl. large projects (months) pe	4.2	6.8	6.3	7.0	7.2	6.3	5.8
Sovereign Credit Rating							
S&P	CC	SD	SD	CCC+	CCC+	CCC+	CCC+
Moody's	Caa3	Casa3	Caa3	Caa2	Caa2	Caa2	Caa2
Fitch	CC	RD	RD	CCC	CCC	CCC	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	19.9	15.1	3.9	2.8	3.1	5.3	5.4
Consumer inflation (%) pe	23.7	5.6	3.5	3.5	3.5	5.3	6.5
M2 money supply (% y/y) pa	15.0	6.4	10.3	12.4	15.5	18.9	12.1
M2 money supply (% y/y) pe	2.4	12.9	7.9	14.3	18.7	18.2	12.1
Policy interest rate (%) pa	16.04	21.77	16.19	13.46	11.04	13.25	13.25
Policy interest rate (%) pe	23.25	19.50	14.25	12.75	10.25	13.25	13.25
3-m rate (%) pe	24.3	22.5	13.5	11.2	7.6	13.4	13.4
USD/MZN pa	62.6	63.6	60.3	62.6	69.5	65.5	67.3
USD/MZN pe	71.2	59.0	61.5	61.5	74.9	65.4	70.4

Source: Banco de Moçambique; Instituto Nacional 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 mired in meagre growth

Medium-term outlook: restrained recovery

We lower our GDP growth expectations for 2021. According to the Bank of Namibia, economic activity remained depressed in H1:21. We therefore now forecast growth of 2.0% y/y in 2021 and 3.3% y/y in 2022.

The revised data by National Statistics Agency shows that the economy slumped by 8.5% y/y in 2020, not 8.0% y/y as was preliminarily reported, from a 0.9% y/y contraction in 2019. Bar five sectors, poor performance continued across most sectors in Q1:21, with GDP growth posting a 6.5% y/y contraction (-9.3% q/q).

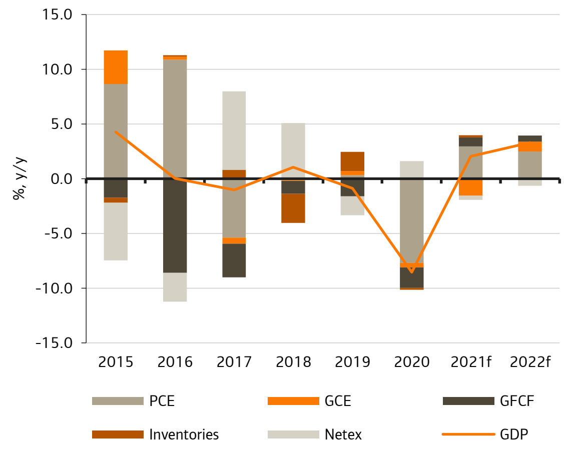
The reimposed public health restrictions from early Jun until Aug, when Namibia was in its third wave of infections, are likely to have interrupted the pro-growth base effects that we had anticipated for Q2:21 and Q3:21. To curb the Delta variant's transmission, the government imposed interregional travel ban and suspended schooling, amongst a range of other restrictions. This overhaul of restrictions will surely negatively affect growth this year, especially the education, retail and transport sectors as well as services. Trade will also be squeezed. Namibia's tertiary industries contribute close to 60% to overall growth.

Vaccinations being sluggish remains one major risk to the economic recovery. Until herd immunity has been attained, this economy will be vulnerable to further multiple disruptions resulting from infection surges. As at 07-Sep, only 129k people (5.6% of total population) had been fully vaccinated. Our bear scenario pencils in 2.7% y/y growth for 2022 should vaccine hesitancy and slow vaccinations persist.

Nonetheless, as major economies reach herd immunity and global demand from key importing markets recovers, mining production should recover moderately in the next 6-8m. In Jun 21, the volume of diamonds produced was 118.6k carats lower than 133.4k carats in Jan 21 and 144.1k carats in Jun 20. However, stronger diamond expansion is expected in Q2:22 when Debmarine Namibia will be introducing a new vessel that is projected to increase diamond recovery by at least 30%. In addition, the resumption of operations at the Elizabeth Bay diamond mine should further increase production. Uranium production too should make some meaningful gains on a more stable water supply at mining operations.

To address the country's water challenges, the government has partnered with the African Development Bank and apportioned at least NAD8.31bn over the next 7-y towards the water sector programme which is aimed at facilitating sustainable production and the transfer of water resources to improve access to water as well as for agricultural and industrial use. Furthermore, the EUR1.1bn genocide reparations by the German government over a period of 30 years makes a EUR130m allocation towards water supply and sanitation.

Composition of GDP by demand



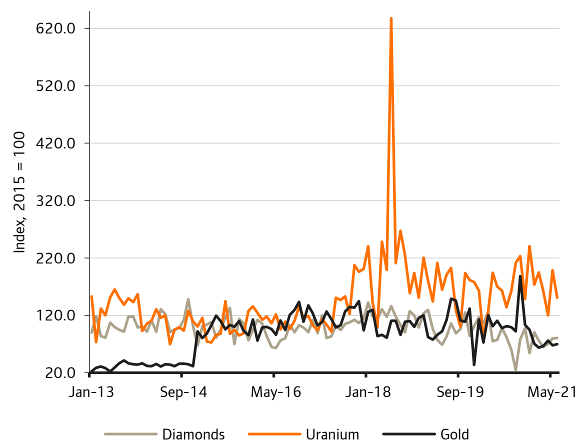
Source: Namibia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

% of GDP	2014	2017	2020
Agriculture, forestry & fishing	8.1	7.7	9.2
Fishing	3.1	2.6	2.6
Mining and quarrying	9.5	8.2	9.6
Manufacturing	9.9	12.2	11.1
Electricity and Water	2.2	3.4	3.7
Construction	5.1	2.3	1.9
Wholesale and retail trade	12.2	10.8	9.7
Hotels and restaurants	1.8	1.9	1.5
Transport	2.7	3.1	2.7
ICT	1.9	1.5	1.6
Financial and insurance	5.8	7.2	7.1
Real estate	5.3	5.3	5.8
Professional, scientific & technical	0.7	0.7	0.6
Administrative and support	1.3	1.0	1.0
Arts and Entertainment	1.6	1.7	1.9
Public administration and defence	11.0	11.4	11.7
Education	9.4	9.6	11.0
Health	3.4	3.7	3.7

Source: Namibia Statistics Agency

Mining production



Source: National Statistics Agency

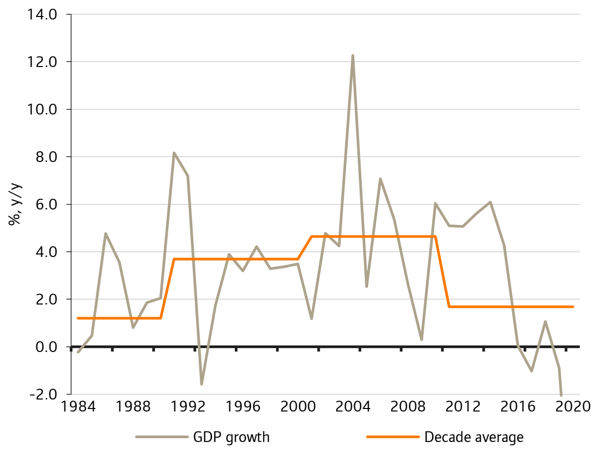
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	-6.5	5.2	6.2	3.3	3.1	3.5	3.3	3.2	3.8	3.9	3.8	2.5	2.4	2.5	4.7	4.7
CPI (% y/y) pe	3.1	4.1	3.8	4.3	4.4	4.4	4.7	4.7	4.6	4.5	4.8	4.8	4.5	4.3	3.9	3.6
Policy interest rate (%) pe	3.75	3.75	3.75	3.75	3.75	4.00	4.25	4.25	4.50	4.50	4.50	5.00	5.00	5.00	5.00	5.00
3-m rate (%) pe	4.29	4.53	4.56	4.56	4.58	4.60	4.65	4.65	4.90	4.90	4.90	5.40	5.40	5.40	5.40	5.40
6-m rate (%) pe	4.31	4.60	4.66	4.66	4.68	4.80	4.85	4.85	5.10	5.10	5.10	5.60	5.60	5.60	5.60	5.60
USD/NAD pe	14.93	14.30	14.78	14.70	14.73	14.75	14.78	14.80	14.84	14.87	14.91	15.15	15.19	15.23	15.26	15.25
Bull scenario																
GDP (% y/y) pa	-6.5	5.7	6.4	4.6	4.9	5.3	5.0	5.0	5.5	5.7	5.6	4.3	4.2	4.3	6.4	6.4
CPI (% y/y) pe	3.1	4.1	4.5	5.0	5.0	5.2	5.2	5.2	5.1	5.0	5.3	5.3	5.0	4.8	4.4	4.1
Policy interest rate (%) pe	3.75	3.75	4.00	4.00	4.00	4.25	4.50	4.50	4.75	4.75	4.75	5.25	5.25	5.25	5.25	5.25
3-m rate (%) pe	4.29	4.53	4.81	4.81	4.83	4.85	4.90	4.90	5.15	5.15	5.15	5.65	5.65	5.65	5.65	5.65
6-m rate (%) pe	4.31	4.60	4.91	4.91	4.93	5.05	5.10	5.10	5.35	5.35	5.35	5.85	5.85	5.85	5.85	5.85
USD/NAD pe	14.93	14.30	13.53	13.70	13.96	14.20	14.33	14.30	14.31	14.42	14.34	14.56	14.60	14.64	14.67	14.71
Bear scenario																
GDP (% y/y) pa	-6.5	3.5	4.9	2.6	2.4	3.0	2.8	2.7	3.3	3.4	3.3	2.0	1.9	2.0	4.2	4.2
CPI (% y/y) pe	3.1	4.1	3.6	4.1	4.2	4.2	4.5	4.5	4.4	4.3	4.6	4.5	4.2	4.0	3.7	3.4
Policy interest rate (%) pe	3.75	3.75	4.25	4.25	4.25	4.50	4.75	4.75	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50
3-m rate (%) pe	4.29	4.53	5.06	5.06	5.08	5.10	5.15	5.15	5.40	5.40	5.40	5.90	5.90	5.90	5.90	5.90
6-m rate (%) pe	4.31	4.60	5.16	5.16	5.18	5.30	5.35	5.35	5.60	5.60	5.60	6.10	6.10	6.10	6.10	6.10
USD/NAD pe	14.93	14.30	16.78	16.70	16.43	16.25	15.78	15.80	15.84	15.87	15.91	16.15	16.19	16.23	16.26	16.25

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

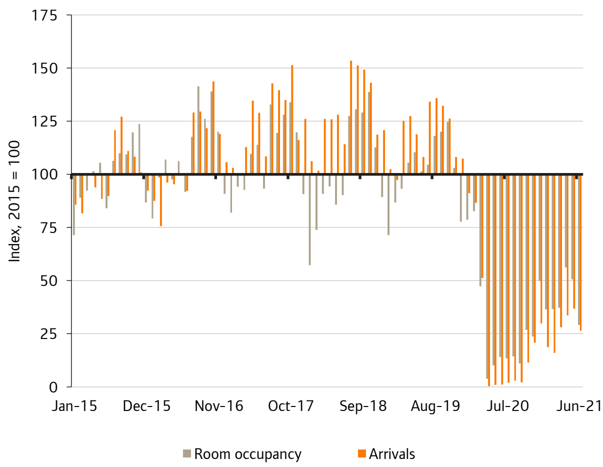
Notes: pa - period average; pe - period end

Long-term growth performance



Source: Namibia Statistics Agency

Tourism indices



Source: Namibia Statistics Agency

Balance of payments: C/A declining into a deficit

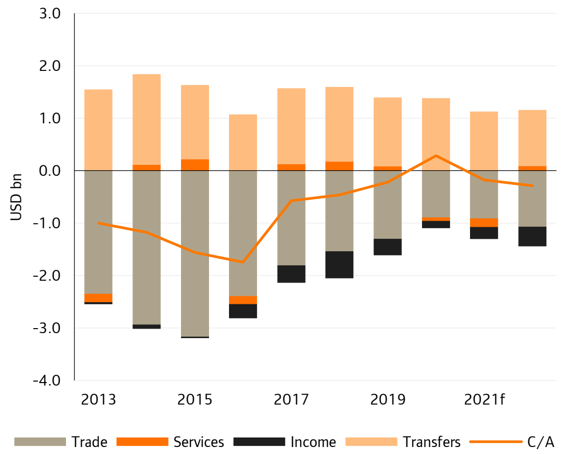
We now revise the C/A deficit to 1.4% of GDP this year, from the 0.9% of GDP surplus we had forecast in our May report. The narrowing merchandise trade deficit, that switched the C/A balance into a surplus in 2020 (2.7% of GDP), seems to have been transitory.

Improvements in the trade balance and transport services that we anticipated for this year, on the back of a recovery in key export earnings and easing public health restrictions, have disappointed in H1:21. In fact, the merchandise trade deficit of NAD8.2bn in Q1:21 alone is almost equivalent to the cumulative NAD8.9bn of the preceding three quarters. The import bill rose by 3.7% y/y in Q1:21, from 2.4% y/y in Q4:20, largely on consumer goods which accounted for 31% of total imports. As domestic activity improves, import demand should increase further. Services receipts, however, may see some gains in transport services due to fewer trade disruptions next year.

Though diamond exports are expected to recover somewhat in H2:21 as international demand continues to pick up, the revised output targets for 2021 by the industry may prove limiting. Encouragingly, much stronger output is expected in 2022 as the Elizabeth Bay mine resumes operations and Debmarine introduces a new vessel in Q2 which is expected to increase diamond recovery by at least 30%. Prospects of stable water supply at mine operations and slightly better uranium prices too may support uranium exports in the near- to medium term.

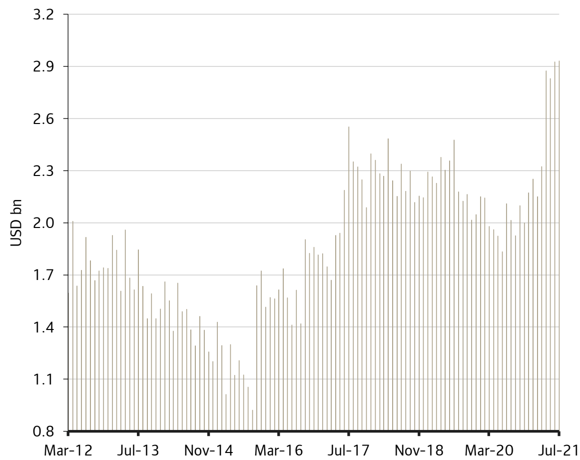
Secondary income flows are also expected to moderate for FY21/22 and FY22/23, attributable to the projected 27.4% y/y drop in SACU receipts. FX reserves, however, should remain strong despite the RepNam '21 USD500m redemption in Nov. The government had opted to finance it through the sinking fund and an onshore debt swap with pension funds. We thus put FX reserves at USD 3.4bn (7.6-m cover) by end-2021, premised on two more SACU receipts and the increased SDR allocations which came into effect late Aug.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves



Source: Bank of Namibia

FX outlook: some modest depreciation

At each of its bi-monthly monetary policy meetings, the Bank of Namibia reiterates the need to preserve the 1:1 currency peg between the NAD and the ZAR. Therefore, the peg will likely hold, and the USD/NAD trajectory will mirror that of the USD/ZAR, at least in the near- to medium term.

The terms of trade, which provided strong support to the rand in 2020 and H1:21, is expected to weaken for the remainder of this year. Hence, some modest ZAR depreciation is anticipated this year as the terms of trade turn less supportive. Moreover, increased fiscal pressure and disappointing domestic growth may pose a risk to the currency outlook in the near- and longer term.

The USD/ZAR is expected to end this year at 14.70, then inch up to 14.80 by end 2022.

USD/NAD: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: hiking cycle only by Q2:22

We expect the Bank of Namibia's MPC to maintain an accommodative bias this year, likely only hiking policy rates from Q2:22 by a cumulative 50bps, to end 2022 at 4.25%.

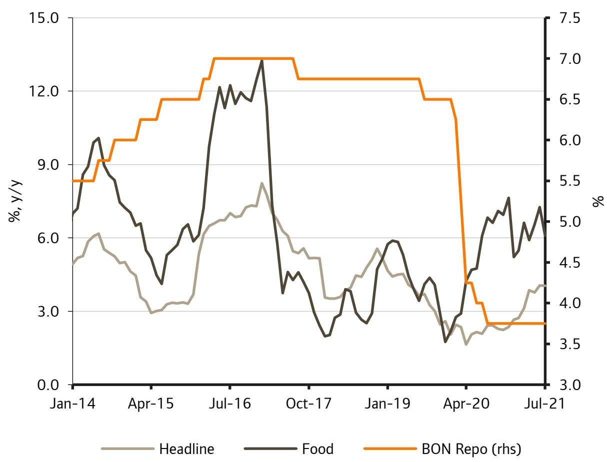
Currently at 3.75%, Namibia has a 25bps differential to South Africa's repo rate of 3.50%, which grants the BON some room to delay its hiking cycle to allow the domestic economy to recover whilst preserving the 1:1 currency peg with the South African rand. The Aug policy meeting statement showed that the committee was still concerned about subdued domestic economic activity. That said, Namibia's policy rate adjustments are likely to follow developments in SA.

For the first 7-m of this year, headline averaged 3.5% y/y, in comparison to 2.1% y/y over the corresponding period in 2020, and this was largely attributable to price increases in the food, transport and housing categories. Notably, food prices increased by an annual average of 6.2% in H1:21, from a 5.2% overall average in 2020, due to supply constraints; this doesn't account for the aftermath of supply disruptions caused by the unrest in South Africa in Jul. Indeed, SA accounted for almost 40% of Namibia's total imports in 2020.

We now expect the continued increase in food inflation and the upward trajectory in international oil prices to push overall inflation to 4.3% y/y by year-end, augmented by seasonal trends in the next 4-m, albeit marginal. In the medium term, we see inflation around the mid-point of the BON's 3%-6% inflation target band. A risk to this outlook would be any significant depreciation in the rand.

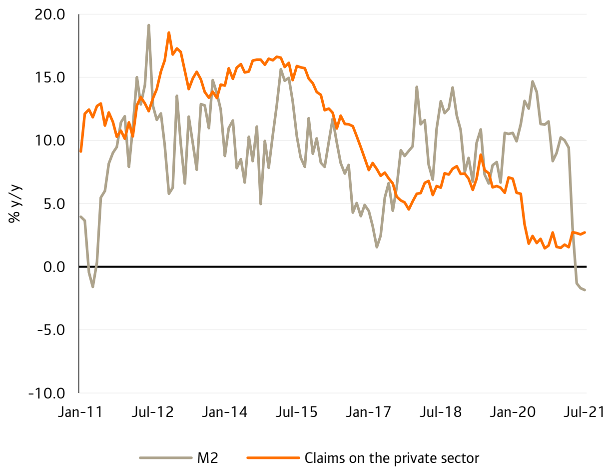
Year-to-date growth in private sector credit extension (PSCE), both by businesses and households, remains sluggish. Money supply has also slowed into negative territory since May and has continued to decline further. It was at -1.8% y/y in Jul, from 10.2% y/y in Jan.

Inflation and interest rates



Source: Bank of Namibia; National Statistics Agency

Monetary statistics



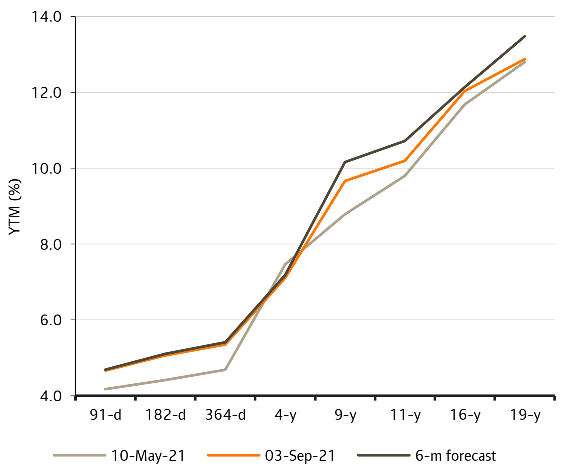
Source: Bank of Namibia

Yield curve outlook: inching up

Inflation was likely the main driver for Namibia's yield curve in Q2 and Q3, especially for T-bills. Demand for shorter-dated paper remains strong, with auctions generally oversubscribed. Likewise, government bonds too have been well bid, with longer maturities posting at least a 1.4 bid-to-cover ratio at the recent auction. The increase in the yields for these longer-dated bonds could also emanate from perceived higher risk by investors.

With inflation set to remain above 4% y/y in coming months, declining real returns may see demand moderate as we don't see scope for rate hikes until at least Q2:22. However, the supply of government paper should remain robust in the next 6-m as authorities are not yet half-way to the planned net domestic borrowing of NAD17.5bn for FY21/22.

Yield curve changes



Source: Bank of Namibia; Standard Bank Research

Fiscal policy: weathering SACU receipts storm

The launch of the Namibia Revenue Agency (NRA) in Apr this year, after it was legislated in 2016, is a welcome avenue, which should support the government's fiscal consolidation efforts. More so given that a cut in SACU revenues is expected to cap fiscal revenues at no more than NAD52.1bn in FY2021/22 and NAD52.5bn in FY2022/23, from an estimate of NAD55.5bn in FY2020/21.

The success of the NRA may help the government narrow the fiscal gap. Further measures to improve domestic revenue collection include extending the 15% VAT on management fees to listed asset managers. Previously, this included only unlisted asset managers. This measure might add about NAD200m to the fiscus. In addition, new tax proposals also include introducing a 10% withholding tax on dividends paid to Namibian expats. These tax policy measures will take effect in FY2022/23.

In the medium term, public enterprises reforms may limit pressure on the fiscus. The listing of Mobile Telecommunications Company's (MTC), with the government holding a 49% stake in it, is still set to go ahead towards year-end. Around 50% of the expected proceeds from this listing will be used to finance the budget deficit. According to the FY2021/22 budget, the MTC is valued at NAD6.0bn to NAD7.2bn (USD42m – USD50m), and this divestment strategy may incur NAD3.0bn for government coffers.

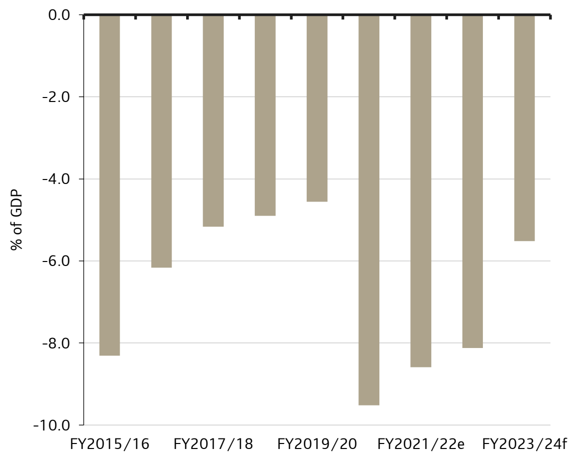
To retrace the austerity which commenced in 2016 but was interrupted by the pandemic, the Finance Ministry expects the deficit to decline to 8.6% of GDP in FY2021/22 and stabilise further to 5.5% of GDP in FY2023/24 due to a reduction in expenditure. However, weak growth may prove challenging for fiscal consolidation. Still, the ministry sees public debt stabilising at 77.0% of GDP by FY2023/24, which is more than double the self-imposed 35%-of-GDP debt ceiling.

Central government budget

	FY2019/20	FY2020/21	FY2021/22
% of GDP	Actual	Rev. Estimate	Budgeted
Total revenue and grants	32.7	31.7	28.2
Total expenditure	37.2	41.2	36.8
- Operational	33.7	37.3	33.5
- Interest	3.8	4.4	4.6
- Development	3.5	4.7	4.0
Budget deficit (excl grants)	-4.6	-9.7	-8.6
Budget deficit (incl grants)	-4.6	-9.5	-8.6
Domestic debt	35.6	43.3	50.7
Foreign debt	20.5	19.2	17.8
Total debt	56.1	62.6	68.5

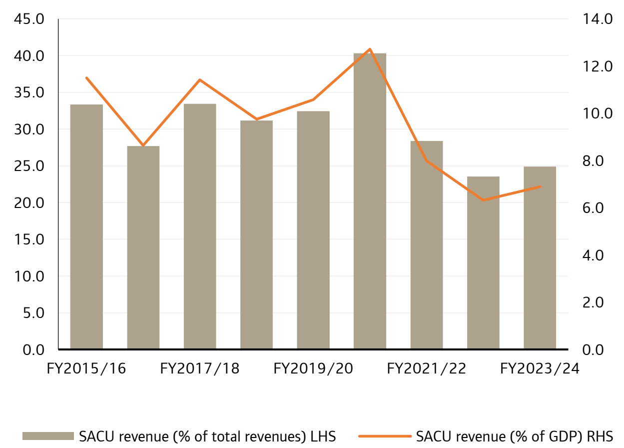
Source: Ministry of Finance

Fiscal deficit



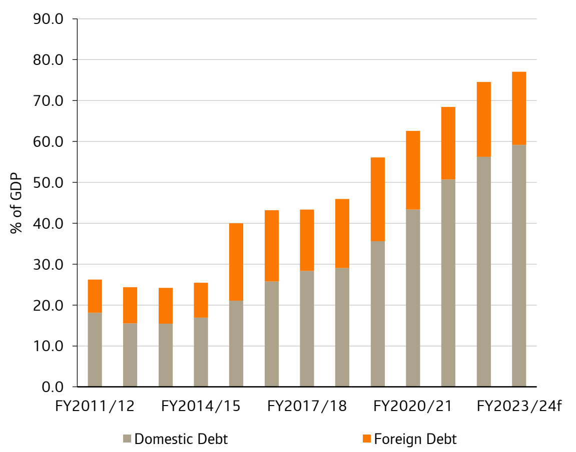
Source: Ministry of Finance

SACU revenue



Source: Ministry of Finance, Standard Bank Research

Composition of total debt stock



Source: Ministry of Finance

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	2.2	2.2	2.3	2.3	2.3	2.4	2.4
Nominal GDP (NAD bn)	157.7	171.6	181.1	180.6	174.8	184.8	199.4
Nominal GDP (USD bn)	10.7	12.9	13.8	12.5	10.6	12.6	13.5
GDP / capita (USD)	4 880	5 859	5 993	5 434	4 624	5 246	5 628
Real GDP growth (%)	0.0	-1.0	1.1	-0.9	-8.5	2.0	3.3
Diamonds ('000 carats)	1 572	1 816	2 028	1 713	1 461	1 490	1 520
Uranium (MT)	4 287	5 303	6 935	6 529	6 382	6 637	6 903
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.3	-6.2	-5.2	-4.9	-4.6	-9.7	-8.6
Budget balance (incl. Grants) / GDP (%)	-8.3	-6.2	-5.2	-4.9	-4.6	-9.5	-8.6
Domestic debt / GDP (%)	21.0	25.7	28.3	29.0	35.6	43.3	50.7
External debt / GDP (%)	18.9	17.5	15.1	16.9	20.5	19.2	17.8
Balance of Payments							
Exports (USD bn)	3.2	3.7	4.2	3.9	3.2	4.5	5.4
Imports (USD bn)	5.6	5.6	5.7	5.2	4.1	5.4	5.1
Trade balance (USD bn)	-2.4	-1.8	-1.5	-1.3	-0.9	-0.9	0.4
Current account (USD bn)	-1.7	-0.6	-0.5	-0.2	0.3	-0.2	-0.3
- % of GDP	-16.3	-4.4	-3.4	-1.8	2.7	-1.4	-2.1
Financial account (USD bn)	-1.3	-0.3	-0.3	0.0	0.2	-1.2	-0.1
- FDI (USD bn)	0.1	0.0	0.8	1.0	0.7	1.4	1.2
Basic balance / GDP (%)	-15.4	-4.3	2.4	6.2	9.3	9.7	6.8
FX reserves (USD bn) pe	1.8	2.4	2.1	2.0	2.2	3.4	3.0
- Import cover (months) pe	3.9	5.2	4.5	4.7	6.3	7.6	7.1
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa3	Baa3	Ba1	Ba1	Ba2	Ba3	Ba3
Fitch	BBB-	BBB-	BB+	BB+	BB	BB	BB
Monetary & Financial Indicators							
Consumer inflation (%) pa	6.7	6.2	4.3	3.7	2.2	3.7	4.6
Consumer inflation (%) pe	7.3	5.2	5.1	2.6	2.4	4.3	4.7
M2 money supply (% y/y) pa	7.4	6.0	9.2	8.5	11.3	11.7	12.5
M2 money supply (% y/y) pe	4.5	13.7	7.8	9.3	8.8	11.1	10.4
BON bank rate (%) pa	6.92	6.90	6.75	6.75	4.19	3.75	4.06
BON bank rate (%) pe	7.00	6.75	6.75	6.75	3.75	3.75	4.25
3-m rate (%) pe	8.9	7.8	7.9	7.7	4.3	4.6	4.7
5-y rate (%) pe	10.2	9.4	9.4	8.9	9.4	9.9	10.3
USD/NAD pa	14.69	13.31	13.14	14.45	16.44	14.68	14.76
USD/NAD pe	13.74	12.40	14.30	14.00	14.68	14.70	14.80

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

Notes: pa - period average; pe - period end

Nigeria: oil production failing to deliver

Medium-term outlook: FX liquidity must be addressed

We now see GDP growth at 1.8% y/y in 2021, down quite sharply from our earlier forecast of 3.1% y/y, but thereafter rising to 3.3% y/y in 2022.

GDP growth rose by 5.01% y/y in Q2:21, from 0.51% y/y in Q1:21, largely courtesy of favourable base effects, particularly as oil production hadn't increased since Jan.

Growth in the mining and quarrying sector contracted by12.3% y/y in Q2:21, from 2.2% y/y in Q1:21 and an average contraction of 15.8% y/y in H2:20. The oil refining sub-sector too contracted, by 46.8% y/y in Q2:21.

Despite higher international oil prices and an OPEC quota production allowance of 1.8mpbd, oil production has remained hemmed in around 1.5mbpd, thereby restraining overall net exports.

Growth usually improves on a q/q basis in Q3, largely bolstered by the agrarian sector, before easing on a q/q basis in Q4. We see GDP growth rising to 2.0% y/y in Q3:21, still anchored by unwinding base effects, before contracting by 0.51% y/y in Q4:21.

Nonetheless, ongoing security issues in the food belt northern part of the country, which have also been spreading towards the south, could still hamper agricultural productivity.

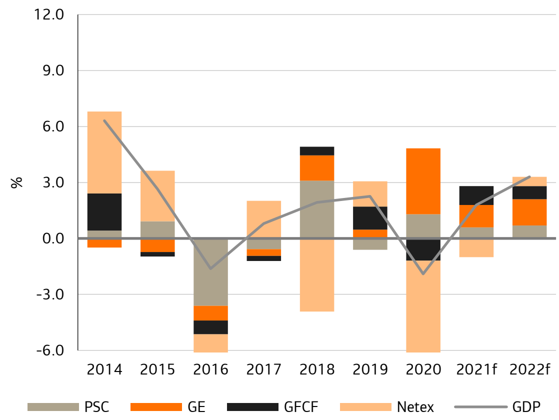
Additionally, should oil infrastructure bottlenecks persist, oil production and oil exports could remain sluggish over the coming year.

Once the impact of favourable base effects on GDP growth wanes from Q4:21, FX liquidity conditions will remain pivotal to underpin underlying economic activity over the medium term. The ongoing scarcity in FX liquidity has weighed down economic activity and, should this become protracted, private-sector-driven economic activity could remain muted.

At the time of writing, the roll-out of the vaccine has been slow, with only around 4m doses for a population of nearly 200m.

The government expects a further 40m doses by end 2021, which should see the roll-out gaining impetus. Our base case does not foresee further public health restrictions over the coming year, even were infections to rise further.

Composition of GDP by demand



Source: National Bureau of Statistics; Standard Bank Research

GDP by sector (%) contribution

	2010	2015	2016	2019	2020
Agriculture	40.87	17.9	18	25.16	26.21
Mining and Quarrying (Oil)	15.88	7.8	7.7	8.91	8.31
Manufacturing	4.16	9.3	9	9.06	8.91
Electricity, Gas, Steam and Air		0.5	0.6	0.39	0.38
Water Supply, Sewerage, Waste		0.1	0.1	0.17	0.18
Construction	1.99	4.2	4	3.72	3.5
Trade	18.69	18.8	18.9	16.01	14.94
Accommodation	0.5	0.7	0.5	0.89	0.75
Transportation and Storage		1.5	1.5	1.48	1.18
Information and Communication	4.55	14.6	14.7	13.04	15.28
Financial and Insurance	3.56	3.7	3.8	3.01	3.36
Real Estate	1.74	8.7	8.8	6.12	5.66
Professional and Scientific Services		4.1	4	3.57	3.35
Public Administration		2.8	2.9	2.06	2.1
Education		1.8	1.8	2.13	1.88
Other Services	6.82	2.6	2.6	3.37	3.24
GDP	100	100	100	100	100

Source: National Bureau of Statistics; Standard Bank Research

Stanbic IBTC Purchasing Managers Index

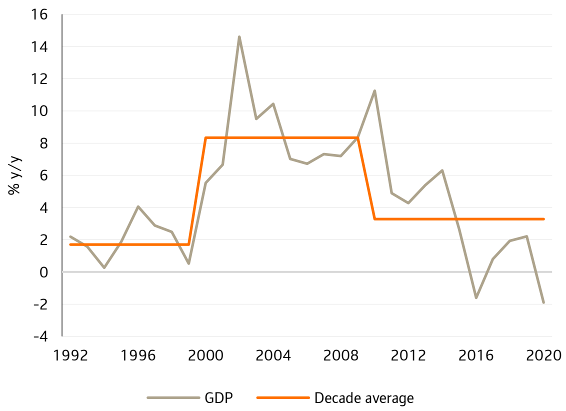
Source: IHS Markit

Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	0.5	5.0	2.0	-0.5	1.0	5.1	4.2	3.0	3.1	3.0	3.0	3.2	4.0	4.5	4.8	5.4
CPI (% y/y) pe	18.2	17.8	16.4	14.1	12.3	12.5	11.8	11.1	11.0	11.1	11.7	12.0	11.7	11.9	11.7	12.0
CBN policy rate (%) pe	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
3-m rate (%) pe	1.5	2.0	2.5	3.5	5.1	4.5	4.6	5.8	4.9	4.4	4.0	3.5	4.0	4.2	4.4	4.4
6-m rate (%) pe	2.5	3.5	4.5	4.5	5.3	5.0	5.0	6.2	5.2	4.9	4.7	3.9	4.3	4.5	4.8	5.0
USD/NGN pe	410.0	410.0	418.0	430.0	430.0	435.0	440.0	440.0	460.0	460.0	460.0	460.0	460.0	460.0	460.0	460.0
Bull scenario																
GDP (% y/y) pa	1.8	5.0	7.6	3.3	4.2	4.7	5.0	5.1	6.3	6.4	6.7	6.8	7.4	7.8	8.0	9.0
CPI (% y/y) pe	18.2	17.8	16.4	14.0	12.1	12.3	11.5	11.0	10.6	10.6	11.0	11.3	10.9	10.7	10.4	10.1
CBN policy rate (%) pe	11.5	11.5	11.5	11.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
3-m rate (%) pe	1.4	2.0	2.4	3.4	4.3	4.3	4.4	5.7	4.8	4.3	3.9	3.4	4.8	4.3	3.9	3.4
6-m rate (%) pe	2.4	3.5	4.4	4.4	5.4	4.9	4.9	6.1	5.1	4.8	4.5	3.8	5.1	4.8	4.5	3.8
USD/NGN pe	410.0	410.0	410.0	420.0	420.0	420.0	425.0	430.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0
Bear scenario																
GDP (% y/y) pa	-0.2	5.0	1.5	-3.3	-0.5	0.6	3.3	3.8	2.9	2.9	3.0	3.2	3.5	3.6	3.7	3.7
CPI (% y/y) pe	18.2	17.8	20.3	19.7	17.8	16.0	14.3	12.2	12.5	12.6	13.1	13.4	12.9	12.5	12.1	11.8
CBN policy rate (%) pe	11.5	11.5	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	3.1	2.0	4.1	5.1	6.7	6.0	6.1	7.4	6.5	6.0	5.6	5.1	6.2	6.0	5.6	5.1
6-m rate (%) pe	4.1	3.5	6.1	6.1	6.9	6.6	6.6	7.8	6.8	6.5	6.2	5.5	6.8	6.5	6.2	5.5
USD/NGN pe	410.0	410.0	438.2	450.0	470.0	470.0	470.0	485.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0

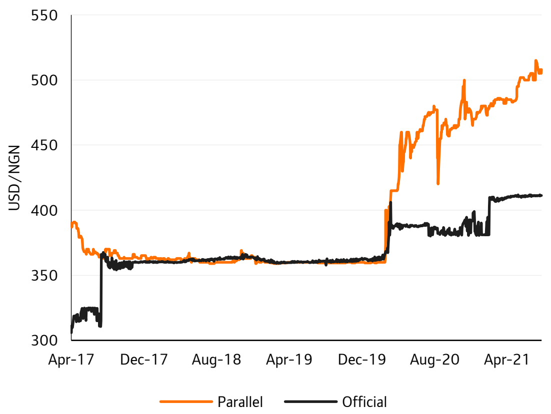
Source: Central Bank of Nigeria; National Bureau of Statistics; Bloomberg; Ministry of Finance; Standard Bank Research Notes: pa - period average; pe - period end

Long-term GDP growth rate



Source: Bloomberg

USD/NGN rates



Source: Bloomberg; AbokiFX

Balance of payments: a narrowing C/A deficit

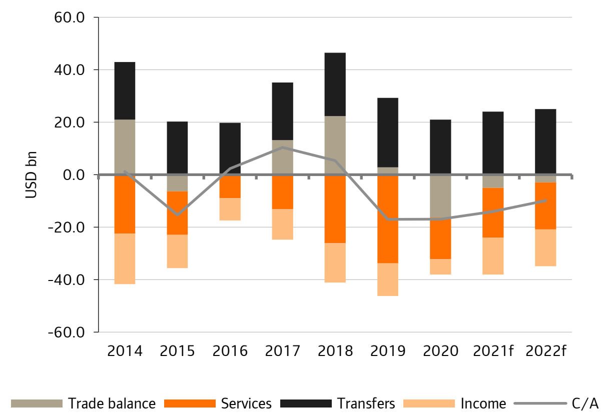
We expect oil prices to support the C/A, but lower oil production, due to operational issues and vandalism, could restrain exports, thereby keeping the C/A balance in deficit in the medium term. Still, we see the C/A deficit narrowing to 3.0% of GDP in 2021, and to 1.9% of GDP in 2022, from 3.7% of GDP in 2020.

In 7-m to Jul, crude oil production, excluding condensates, remained below production capacity, averaging USD1.54mbpd, compared to USD1.75mbpd and USD1.86mbpd in the same period in 2020 and 2019 respectively. However, higher oil prices should still bode well for the C/A. From 2022, the combination of high oil prices and perhaps improved oil production should boost the C/A. The government, in consultation with stakeholders, has set benchmark production at USD1.88mbpd and the benchmark oil price at USD61/barrel in 2022.

Exports fell by 42% y/y in Q1:21, and imports fell by 16% y/y. With FX liquidity constraints since last year, consumer imports have not picked up. We expect any improvement on imports to be dependent on significant improvements in FX liquidity. That said, with exports likely to improve from Q2:21 on account of higher oil prices, we expect the trade deficit at USD5bn in 2021, from USD16.4bn in 2020. Also, remittances, which account for a large part of the C/A balance, too should recover. Remittance inflows fell by 24% y/y in Q1:21, after falling 31% y/y in Q4:20. Still, the economic recovery in source markets should boost inflows. Perhaps exchange-rate incentives, introduced by the CBN in early 2021 to pay recipients that use formal channels, will incentivise inflows.

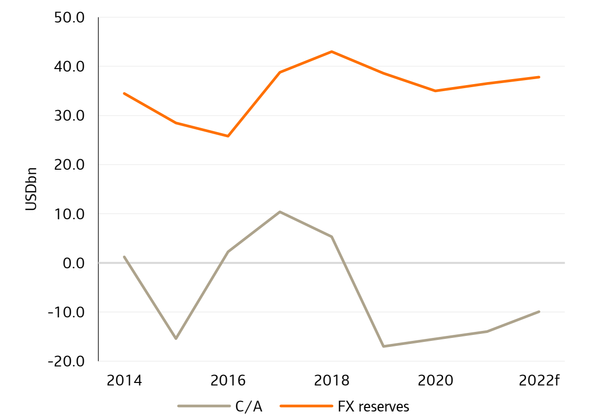
Owing to the trend of net financial outflows in recent months, the financial account faces further pressure this year. Foreign reserves have come under pressure, currently at around USD33.4bn, from about USD38.5bn in Jan 20. However, SDR allocations of about USD3.34bn, a probable World Bank loan and another Eurobond issuance should boost FX reserves, perhaps ending the year at USD36.5bn.

Current account developments



Source: Central Bank of Nigeria; Standard Bank Research

FX reserves and current account



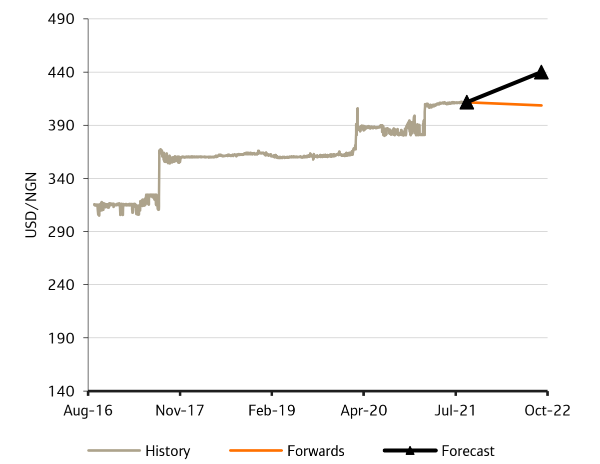
Source: Central Bank of Nigeria; Standard Bank Research

FX outlook: gradual depreciation

We still expect USD/NGN at 430 by end 2021 as the CBN is likely to continue favouring a gradual depreciation of the NGN. Following the CBN's announcement at the Jul MPC meeting, anecdotal reports suggested that parallel market rate of the USD/NGN pair rose abruptly to c.550-580 levels after the CBN discontinued their supply of FX to BDCs. However, the CBN has now increased supply of FX to commercial banks only for invisible transactions. The CBN continues to maintain that the parallel market is illegal.

We still maintain that amidst negative real yields and slow clearance of the USD backlog, foreign portfolio inflows are unlikely to rise in H2:21. Yet, as USD inflows related to the recent Eurobond issuance, IMF SDR allocation and potential World Bank budget support loan, the CBN may still ramp up FX intervention at the IEFX window.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

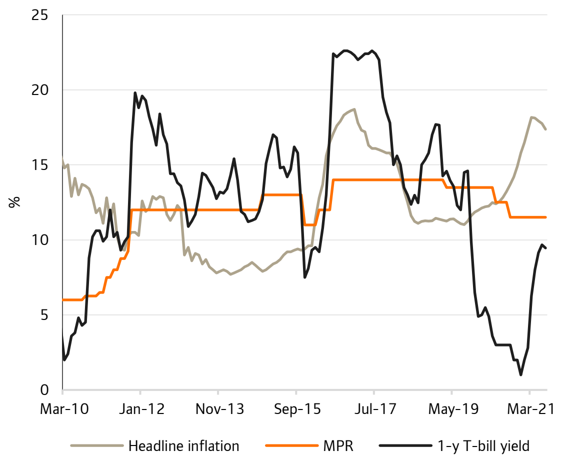
Monetary policy: still neutral

We expect the MPC to maintain a neutral stance this year, keeping the MPR at 11.5%, aiming at spurring economic growth as aggregate demand remains weak. Perhaps as the MPR is not broadly the CBN's preferred monetary policy anchor due to its weak transmission mechanism, the CBN is expected to continue its use of discretionary CRR policy in controlling money supply. However, the CBN's unorthodox use of the CRR has resulted in the tight interbank liquidity conditions, as reflected by the double-digit interbank rate and rising yields across the curve.

While money supply growth has been in double digits in recent months, it has not resulted in higher inflation, chiefly because the forces driving inflation are not largely demand-driven but rather by supply-side and cost-push factors. The border closure in Q4:19, coupled with the impact of the pandemic and the underlying insecurity challenges, have resulted in supply constraints keeping inflation elevated. After remaining sticky at around 11% y/y before Q4:19, inflation gradually increased, to 18.21% y/y in Mar 21. However, in recent months, we have seen inflation trend downwards, to 17.38% y/y in Jul 21.

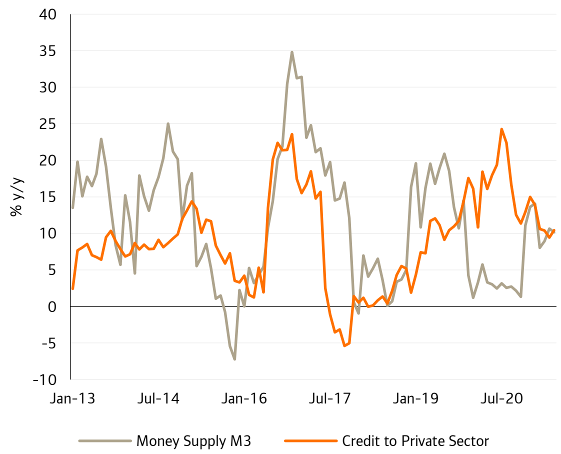
We expect inflation to trend further downwards this year. We see inflation at 14-15% by Dec-21 in our base case, likely driven by the impact of unwinding base effects and expected reduction in food prices ahead of the harvest session. Notable upside risks pertain to the prevalent security challenges encompassing the farmers-herdsmen clashes and the disruption to farmlands in the northern part of the country. This could push headline inflation towards 19.7% y/y, as forecast in our bear case.

Inflation and interest rates



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

Monetary statistics



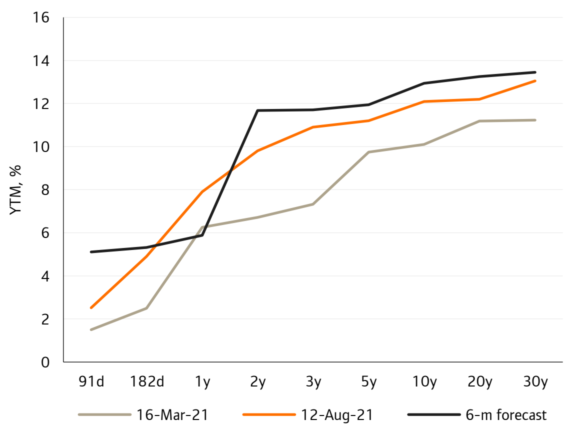
Source: Central Bank of Nigeria

Yield curve outlook: upside bias

We maintain our bias for higher yields on government securities on account of a larger-than-budgeted domestic borrowing target and tighter interbank liquidity conditions. However, the pace of the rise could be more subdued than in H1:21. In the original budget, the net domestic borrowing target was expected to rise by 6% y/y in 2021, to NGN2,343.4bn. This coupled with additional borrowing, of NGN802.1bn to finance the recent supplementary budget, could result in increased demand for funds from the domestic market by the government. This situation could be exacerbated by lower-than-budgeted privatisation proceeds and oil revenue.

The impact of increased demand for funds from the government could result in higher yields. However, further increases in yields could be mitigated by better supply of funds by banks that have few lending opportunities and could therefore be attracted by higher NGN yields.

Yield curve changes



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

Fiscal policy: weaker oil revenue

Government revenue over the first 5-m of 2021 undershot by 33% the pro-rated budgeted levels due to disappointing oil revenues. Non-oil revenue largely matched the pro-rated budget but oil revenue was down 50%. Despite higher oil prices of USD68.5/bbl at the time of writing (against budgeted levels of USD40/bbl per barrel), production was significantly lower than anticipated, at 1.7m bpd (against budgeted levels of 1.86m bpd), due to disruptions from pipeline repairs, boiler failures, terminal maintenance, community protests, pump and flare management, fire, theft, and vandalism.

Expenditure, excluding debt service, also undershot pro-rated budgeted levels. Non-debt recurrent and development expenditure was behind the pro-rated budget by 21% and 43% respectively. Debt service, meanwhile, was ahead of budget by 30% due to higher interest on ways and means (government overdraft). Despite slower expenditure absorption, the government announced a supplementary budget of NGN982.7bn. Most of this additional expenditure (87.5%) is development related and will focus on bolstering security and combating the pandemic. That said, considering that most of this supplementary budget will be channeled towards capital expenditure, there is always a likelihood that budget absorption could remain lackluster.

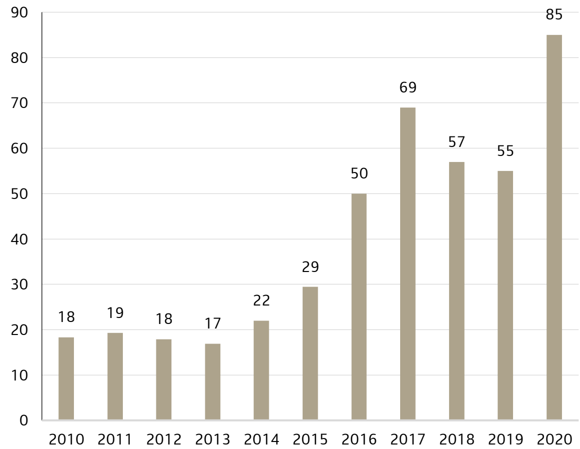
As a result of the lower oil revenue and increased expenditure from the supplementary budget, we believe that budget deficit could be higher than the budgeted levels of 4.5% of GDP, assuming that budget absorption for capital expenditure improves. This would suggest higher borrowing than the NGN4,686.8bn (split equally between domestic and foreign borrowing) published in the original budget. The recent supplementary budget seeks additional borrowing of NGN802.1bn but doesn't specify the source. Most of the funding for the supplementary budget will likely come from domestic sources rather than from external funding.

Federal government budget

	2019	2020	2021
% of GDP	Actual	Actual	Budget
Revenue	2.8	2.5	5.8
Capital expenditure	0.8	1.1	2.3
Recurrent expenditure	4.6	4.9	4.7
Statutory transfers	0.4	0.3	0.3
Service debt	1.5	2.1	2.2
Supplementary budget	0.0	0.0	0.7
Total expenditure	5.7	6.3	10.2
Oil price assumption (US$/bbl)	64.2	43.0	40.0
Oil production assumption (m bbl)	2.2	1.8	1.9
Exchange rate assumption	305.0	360.0	410.0
External Financing	0.6	1.2	1.9
Domestic Financing	0.5	1.4	1.9
Fiscal deficit	-2.2	-3.8	-4.5

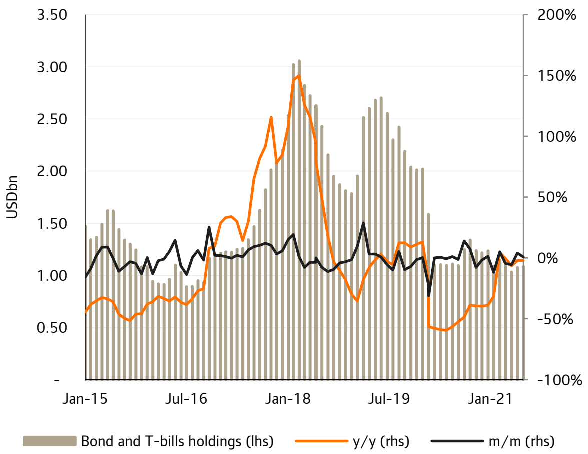
Source: Federal Ministry of Finance; Standard Bank Research

Debt service-to-revenue



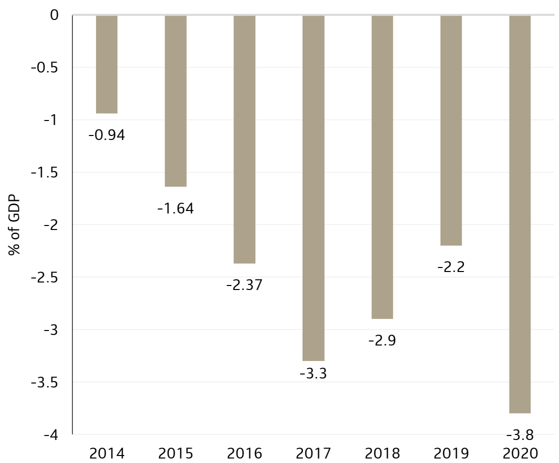
Source: Federal Ministry of Budget and National Planning; Standard Bank Research

Domestic debt held by foreigners



Source: Standard Bank Research

Fiscal deficit



Source: Federal Ministry of Budget and National Planning

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	181.3	182.7	187.5	192.3	197.3	202.5	207.7
Nominal GDP (NGN bn)	102575.0	113712.0	127762.0	145639.0	162058.8	192201.7	221416.4
Nominal GDP (USD bn)	397.9	325.0	352.9	402.7	424.3	469.9	527.2
GDP / capita (USD)	2195.0	1778.5	1882.5	2093.6	2150.2	2320.9	2537.6
Real GDP growth (%)	-1.5	0.8	1.8	2.3	-1.9	1.8	3.3
Crude oil production (mbpd) pa	1.7	1.8	1.8	2.0	1.7	1.2	1.8
Central Government Operations							
Budget balance / GDP (%)	-2.2	-3.3	-3.4	-2.2	-3.8	-4.5	-3.0
Domestic debt / GDP (%)	11.1	11.1	12.9	12.6	13.3	18.7	17.7
External debt / GDP (%)	2.9	5.8	7.1	6.9	7.8	8.5	8.6
Excess crude account/SWF (USD bn)	0.0	2.3	2.0	0.3	0.0	0.0	0.0
Balance of Payments							
Exports (USD bn)	34.7	45.8	63.1	65.0	35.0	45.5	55.3
Imports (USD bn)	35.2	32.7	40.8	62.1	45.5	50.5	58.2
Trade balance (USD bn)	-0.5	13.1	22.3	2.9	-10.5	-5.0	-2.9
Current account (USD bn)	2.3	10.4	5.3	-17.0	-15.5	-14.0	-9.9
- % of GDP	0.6	3.2	1.5	-4.2	-3.7	-3.0	-1.9
Financial account (USD bn)	-5.0	-4.3	3.5	18.1	11.9	15.5	11.2
FDI (USD bn)	1.0	1.0	1.3	0.9	0.8	1.3	1.7
Basic balance / GDP (%)	1.4	4.1	4.6	4.5	-3.5	-2.7	-1.6
FX reserves (USD bn) pe	25.8	38.8	43.0	38.6	35.0	36.5	37.8
Import cover (months) pe	8.8	14.3	12.7	7.5	6.8	8.7	7.8
Sovereign Credit Rating							
S&P	B	B	B	B	B-	B-	B-
Moody's	B1	B1	B2	B2	B2	B2	B2
Fitch	BB-	B+	B+	B+	B	B	B
Monetary and financial Indicators							
Headline inflation pa	15.6	16.6	12.2	11.4	13.2	16.8	12.2
All items less farm produce CPI pa	15.2	13.6	10.6	9.2	10.8	13.3	9.9
Food CPI pa	14.9	19.5	14.5	13.7	16.1	20.9	18.5
M2 money supply (% y/y) pa	14.0	4.2	4.6	15.5	4.8	5.0	8.0
M2 money supply (% y/y) pe	18.4	1.2	16.4	4.2	11.2	10.0	12.0
Policy interest rate (%) pa	13.2	14.0	14.0	13.6	12.3	11.5	11.5
Policy interest rate (%) pe	14.0	14.0	14.0	13.5	11.5	11.5	11.5
3-mth rate (%) pe	14.5	12.5	12.3	3.8	0.0	3.5	5.8
1-yr rate (%) pe	17.0	14.0	17.0	4.4	1.0	10.5	11.0
3-yr rate (%) pe	15.5	14.0	15.2	10.0	3.9	10.0	10.5
5-yr rate (%) pe	15.6	14.4	15.0	10.0	5.7	13.1	13.5
USD/NGN pa	257.8	349.9	362.0	361.7	381.9	409.0	420.0
USD/NGN pe	315.0	362.0	365.0	364.7	400.3	430.0	440.0

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: weather poses a constraint

Medium-term outlook: dry spells may crimp agricultural production

Our base case forecasts GDP growth at 8.9% y/y for 2021 and 4.4% y/y for 2022. Growth was 20.6% y/y in Q2:21, from 3.5% y/y in Q1:21; unwinding base effects supported headline growth in Q2:21, which is likely to continue in Q3:21, with the economy having contracted by 12.4% y/y in Q2:20 and by 3.6% y/y in Q3:20. Underlying consumption and investment are seemingly recovering although lockdowns between Q2 and Q3 would have constrained activity even though those restrictions were less severe than in 2020.

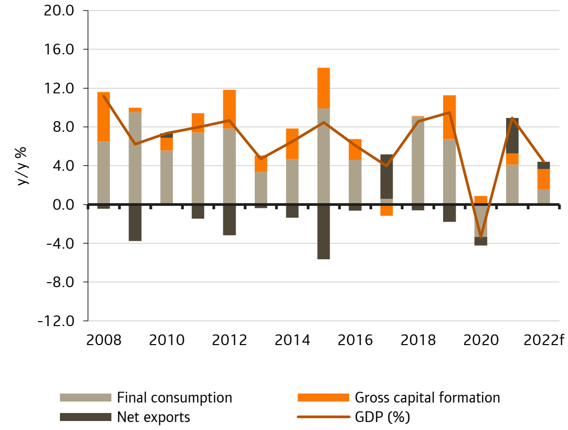
Our bear case factors in further restrictions should vaccine rollout remain sluggish. By end Aug, just 12.9% of the population had received a vaccine. However, Rwanda's Health Ministry plans to have vaccinated 30% of the population by year-end. Moreover, the ministry has been securing sufficient vaccination supply through direct purchases and other arrangements. Indeed, the government recently started the third phase of vaccination rollout, allowing all adults in the capital, Kigali, to be vaccinated. The ministry even launched a door-to-door vaccination campaign to accelerate vaccination for those considered high risk.

Successful vaccination would underscore upside to services, usually the most affected by public health restrictions. This sector accounts for 40.5% of employment in the formal sector. However, the tourism sector is likely to remain weak, even as other parts of the economy recover. It will take time for leisure and business tourism to recover globally. Still, transfers from the Economic Recovery Fund (ERF) since the onset of the pandemic have been supporting this sector.

The industrial sector too should be supported by targeted policy interventions to spur investment. Base effects saw the manufacturing and construction sector expanding in Q2:21, by 22% y/y and 33% y/y respectively. The construction sector benefits from government spending on infrastructure. However, a tighter fiscal stance may disrupt growth here.

Agriculture accounts for 26% of GDP and 39.1% of formal employment. Furthermore, most of the population outside formal employment are involved in subsistence agriculture. Agriculture expanded by 7% y/y in both Q2:21 and Q1:21, but growth prospects here remain weak given that the Rwanda Meteorology Agency has warned that parts of Eastern province and Southern province may face unusual dry spells from Sep 21 and into year-end. Moreover, with rains ending earlier in 2021's Season B, some parts of the country have seen a roughly 20% decline in bean production.

Composition of GDP by demand



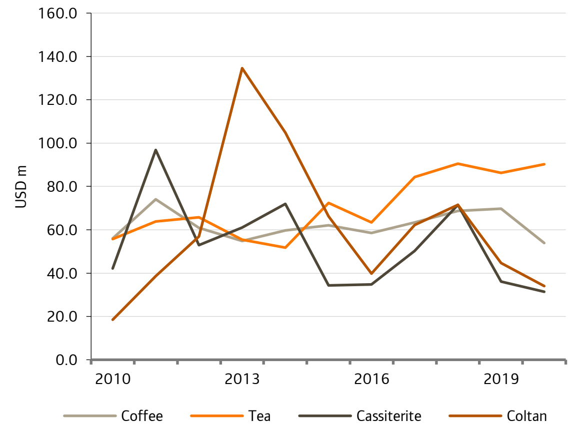
Source: National Institute of Statistics of Rwanda; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2018	2019	2020
Agriculture	**27.7**	**29.0**	**23.7**	**26.0**
- Food crops	16.3	16.0	13.5	16.0
- Forestry	5.9	6.0	5.9	6.0
Industry	**17.2**	**16.0**	**19.4**	**19.0**
- Manufacturing	5.9	6.0	8.9	9.0
- Construction	7.6	6.0	8.1	7.5
Services	**47.8**	**48**	**48.4**	**46.0**
- Wholesale and retail trade	7.8	7.0	8.3	8.0
-ICT	1.6	1.3	2.0	2.1
- Financial services	3	2.9	2.5	2.3
- Real estate services	7.9	8.2	6.1	6.6
- Public administration	4.6	4.8	5.5	3.2
- Education	2.6	2.2	2.7	1.8
Taxes less subsidies	7.2	7.0	8.5	8.0

Source: National Institute of Statistics of Rwanda

Principal exports



Source: National Bank of Rwanda

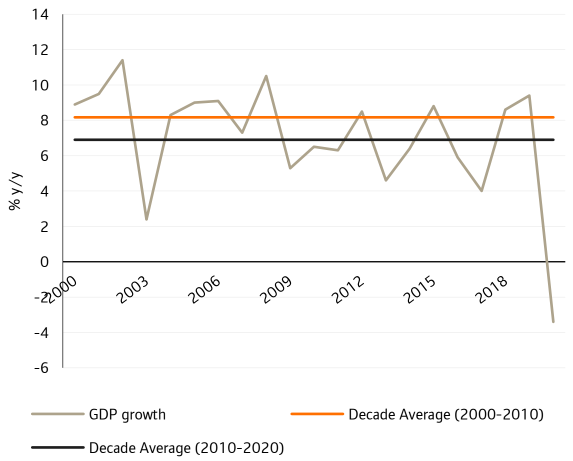
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	3.5	20.6	7.0	4.5	5.5	2.5	3.5	6.0	6.7	7.2	7.8	7.6	8.0	8.1	7.8	7.6
CPI (% y/y) pe	2.0	-0.2	-0.5	1.2	2.0	3.9	4.6	7.3	7.4	7.2	6.9	6.6	6.4	6.1	6.4	5.5
Policy rate (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	5.0	5.0	5.0	5.0	5.5	5.5	5.5
3-m rate (%) pe	6.7	6.5	6.5	6.9	7.4	6.6	6.0	5.9	6.0	6.2	6.7	6.7	7.1	7.2	7.3	7.0
6-m rate (%) pe	7.8	7.4	7.4	7.8	8.0	7.4	6.8	6.7	6.7	6.9	7.4	7.4	7.8	7.8	8.0	7.7
USD/RWF pe	984	992	1 002	1 011	1 023	1 035	1 048	1 061	1 073	1 086	1 099	1 113	1 126	1 140	1 153	1 167
Bull scenario																
GDP (% y/y) pa	3.5	20.6	8.3	5.8	7.0	4.0	5.0	7.5	8.0	8.5	9.1	8.9	9.3	9.4	9.1	8.9
CPI (% y/y) pe	2.0	-0.2	0.2	1.9	2.8	4.7	5.3	8.3	8.4	8.2	7.9	7.6	7.4	7.1	7.4	6.5
Policy rate (%) pe	4.5	4.5	4.0	4.0	4.0	4.0	4.5	4.5	4.5	5.0	5.0	5.0	6.0	7.0	8.0	9.0
3-m rate (%) pe	6.7	6.5	6.0	6.4	6.9	6.1	5.5	5.4	5.5	5.7	6.2	6.2	6.6	6.7	6.8	6.5
6-m rate (%) pe	7.8	7.4	6.7	7.1	7.5	6.7	6.1	6.0	6.3	6.5	7.0	7.0	7.4	7.5	7.6	7.3
USD/RWF pe	984	992	997	1002	1008	1014	1020	1026	1032	1038	1045	1051	1057	1064	1070	1076
Bear scenario																
GDP (% y/y) pa	3.5	20.6	5.1	2.4	4.9	1.9	2.9	5.4	6.0	6.5	7.1	6.9	6.8	6.9	6.6	6.4
CPI (% y/y) pe	2.0	-0.2	-0.7	1.0	1.9	3.8	4.4	7.1	7.3	7.1	6.7	6.4	6.2	6.0	6.2	5.4
Policy 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	5.5	6.5	7.5	8.5
3-m rate (%) pe	6.7	6.5	7.0	7.4	2.5	4.4	4.9	7.6	7.8	7.6	7.2	6.9	6.7	6.5	6.7	5.9
6-m rate (%) pe	7.8	7.4	7.7	8.1	3.2	5.1	5.7	8.4	8.4	8.2	7.9	7.6	7.3	7.1	7.3	6.5
USD/RWF pe	984	992	1007	1020	1036	1051	1067	1083	1100	1114	1133	1151	1167	1182	1198	1214

Source: Standard Bank Research

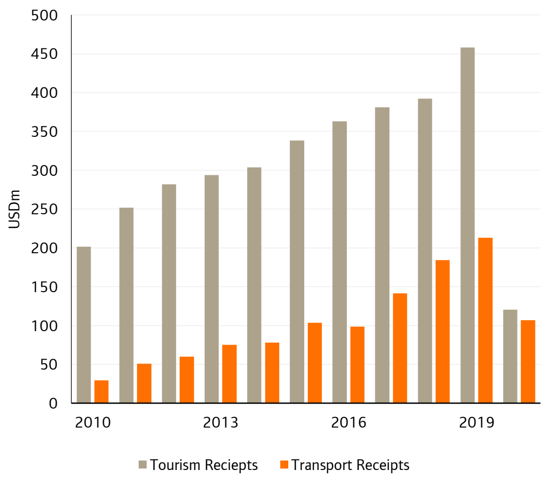
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF, Standard Bank Research

Tourism and transport receipts



Source: National Bank of Rwanda

Balance of payments: FX reserves building

The C/A deficit will likely remain burdensome, at around 13.8% of GDP for 2021 and 15.2% for 2022. FX reserves though should end the year higher on external government borrowing in the form of Eurobonds as well as from additional FX receipts from the IMF's additional SDR allocation.

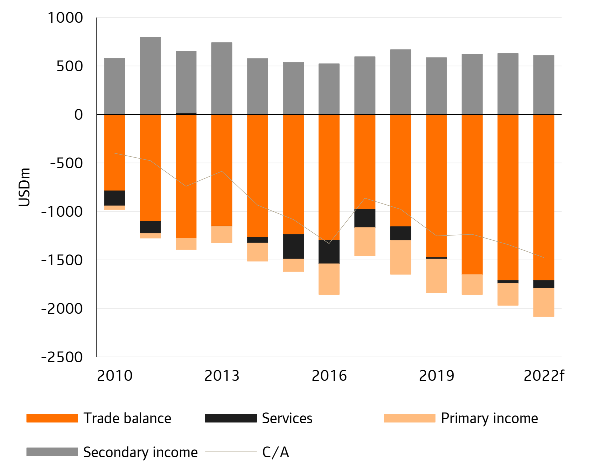
Rwanda's cash crops, tea and coffee, accounted for around 62% of traditional goods export earnings in 2020. Their production depends on the harvest, in turn dependent on weather which can be unpredictable. Rwanda therefore remains vulnerable to adverse weather and climate change risk given its heavy reliance on these inflows.

Mineral exports, which include coltan, cassiterite and wolfram, contribute significantly to overall exports. As the economy continues to recover, consumer and intermediary good imports should pick up. Moreover, higher oil prices and a recovery in consumption should also increase the overall import bill. The government's investment agenda should sustain demand for construction materials and cement.

As trade normalises, transport receipts should recover further. Lockdown conditions in Q1:21 weighed on transport receipts, per the mere 0.3% q/q rise, compared to the whopping 44% q/q increase in Q4:20. The recovery in tourism receipts still lags, as it indicated by their being lower y/y in Q1:21; still, this may have stabilised by being flat q/q.

Within the capital and financial account, external government borrowing remains a dominant source of inflows, with direct investment being the other. FX reserves were USD1.56bn by end Jul, from USD1.58bn end Mar. Rwanda's additional SDR allocation of around USD200m and USD620m in Eurobond financing should bolster FX reserves from Aug, likely ending the year around USD1.9bn (or 6.9-m of import cover).

Current account developments



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

FX reserves

Source: Bloomberg

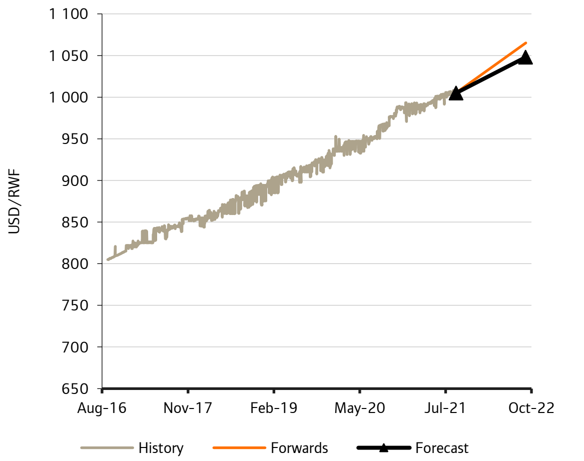
FX outlook: depreciation should soften

We see the USD/RWF at around 1,002 at end Q3:21 and 1,011 at end Q4:21. Year-to-date, the RWF has depreciated by 2.07% against the USD, compared to 3.36% over the same time last year.

Depreciating pressure on the RWF has eased, probably reflecting a gradual improvement in foreign inflows. Foreign aid inflows remain robust, a key factor supporting the currency. Typically, episodes of currency weakness correlate with diminished aid transfers to Rwanda.

Our bear case, which factors in increased external pressures, forecasts a higher rate of depreciation than the base case, putting the USD/RWF at 1,020 by year-end.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral; bias accommodative

The National Bank of Rwanda's MPC is likely to hold the policy rate at 4.5% while monitoring the impact of previous monetary policy interventions. Should growth stall, and with inflation well contained, there may be scope to ease.

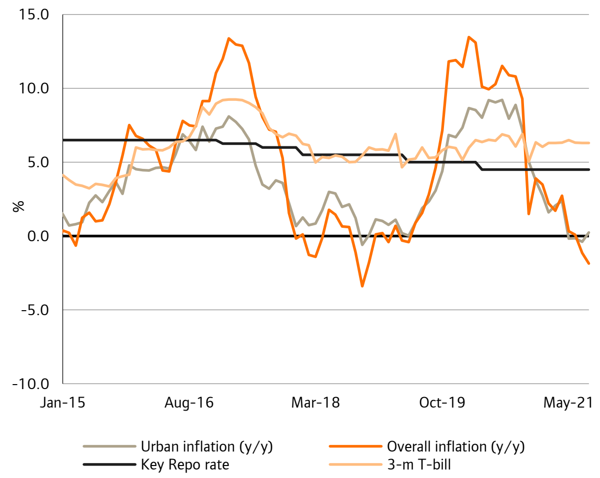
Urban inflation reached 0.23% y/y in Aug, from -0.4% y/y in Jul, averaging 0.7 y/y in Q2:21 and 2.1% y/y in Q1:21. Unwinding base effects within the transport sub-index have been softening headline inflation, which may continue into Nov. Indeed, we forecast urban inflation of 1.2% y/y for Dec. Moreover, the NBR expects inflation to remain below 2.0% this year, well below the NBR's benchmark of 5.0%.

Core inflation has remained muted by averaging 0.2% y/y in Q2:21, from 3.3% y/y in Q1:21. This is consistent with weak underlying demand. With inflation well contained, the MPC should have scope to reduce the policy rate if needed.

Food inflation too has remained contained but the lower agricultural production during Season B and C could materially affect the trajectory here. In Season B, rainfall was not even, and now, lower-than-normal rainfall is forecast for Sep to Dec, which may reduce food production.

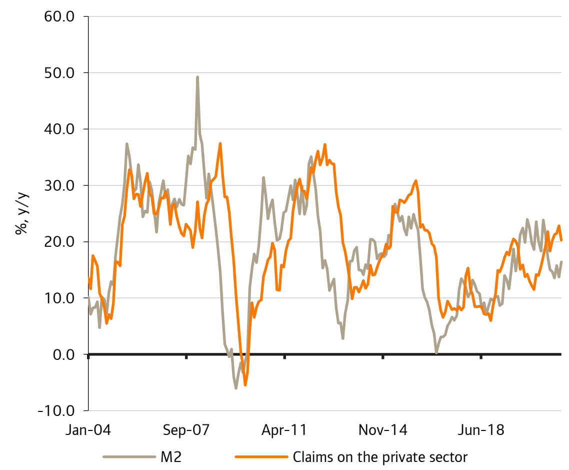
M2 growth reached16.4% y/y in May, somewhat lifted by unwinding base effects. M2 money supply has been trending lower, averaging 14.7% y/y in Q1:21, compared to 17.9% y/y in Q4:20. Asset quality in the banking sector has deteriorated, which may continue to slow lending to the private sector. The NPL ratio had increased to 6.6% at end Mar, from 4.5% at end Dec 20.

Inflation and interest rates



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

Money supply growth



Source: National Bank of Rwanda

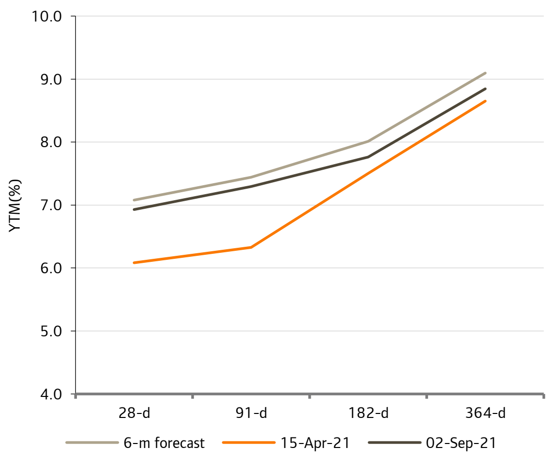
Yield curve outlook: up a bit

Yields will likely continue rising. The FY2021/22 budget indicates that the government plans to finance a significant portion of its deficit through domestic borrowing.

With the government having raised the bulk of its external commercial debt already, underperformance against the external borrowing target is not likely to increase domestic borrowing requirements. However, underperformance against grant and revenue targets may place upward pressure on the domestic borrowing target.

Between Apr and Sep, yields across the curve increased. The 28-d and 91-d T-bill yields rose sharply, by 84 bps and 96 bps respectively. The increase in182-d T and 354-d T-bill yields was more contained, at 26 bps and 19 bps respectively.

Yield curve changes



Source: National Bank of Rwanda; Standard Bank Research

Fiscal policy: recurrent expenditure climbing

The FY2021/22 budget forecasts a deficit (including grants) of 7.0% of GDP, higher than 6.4% of GDP in FY2020/21.

The impact of the pandemic on public finances seems less pronounced in the FY2021/22 budget, compared with the FY2020/21 and FY2019/20 budgets. This budget expects tax revenue to increase by 10% y/y, to 24.2% of GDP. While faster GDP growth may boost tax collection, additional measures aimed at improving the efficiency of revenue collection too may support revenue mobilisation. Grants, accounting for 21% of total revenue and grants, are set to rise by 3% y/y.

Total expenditure is budgeted to rise by 22% y/y due to the sharp increase in current expenditure. Although interest payments are not a large expenditure item, they're up 30% y/y. Interest on external debt appears to be rising, with the allocation for external debt service up 47% y/y. Interest payments to total revenue has doubled to 12.3%, from 6.1% in FY2018/2019.

Although capital expenditure is forecast to decline marginally to 10.7% of GDP, a smaller portion of the capital budget will be financed through domestic sources. Around 51% of the government's capital spending is likely to attract foreign financing.

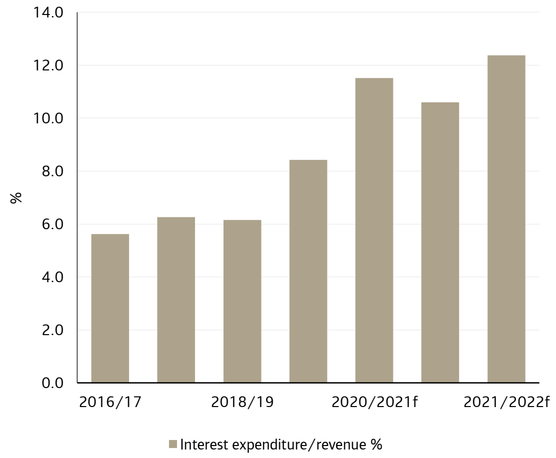
Rwanda recently raised USD620m from the Eurobond market. The Ministry of Finance will use part of these proceeds to retire the country's 1st Eurobond which matures in May 23. Notwithstanding that, public debt levels remain elevated; a small portion of external public debt is from commercial lenders, including the Eurobonds. The bulk of public external debt is from bilateral and multilateral lenders. Public debt had risen to 66.2% of GDP by end 2020, from 52.0% of GDP in 2019. The bulk of the new external debt contracted during this period was concessional. Public and publicly guaranteed debt had reached 71.3% of GDP by end 2020.

Central government budget

% of GDP	FY2019/20	FY2020/21e	FY2021/22f
Total revenue & grants	23.9	24.0	24.2
Total expenditure	31.3	30.4	34.3
- Wages	4.5	3.0	3.2
- Interest	1.7	1.9	2.3
- Capital expenditure	12.4	11.1	10.8
Overall fiscal deficit	-7.4	-6.4	-7.0
Net domestic borrowing	1.9	-0.3	3.5
Net foreign borrowing	6.1	6.7	5.0
Donor support (grants)	4.3	5.8	5.5

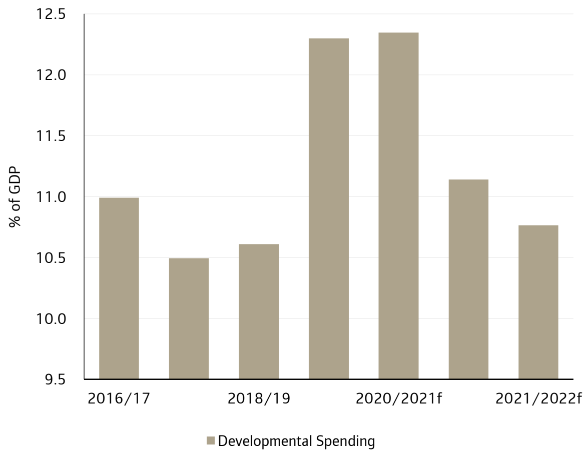
Source: Ministry of Finance and Economic Planning; Standard Bank Research

Interest expenditure



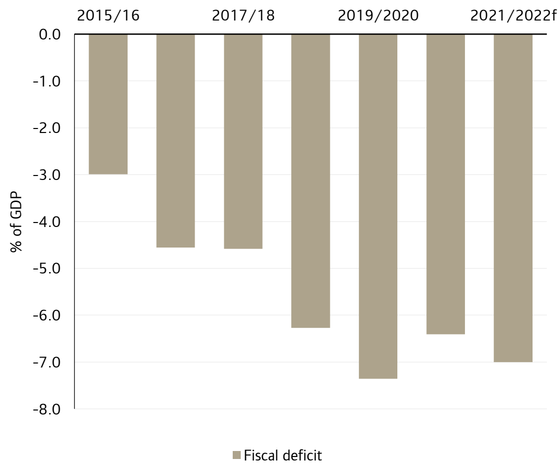
Source: Ministry of Finance and Economic Planning, Standard Bank Research

Developmental spending



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

Fiscal deficit (including grants)



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

Annual indicators

	2016	2017	2018	2019e	2020	2021f	2022f
Output							
Population (million)	12.1	12.3	12.6	12.8	12.6	12.3	13.6
Nominal GDP (RWF bn)	6 842.0	7 694.0	8 302.0	9 315.0	9 746.0	9 626.0	10 050.0
Nominal GDP (USD bn)	8.7	9.2	9.6	10.3	10.3	9.7	9.7
GDP / capita (USD)	723.1	747.7	759.1	803.0	815.7	785.2	714.2
Real GDP growth (%)	6.0	4.0	7.8	10.0	-3.4	8.9	4.4
Coffee production ('000 tons)	18.9	19.1	21.3	23.4	16.0	20.8	21.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.0	-4.6	-4.6	-6.3	-7.4	-6.4	-7.0
Budget balance (incl. Grants) / GDP (%)	-8.7	-9.1	-9.1	-10.8	-11.6	-11.1	-11.7
Domestic debt / GDP (%)	8.3	8.8	9.0	10.4	13.7	15.6	17.1
External debt / GDP (%)	29.4	33.1	36.7	40.5	52.5	60.3	64.5
Balance of Payments							
Exports of goods and services (USD m)	1 517	1 903.9	2 043.3	2 246.8	1 407.5	1 595.0	1 480.0
Imports of goods and services (USD m)	-3 056.2	-3 070.6	-3 342.4	-3 737.0	-3 057.8	-3 305.0	-3 190.0
Trade balance (USD m)	-1 539.6	-1 166.7	-1 299.2	-1 490.3	-1 650.3	-1 710.0	-1 710.0
Current account (USD m)	-1 330.8	-861.5	-979.5	-1 253.7	-1 234.9	-1 340.0	-1 475.0
- % of GDP	-15.2	-9.3	-10.3	-12.2	-12.0	-13.8	-15.2
Financial account (USD m)	1 027.7	516.7	735.0	993.5	958.0	864.0	950.0
- FDI (USD m)	232.0	258.3	348.2	384.5	240.0	378.0	390.0
Basic balance / GDP (%)	-12.6	-6.5	-6.6	-8.4	-9.7	-9.9	-11.2
FX reserves (USD m) pe	911.0	1 072.0	1 135.0	1 363.0	1 700.0	1 900.0	1 635.0
- Import cover (months) pe	3.6	4.2	4.1	4.4	6.7	6.9	6.2
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	B2	B2	B2	B2	nr	nr	nr
Fitch	B	B	B	B+	B+	B+	B+
Monetary & Financial Indicators							
Urban consumer inflation (%) pa	5.7	4.9	1.4	2.4	7.7	0.9	4.1
Urban consumer inflation (%) pe	7.3	0.7	1.1	6.7	3.7	1.2	7.3
M3 money supply (% y/y) pa	9.9	12.2	12.3	14.3	14.7	19.8	14.4
M3 money supply (% y/y) pe	7.5	9.7	16.5	16.9	22.4	17.2	11.6
Policy interest rate (%) pa	6.5	6.1	5.5	5.2	4.6	4.5	4.5
Policy interest rate (%) pe	6.5	6.0	5.5	5.0	4.5	4.5	4.5
3-m rate (%) pe	9.0	6.8	5.8	6.0	6.3	6.9	5.9
1-y rate (%) pe	9.2	7.9	4.6	8.0	8.6	9.2	8.2
USD/RWF pa	783.0	834.3	869.2	903.7	949.8	994.4	1 037.6
USD/RWF pe	822.0	845.0	894.2	935.0	978.0	1 010.9	1 060.6

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: both export demand and investment set to rise

Medium-term outlook: investment picking up

We still see GDP growth of 5.0% y/y in 2021 and 7.4% y/y in 2022. Stronger growth in 2021 should come from external demand for Senegal's goods and services exports strengthening as well as investment picking up. Notwithstanding the widespread disruptions caused by the pandemic, economic growth has remained positive, at 1.2% y/y, supported by a robust result from agriculture.

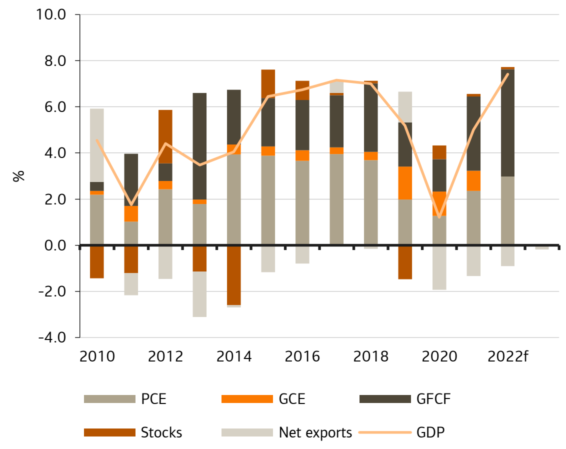
GDP growth reached 5.1% y/y Q1:21, from 2.9% y/y in Q4:20. While final consumption contracted by 0.4% q/q in Q1:21, y/y it still expanded by 4.1%. Household consumption seems the slowest to recover, reflecting persistent income and job losses due to the pandemic. Moreover, this underlines the risk of further unrest fuelled by poverty and unemployment.

Gross capital formation grew by a quite robust 11% q/q and 18.4% y/y. Though the pandemic may have slowed investment in Senegal, investment related to major projects in the oil and gas sector, that are expected to start production in 2023, should add to GDP. Moreover, these projects are likely to lift the trajectory of GDP growth in the medium term. Our bull case is therefore predicated on a quicker, and sustained, resumption of investment.

However, disruptions caused by infections resurging could still weigh on growth for Q2 and Q3. But favourable base effects due to the contraction in Q2:20 should still support growth. Advances in the vaccination rollout should reduce the probability of future public healthcare restrictions. Our bear case therefore models a prolonged impact of the pandemic on the economic recovery.

Following a sharp rise in infections between Jul and Aug, there was a moderate increase in the stringency of public health restrictions but not as severe as those of early last year. As new infections declined, the stringency of public healthcare restrictions too moderated. During the latest wave of the pandemic, health authorities aimed to accelerate the vaccination roll-out. By end 2021, authorities aim to have vaccinated 20% of the population through the COVAX initiative. However, limited vaccination supply has slowed progress, with only about 6% of the population having received one dose vaccination. Of course, the recent donation of 140k doses of the vaccination should advance vaccinations. However, additional dose-sharing initiatives may be required to help Senegal meet its year-end target.

Composition of GDP by demand



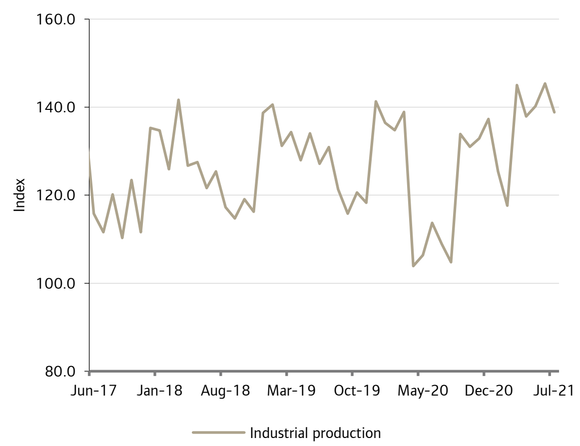
Source: Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

GDP by sector (%) contribution

	2015	2017	2019	2020
Agriculture	15.0	15.5	17.5	10.6
Livestock and hunting	4.8	4.0	3.6	3.5
Forestry	0.9	1.1	0.4	0.4
Fishing	2.0	2.3	1.5	1.7
Mining	2.8	1.6	3.5	3.6
Energy/oil products	2.4	2.3	0.7	0.6
Utilities	1.6	1.5	1.9	1.1
Construction	5.1	5.0	2.8	3.1
Manufacturing	8.5	8.2	7.4	7.0
Commerce	16.5	16.1	13.3	13.0
Transport and communications	12.4	12.7	7.9	7.0
Other services	15.8	15.4	19.2	25.5
Public administration, education, health	7.1	7.2	11.4	12.9
GDP	100.0	100.0	100.0	100.0

Source: Agence Nationale de la Statistique et de la Demographie

Harmonized index of industrial production



Source: Agence Nationale de la Statistique et de la Demographie

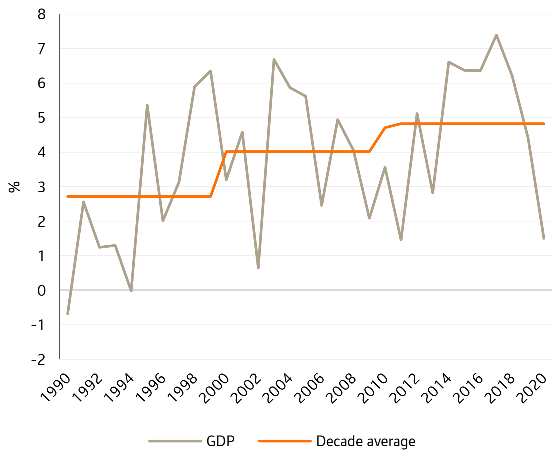
Medium term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	5.1	6.0	4.8	4.1	7.8	7.4	7.1	7.1	8.1	8.5	9.6	9.8	8.4	8.5	8.4	8.7
CPI (% y/y) pe	2.2	1.5	1.8	2.2	1.6	1.7	1.5	1.5	1.8	1.6	1.4	1.4	1.7	1.7	1.7	1.7
Marginal lending facility (%) pe	4.0	4.0	4.5	4.5	4.0	4.0	4.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
USD/XOF pe	559.3	553.1	557.9	557.4	531.8	512.4	500.7	485.9	473.0	470.7	467.4	465.2	461.9	458.7	456.5	471.9
Bull scenario																
GDP (% y/y) pa	5.1	6.5	6.0	6.2	8.4	8.7	9.0	9.3	10.6	10.9	11.6	11.9	9.3	9.0	9.4	9.5
CPI (% y/y) pe	2.2	1.5	1.8	2.7	2.1	2.2	2.0	2.0	2.3	2.1	1.9	1.9	2.2	2.2	2.2	2.2
Marginal lending facility (%) pe	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
USD/XOF pe	559.3	553.1	557.9	549.9	524.3	504.9	493.2	478.4	465.5	463.2	459.9	457.7	454.4	451.2	449.0	464.4
Bear scenario																
GDP (% y/y) pa	5.1	3.4	3.0	3.1	3.9	4.3	4.8	5.1	6.7	7.9	8.0	8.8	5.5	5.7	5.9	5.5
CPI (% y/y) pe	2.2	1.5	1.8	1.7	1.1	1.2	1.0	1.0	1.3	1.1	0.9	0.9	1.2	1.2	1.2	1.2
Marginal lending facility (%) pe	4.0	4.0	4.5	4.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5	5	5	5
USD/XOF pe	559.3	553.1	557.9	565.4	564.9	539.3	519.9	508.2	493.4	480.5	478.2	474.9	472.7	469.4	466.2	464.0

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

Historical USD/XOF

Source: Bloomberg; Standard Bank Research

Balance of payments: deficit narrowing

The widening of the goods and services deficits is unlikely to continue this year, leading to a narrowing of the C/A deficit in 2021. But the C/A is likely to widen in 2022. We expect C/A deficit at 9.0% of GDP in 2021 and 8.7% of GDP in 2022 as imports will likely grow quicker than exports, thereby incurring a widening trade deficit.

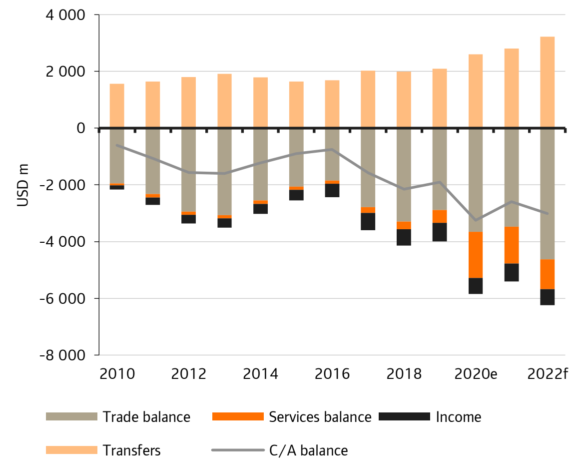
In the first 6-m of the year, goods exports rose by 11.6% y/y, and good imports increased by 3.0% y/y. Thus, strong exports growth is likely to narrow the trade deficit. Much of rising exports is attributable to gold exports, with high gold prices and strong demand likely to support further growth.

Given the combination of narrowing trade and perhaps narrower services deficits on base effects, and net transfers, the C/A deficit indeed seems set to narrow. Despite the pandemic, remittances increased by 5.1% y/y in 2020, after rising by 9.6% y/y in 2019. With the global economy set on a recovery path, remittance inflows could rise in the next 2-y.

Granted, imports could remain high, with both petroleum and capital goods likely to drive the increase. After all, there seems to have been higher-than-budgeted development expenditure so far, which could keep capital goods imports elevated.

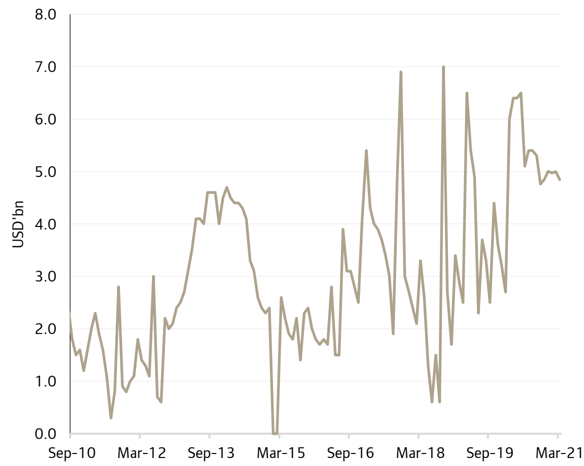
Capital inflows will likely be enough to cover the C/A deficit and allow FX reserves to rise. FDI, typically the largest source of capital inflows, too is likely to edge higher in 2021 due to investment in the oil and gas industry. In fact, according to UNCTAD, Senegal was among the few economies in Africa to have received higher FDI in 2020. Still, these will likely be supplemented by government borrowing, with much of the fiscal deficit budgeted to be financed from external sources.

Current account developments



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

FX reserves



Source: Bloomberg

FX outlook: XOF-EUR peg in place

The XOF peg to the EUR is likely to remain in place over our forecast period.

Although the euro zone economic recovery seems to be lagging the US by one to two quarters, real yields are key, and it is likely that the US's more significant inflation risk means that higher nominal treasury yields are unlikely to give the dollar much of a lift. The ECB should still be able to pare back the stimulus from quantitative easing once it meets its EUR1.85tr target for the Pandemic Emergency Purchase Programme (PEPP) in Mar. These increases in bond yields that would probably follow won't lift the euro given that many other bond markets, particularly the US treasury market, will likely see yields rise more.

Our G10 strategist forecasts EUR/USD at 1.17 by year-end, so the bias is for USD/XOF around 557.4.

USD/XOF: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

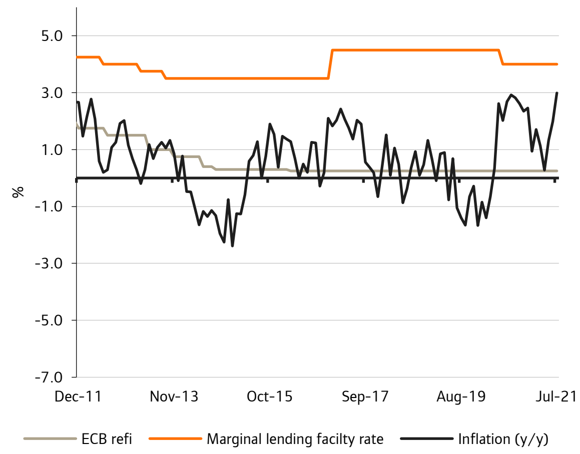
Monetary policy: neutral, with an easing bias

Since the BCEAO sees inflation remaining within its 1.0%-3.0% target band, we expect the BCEAO's MPC to leave the monetary policy stance unchanged over the next year. Moreover, the BCEAO's policy stance is likely to continue tracking the ECB's policy stance over the medium term. The BCEAO policy focuses on inflation-targeting and maintaining the CFA franc's peg to the euro.

Since Jun 20, the BCEAO's minimum bid rate and marginal lending window rate are set at 2.0% and 4.0% respectively. At the onset of the pandemic, the BCEAO's policy interventions were directed at increasing banking system liquidity across the region, and targeted credit extensions to minimise the impact of the pandemic. M2 money supply averaged 18.6% y/y in the 5-m to May 21, compared with 11.5% in the last 5-m of 2020. Credit extension to the government increased about 30% during 2020, while extension to the private sector grew 1.5%. Banks' exposure to the government increased due to elevated financing needs due to the impact of the pandemic on public finances. The risk of crowding out the private sector was mitigated through BCEAO policy which met all banks' demand for liquidity at a fixed rate against adequate collateral. Moreover, the BCEAO policy that enabled banks' clients to defer principal loan repayments expired at end-December 2020, and this seems not to have had a material impact on NPLs.

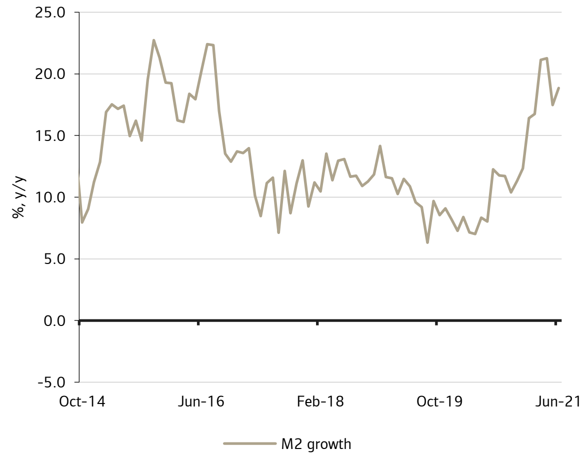
Inflation is likely to remain well contained, averaging 2.0% y/y in 2021 and 1.8% y/y in 2022. Higher headline inflation in Jun and Jul was largely a function of rising food and transport inflation. Rising meat prices pushed the food sub-index higher. We expect inflation to reach 2.2% in Dec. Weaker aggregate demand contains should curtail inflationary pressures. Furthermore, the currency peg to EUR also provides an anchor to inflation. The ECOWAS postponed its plans to adopt a new currency, the eco, to 2027. Each state can use this time to expedite the implementation of reforms, including the legal and regulatory reforms required to achieve a new common currency area.

Inflation and interest rates



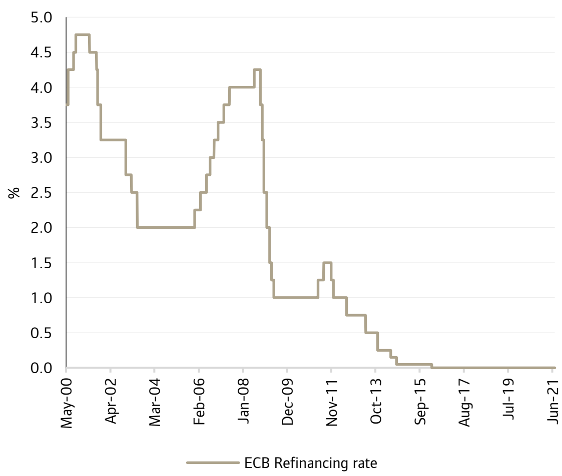
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

Money supply growth



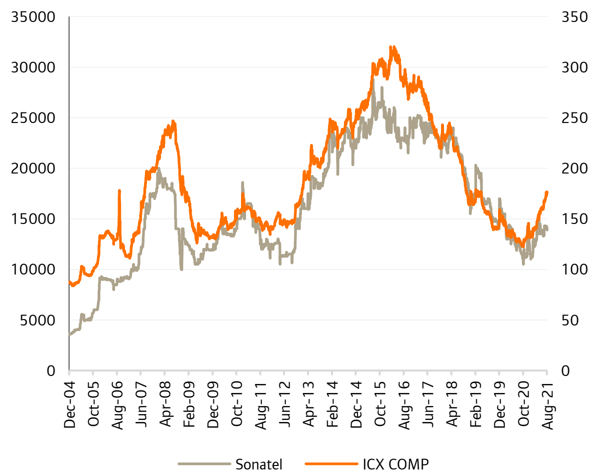
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Historical ECB refinancing rate



Source: Bloomberg

Capital market outlook



Source: Bloomberg

Fiscal policy: widening fiscal deficit likely

The government's revised budget forecasts a wider fiscal deficit for 2021 of 5.3%, from 4.9% of GDP in the original budget. Revenue forecasts were maintained, and expenditure is now expected to be larger by 0.4% of GDP due to higher-than-budgeted development expenditure. The government increased the development expenditure budget for 2021 to XOF1,647bn, from XOF1,584bn, to incorporate increased spending on security, vaccines, transport, and social equity programs.

The budget outturn for H1:21 implies that the final fiscal deficit could be higher than anticipated. In H1:21, the fiscal deficit (including grants) was XOF677bn, against the pro-rated budgeted level of XOF367bn. The larger-than-budgeted deficit was driven by government revenue which missed targets by 19%. Both tax and non-tax revenue undershot the pro-rated budget levels by 11% due to recurrent expenditure. While recurrent expenditure was ahead of budget by 9%, development expenditure was lower by 10%.

The original budget sought to finance the fiscal deficit primarily using external borrowing. Roughly 87% of the fiscal deficit was to be financed using external debt and, as a result, external borrowing was to increase by 32% y/y as domestic borrowing was to decline by 78% y/y. Over H1:21, the government recorded gross debt receipts of XOF310bn in external project loans, XOF508bn from a Eurobond issue, and expects to receive IMF disbursements worth XOF96bn over the rest of this year.

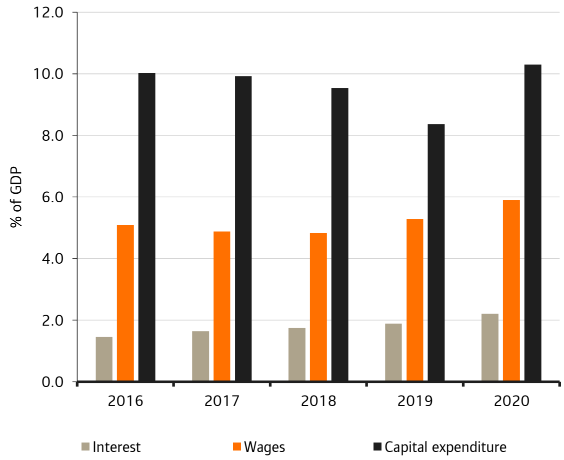
That said, the higher-than-budgeted development expenditure is likely to be financed using domestic sources. Notably, despite the upward revision in development expenditure, external financed development expenditure did not change, implying that the government could raise the additional amount from regional capital markets.

Central government budget

% of GDP	2019	2020	2021	2021
				Revised
Revenue	18.6	17.6	16.5	16.5
Grants	1.6	3.5	2.7	1.9
Expenditure	23.9	27.3	24.7	25.2
- Salaries	5.3	5.9	5.7	6.1
- Interest	1.9	2.2	1.9	2.2
- Capital	8.4	10.3	9.5	9.9
Fiscal deficit (excl. grants)	-5.4	-9.7	-7.4	-7.3
Fiscal deficit (incl. grants)	-3.7	-6.1	-4.9	-5.3

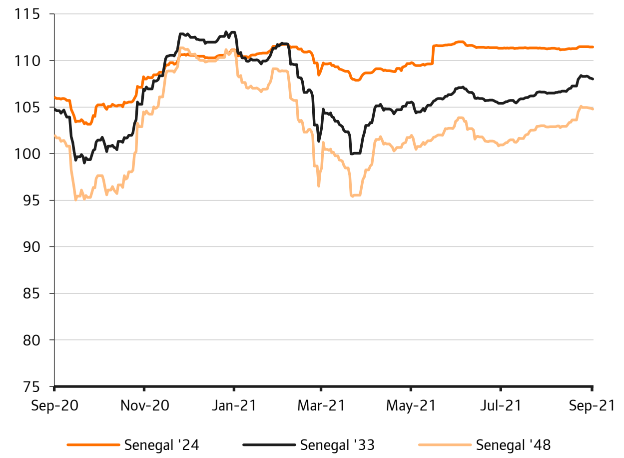
Source: Ministre de l'Economie et des Finances et du Plan

Components of expenditure



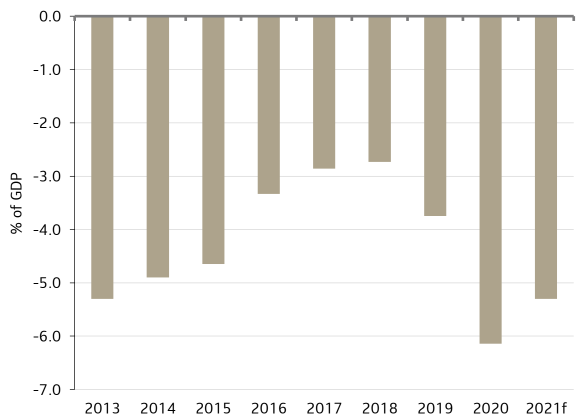
Source: Ministre de l'Economie et des Finances et du Plan

Eurobond prices – mid



Source: Bloomberg

Fiscal deficit



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

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	14.8	15.3	15.5	15.8	16.3	16.7	17.0
Nominal GDP (XOF bn)	11 252	12265	13340	14 185	14 998	16 051	17 539
Nominal GDP (USDbn)	18.1	21.2	23.3	24.0	26.0	28.8	34.5
GDP / capita (USD)	1 223	1 384	1 507	1 521	1 593	1 726	2 028
Real GDP growth (%)	6.7	7.2	7.0	5.2	1.2	5.0	7.4
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-5.5	-4.9	-5.4	-5.4	-9.7	-7.3	-5.5
Budget balance (incl. grants) / GDP (%)	-3.3	-2.8	-3.5	-3.7	-6.1	-5.3	-4.1
Domestic debt / GDP (%)	15.7	18.5	18.5	18.6	19.2	20.0	21.0
External debt / GDP (%)	40.0	40.0	39.0	39.1	48.9	49.5	51.8
Balance of Payments							
Exports of goods (USDbn)	2.7	3.4	3.7	4.4	4.2	5.8	6.9
Imports of goods (USDbn)	-4.6	-6.2	-7.0	-7.3	-7.8	-9.3	-11.5
Trade balances	-1.8	-2.8	-3.3	-2.9	-3.7	-3.5	-4.6
Current account (USDbn)	-0.8	-1.6	-2.1	-1.9	-3.2	-2.6	-3.0
- % of GDP	-4.1	-7.4	-9.2	-7.9	-12.5	-9.0	-8.7
Capital & Financial account (USDbn)	0.8	1.8	3.1	2.1	3.1	4.8	6.7
- FDI (USDbn)	0.2	0.5	0.8	1.0	1.4	2.9	4.5
Basic balance / GDP (%)	-2.9	-5.0	-5.9	-3.8	-7.1	1.0	4.3
FX reserves (USDbn) pe	1.5	2.2	3.1	3.4	3.2	5.4	9.1
- Import cover (months) pe	3.8	4.3	5.3	5.5	4.9	7.0	9.5
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	1.0	1.3	0.5	0.4	1.5	2.0	1.8
Consumer inflation (%) pe	0.7	-0.7	1.3	-1.7	2.5	3.0	1.5
M2 money supply (% y/y) pa	17.5	10.8	12.0	9.7	9.7	17.0	10.4
M2 money supply (% y/y) pe	13.7	9.3	14.1	8.2	12.3	12.3	10.6
Marginal lending facility (%) pe	3.5	4.5	4.5	4.5	4.0	4.0	4.0
USD/XOF pa	621.8	579.3	572.7	591.7	577.7	556.9	507.7
USD/XOF pe	612.0	558.2	580.3	585.7	570.3	557.4	485.9

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: mining and infrastructure spending driving growth

Medium-term outlook: positive base effects

GDP grew by 4.9% y/y in Q1:21, from 4.8% in Q4:20. Cumulative growth for 2020 overshot our 4.5% forecast but Q1:21 growth largely matched our expectation of 5.0% published in our May edition. We therefore retain our GDP forecasts of 5.4% and 6.1% for 2021 and 2022 respectively, from 4.8% in 2020.

We forecast that 2021growth will be driven by a combination of underlying growth in several sectors and a recovery in the sectors that were the most negatively affected by the pandemic and associated public health restrictions. The agricultural, mining, construction and transport sectors, which reported growth in 2020, should continue to do so in 2021. The agricultural sector should be supported by better rainfall, while growth in the construction and transport sectors should continue to be driven by the government's heightened infrastructure spending. Expansion in the mining sector may be supported by increased mineral production due to rising commodity prices.

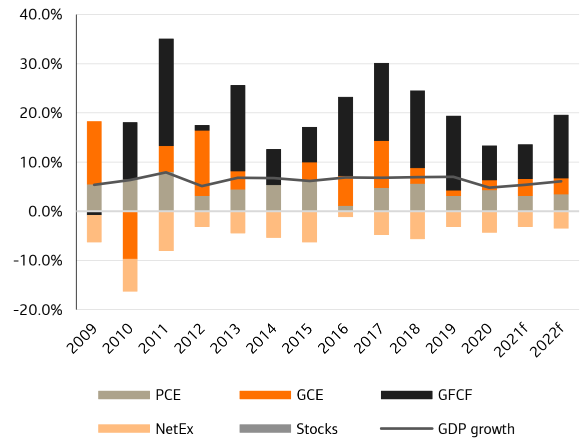
Furthermore, we expect the manufacturing, trade, education, and tourism sectors to record growth rates faster than average in 2021 due to a challenging 2020 when activity was shrunk by the pandemic. The impact of base effects will be the highest in Q2:21 due to Q2:20 that had the most stringent public health restrictions and when output was the most severely affected. However, we don't anticipate activity in these sectors to exceed their pre-pandemic levels until things have normalised.

For 2022, we believe that growth will be driven by positive private sector reforms and the continued easing of public health restrictions globally, which should support export demand. The new regime under President Suluhu has sought to improve relations with trade partners and multilateral agencies, attract foreign financing for projects, and reduce red tape in doing business. Amongst the reforms being pursued are credit reforms that seek to boost private sector credit uptake. Also, a recovery in global aggregate demand, driven by the lifting of public health restrictions, should contribute to stronger export demand and tourists returning.

Our bull case forecasts GDP growth of 6.4% and 7.4% for 2021 and 2022 respectively. Here, the economy shrugs off the pandemic, and positive reforms result in easier access to funds for infrastructure spending, rising foreign direct investment, and faster and more widespread growth in the private sector.

Our bear case sees GDP growth of 4.3% in 2021 and 4.7% in 2022. Here, a resurgence in infections, slow implementation of reforms, and a lack of funding for infrastructure projects may lead to deceleration in GDP growth in 2021 but then a slight recovery in 2022.

Composition of GDP growth by demand



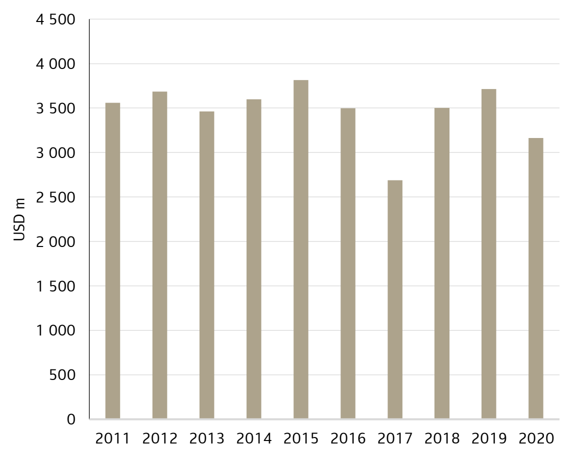
Source: National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010	2015	2020
Agriculture	24.9	26.7	26.9
Mining & quarrying	3.3	4.3	6.7
Manufacturing	8.1	7.9	8.4
Electricity & gas	1.8	0.8	0.3
Construction	0.4	11.1	14.4
Wholesale & retail trade	12.1	9.3	8.7
Transport & storage	5.1	7.3	7.5
Hotels & restaurants	2.3	1.5	1.0
ICT	2.1	1.8	1.5
Finance & insurance	1.8	4.4	3.5
Real estate	8.8	3.1	2.9
Public administration	8.0	4.8	3.7
Education	1.4	2.6	2.3

Source: National Bureau of Statistics

Capital goods imports (USD m)



Source: Bank of Tanzania

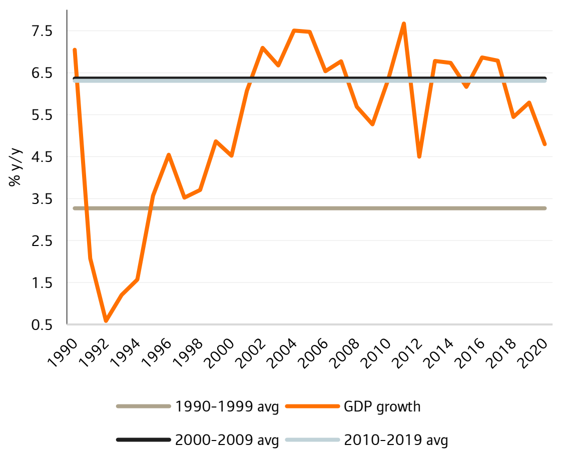
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	4.9	5.6	5.5	5.5	5.6	6.3	6.2	6.2	6.2	7.0	6.9	6.9	5.3	6.0	5.9	5.9
CPI (% y/y) pe	3.2	3.6	4.1	4.1	4.0	3.7	3.6	3.5	4.0	4.2	4.0	4.2	3.7	3.5	3.7	3.5
BoT policy rate	5.00	5.00	5.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.00	6.00	6.00	6.00	6.50	6.50
3-m rate (%) pe	2.8	3.3	2.9	2.9	2.6	2.3	2.0	2.1	2.5	2.8	3.0	2.9	3.3	3.6	3.9	3.8
6-m rate (%) pe	3.0	3.6	3.5	3.0	3.5	4.7	5.8	4.7	5.2	6.4	5.8	6.4	6.0	5.3	5.7	5.4
USD/TZS	2321	2299	2297	2300	2327	2332	2331	2334	2366	2372	2370	2374	2401	2406	2405	2408
PSCE (%) pe	2.3	3.6	3.1	4.5	7.4	11.4	11.4	11.4	11.0	10.4	10.2	10.0	9.5	8.9	8.7	8.5
Bull scenario																
GDP (% y/y) pa	4.9	7.0	6.9	6.9	6.9	7.7	7.6	7.6	7.5	8.4	8.3	8.3	6.5	7.4	7.2	7.3
CPI (% y/y) pe	3.2	3.6	3.9	4.4	2.9	2.3	2.7	1.5	2.1	2.2	2.1	2.3	1.7	1.6	1.7	1.5
BoT policy rate	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.00	6.00
3-m rate (%) pe	2.8	3.3	2.9	3.0	2.7	2.5	2.3	2.4	2.9	3.3	3.6	3.5	4.0	4.5	4.8	4.7
6-m rate (%) pe	3.0	3.6	3.4	3.2	4.0	5.8	4.9	5.7	6.6	8.3	7.5	8.3	8.2	8.1	8.2	8.1
USD/TZS	2321	2299	2298	2301	2320	2323	2322	2325	2349	2354	2352	2356	2374	2378	2377	2380
PSCE (%) pe	2.3	3.6	3.4	5.3	9.1	14.5	14.5	14.5	14.0	13.4	13.2	13.0	12.5	11.9	11.7	11.4
Bear scenario																
GDP (% y/y) pa	4.9	4.2	4.1	4.1	4.4	4.9	4.8	4.8	5.0	5.6	5.5	5.5	4.0	4.6	4.5	4.5
CPI (% y/y) pe	3.2	3.6	4.4	3.9	5.2	5.2	4.4	5.4	6.0	6.1	6.0	6.2	5.6	5.5	5.6	5.4
BoT policy rate	5.00	5.00	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.50	6.50	6.50	6.50	7.00	7.00
3-m rate (%) pe	2.8	3.3	2.8	2.9	2.4	2.0	1.7	1.8	2.0	2.2	2.4	2.4	2.6	2.8	3.0	2.9
6-m rate (%) pe	3.0	3.6	3.6	2.8	3.1	3.6	3.4	3.6	3.9	4.5	4.2	4.5	3.9	2.6	3.2	2.6
USD/TZS	2321	2299	2297	2302	2335	2341	2340	2344	2383	2390	2388	2393	2427	2434	2432	2437
PSCE (%) pe	2.3	3.6	2.8	3.8	5.7	8.5	8.5	8.5	8.0	7.4	7.3	7.0	6.6	6.0	5.8	5.6

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

Source: National Bureau of Statistics

Balance of payments: widening C/A deficit

We expect the C/A deficit to widen to 2.1% in 2021, from 1.5% of GDP in 2020, due to a larger trade deficit and a slow recovery in tourism.

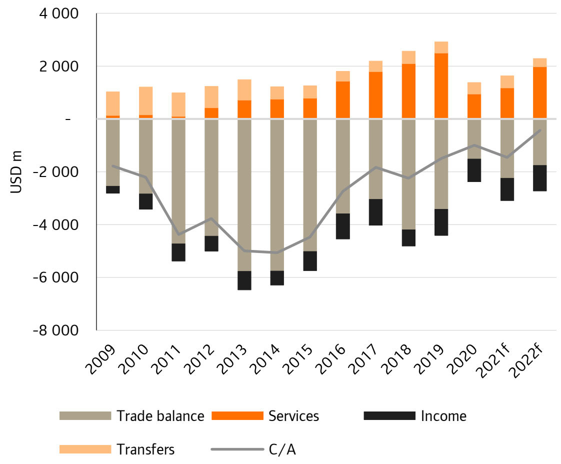
We forecast a widening in the trade deficit driven by faster growth in imports relative to exports. The government's heightened spending on transport infrastructure is likely to lead to increased importation of rolling stock and capital goods used in construction. Oil imports could also rise on account of higher global prices and increased oil consumption due to fewer public health restrictions. Also, with new transport infrastructure, overall oil consumption could rise. Consumer imports too could also rise as domestic consumption begins to recover post-pandemic.

Service receipts from tourism will be lower due to the pandemic but transport receipts could remain resilient. In the 12-m period ending Jul 21, tourism receipts have fallen by 41% y/y from 2020 levels and are now 61% below the pre-pandemic levels. Transport receipts are relatively unchanged, at USD1.3bn.

The wider C/A deficit is likely to be financed by a recovery in foreign direct investment in the near term and higher external debt receipts in the medium term. While FDI could remain relatively subdued, we expect to see a partial recovery to USD0.9bn, from USD0.7bn in 2020. Most of that FDI is likely to be focused on the key sectors of the economy that are witnessing the highest growth and increased government support: mining, construction, agriculture, and oil & gas (LNG projects).

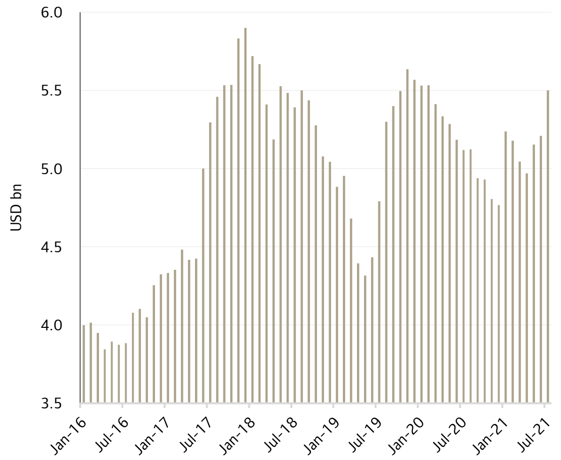
There isn't much scope to finance the higher C/A using external debt as the government is projecting a 16% y/y decline in external borrowing, per the FY2021/22 budget. However, during the budget speech, the government highlighted that it would be seeking a credit rating, with a view of eventually issuing a Eurobond. However, we see 2022 as being the earliest likely time. In the meantime, the government plans to gradually liberalise its capital account to investors from the SADC region in FY2021/22.

Current account developments



Source: Bank of Tanzania; Standard Bank Research

FX reserves (USD bn)



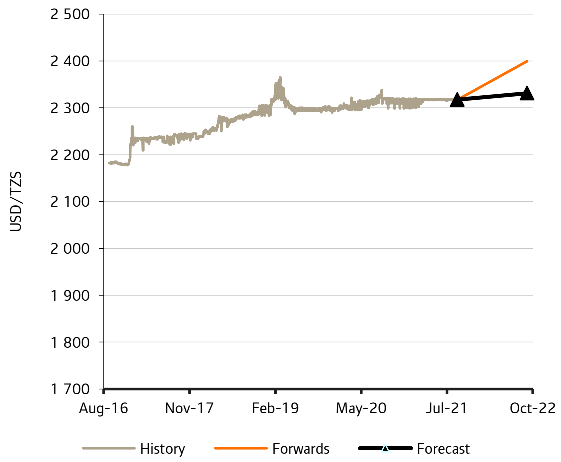
Source: Bank of Tanzania

FX outlook: stable until year-end

We expect the USD/TZS exchange rate to remain relatively stable until the end 2021, at 2300. There could be some slight TZS strengthening in Nov due to increased USD supply from cashew nut exports before consumer goods import demand in Dec leads to some weakening. FX liquidity could also remain good at the start/end of any given month on account of exporter conversions, but still prove challenging during the month.

We don't see BoT intervening significantly by selling USD in the FX market to alleviate any FX liquidity pressures. First, FX markets are currently liquid due to USD supply from exporters. Second, we believe that BoT will retain its FX reserves for the government's upcoming foreign debt obligations. FX reserves are currently at USD5.5bn (6.5-m of import cover), with an additional USD1.1bn from the IMF expected (USD567m from the IMF's Rapid Credit Facility and another USD542m from the IMF's SDR allocation.

USD/TZS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: likely to stand pat until H2:22

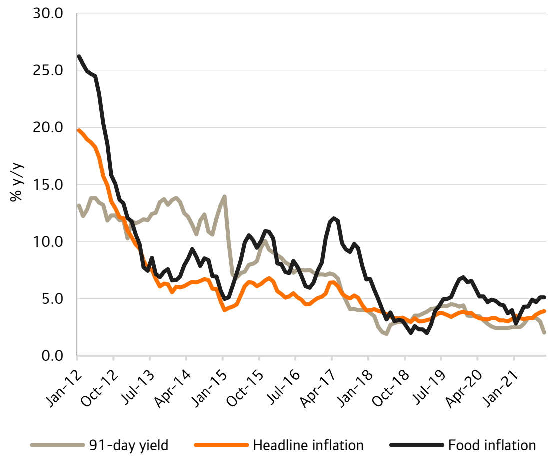
We expect BoT's Monetary Policy Committee to maintain an expansionary monetary policy in order to support a recovery in private sector credit growth which remains at relatively low levels. To achieve this, we believe that the MPC will keep the policy rate at 5.0% for the rest of 2021 and most of 2022. While inflation has been on an upward trend, it will likely prove transitory and not breach the Central Bank's upper limit of 5.0%.

The MPC is likely to retain the policy rate at the historically low level of 5% to boost a recovery in private sector credit growth. Despite expansionary monetary policy from Q2:20, private sector credit growth has continued to slow. It was 4.1% y/y in Jul 21, bringing the 7-m average in 2021 to 3.5%. This is much lower than the 20.9% that it averaged between 2011 and 2015 and nominal GDP growth of 10-12%. While we cannot rule out further cuts in the policy rate, it should be less likely given that the transmission mechanism may be broken.

The MPC acknowledges this and is looking to undertake reforms to improve the supply of credit by lowering borrowing costs. The reforms, while well intentioned, may not necessarily boost private sector credit growth due to inadequate credit demand as a result of the pandemic, competition from government securities that offer better risk-adjusted returns, inadequate funding support from special loan funds, the inability of banks to price adequately for risk, and lending banks' concerns about inadequate capital

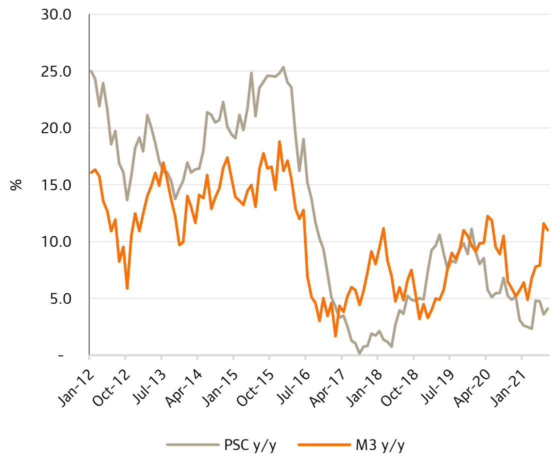
We expect the recent upward trend on headline inflation to continue until Nov when it could peak before it starts to decline in Dec. Most of the rise in inflation has been due to core inflation which accounts for 74% of the CPI. The higher core inflation has been due to adverse base effects from lapping a low inflationary period in 2020 when aggregate demand had plunged due to the pandemic. While inflation could continue rising in the coming months, we don't expect it to breach the upper limit of the Central Bank's target. Therefore, we don't believe that policy action by the MPC would be required.

Inflation and interest rates



Source: Bank of Tanzania; National Bureau of Statistics

Monetary aggregates



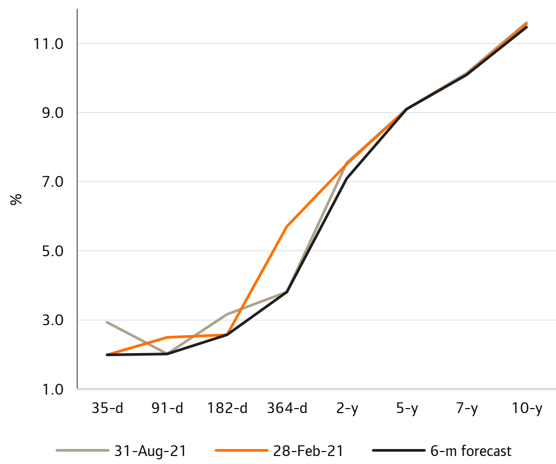
Source: Bank of Tanzania

Yield curve outlook: steepening

We expect the yield curve to steepen further, with shorter-term yields (1-y to 2-y) likely to decline over the next 6-m. In our opinion, this will be driven by liquid cash markets on account of few lending opportunities.

The government increased its net domestic borrowing target slightly (2% y/y) in FY2021/22. Banks have very few attractive lending opportunities in the current environment and are, therefore, investing their excess cash in government securities. The low yields on short-term government securities are forcing banks to take up duration in pursuit of higher absolute yields. This has resulted in yields across the yield curve declining since the start of the fiscal year. Furthermore, to ensure that it doesn't crowd out private sector lending, BoT has been rejecting expensive bids at primary auctions and, in some cases, taking less than advertised for.

Changes in the yield curve (%)



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: fiscal deficit to narrow

For the fiscal year FY2021/22 (which started on 1 Jul), the government expects the budget deficit to narrow to 1.8% of GDP, from the 3.5% outturn reported (2.6% budgeted) for FY2020/21, due to faster growth in revenue relative to expenditure. Revenue is budgeted to grow slightly ahead of expenditure, at 22% y/y.

Domestic revenue is budgeted to rise to 15.0%, from 13.4% of GDP, largely on account of 20% y/y growth in taxes. Expenditure though may increase to 21.7%, from 19.4% of GDP, driven by a slightly steeper rise in development expenditure (to 8.0%, from 5.8% of GDP) relative to recurrent expenditure (to 13.8%, from 13.6%). The government has prioritised spending on infrastructure and clearing verified arrears. A total of TZS7.4tr (c.20% of total expenditure) was allocated to infrastructure projects, of which TZS3.1tr is for flagship projects. To assist in clearing outstanding verified arrears, TZS400bn was allocated to development expenditure and TZS200bn to recurrent expenditure.

The narrower deficit is budgeted to be financed using slightly larger amounts of domestic debt as net external borrowing declines. Net domestic borrowings are expected to increase by 16%, to TZS1.8tr, while net external borrowings may decline by 54%, to TZS1.2tr. There will be a bias for concessional external borrowing, as evidenced by improving relationships with multilateral agencies. The government received USD567m from the IMF in Sep by way of a Rapid Credit Facility (RCF) for pandemic-related support.

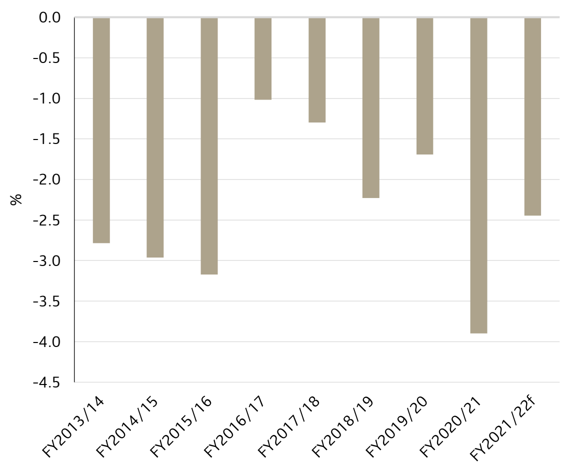
Despite an increase in net debt of TZS3.0tr in FY2021/22, Tanzania has relatively good debt metrics. The debt to GDP is 27.9%, with external debt to GDP at 17.3%. External debt service to domestic revenue is 13.7%, while debt service to exports is 13%. Beyond FY2021/22, Tanzania may be looking to tap the Eurobond markets and enter Public-Private Partnerships (PPPs) to finance infrastructure projects sustainably. The finance minister has also highlighted that the government would be looking to finalise the sovereign credit rating process in FY2021/22.

Central government budget (% of GDP)

	FY2020/21	FY2021/22
Total revenue	15.5	19.3
Total expenditure	19.4	21.7
Wages	4.2	4.2
Interest	5.5	5.3
Development	5.8	8.0
Overall balance (- grants)	-3.9	-2.4
Overall balance (+ grants)	-3.5	-1.8
Net domestic borrowing	1.0	1.1
Net external borrowing	1.6	0.7
Donor support (grants)	0.4	0.7

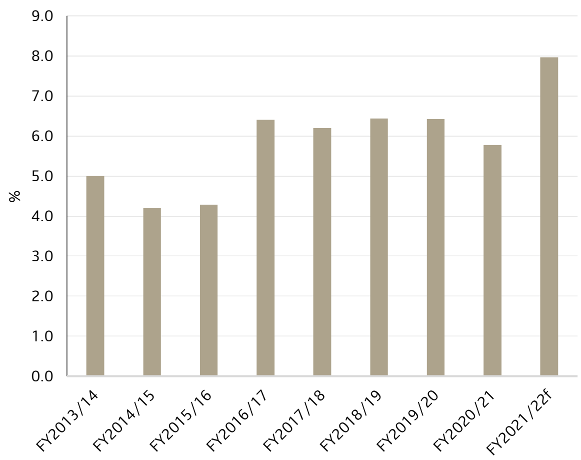
Source: Ministry of Finance

Fiscal deficit excl. grants (% of GDP)



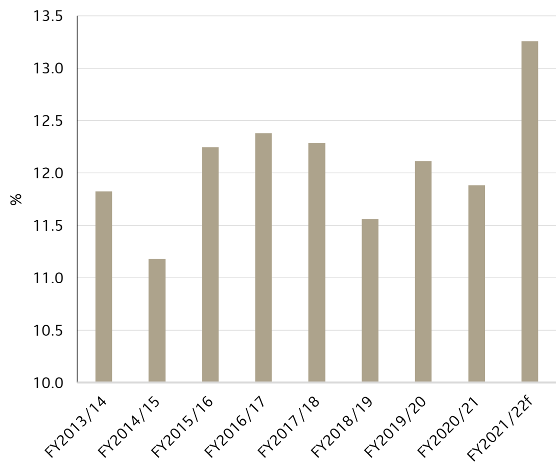
Source: Ministry of Finance

Development expenditure (% of GDP)



Source: Ministry of Finance

Tax revenue (% of GDP)



Source: Ministry of Finance

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	51.5	53.0	54.6	56.3	58.0	59.7	61.2
Nominal GDP (TZS bn)	108 362	118 744	129 043	139 894	148 522	162 352	178 648
Nominal GDP (USD bn)	49.5	53.1	56.6	60.5	64.7	70.4	76.6
GDP / capita (USD)	961	1 002	1 036	1 075	1 116	1 179	1 251
Real GDP growth (%)	6.9	6.8	7.0	7.0	4.8	5.4	6.1
Gold production ('000 Kg)	44.5	43.0	39.3	48.4	55.8	58.5	63.3
Tobacco production ('000 MT)	104.5	58.6	50.5	70.8	37.5	78.3	84.4
Coffee production ('000 MT)	63.5	48.3	45.2	68.1	60.7	70.6	76.5
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.9	-2.0	-2.1	-2.9	-1.7	-3.9	-2.4
Budget balance (incl. Grants) / GDP (%)	-3.4	-1.4	-1.9	-3.2	-1.4	-3.5	-1.8
Domestic debt / GDP (%)	9.9	10.1	9.7	9.9	10.0	10.1	10.1
External debt / GDP (%)	29.5	30.2	31.6	32.0	32.6	33.3	33.9
Balance of Payments							
Exports of goods and services (USD bn)	9.3	8.5	8.4	9.7	8.8	8.2	9.1
Imports of goods and services (USD bn)	10.7	8.9	10.4	10.9	8.9	9.3	8.9
Trade balance (USD bn)	-1.4	-0.4	-1.7	-1.2	-0.1	-1.1	0.2
Current account (USD bn)	-2.2	-0.6	-2.7	-1.6	-1.0	-1.5	-0.4
- % of GDP	-4.3	-1.0	-4.8	-2.6	-1.5	-2.1	-0.6
Financial account (USD bn)	1.7	2.1	1.7	2.4	0.6	2.5	2.7
- FDI (USD bn)	0.9	0.9	1.0	1.2	0.7	0.9	1.5
Basic balance / GDP (%)	-2.6	0.7	-3.0	-1.2	-1.1	-1.6	-0.1
FX reserves (USD bn) pe	4.3	5.9	5.0	5.6	4.8	5.5	7.3
- Import cover (months) pe	5.9	7.5	6.3	6.5	5.6	6.5	9.0
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	5.1	5.3	3.5	3.5	3.3	3.8	3.7
Consumer inflation (%) pe	5.0	4.0	3.3	3.8	3.2	4.1	3.5
M3 money supply (% y/y) pa	9.3	5.5	6.7	9.2	8.8	3.4	10.4
M3 money supply (% y/y) pe	2.9	8.0	4.9	9.6	5.7	4.5	11.4
BoT discount rate (%) pa	16.00	11.50	8.00	7.00	5.50	5.00	5.25
BoT discount rate (%) pe	16.00	9.00	7.00	7.00	5.00	5.00	5.50
3-m rate (%) pe	7.1	4.0	3.5	4.5	2.5	2.9	2.1
1-y rate (%) pe	15.8	8.4	9.3	5.9	4.3	7.0	6.4
2-y rate (%) pe	17.7	11.1	10.5	11.1	7.1	10.2	9.6
5-y rate (%) pe	18.0	13.6	12.0	12.0	9.1	11.9	11.3
USD/TZS pa	2189	2237	2281	2311	2314	2305	2331
USD/TZS pe	2188	2240	2310	2300	2319	2300	2334

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

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

Uganda: growth slower than anticipated

Medium-term outlook: drought-related woes

We now trim our FY2020/21 GDP growth forecasts to 2.8%-3.0% y/y and 4.5%-4.8% y/y for FY2021/22.

The 42-d countrywide lockdown in Jun 21 likely materially dragged GDP growth lower in Q3:21. Despite these public health restrictions being partially eased towards end Jul 21, the negative impact on overall aggregated demand may remain entrenched, particularly as domestic demand conditions were likely already relatively muted even before.

Following the 42-d lockdown, new Covid-19 cases have subsided sharply. However, at the time of writing, less than 1% of the population had been fully vaccinated. Hence, the possibility of further public health restrictions remains a risk for the GDP growth outlook should cases spike again.

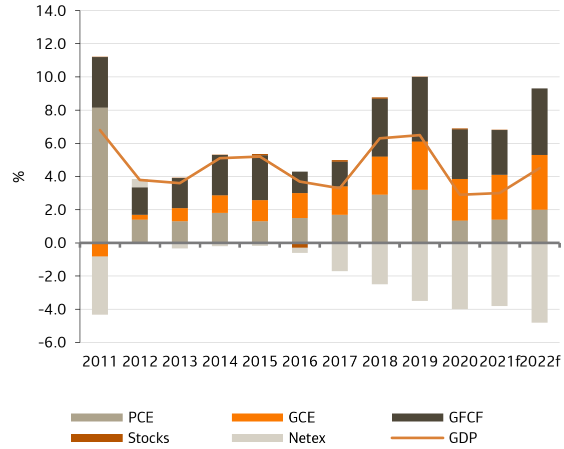
The government has received an additional 1.37m vaccine doses since early Aug 21 and has begun expediting the roll-out by making it more convenient for citizens to access the vaccines, primarily those in rural areas.

GDP growth recovered to 6.2% y/y in Q2:21, just below our 6.3% y/y expectation. Note though that Q1:21 growth was revised lower to 1.5% y/y, from 2.4% y/y. Indeed, the recovery in Q2:21 was mainly due to favourable base effects, which could also be the case for Q3:21. However, the recent stringent lockdown may have mitigated this, and we wouldn't rule out a growth contraction during this period.

The agriculture sub-sector contracted by 2.8% y/y in Q2:21, from average growth of 2.6% y/y in the previous 6-m. There are drought conditions in the northern part of the country and, if the short rains season in Q4:21 should disappoint, agriculture productivity could decline further and weigh on growth.

Moreover, despite host government agreements being signed earlier this year, the Final Investment Decision (FID) in the oil sector faces hurdles largely pertaining to environmental concerns as well funding uncertainty for the project. We now see FID only happening around end H1:22, per our base case scenario.

GDP by expenditure



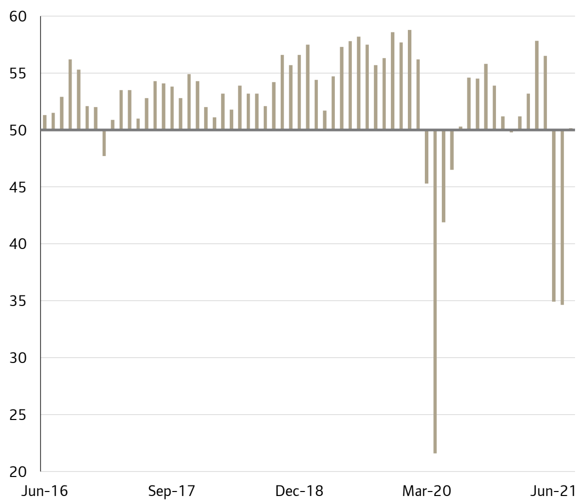
Source: Uganda Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2015	2020
Agriculture	27.1	23.2	23.4
Mining	1.2	1.0	2.2
Manufacturing	8.7	16.1	15.4
Construction	5.5	5.1	6.1
Trade & repairs	13.3	9.7	9.1
Transport	2.6	3.3	3.1
Accommodation & food	2.1	2.5	2.3
ICT	4.2	1.6	2.0
Financial & insurance	2.4	2.8	2.9
Real estate	5.5	6.0	6.9
Public administration	2.8	2.0	3.1
Education	5.3	5.2	3.2

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

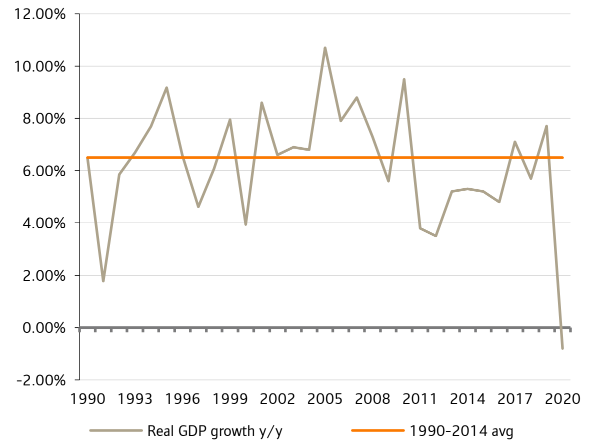
Medium-term economic scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	1.5	6.2	0.9	3.4	3.8	3.1	5.5	6.0	6.1	6.7	5.9	7.0	7.2	6.9	7.1	7.4
CPI (% y/y) pe	2.8	2	2.5	3.5	4.2	4.1	4.4	5.5	4.8	4.2	3.5	2.6	3.1	3.7	4.4	4.9
BOU policy rate (%) pe	7.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0
3-m rate (%) pe	7.0	6.9	6.8	6.9	7.1	7.2	7.5	7.5	7.6	7.4	7.2	7.0	7.0	6.7	6.6	6.6
6-m rate (%) pe	10.1	8.9	8.7	8.8	9.0	9.3	9.5	9.6	9.3	9.5	9.5	9.3	9.2	9.0	9.0	8.8
USD/UGX	3665	3560	3530	3515	3550	3530	3560	3600	3620	3630	3610	3620	3650	3650	3670	3680
Bull scenario																
GDP (% y/y) pa	1.5	6.2	4.5	6.7	7.5	7.1	7.0	7.5	7.8	7.8	7.8	7.8	7.7	7.8	7.6	7.9
CPI (% y/y) pe	2.8	2	2.0	2.7	3.2	3.4	2.9	3.6	3.1	2.7	2.2	2.1	2.4	2.7	3.1	3.4
BOU policy rate (%) pe	7.0	6.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5
3-m rate (%) pe	7.0	6.9	6.5	6.5	6.3	6.3	6.4	6.4	6.5	6.7	6.7	6.6	6.5	6.3	6.2	5.9
6-m rate (%) pe	10.1	8.9	8.4	8.5	8.7	8.9	8.9	8.7	8.5	8.6	8.7	8.7	8.2	7.8	7.7	7.5
USD/UGX	3665	3560	3500	3460	3480	3480	3500	3500	3520	3520	3540	3540	3520	3500	3500	3480
Bear scenario																
GDP (% y/y) pa	1.5	6.2	-1.2	0.9	1.9	0.5	4.1	4.5	4.1	4.4	4.8	3.5	3.4	4.8	5.1	4.9
CPI (% y/y) pe	2.8	2	4.5	5.4	5.6	6.1	5.8	5.8	5.8	5.7	5.5	5.7	6.1	6.3	6.5	6.4
BOU policy rate (%) pe	7.0	6.5	6.5	6.5	7.0	7.0	7.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
3-m rate (%) pe	7.0	6.9	7.5	10.1	11.2	11.1	10.8	10.4	10.4	10.4	10.4	10.2	10.2	10.2	10.2	10.2
6-m rate (%) pe	10.1	8.9	9.5	11.5	13.2	13.0	12.5	12.2	12.1	12.1	12.1	12.1	12.0	12.0	12.0	12.0
USD/UGX	3665	3560	3560	3600	3650	3700	3780	3800	3850	3900	3930	3980	3990	4000	4020	4000

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

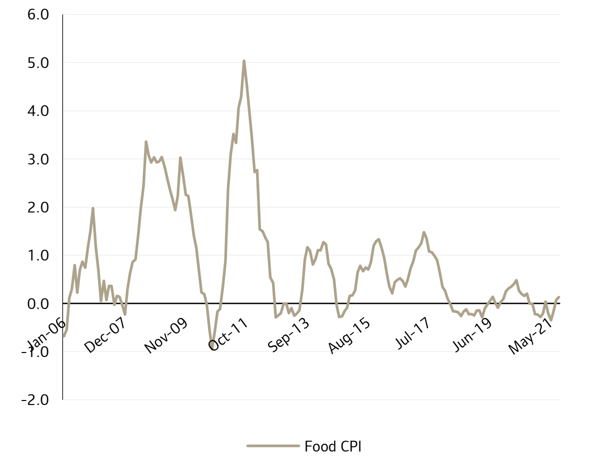
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: World Bank

Food inflation (%)



Source: Uganda Bureau of Statistics

Balance of payments: goods exports rising

We expect the C/A deficit to narrow slightly, to 9.0% of GDP in 2021, from 9.3% of GDP in 2020.

Predictably, service exports have remained subdued owing in large part to fewer international tourist arrivals. But overall exports have been boosted by a robust performance from mining receipts. Gold exports were 25.3% higher in H1:21, compared to the same period last year. As external demand continues to improve, goods exports are likely to rise over the next couple of years.

However, we still expect service receipts to remain relatively subdued over the coming year as Uganda's vaccine roll-out is unlikely to pick up meaningfully over this period.

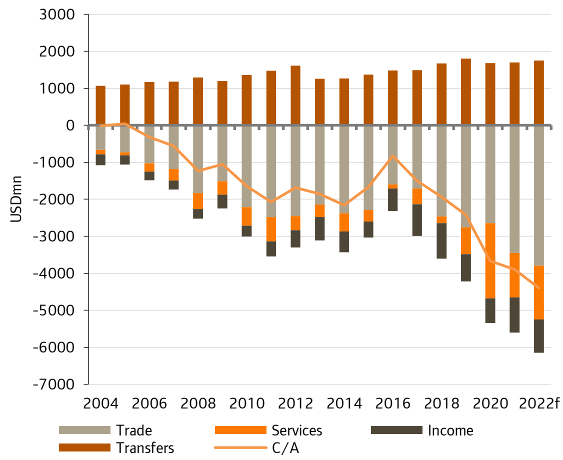
Imports of goods have risen 30.9% in H1:21, compared to H1:20, largely due to higher international oil prices and despite muted aggregate demand.

Private sector imports increased 5.0% in H1:21, compared to H2:20, but plummeted 46% m/m in Jul 21 during the most recent domestic lockdown. Hence, despite higher oil prices, the impact of the recent lockdown may restrain consumer imports over the next 6-m, thereby curtailing the overall import bill.

Furthermore, given some of the ongoing concerns with the environmental impact of the oil project, capital goods imports may not rise as notably in H2:21 as we previously envisaged.

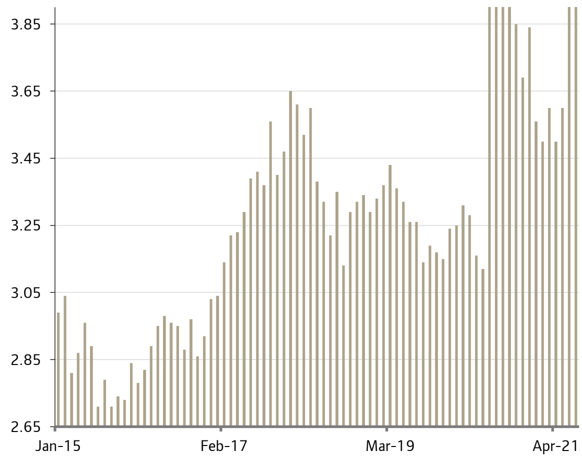
FX reserves increased to USD4.1bn in Jul 21, from USD3.6bn in Mar 21, largely owing to disbursements from the IMF program. The additional SDR allocation from the IMF worth USD492m in Aug will also support FX reserves and continue to ensure stability in the overall BOP for the next 6-m to 1-y.

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves (USD bn)



Source: Bank of Uganda

FX outlook: still stable

We now see the USD/UGX pair ranging between 3500-3550 by end 2021, with a bias towards the lower end of the range. A notable rise in foreign portfolio inflows since the beginning of this year, amidst a relatively favourable global risk backdrop and attractive real yields, has broadly anchored the UGX. Additionally, as the UGX appreciated due to these aforementioned factors, coffee exporters somewhat frontloaded their hedges in anticipation that the appreciation of the local unit would continue. But also, consumer import demand hasn't been as robust this year, exacerbated by the lockdown in Jun 21.

Despite UGX bond yields declining over the past 3-m, we still expect foreign portfolio appetite to remain elevated and support the UGX. However, as the economy continues to recover and bond purchase tapering commences in the US, USD/UGX may drift higher in H1:22.

USD/UGX: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: neutral with an easing bias

We expect the MPC to retain the CBR at 6.5% for the remainder of 2021 and 2022, with an easing bias of 50 bps.

Interestingly, despite previously noting concerns around the transmission effectiveness of monetary policy and private sector credit growth, the MPC cut the CBR by 50 bps, to 6.5%, at the Jun meeting. This rate cut coincided with the period of Covid-19 cases rising sharply and when the government was contemplating a domestic lockdown. However, the BOU has proposed to raise capital requirements for commercial banks via a statement on their website, but without offering details.

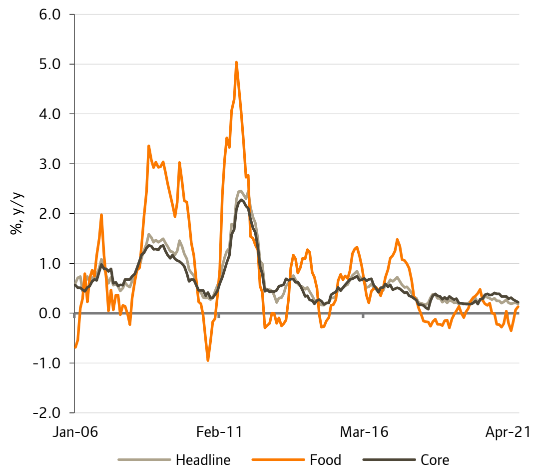
The BOU and Ministry of Finance had agreed to lower the domestic borrowing target for FY2021/22 as they expect this to ease upside pressure on UGX yields, which could then improve the transmission effectiveness of monetary policy.

Primarily due to the risk of more public health restrictions being introduced over the coming year, especially if vaccine roll-out doesn't gain impetus domestically, an easing bias for monetary policy may persist.

Still, given that foreign holdings of domestic debt have now risen to around 10.0%, the MPC may remain cautious and adopt a neutral policy stance because concerns around portfolio outflows for the UGX will be rife as the US Federal Reserve looks to taper bond purchases towards year-end.

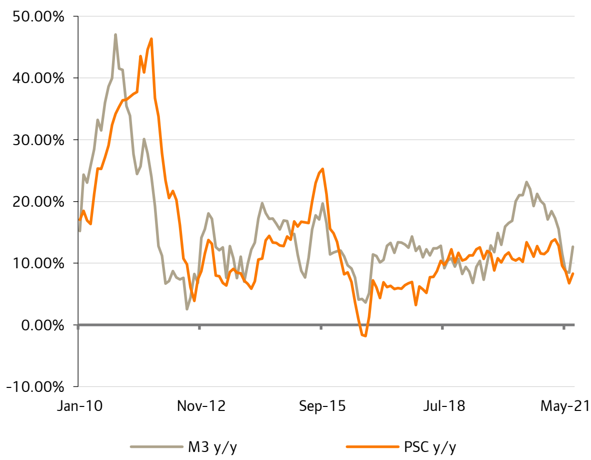
We see headline inflation rising to 3.5% y/y in Dec 21, an average of 4.2% y/y in H1:22, largely due to unwinding base effects and higher food prices.

Inflation and interest rates



Source: Uganda Bureau of Statistics

Monetary aggregates



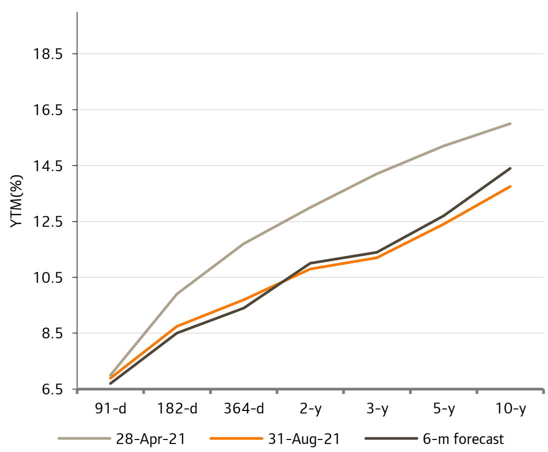
Source: Bank of Uganda

Yield curve outlook: bond yields could rise slightly

We still think that UGX bond yields will rise over the next 6-m or so. At the time of writing, 10-y government bond yields had declined by some 200 bps since end Apr 21. Hence, our view is that bond valuations look a tad rich. However, unlike before, we now target a yield entry level of 14.5%-15.0% for the 10-y bond.

Demand from both foreigners and domestic players for bond yields below 14.0% levels may not be as robust. However, amidst weak aggregate demand and limited private sector credit extension by commercial banks, there could still be a notable amount of domestic liquidity chasing government paper. But then again, slower economic activity could also weigh down URA tax revenues and prompt the government to borrow more from the domestic market, thereby placing gradual upside pressure on UGX bond yields.

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: deficit could remain elevated

Given our view that GDP growth will likely be lower over the coming year, it is quite possible that the fiscal deficit will remain elevated during this period.

URA tax collections will likely fall short of target as economic activity remains soft, while the government will probably continue to increase Covid-19 related expenditure.

Furthermore, the government may still issue another supplementary budget in FY2021/22. After all, there has been a fair amount of criticism that the government's pandemic stimulus support hasn't been adequate. Recall that parliament passed a UGX3.7tr supplementary budget back in Oct 20.

We still don't expect the government to issue a Eurobond over the next couple of years. The government is likely to first fully exhaust all available concessional funding options before considering issuing commercial debt. But even then, commercial syndicated loans could be preferred to Eurobonds, for now. The authorities remain concerned that development spending absorption could remain weak, even after the issuance of a Eurobond.

Interestingly, the recently secured IMF programme seeks to address these absorption inefficiencies which the government previously attributed to bureaucratic procurement processes.

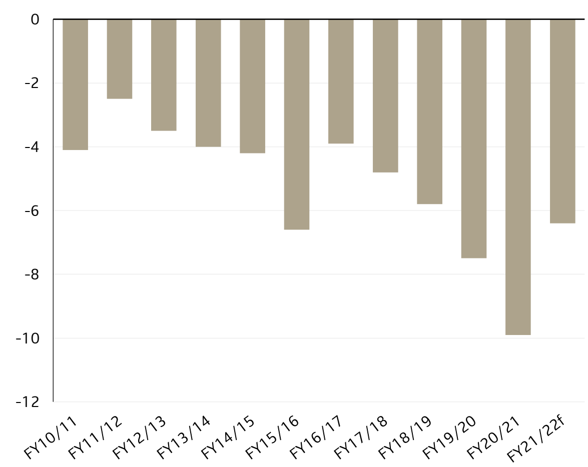
Even the proposed plan to issue an infrastructure bond either in UGX or USD could be postponed beyond FY2021/22. Indeed, the recent additional IMF SDR allocation of USD492m may prompt the government to issue less from the domestic market.

Central government operations

% of GDP	FY2020/21	FY2021/22
Total revenue	13.1	13.8
Total expenditure	24.5	21.1
Wages	3.5	3.4
Interest	2.8	2.9
Development expenditure	10.4	9.0
Overall balance (- grants)	-11.4	-7.3
Overall balance (+ grants)	-9.9	-6.4
Net domestic borrowing	3.9	1.9
Net external borrowing	6.0	4.5

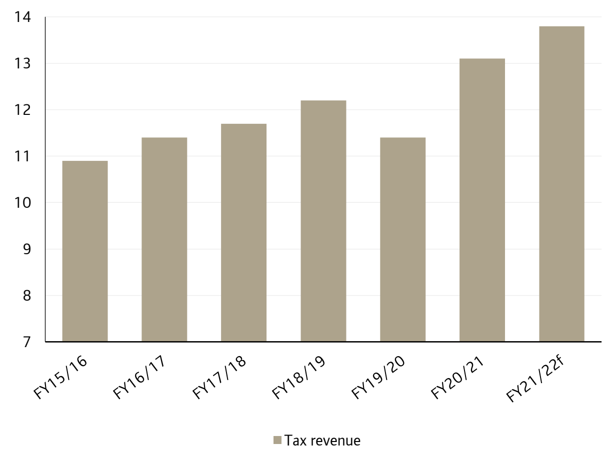
Source: Ministry of Finance

Fiscal deficit incl. of grants (%) of GDP



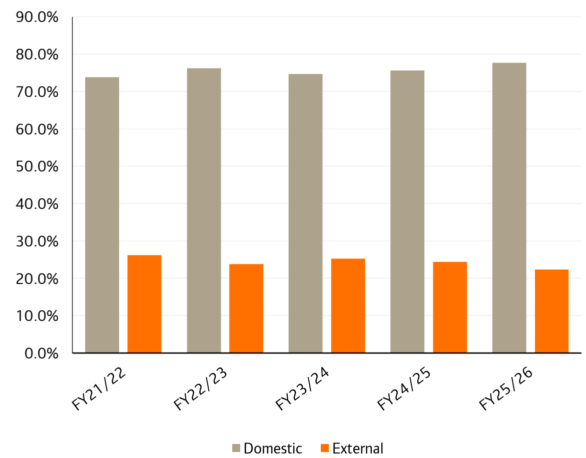
Source: Ministry of Finance

Tax revenue (%) of GDP



Source: Ministry of Finance

Total debt service breakdown



Source: Ministry of Finance

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	36.56	37.67	38.82	39.80	41.22	42.5	43.7
Nominal GDP (UGX bn)	104 372	114 039	126 965	139 711	143 904	155 000	172 350
Nominal GDP (USD bn) CY	30.4	31.5	33.7	37.9	38.7	43.4	46.6
GDP / capita (USD)	832	837	867	951	938	1023	1065
Real GDP growth (%) FY	3.7	3.3	6.3	6.5	2.9	3.0	4.5
Coffee production ('000 Tonnes)	226.5	229.7	225.5	220.5	228.5	227.8	229.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.0	-4.6	-5.9	-7.3	-8.1	-11.4	-7.3
Budget balance (incl. Grants) / GDP (%)	-6.6	-3.5	-4.8	-5.8	-7.5	-9.9	-6.4
Domestic debt / GDP (%)	13.0	13.5	13.9	14.2	16.0	16.2	16.5
External debt / GDP (%)	19.2	19.7	23.5	23.8	31.2	33.1	34.5
Balance Of Payments							
Exports of goods and services (USDbn)	4.79	5.00	6.00	6.30	5.60	6.40	6.60
Imports of goods and services (USDbn)	6.40	7.20	8.70	9.80	10.00	10.70	11.10
Trade balance (USD bn)	-1.61	-2.20	-2.7	-3.5	-4.4	-4.3	-4.5
Current account (USD bn)	-0.83	-1.49	-1.94	-2.42	-3.60	-3.90	-4.40
- % of GDP	-2.7	-4.7	-5.8	-6.4	-9.3	-9.0	-9.4
Financial account (USD bn)	0.87	1.09	1.41	1.77	1.85	2.35	2.50
- FDI (USD bn)	0.63	0.80	1.00	1.26	0.82	1.20	1.80
Basic balance / GDP (%)	-0.7	-2.2	-2.8	-3.1	-7.2	-6.2	-5.6
FX reserves (USD bn) pe	3.0	3.7	3.4	3.2	3.8	4.2	4.6
- Import cover (months) pe	5.2	5.1	4.5	4.1	4.0	4.3	4.1
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	5.5	5.4	2.5	2.2	2.8	2.4	4.4
Consumer inflation (%) pe	5.7	3.3	2.2	2.4	2.5	3.5	5.5
M3 money supply (% y/y) pa	8.2	12.9	10.8	11.0	19.8	14.4	16.7
M3 money supply (% y/y) pe	11.1	12.8	8.2	16.0	17.1	14.2	17.8
BOU policy rate (%) pa	14.9	10.5	9.2	9.8	7.5	6.6	6.5
BOU policy rate (%) pe	12.0	9.5	10.0	9.0	7.0	6.5	6.5
3-m rate (%) pe	14.0	8.4	10.4	9.2	8.5	6.9	7.3
1-y rate (%) pe	15.9	9.0	13.2	12.9	14.0	9.5	10.4
2-y rate (%) pe	16.7	11.2	14.9	14.5	16.0	11.0	11.8
5-y rate (%) pe	16.9	12.7	16.5	16.0	16.5	12.7	13.5
USD/UGX pa	3433	3615	3773	3690	3721	3568	3700
USD/UGX pe	3596	3643	3705	3665	3 650	3515	3600

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

Notes: pa - period average; pe - period end

Zambia: still soft growth

Medium-term outlook: still modest

The government's 2021 GDP growth forecast is 1.6% y/y. Our forecast is 2.3% y/y predominantly due to robust growth in the electricity, agricultural, and information and communication sectors, increased tail winds to economic recovery in H2:21 emanating from kwacha appreciation, and base effects which are likely to stem from the public administration and education sectors.

Zambia has had partial lockdowns for only limited periods. Although the Dec festive period could incur a fourth wave of infections, faster vaccination may restrain hospitalisation cases. Notably, the anticipated arrival of 4.4m J&J doses could increase total vaccinations to 25% of Zambia's population in the next few months.

According to the 25th Southern African Regional Climate Outlook Forum (SARCOF 25), greater chances of La Niña-related wetter conditions should underpin favourable regional rainfall patterns over the coming 2021-2022 season, maintaining agricultural production in 2022 after the bumper 2021 harvest.

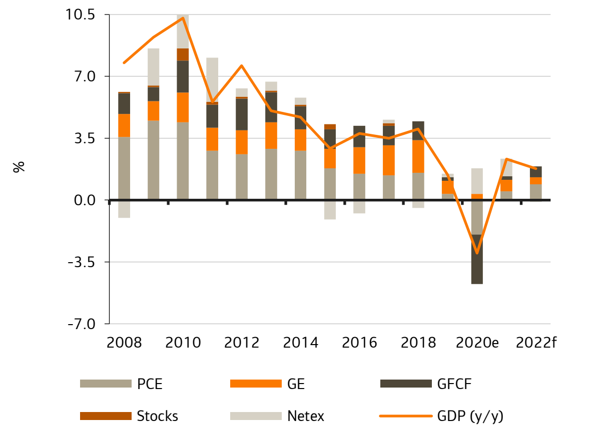
Ample dam levels should bode well for electricity production. Of course, electricity generation is already much improved, which supports manufacturing and mining production. Notably, the completion of the Kafue Gorge Lower hydropower station could increase electricity generation to average 2,000gWh/month in 2022, from 1,260gWh/month in 2020. However, manufacturing production, particularly for exporters, may moderate over the next few months due to the kwacha's recent sharp appreciation, before recovering in 2022 on lower input prices.

Although greater clarity on policy will likely be revealed in the next 2-m or so, should authorities opt to revise the mining tax code, it could encourage increased private investment into the mining sector and anchor increased copper production in the medium term. Notably, the government targets increasing local copper production to 2m MT in 2026, from 802k Mt in 2021.

Wholesale and retail trade activity too could recover due to potential reduction in PAYE taxes as well as lower consumer prices on kwacha appreciation. However, anticipated energy and food price adjustments may prove limiting.

Our base case sees 2022 GDP growth at 1.8% y/y, largely predicated on fading base effects in the public administration and education sectors. In addition, the construction sector is likely to be significantly impacted by the reallocation of government capital expenditures in the FY2022 budget.

Composition of GDP growth by demand



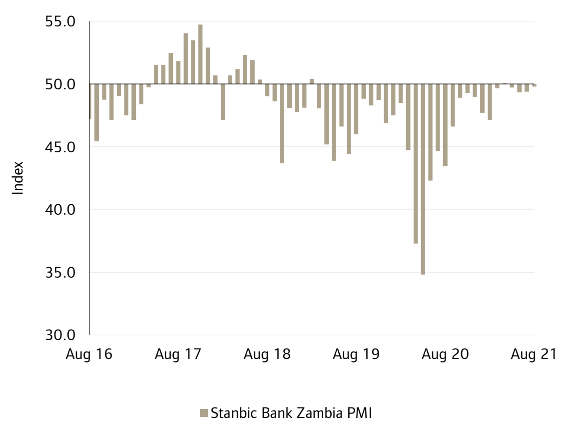
Source: Zambia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

	Q3:20	Q4:20	Q1:21
Agriculture, forestry and fishing	2.1	3.3	3.0
Mining and quarrying	22.7	24.3	27.3
Manufacturing	7.5	7.5	8.5
Construction	11.4	11.8	10.4
Wholesale and retail trade	16.6	15.1	14.3
Financial and insurance activities	7.1	7.1	8.4
Real estate activities	3.5	3.7	3.4
Public administration and defence	3.5	4.1	3.6
Education	2.8	2.8	2.8
Electricity	3.3	2.6	3.3
Information and communication	2.7	2.9	2.8

Source: Zambia Statistics Agency

Purchasing Managers Index



Source: IHS Markit

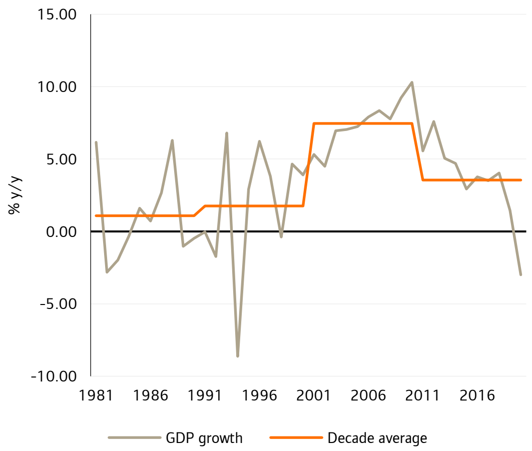
Medium-term economic growth scenarios

	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Base scenario																
GDP (% y/y) pa	0.70	4.73	2.61	1.23	2.25	0.68	1.43	2.80	2.71	3.53	2.60	2.40	3.28	2.48	3.51	4.33
CPI (% y/y) pe	22.80	24.60	23.40	17.10	14.80	9.50	8.90	7.30	6.90	7.00	6.80	6.30	6.30	7.10	8.60	7.30
Policy interest rate (%) pe	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.00	8.00	8.00	8.00
3-m rate (%) pe	14.03	13.99	14.00	14.00	13.50	13.00	12.00	10.00	9.50	8.75	8.50	7.50	7.00	6.25	6.75	7.00
6-m rate (%) pe	16.03	16.03	16.00	16.00	15.00	14.25	13.00	11.25	10.50	10.00	9.50	8.00	8.00	7.50	8.00	8.25
USD/ZMW pe	22.10	22.64	16.21	17.09	17.44	17.11	16.96	16.73	16.75	17.23	16.91	17.05	17.10	17.53	17.25	17.39
Bull scenario																
GDP (% y/y) pa	0.70	6.48	3.53	1.73	2.45	1.83	3.02	5.99	3.81	4.05	3.57	3.17	4.53	3.97	4.25	3.99
CPI (% y/y) pe	22.80	24.60	19.10	15.00	13.80	8.40	7.30	5.60	5.10	5.60	5.90	5.70	5.70	6.50	7.80	6.70
Policy interest rate (%) pe	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
3-m rate (%) pe	14.03	13.99	13.25	13.25	10.00	9.00	9.00	7.50	6.00	6.00	6.25	6.50	6.50	7.25	8.00	8.00
6-m rate (%) pe	16.03	16.03	15.00	14.50	13.75	11.50	9.75	7.00	6.00	7.75	8.00	8.50	8.50	9.00	10.50	10.50
USD/ZMW pe	22.10	22.64	15.05	14.63	14.94	14.98	14.92	14.77	14.79	15.32	15.05	15.17	15.21	15.60	15.35	15.40
Bear scenario																
GDP (% y/y) pa	0.70	1.28	0.41	0.15	0.03	0.35	0.43	-2.88	0.35	1.88	1.17	1.90	2.75	1.06	1.97	2.76
CPI (% y/y) pe	22.80	24.60	24.40	20.70	20.20	14.60	17.00	15.20	14.20	13.30	12.80	12.20	10.40	10.30	9.50	8.90
Policy interest rate (%) pe	8.50	8.50	8.50	11.50	12.50	12.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
3-m rate (%) pe	14.03	13.99	18.25	19.25	17.25	19.25	19.75	16.75	16.25	16.00	15.00	16.00	16.50	16.75	17.00	17.25
6-m rate (%) pe	16.03	16.03	21.00	21.50	21.25	22.50	21.25	18.50	16.75	17.75	17.50	18.25	18.25	18.50	19.25	19.50
USD/ZMW pe	22.10	22.64	20.62	21.33	22.75	23.79	24.96	25.43	24.75	24.18	22.91	22.44	22.51	23.10	22.78	22.87

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

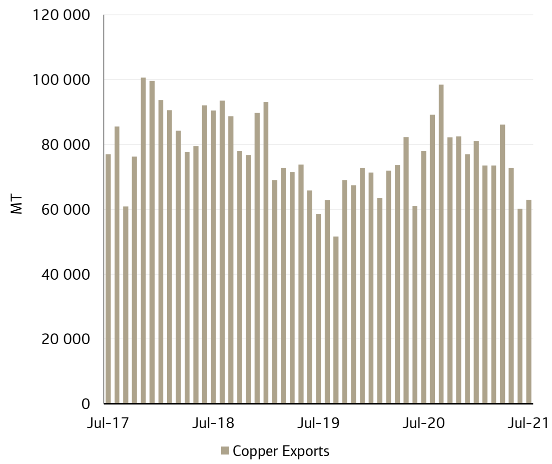
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: World Bank; Zambia Statistics Agency

Copper exports



Source: Zambia Statistics Agency

Balance of payments: C/A surplus to narrow

We revise our forecast for the C/A surplus at year-end 2021 to USD2.4bn, or 11.2% of GDP, from USD2.9bn, or 14.2% of GDP published in our May edition. This represents a decline in the C/A surplus from USD2.3bn, or 11.7% of GDP at year-end 2020. By year-end 2022, we now expect the C/A surplus to narrow further, to USD1.8bn, or 6.7% of GDP.

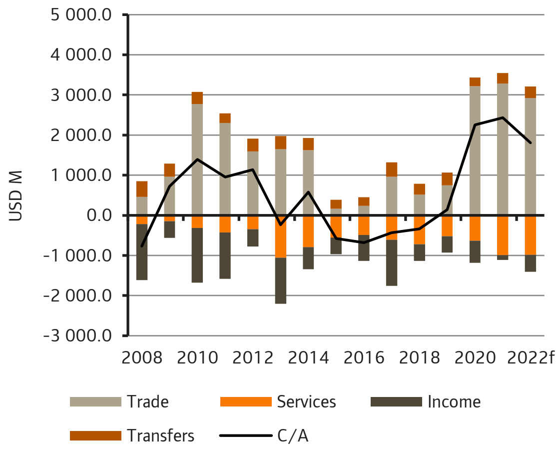
Our projections depend on a faster recovery in consumer goods imports as well as a deeper services deficit. Notably, we expect a recovery in international trade in 2021 and 2022 to underpin an increase in transport outflows, thereby increasing overall services outflows. We expect services receipts to meaningfully recover only by 2023 as tourism inflows increase.

While we now see further upside to consumer goods imports, a rise in total goods imports in 2022 may be moderated by a reduction in capital goods imports as the government curtails some spending with import requirements such as the Farmer Input Support Programme (FISP).

Notably, balance of payments pressure has eased. FX reserves at end Aug stood at USD2.9bn, or 5.4-m of import cover, from USD1.2bn, or 2.1-m of import cover at end Mar. In conjunction with BOP support from an IMF financial package, FX reserves are likely to be further boosted by robust foreign portfolio inflows as well as increased foreign direct inflows. Furthermore, an IMF programme may underpin improved access to foreign capital for the government.

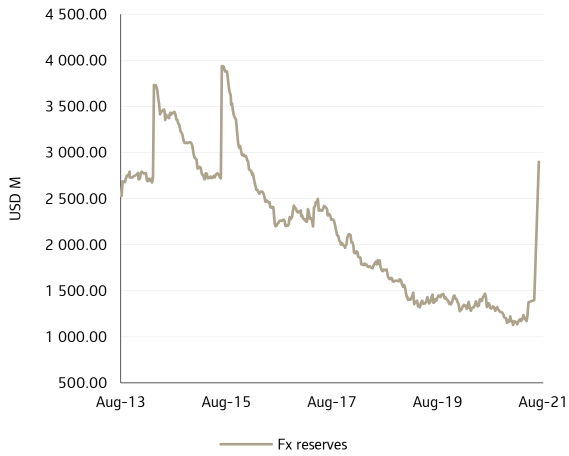
That said, in 2022 a resumption of external debt payments and/or a requirement to clear a portion of existing external debt arrears may increase government demand for hard currency and moderate the rise in FX reserves. We'd see FX reserves reaching USD4.2bn, or 7.0-m of import cover by year-end 2022.

Current account developments



Source: Bank of Zambia; Standard Bank Research

FX reserves



Source: Bank of Zambia

FX outlook: upside to remain contained

Our base case sees the USD/ZMW reaching 17.09 by year-end 2021 and 16.73 by year-end 2022. The significant increase in FX reserves provides the BOZ with ample resources to intervene meaningfully in the FX market if needed. In addition, robust foreign portfolio inflows and increased foreign direct inflows should be supportive. We therefore do not anticipate a return to the significant FCY liquidity constraints that were prevalent in H1:21 when the demand backlog increased to USD500m-USD550m. That said, should the BOZ be more frugal in FX intervention, there'd be upside risk to our forecast.

Our bear scenario, which assumes limited FX intervention as well as increased foreign portfolio divestment due to a failure to conclude IMF and external debt restructuring negotiations, sees the USD/ZMW at a high of 25.43 by year-end 2022.

USD/ZMW: 12-m forecast versus 12-m forward

Source: Bank of Zambia; Standard Bank Research

Monetary policy: bias less hawkish

We see inflation averaging 22.0% y/y in 2021 and 10.1% y/y in 2022, considerably more constructive than the BOZ forecasts for average inflation at 22.6% y/y in 2021 and 15.5% y/y in 2022.

Notwithstanding upside risks to inflation over the next 15-m pertaining to the removal of subsidies, we anticipate a more meaningful decline due to kwacha appreciation as well as significant unwinding base effects. This underlines our expectation for inflation to slide into single digits by Q2:22.

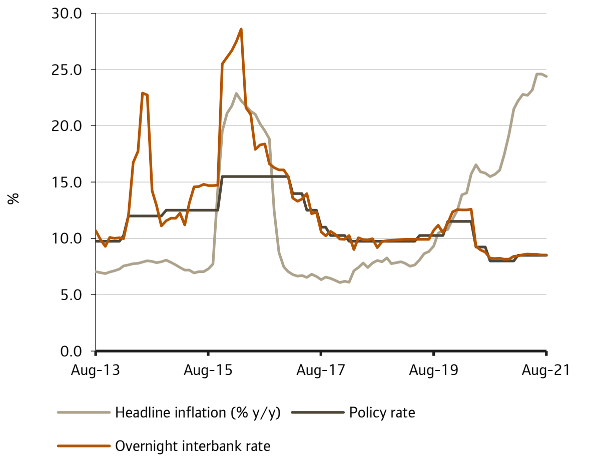
The BOZ's MPC left the key policy rate unchanged at 8.50% in Sep 21, citing balancing an improved inflationary outlook with fragile growth and existing financial sector vulnerabilities. Due to lower inflation expectations, we now expect the BOZ's MPC to maintain the policy rate at 8.50% in 2021 and 2022.

Although the MPC also left the statutory reserve ratio (SRR) for commercial banks unchanged, at 9.0%, money market liquidity may decline due to the BOZ's USD sales into the FX market, a reduction in the BOZ's 3-m OMO reverse repos, as well as a potential bond sale programme by the BOZ to reduce its balance sheet. Moreover, on account of unwinding base effects, a reduction in debt monetisation, as well as the kwacha appreciation, we expect broad money (M3) supply growth to moderate to 9.8% y/y by end Dec 21 and then contract by 10.9% y/y at Dec 22, from 46.4% y/y at Dec 20. This too supports our more favourable inflation outlook.

However, our inflation forecasts take no account of either a potential increase in consumption taxes in the FY2022 budget or supply-chain disruptions. An increase in VAT and/or excise duties would considerably change our inflation projections.

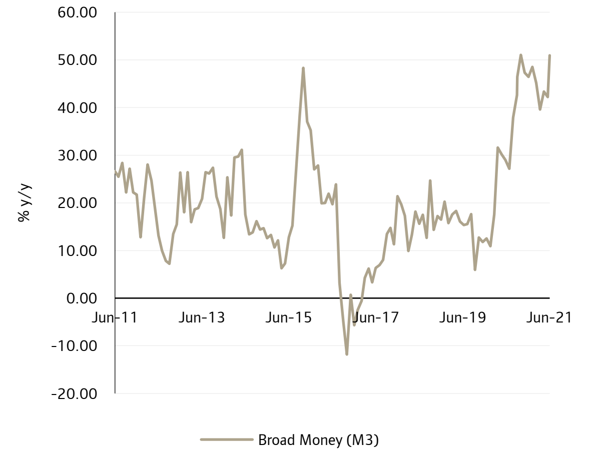
Our bear case, which assumes a longer time for inflation to reach single digits, sees inflation averaging 23.1% y/y in 2021 and 16.8% y/y in 2022.

Inflation and interest rates



Source: Bank of Zambia; Zambia Statistics Agency

Money supply growth



Source: Bank of Zambia

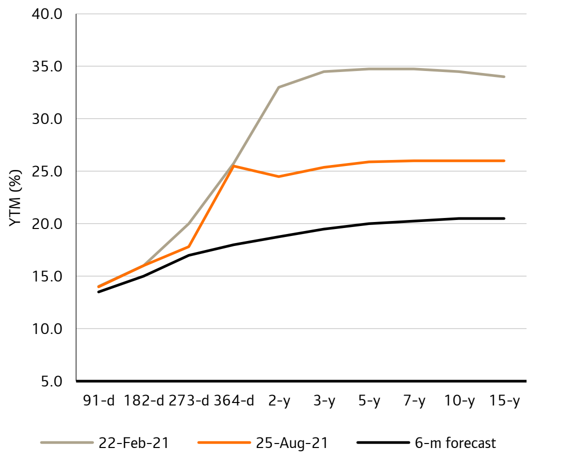
Yield curve outlook: further downside

Over the next 6-m, we still anticipate a reduction in the issuance of government bonds, particularly through private placements, to underpin a further decline in bond yields.

Indeed, there should be a more material decline in 2022 as net domestic financing needs will likely be further moderated by the government's increased access to external financing. In addition, notwithstanding the Fed's potential tapering, idiosyncratic factors, predominantly linked to the successful conclusion of IMF discussions, may underpin robust foreign portfolio inflows into government securities, particularly when inflation softens in Q2:22 and real yields across the bulk of the curve turn more attractive.

Although the BOZ's potential bond sale programme underscores some upside risk to bond yields, the aforementioned factors should underpin a downside bias for ZMW yields over the next 15-m or so.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: improved outlook for the deficit

The FY2021 budget forecast a fiscal deficit of 8.0% of GDP. Although there's been significant slippage in total expenditure notwithstanding reduced external debt interest payments, domestic revenues collections are also higher on account of robust mining tax collection as well as extraordinary revenues from a dividend from the BOZ due to the impact of 2020's kwacha depreciation on FX reserves. To Jul, total expenditure without amortisation was 20.0% of GDP, while total revenue and grants were 16.3% of GDP, already more than the year-end target of 16.1%.

The FY2022 budget is due out in Oct. Early indications point to a reallocation of government expenditure, contrary to our expectation for a material rationalisation of expenditure. In addition, a potential reduction in PAYE taxes as well as a decline in extraordinary revenues may well increase fiscal pressure. That said, the government may look to put a few tax measures in place to bolster revenue collection, including a possible increase in the VAT rate and excise duties, in conjunction with improved direct tax collection avenues. In 2021, the fiscal deficit was largely funded by domestic financing – but we now expect increased access to external financing in 2022 to underpin a reduction in domestic borrowing requirements.

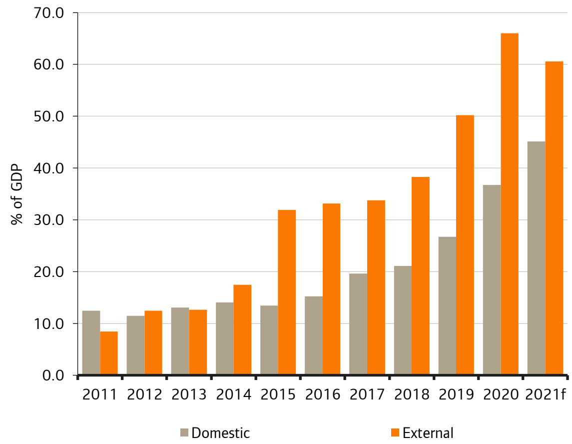
Our base case sees the government securing an IMF Extended Credit Facility (ECF) by Q1:22. Our bull case however assumes this by Q4:21. Still, debt restructuring negotiations may prove complicated and protracted. Notably, authorities recently mentioned that the current external debt composition may be larger than previously disclosed. Clarification on this point will be key in debt restructuring talks. Moreover, at the end of Jun, cumulative external public debt arrears were significantly higher, at USD1.48bn, or 8.6% of GDP.

Central government budget

% of GDP	FY2019	FY2020	FY2021f
Total revenue and grants	20.4	19.0	16.1
Total expenditure (- amortisation)	28.9	31.9	24.1
- Interest	6.0	5.6	6.8
- Salaries	7.6	7.6	6.7
Overall balance (+ grants)	-8.5	-12.9	-8.0
Overall balance (- grants)	-9.1	-13.4	-8.5
Net domestic financing	2.9	8.8	4.1
Net external financing	6.1	4.4	3.9
Donor support (grants)	0.6	0.5	0.5
Statistical discrepancy	0.5	0.3	0.0

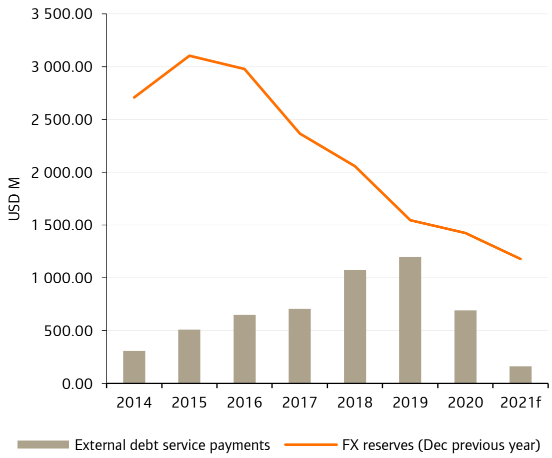
Source: Ministry of Finance and National Planning

Debt to GDP (excl. government guarantees, contingent liabilities and arrears)



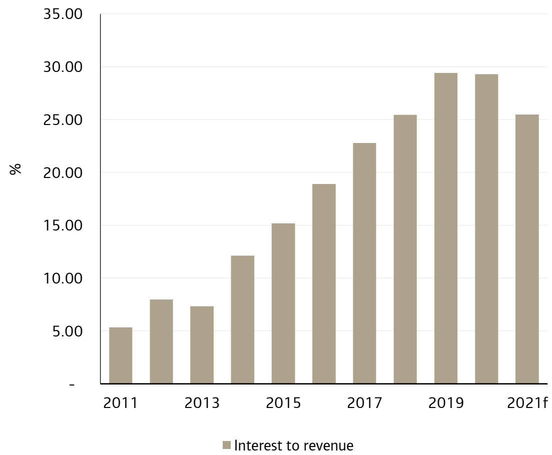
Source: Ministry of Finance and National Planning

BOZ FX transactions and FX reserves



Source: Bank of Zambia, Standard Bank Research

Interest payments



Source: Ministry of Finance and National Planning

Annual indicators

	2016	2017	2018	2019	2020	2021f	2022f
Output							
Population (million)	16.4	16.9	17.4	17.9	18.4	18.9	19.5
Nominal GDP (ZMW m)	216 098	246 252	275 175	300 449	354 410	423 236	461 708
Nominal GDP (USD bn)	20.950	25.821	26.242	23.235	19.303	21.693	27.065
GDP / capita (USD m)	1 277	1 528	1 508	1 298	1 049	1 148	1 388
Real GDP growth (%)	3.8	3.5	4.0	1.4	-3.0	2.3	1.8
Copper production ('000 tons)	775	755	894	797	869	802	900
Central Government Operations							
Budget balance (+ grants) / GDP (%)	-5.7	-6.7	-7.4	-8.5	-12.9	-8.0	-6.1
Domestic debt / GDP (%)	15.3	19.6	21.1	26.7	36.7	45.1	42.2
External debt / GDP (%)	33.2	33.7	38.3	50.2	66.0	60.6	49.7
Balance of Payments							
Goods and services exports (USD bn)	7.420	9.081	9.982	8.258	8.557	10.817	10.820
Goods and services imports (USD bn)	7.669	8.730	10.193	8.036	5.975	8.525	8.880
Trade balance (USD bn)	-0.249	0.351	-0.210	0.222	2.582	2.292	1.940
Current account (USD bn)	-0.684	-0.435	-0.342	0.141	2.254	2.433	1.805
- % of GDP	-3.3	-1.7	-1.3	0.6	11.7	11.2	6.7
Capital and Financial account (USD bn)	0.403	0.423	-0.034	-0.139	-2.668	-0.646	0.454
- Net FDI (USD bn)	0.486	1.180	0.363	-0.148	-0.199	0.101	0.620
Basic balance / GDP (%)	-1.2	0.1	-1.5	-0.4	-2.2	8.2	8.3
FX reserves (USD bn) pe	2.4	2.1	1.6	1.4	1.2	3.0	4.2
- Import cover (months) pe	3.7	2.9	1.8	2.3	2.4	5.6	7.0
Sovereign Credit Rating							
S&P	B	B	B	B	D	D	CC
Moody's	B3	B3	B3	B3	C	C	Ca
Fitch	B	B	B-	B-	D	D	CC
Monetary & Financial Indicators							
Consumer inflation (%) pa	18.2	6.6	7.5	9.1	15.7	22.0	10.1
Consumer inflation (%) pe	7.5	6.1	7.9	11.7	19.2	17.1	7.3
M3 money supply (% y/y) pa	11.8	7.8	16.4	15.0	34.9	32.8	-1.7
M3 money supply (% y/y) pe	-5.7	21.4	16.5	12.6	46.4	9.8	-10.9
Policy interest rate (%) pa	15.50	12.61	9.82	10.20	9.66	8.50	8.50
Policy interest rate (%) pe	15.50	10.25	9.75	11.50	8.00	8.50	8.50
3-m rate (%) pe	20.5	9.8	15.0	16.5	14.0	13.7	10.0
1-y rate (%) pe	25.0	16.5	23.0	27.5	25.8	20.5	13.5
3-y rate (%) pe	23.2	18.0	20.0	29.8	32.7	21.5	14.3
5-y rate (%) pe	25.0	18.0	20.4	33.0	33.0	22.0	15.0
USD/ZMW pa	10.32	9.53	10.49	12.93	18.36	19.51	17.06
USD/ZMW pe	9.93	9.98	11.93	14.15	21.18	17.09	16.73

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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Standard Bank Research Authors

Steven Barrow
+44-203 167 5131
Steven.Barrow@standardsbg.com

Angeline Moseki
+27-11-415-4674
Angeline.Moseki@standardbank.co.za

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

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

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

Blessing Oladipo
+234 (1) 422 7576
Blessing.Oladipo@stanbicibtc.cc

Kuria Kamau
+254 (020) 363 8931
Kuria.Kamau@stanbic.com

Dean Onyambu
+260 96 721 3721
Onyambud@stanbic.com

Mulalo Madula
+27-11-415-4552
Mulalo.Madula@standardbank.c

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