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Standard Bank IT CAN BE™
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Description of front cover:

A composite representation of downtown Johannesburg streets.

Contents

Still precarious as risk appetite remains volatile

- The uncertain global risk environment is likely to persist into H1:23 at least. Most African economies over the years have become accustomed to issuing external commercial debt such as Eurobonds not only to finance budget support requirements, but this financing has also become a pivotal funding component for the balance of payments.
- African economies will now have to accelerate efforts to consolidate public finances over the coming year, amidst the likely challenges to source external commercial funding. Of course, alternate funding sources from multilateral and bilateral sources may still be available, although they will perhaps not be large enough to finance bloated fiscal and current account deficits.
- Indeed, as external commercial funding may still prove difficult to source in H1:23, fiscal consolidation should not be hard to attain, as foreign finance expenditure will inevitably decline. However, if African economies continue to run expansionary fiscal policies, this may concerningly be financed via accumulating fiscal arrears and increased domestic issuance, which will exert further pressure on public finances.
- The upcoming autumn IMF meetings should provide some guidance on whether economies facing external imbalances from the war in Ukraine and advanced economies tightening monetary policy, will be provided with some form of temporary additional SDR quotas to underpin external positions.
- Ghana will probably have to conduct some form of debt restructuring that may accompany a potential IMF funded programme. We think that the government could secure an IMF deal between Dec 22 and Apr 23. However, will they secure a staff level agreement at the outset, where they only receive disbursements once clarity on debt restructuring transpires?
- The consensus amongst the investor community is that Ghana needs to also restructure local debt and failure to do so, may not help restore public debt on a more sustainable path, as domestic debt service exceeds external debt service.
- However, even if the authorities were to opt to restructure local debt, it remains unclear what this would entirely entail with respect to whether coupons will be slashed, principal lowered, deferment of maturities, or a combination of all.
- We closed our NDF positions in our shadow portfolio for USD/EGP and USD/NGN at a loss of 6.35% and 2.41% respectively. If FX reform will likely be accelerated in Nigeria post Feb 23 elections, we may look at these NDF's again around then. Meanwhile, both the timing of the IMF deal and improvement in global risk appetite will be key for us to reassess the USD/EGP NDF trade in our shadow portfolio.

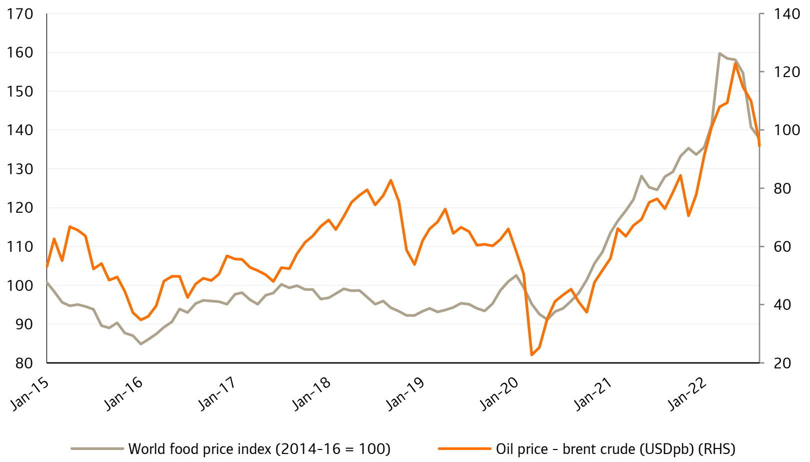
Some inflation cheer

Stagflation continues to stalk the global economy. Many countries may well slide into recession while posting target-busting levels of inflation. Europe is particularly hard pressed given the proximity of the conflict in Ukraine and its debilitating effect on gas prices. European wholesale gas prices have risen by as much as three-and-a-half times their pre-invasion levels and, although there's been some moderation in recent weeks, prices are still at more than twice their February 2022 level. The impact this has had on inflation, and hence real incomes, would seem to make recession a near certainty for most European countries either later this year or in 2023. For, while governments in Europe and around the world have worked hard to provide financial support to hard-pressed consumers and businesses, it has been insufficient to avoid the sort of downturn in consumer and business confidence that almost always signals a recession.

But not just Europe is in trouble. If we define a recession as two consecutive quarters of negative growth, then the US is already in the mire, as GDP has been falling all year. Admittedly, this recession determination does not chime with other, more positive signals from that economy, such as the persistently low US unemployment rate. But, in time, it does seem likely that the US will fall into a recession too. Unfortunately, policymakers in the US and elsewhere find it incredibly difficult to engineer soft landings in their economies as inflation rises and rates are raised, and this time may be no different. In fact, it will prove far harder to achieve a soft landing this time because inflation has risen so far above target. And, even if annual inflation rates start to decline from here, which is very possible, a period of negative growth for most, if not all G10 countries, seems very likely indeed.

The good news is that many of the forces that initially lifted global inflation last year have started to recede. We have already mentioned European gas prices and, to this we can add food prices, oil, and more. In general, there are also encouraging signs that supply-chain tensions are easing. For instance, the NY Fed measure of global supply chain pressure had been as much as four standard deviations above its 'normal' level at the end of 2021. That's now down to two standard deviations, which is still larger than anything we've seen in this measure that dates back some 25 years, but still lower than the recent peak. PMI surveys from major countries corroborate the idea that supply chain pressures are easing. But the problem is that these inflationary strains have been supplanted by other, more insidious, and potentially longer-lasting, price pressures, such as those generated by rising wage rates. The bottom line is that inflationary pressure is only likely to recede slowly and will still lie above target (which is 2% for most G10 central banks) throughout 2023 and probably 2024 as well.

Figure 1: Some price pressures are weakening



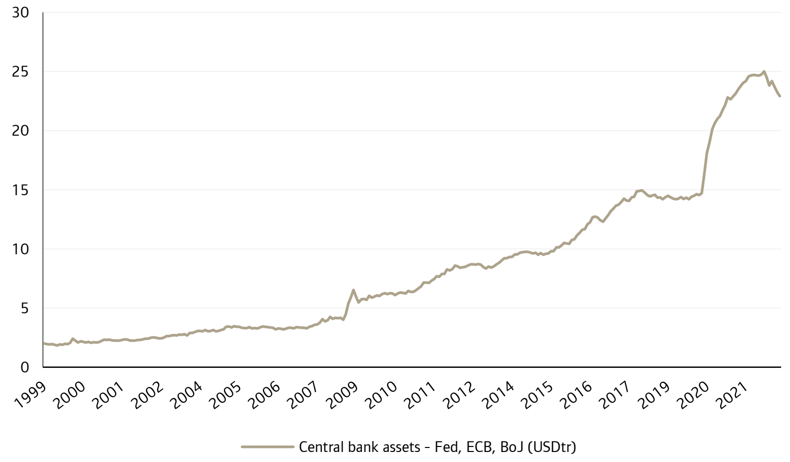
Source: UN, Bloomberg

Calibrating the response

The response to these global stagflation threats, particularly amongst the major developed economies, has been either easier fiscal policy or tighter monetary policy. The first is designed to cushion the recessionary consequences of the slump in real income, while the latter is used to try to ensure that inflationary pressure dissipates. So far it seems clear that neither has been sufficient to either obviate the hit to real incomes or bear down sufficiently on inflation. We'd estimate that, on monetary policy, most developed-country central banks are little more than half-way through their rate hike cycles, and some, such as the Bank of Japan, have not even started yet.

Quite clearly, most developed-country central banks will bolster the monetary tightening that comes from higher rates with reductions in central bank balance sheets. They will allow maturing bonds to roll off rather than buy the equivalent amount of new debt, but some, such as the Bank of England, are moving to outright bond sales. The data on major countries balance sheets is already starting to show that the very rapid expansion since the start of the pandemic has now started to reverse.

Figure 2: Starting to recede



Source: Refinitiv datastream

For some in the market, balance sheet reduction stands as a powerful tool to reduce global liquidity and so bear down on inflation. We tend to see balance sheet reduction as more passive, just as Fed Chair Powell recently described. While that might seem like good news for those who fear excessive central bank tightening, we think it just heaps more pressure on central banks to lift policy rates further. Across just about all the major nations we see central banks lifting rates to higher levels than current market pricing, with the only exception being the UK.

We expect the US Fed to take the fed funds target up to at least 4% and to hold it at that peak throughout 2023. Our bias is for a relatively high endpoint partly because the tightness of the US labour market is not something that the Fed has experienced before at this stage of a tightening cycle, and hence its ability to bear down on wage pressure seems severely compromised. In the US, there are still two jobs available for every unemployed person. That's historically very high, compared to just 0.4 jobs available per unemployed person in the last economic expansion (between the end of the 2008/9 financial crisis and the start of Covid in 2020).

But the US is not alone. Other countries have very tight labour markets, which will compromise the ability of central banks to reduce inflation to target. For the euro zone, we see the ECB lifting rates to at least 2.25%, and our call is for 3% base rates in the UK. In terms of the longevity of higher policy rates, we take issue with market pricing that implies the Fed starting to cut rates before the end of next year. Traders and investors may however have in mind the last time a Fed tightening cycle turned to easing back in 2018/19 when the fed funds rate was held at the peak of 2.50% for only seven months.

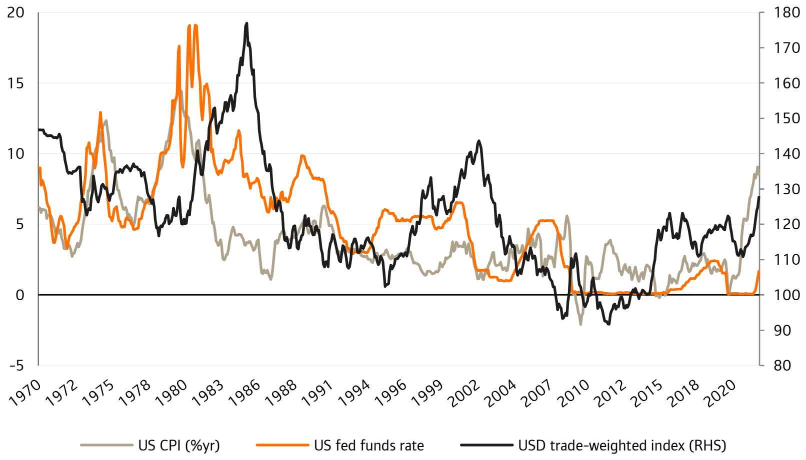
But fast-forward to today, and inflationary pressure is much greater than back then. In addition, the Fed has a new average inflation-targeting strategy (introduced in August 2020). It is designed not to cut rates as soon as inflation is forecast to hit the target but, instead, only cut once actual average inflation converges to the 2% target. Now, if we assume that the Fed has a five-year averaging period in mind, which is what many regional Fed presidents have implied, PCE inflation is still likely to be above 3% by the end of 2023, which seems too high for a rate cut.

Of course, the Fed could ditch its new average inflation target and we dare say that's largely why the market is pricing rate cuts to start from next year. Our view is that peak policy rates will stay around 4% throughout 2023 and cuts will only occur from the following year. But does that imply longer-term bond yields in the US and elsewhere will continue to climb? Probably not. For inflation will moderate to some extent, and many countries will fall into recession. As a result, the 3.5% area, that has marked the peak for 10-year treasury yields so far in this upcycle, could prove durable even if short-term yields continue to follow the pace of Fed rate hikes and the 2s-10s curve inverts even more.

Multi-decade dollar highs

The Fed's more aggressive monetary policy response has been credited with lifting the dollar to multi-decade highs against other major currencies such as the euro and the yen. On the BIS's narrow trade-weighted measure, the dollar is now at 20-year highs. Still, it is still some distance from the post-Bretton Woods peak seen back in 1985. The dollar's surge back then came after an energy price generated surge in inflation and aggressive Fed tightening, which is not dissimilar to today's situation. While we certainly don't envisage the dollar scaling the 1985 peak again, we do see a danger in the current situation that Fed tightening could provoke such dollar strength – and such difficulty for other countries – that some coordinated intervention would be required, much as we saw in 1985.

Figure 3: A repeat of the 1980s?



Source: BIS, Refinitiv datastream

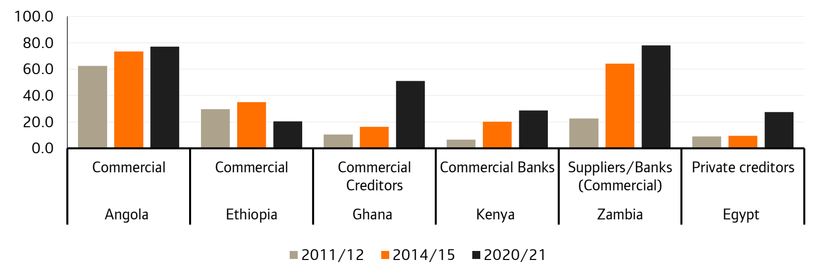
But could the dollar's uptrend reverse before intervention becomes necessary? Much here depends not just on the Fed ending its rate hike cycle (something that notably did not stop the dollar rally in the early 1980s), but also an easing of the gas price tensions that have weighed particularly heavily on European currencies. In our view, neither an end to the Fed's tightening cycle nor an easing of gas price pressures in Europe seems likely this year, and hence the dollar looks set to consolidate its strength, most likely trading consistently around the 0.95 level against the euro, as opposed to the parity-plus level we have seen so far this year. Over the long haul, the dollar is expected to ease back down as gas price tensions ease, the Fed moves towards an easing cycle, and major countries emerge from recession. And besides, if all of this is not sufficient to weaken the dollar, central banks will have to step in to intervene to prevent dollar strength from tightening global financial conditions too much.

Fiscal consolidation needs to be accelerated as external commercial financing avenues dry up

With global risk conditions set to remain uncertain into H1:23, African economies that previously relied on external commercial funding, for both budgetary support as well as balance of payments of funding, now may need sharper focus.

The stock of external commercial debt was just shy of 80% in Angola as a function of overall external debt in FY2020/21, while in Ghana it has risen to around 50% in FY2020/21, from just 10.4% around 10 years earlier. Similarly, in Kenya, it spiked to around 28% in FY2020/21, from 6.6% in FY2011/12.

Figure 4: Commercial debt



Source: World Bank; Various ministries of finance; Standard Bank Research

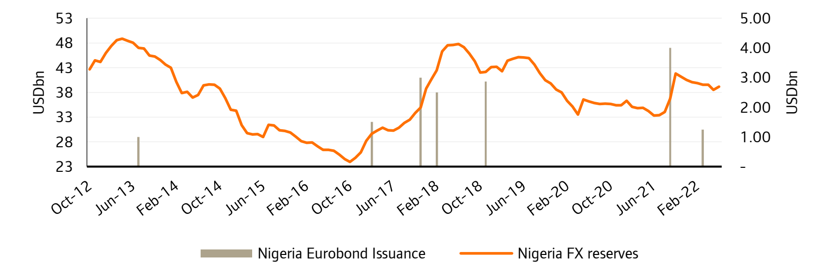
Crucially, markets previously reliant on external commercial funding now will have to consolidate public finances as a matter of urgency, particularly as alternative funding from multilateral and bilateral sources may be out of reach as well as insufficient for bloated fiscal deficits and balance-of-payment shortfalls.

The currently exorbitant Eurobond refinancing costs have seen some governments shelving their plans to issue commercial syndicated loans in 2022. Indeed, Kenya, Uganda and Ghana have suspended plans largely due to pricing concerns.

That said, even though Eurobond issuances will remain unlikely in H1:23 and even H2:23, some governments may well secure smaller syndicated loans in 2023.

Yet, amidst broad challenges to source external funding over the next 6-m at least, if not longer, fiscal consolidation for most economies now will be paramount so as to sidestep further balance of payment pressures.

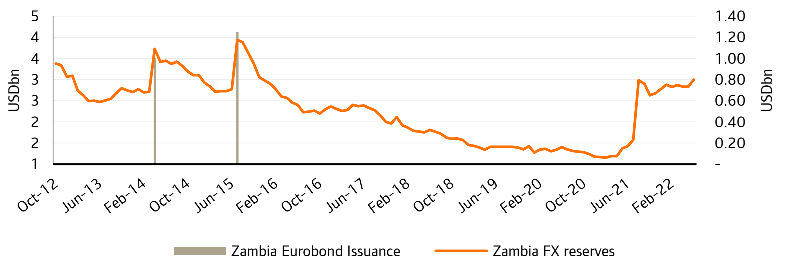
Figure 5: Nigeria Eurobond issuance



Source: Bloomberg

Arguably, though, as external commercial funding becomes thin, some governments would simply have to lower their fiscal deficits because foreign-financed expenditure will inevitably wane. However, governments failing to curb fiscal expenditure may have to either build fiscal arrears or increase domestic issuance and thereby raise their domestic debt-servicing costs. This would further exacerbate debt sustainability and external pressures as refinancing risks arise.

Figure 6: Zambia Eurobond issuance



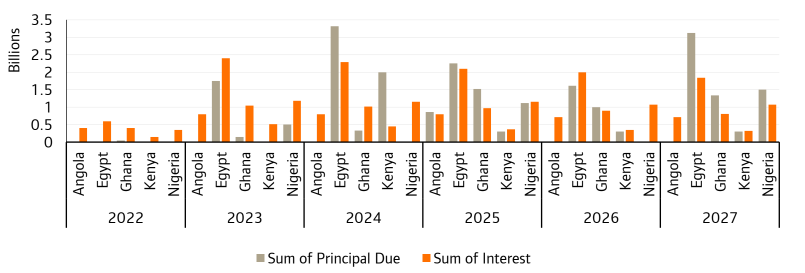
Source: Bloomberg

Moreover, economies that have typically relied on a higher proportion of foreign portfolio investment, to finance wider current account deficits, may not see a material recovery in such offshore inflows to their local debt markets for at least the next 6-m. High-beta markets, such Egypt, Ghana and even Uganda, are already facing such pressures.

Current account deficits for net-oil-importing countries may ease into 2023 as international oil prices decline from 2023. Moreover, owing to tighter monetary policy stances broadly adopted in 2022, consumer import demand may also wane into 2023, which should ease some pressure off current account balances. This should help alleviate some external account pressures at a time when inflows from net external debt issuances and portfolio investment into the capital and financial account are abating. Oil exporters, such as Angola and Nigeria, will probably see a dip in net oil exports into 2023, particularly as oil production in both these markets is unlikely to recover materially over the coming year.

However, external debt-servicing obligations over the next few years will still present risks to the BOP amidst concerns about foreign refinancing availability. Hence, the risk of African economies restructuring their debt will probably increase. At the upcoming autumn IMF meetings, we'd look out for formal plans to support those economies (that have been facing external pressures from geopolitical tensions) through a temporary increase in IMF borrowing limits, which may enable economies to borrow higher than their current SDR quotas.

Figure 7: Eurobond coupon and principal maturities



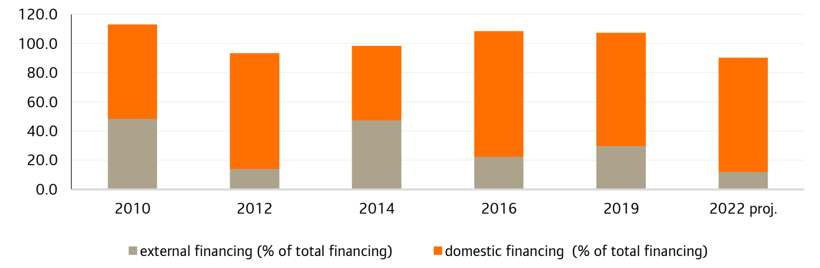
Source: Bloomberg

Ghana likely headed for some form of debt restructuring

The broad consensus amongst the investor community is that the government in Ghana will likely have to restructure debt. We concur, though it is unclear whether it will be external or domestic debt, or both.

The authorities confirmed being in negotiations with the IMF for a funded deal back in Jul 22 but back then the government seemed reticent to restructure external debt at the outset. Still, the government has since concurred to some of form debt restructuring, if required.

Figure 8: Ghana external versus domestic financing (%)



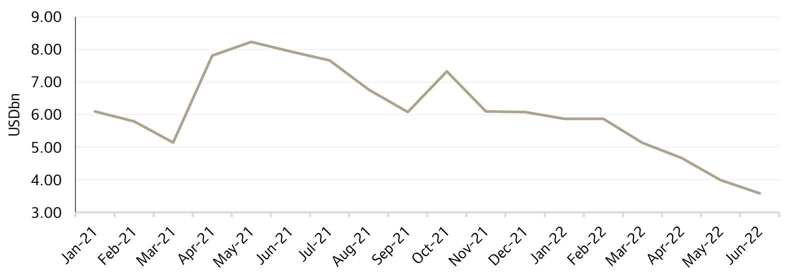
Source: Ministry of Finance; Standard Bank Research

Indeed, while it is quite possible that even the IMF may ask the government to accompany a funded programme with some form of restructuring, it appears that most external creditors believe that a domestic debt restructuring will be required to restore public debt on a more sustainable path. This is because, unlike in Zambia, a larger share of Ghana's debt service is skewed towards domestic debt service, which is primarily why there is a consensus building around this.

The earliest that this government may secure an agreement with the IMF for a funded programme may be around Dec 22 to Apr 23. However, the key question is whether the IMF would first provide a staff level agreement, and then require progress on debt-restructuring plans. Conversely, they could perhaps also provide an Executive Board level approval from the outset, which may then unlock an immediate disbursement under the programme. But here, the second review and disbursement under the programme may be contingent on Ghana's progress with debt restructuring.

External debt principal repayments for the Eurobond maturity are around USD148m in 2023 as the government had already bought back a notable size of this bond. However, total Eurobond coupon payments are just over USD1.0bn next year. Furthermore, net FX reserves declined to USD3.58bn in Jun 22, from USD6.09bn in Jan 22.

Figure 9: Ghana net FX reserves



Source: Bloomberg

Were the government to elect domestic debt restructuring, it still isn't clear what form it would take. Would they only restructure domestic debt held by certain local commercial banks? Would they not restructure debt held by pension funds? And would there be a haircut on the coupon, principal, deferment of maturities, or all three?

Were domestic debt restructuring to take place, it may raise concerns about the banking sector's capital position, as government bonds are weighted at "zero" from the Risk Weighted Assets (RWA) position. Indeed, following the recent financial sector bailout in Ghana, which also raised fiscal expenditure over the last few years, should capital positions falter for banks in Ghana, financial sector stability may come into question. This is something that may be deterrent to recommend a domestic debt restructuring.

Notably, as domestic debt restructuring concerns persist, local appetite for GHS fixed income may wane further. Indeed, offshore investment has been declining meaningfully since Q4:21, as FX liquidity challenges have compounded.

FX and fixed income strategy

With the global risk outlook still bleak, we remain reticent to recommend new duration positions. Despite most MPCs in the markets of our coverage, bar Angola, tightening policy stances, inflation has yet to peak in many markets. Indeed, the second-round effects from higher fuel prices may prove protracted. Thus, a hawkish monetary policy bias may persist over the next 6-m or so.

In Kenya, the yield curve may adjust higher over the coming months due to a more hawkish CBK as well as FX liquidity pressures. Subscriptions at government bond and T-bill auctions have been subdued, with expensive bids being rejected. However, with inflation rising after fuel subsidies started being withdrawn, real yields at the shorter end of the curve may turn negative.

President William Ruto in his inaugural speech to the National Assembly indicated that the government could cut fiscal expenditure for FY2022/23 by as much KES300bn. This may be confirmed in the final Budget Review Outlook Paper (BROP) in Oct/Nov or the Budget Policy Statement (BPS) in Feb 23.

In Egypt, the MPC's decision not to raise rates in the last two meetings, in addition to concerns that the EGP would have to adjust to attract offshore investors again, is deterring us from this market for now. Furthermore, it appears that the IMF-funded deal is being delayed due to insufficient exchange rate flexibility.

With USD/EGP implied yields trading above 30% at the time of writing, foreign portfolio investment inflows may remain subdued as onshore T-bill yields are trading below 20%. We think that the EGP is not more than 10% overvalued on a real effective exchange rate (REER) basis. The authorities will probably have to allow for a material adjustment on USD/EGP before offshore investors would return to the EGP fixed income market. Still, any recovery of portfolio flows into Egypt may depend largely on improved global risk.

We closed our NDF positions in our shadow portfolio for USD/EGP and USD/NGN at a loss of 6.35% and 2.41% respectively. If FX reform is accelerated in Nigeria post Feb 23 elections, we may look at these NDF's again.

Table 1: Open trades

Positions	Entry Date	Entry Yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %
						Since inception
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	17.12	19.50	71.8

Source: Bloomberg, Standard Bank Research

African Eurobonds: no issuance foreseen for H1:23

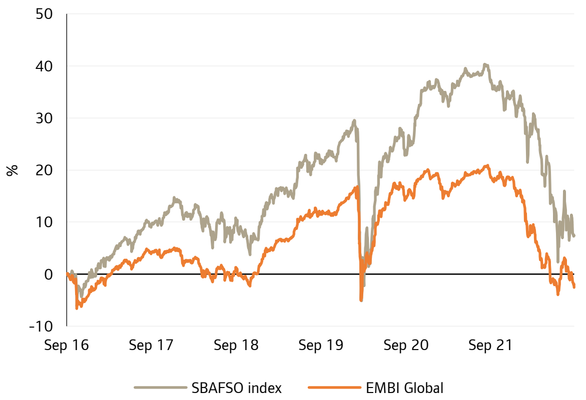
Many African economies are still recovering from the pandemic, and now are also fighting inflation triggered by supply-chain shortages caused by the war in Ukraine. Indeed, this year has been punishing for most markets. The SBAFSO and EMBI are down 23% and 17.2% YTD. In Q4:22 and Q1:23, global risk conditions will likely remain unfavourable to risk assets, thereby limiting the performance of our index.

The biggest losses in our index YTD are Ghana, Morocco and Rwanda down 34.6%, 20.8% and 20.2 % YTD, while the biggest gains are the Republic of Congo up 9%. While oil and gas prices are starting to fall, countries such as Nigeria and Angola have performed better than counterparts in Africa. Angola now is the largest producer of oil in Africa, with average daily output in August of 1.17m/bbl. This exceeds Nigeria with an average daily output of 1.13m/bbl. Here, production has been in decline since 2020 reportedly due to massive theft from pipelines.

Most African countries can no longer issue new Eurobonds because of elevated yields due to global risk-off sentiment. Indeed, yields rose significantly in Q2:22 and Q3:22. In the last month, even though yields have decreased, they remain elevated. Earlier in the year, Angola, Nigeria and South Africa issued new Eurobonds. Kenya and Nigeria were set to issue again but then shelfed issuance due to global conditions. Kenya had previously issued bonds around a yield of 6%-8%; now, Kenya Eurobond yields are trading around 11.7%. We don't foresee yields returning to previous levels by December. Hence, new Eurobond issuance seems likely only by mid-2023.

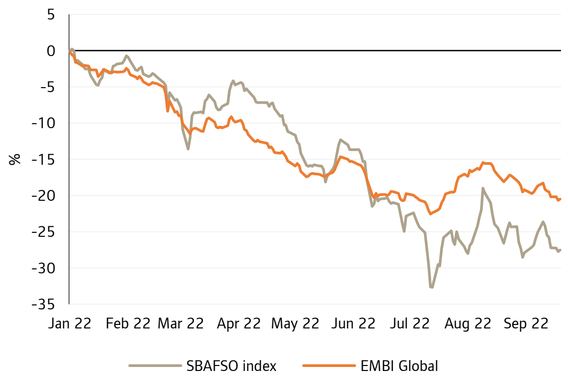
We estimate that Egypt has repayments worth USD4.36bn (in local T-bills issued in USD and EUR) between Sep and Dec 22, and USD3.63bn in H1:23. Also, a principal Eurobond repayment of USD1.25bn is due in May 23, and a further USD500m in Nov 23.

Figure 23: Cumulative returns -SBAFSO index vs EMBI



Source: Bloomberg, Standard Bank Research

Figure 24: Cumulative returns -SBAFSO index vs EMBI returns since YTD



Source: Bloomberg, Standard Bank Research

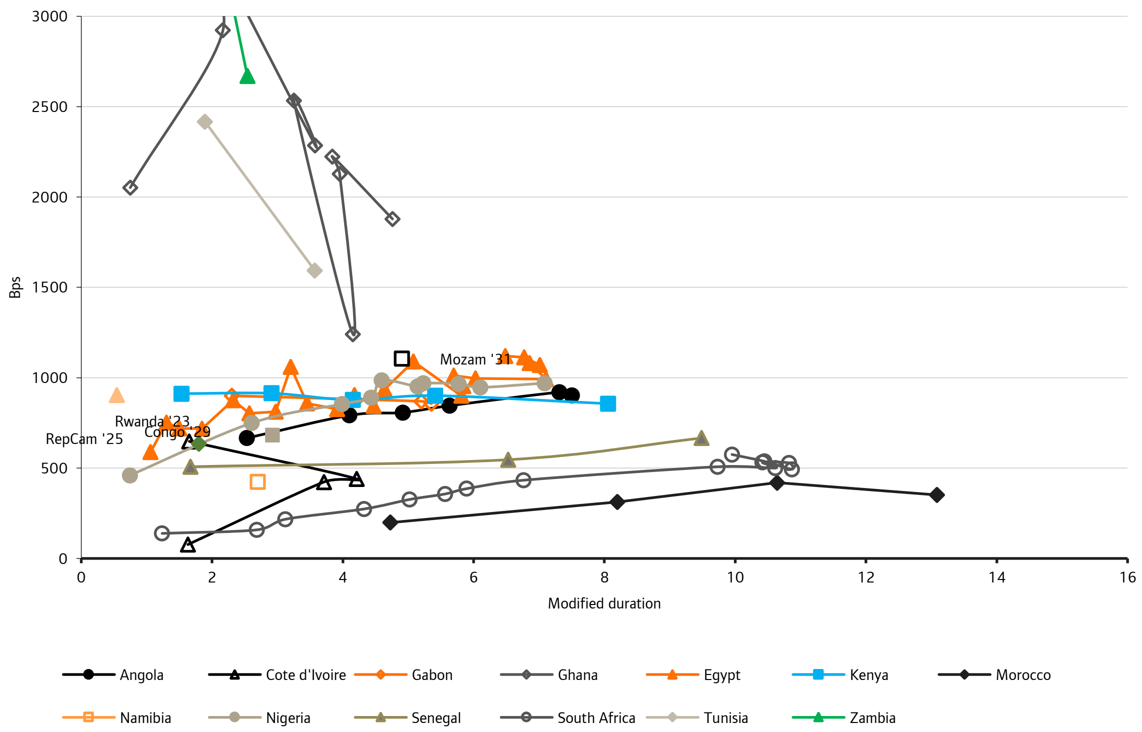
Table 2: African Eurobonds

Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Spread, bps Over UST	Z-Spread	Spread change, bps 1 wk	YTD	12mths	Total Return, % 1 wk	YTD	12mths
ANGOL 9.5% 12-NOV-2025	B3/B-	96.344	2.5	10.90	666	682	18.2	40	79	-1.2	-3.6	-3.8
ANGOL 8.25% 09-MAY-2028	B3/	84.951	4.1	12.00	792	826	-25.3	108	151	-0.2	-9.4	-10.1
ANGOL 8% 26-NOV-2029	B3/B-	80.858	4.9	12.06	807	843	-20.6	122	172	-0.4	-12.1	-13.3
ANGOL 8.75% 14-APR-2032	B3/B-	79.799	5.6	12.42	845	887	-33.6			0.3		
ANGOL 9.375% 08-MAY-2048	B3/	73.530	7.3	12.94	919	957	-24.7	113	164	0.0	-17.7	-18.9
ANGOL 9.125% 26-NOV-2049	B3/B-	72.494	7.5	12.76	902	941	-22.5	100	155	-0.2	-17.3	-18.9
REPCAM 9.5% 19-NOV-2025	/B	98.002	1.8	10.57	634	636	-34.9	67	282	0.2	-2.4	-7.0
REPCON 3% 30-JUN-2029	/CCC+	85.544	2.9	11.04	683	716	-36.9	-341	-438	0.1	9.1	14.1
EGYPT 4.55% 20-NOV-2023	B2u/B+	94.147	1.1	10.07	589	570	144.9	346	333	-1.6	-5.0	-4.5
EGYPT 6.2004% 01-MAR-2024	B2u/B+	92.860	1.3	11.77	751	741	132.3	456	473	-1.9	-7.2	-7.5
EGYPT 5.75% 29-MAY-2024	B2u/B+	91.488	1.5	11.48	719	713	144.5	411	422	-2.5	-8.1	-8.0
EGYPT 6.75% 10-NOV-2024	B2/B+	91.455	1.8	11.39	718	709	133.9	338	345	-2.9	-8.4	-8.2
EGYPT 5.875% 11-JUN-2025	B2/B+	84.197	2.3	12.98	876	881	146.4	489	517	-4.0	-14.1	-14.4
EGYPT 5.25% 06-OCT-2025	/B+	82.684	2.6	12.27	802	818	112.6	417	465	-3.7	-14.2	-15.3
EGYPT 3.875% 16-FEB-2026	B2/B+	77.142	3.0	12.33	813	831	108.2	372	416	-4.1	-14.6	-15.9
EGYPT 7.125% 10-NOV-2026	/B+	76.920	3.2	14.80	1 061	1 089	81.4	516	599	-3.5	-19.2	-21.0
EGYPT 7.5% 31-JAN-2027	B2/B+	82.873	3.5	12.74	858	886	85.1	331	390	-3.9	-14.7	-16.6
EGYPT 5.8% 30-SEP-2027	B2/B+	76.009	3.9	12.37	825	858	83.4	293		-4.6	-16.4	
EGYPT 6.588% 21-FEB-2028	B2u/B+	75.359	4.2	13.09	903	933	88.9	320	412	-5.0	-17.2	-20.6
EGYPT 7% 10-NOV-2028	B2/B+	77.172	4.5	12.43	843	874	77.3	254	346	-4.7	-16.5	-19.6
EGYPT 7.6003% 01-MAR-2029	B2u/B+	75.637	4.6	13.36	936	968	69.1	296	400	-4.6	-17.7	-21.8
EGYPT 7.625% 10-NOV-2030	/B+	66.404	5.1	14.88	1 090	1 129	-55.1	509	447	1.4	-29.4	-24.9
EGYPT 5.875% 16-FEB-2031	B2/B+	64.476	5.8	12.94	901	938	71.9	285	372	-5.7	-21.9	-25.7
EGYPT 7.0529% 15-JAN-2032	B2u/B+	66.521	5.8	13.47	954	993	74.6	281	384	-5.9	-21.6	-26.2
EGYPT 7.625% 29-MAY-2032	B2u/B+	66.432	5.7	14.08	1 013	1 054	79.6	318	429	-6.1	-23.9	-27.6
EGYPT 7.3% 30-SEP-2033	B2/B+	63.484	6.0	13.86	997	1 035	84.9	303		-6.8	-24.7	
EGYPT 6.875% 30-APR-2040	B2/B+	55.024	7.1	13.69	993	1 025	93.2	291	400	-8.5	-28.6	-33.4
EGYPT 8.5% 31-JAN-2047	B2/B+	59.580	6.9	14.58	1 082	1 118	86.9	263	382	-7.8	-24.6	-31.5
EGYPT 7.903% 21-FEB-2048	B2u/B+	55.893	7.0	14.47	1 071	1 108	86.2	265	383	-8.0	-25.5	-32.5
EGYPT 8.7002% 01-MAR-2049	B2u/B+	59.286	6.8	14.91	1 114	1 150	88.5	279	400	-7.8	-25.2	-32.2
EGYPT 8.875% 29-MAY-2050	B2u/B+	59.954	6.5	14.98	1 120	1 158	89.1	289	407	-7.5	-26.6	-31.8
EGYPT 8.75% 30-SEP-2051	B2/B+	59.243	6.4	14.93	1 111	1 153	84.4	279		-7.3	-26.0	
EGYPT 8.15% 20-NOV-2059	B2u/B+	58.273	6.9	14.04	1 028	1 070	82.5	223	326	-7.6	-24.6	-29.5
EGYPT 7.5% 16-FEB-2061	B2/B+	54.725	7.3	13.77	1 002	1 043	82.4	232	329	-7.9	-25.4	-31.0
ETHOPI 6.625% 11-DEC-2024	Caa2/CCC	54.955	1.7	38.78	3 451	3 450	72.8	1345	2345	-1.1	-11.9	-28.2
GABON 6.95% 16-JUN-2025	Caa1/B-	85.948	2.3	13.26	900	910	4.0	437	546	-0.7	-12.5	-14.8
GABON 6.625% 06-FEB-2031	Caa1/B-	71.693	5.2	12.67	869	905	17.7	300	321	-2.4	-20.5	-21.0
GABON 7% 24-NOV-2031	Caa1/B-	70.457	5.4	12.79	857	919	-31.5	300		-3.5	-20.2	
GHANA 0% 07-APR-2025	Caa1/CC	45.785	2.2	33.42	2 922	2 922	149.1	1909	2269	-3.4	-34.8	-41.2
GHANA 8.125% 18-JAN-2026	Caa1/CC	58.274	1.6	37.65	3 338	3 344	323.2	2310	2664	-5.0	-29.0	-34.5
GHANA 6.375% 11-FEB-2027	Caa1/CC	45.425	2.3	36.16	3 194	3 211	69.0	2180	2511	-1.8	-39.3	-45.3
GHANA 7.875% 26-MAR-2027	Caa1/CC	45.966	2.2	36.60	3 234	3 256	0.0	2226	2530	-0.2	-40.8	-44.2
GHANA 7.75% 07-APR-2029	Caa1/CC	42.345	3.6	27.00	2 286	2 328	-7.9	1311	1571	-0.6	-41.6	-46.5
GHANA 7.625% 16-MAY-2029	Caa1/CC	41.844	3.3	29.55	2 534	2 577	28.2	1526	1815	-1.8	-42.6	-47.4
GHANA 10.75% 14-OCT-2030	B3/B-	76.770	4.2	16.46	1 240	1 278	-19.3	516	651	-0.4	-23.9	-27.5
GHANA 8.125% 26-MAR-2032	Caa1/CC	40.781	4.0	25.36	2 127	2 172	-37.2	1148	1407	0.4	-42.0	-47.6
GHANA 8.625% 07-APR-2034	Caa1/CC	40.315	3.8	26.36	2 224	2 273	-74.6	1171	1452	1.9	-41.5	-47.5
GHANA 7.875% 11-FEB-2035	Caa1/CC	40.252	4.8	22.77	1 878	1 920	-72.7	907	1119	2.2	-39.5	-47.1
GHANA 8.875% 07-MAY-2042	Caa1/CC	40.027	4.3	23.06	1 903	1 947	-82.7	912	1098	2.5	-41.8	-46.0
GHANA 8.627% 16-JUN-2049	Caa1/CC	39.996	4.5	21.70	1 770	1 815	-73.2	812	967	2.2	-41.2	-45.4
GHANA 8.95% 26-MAR-2051	Caa1/CC	40.113	4.5	22.41	1 840	1 884	-77.3	859	1023	2.4	-40.4	-47.3
GHANA 8.75% 11-MAR-2061	Caa1/CC	39.930	4.5	21.92	1 791	1 835	-80.8	835	980	2.6	-40.0	-46.4
IVYCST 5.375% 23-JUL-2024	Ba3/BB-	91.299	1.7	10.75	648	641	-19.6	370	418	-0.1	-8.4	-9.6
IVYCST 5.75% 31-DEC-2032	/BB-	88.752	4.2	8.45	440	477	14.3	5	-33	-2.0	-7.2	-4.7
IVYCST 6.125% 15-JUN-2033	Ba3/BB-	104.303	1.6	5.04	77	82	23.1	-105	-91	-1.3	-1.8	-2.4
IVYCST 6.375% 03-MAR-2028	Ba3/BB-	92.746	3.7	8.38	423	451	0.3	101	111	-2.8	-10.2	-10.8
KENINT 6.875% 24-JUN-2024	/B+	90.140	1.5	13.39	912	905	95.7	555	652	-1.8	-10.0	-11.6
KENINT 7% 22-MAY-2027	B2u/B+	82.254	2.9	13.34	914	936	22.2	478	508	-1.6	-17.3	-17.5
KENINT 7.25% 28-FEB-2028	B2u/B+	78.679	4.2	12.82	877	906	17.9	431	456	-2.0	-21.5	-22.4
KENINT 8% 22-MAY-2032	B2u/B+	74.637	5.4	12.97	901	940	18.0	379	389	-2.5	-26.1	-25.1
KENINT 6.3% 23-JAN-2034	B2u/B+	68.907	6.8	11.37	760	787	15.3	254	262	-2.8	-24.3	-24.0
KENINT 8.25% 28-FEB-2048	B2u/B+	68.795	8.1	12.27	856	893	6.7	200	269	-2.4	-25.5	-29.6
MOROC 2.375% 15-DEC-2027	Ba1u/BB+	84.025	4.7	5.99	199	224	8.1	53	57	-1.9	-12.2	-12.8
MOROC 3% 15-DEC-2032	Ba1u/BB+	72.218	8.2	6.82	312	337	13.2	115	124	-3.0	-22.3	-22.3
MOROC 5.5% 11-DEC-2042	/BB+	76.904	10.6	7.79	419	447	18.7	124	145	-3.4	-26.9	-27.8
MOROC 4% 15-DEC-2050	Ba1u/BB+	60.239	13.1	7.37	351	424	19.3	90	98	-3.6	-30.6	-30.8
MOZAM 5% 15-SEP-2031	Caa2u/	70.685	4.9	15.03	1 105	1 138	-23.5	166	212	-0.2	-12.0	-13.1
REPNAM 5.25% 29-OCT-2025	B1/BB-	91.398	2.7	8.47	423	439	-62.6	162	169	0.8	-9.6	-9.9
NGERIA 7.625% 21-NOV-2025	B2/B	89.422	2.6	11.73	749	765	-4.5	284	363	-0.7	-10.7	-12.5
NGERIA 6.5% 28-NOV-2027	B2/B	77.182	4.0	12.64	854	886	16.2	330	385	-2.0	-17.8	-19.1
NGERIA 8.375% 24-MAR-2029	B2/B	76.978	4.6	13.87	986	1 018	20.8			-2.1		
NGERIA 6.125% 28-SEP-2028	B2/B	72.197	4.4	12.93	889	922	14.1	346		-2.1	-20.3	
NGERIA 7.143% 23-FEB-2030	B2/B	70.839	5.1	13.49	951	987	31.7	348	413	-3.1	-22.0	-24.4
NGERIA 8.747% 21-JAN-2031	B2/B	75.979	5.2	13.66	969	1 007	17.2	314	379	-2.4	-20.6	-23.0
NGERIA 7.875% 16-FEB-2032	B2/B	70.152	5.8	13.59	967	1 005	18.9	302	378	-2.6	-22.2	-25.4
NGERIA 7.375% 28-SEP-2033	B2/B	66.084	6.1	13.34	947	983	16.2	292	346	-2.6	-24.5	0.0
NGERIA 7.696% 23-FEB-2038	B2/B	62.917	7.1	13.46	970	999	16.6	263	344	-3.0	-25.0	-29.0
NGERIA 7.625% 28-NOV-2047	B2/B	59.279	7.4	13.23	949	987	6.5	239	314	-2.5	-27.4	-30.3
NGERIA 9.248% 21-JAN-2049	B2/B	69.249	7.2	13.55	979	1 017	8.2	223	298	-2.4	-24.0	-28.1
NGERIA 8.25% 28-SEP-2051	B2/B	61.214	7.0	13.67	990	1 031	10.7	259		-2.5	-27.6	

African Eurobonds (continued)

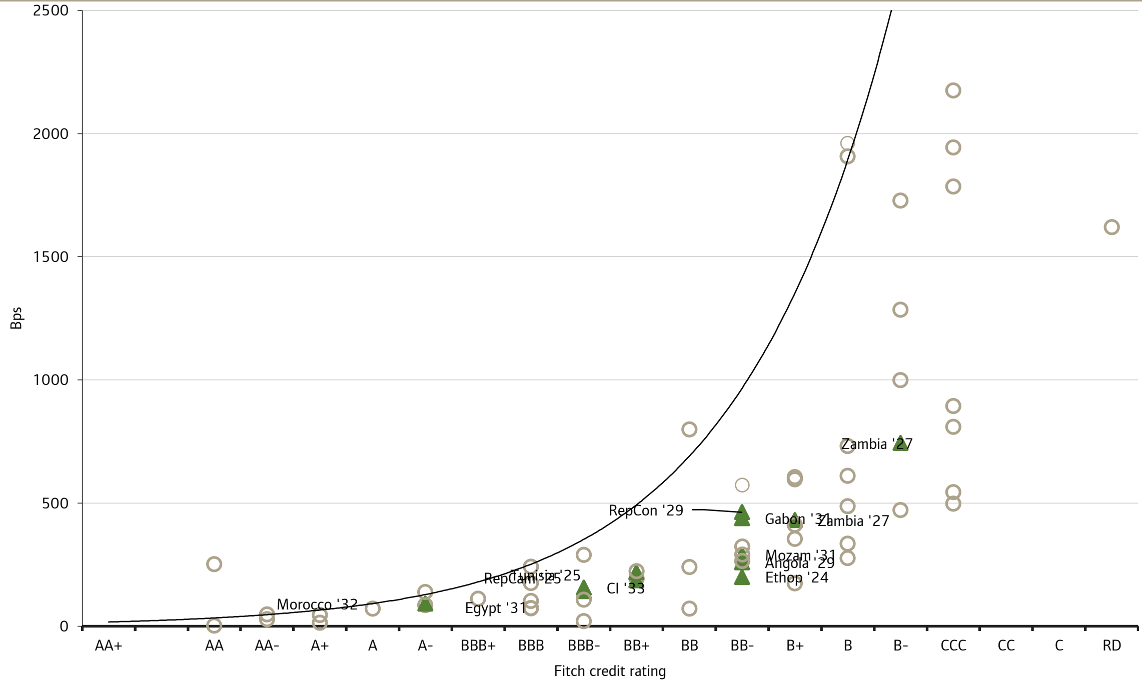
					Spread, bps	Spread change, bps	Total Return, %					
Name	**Moody's/Fitch**	**Mid Price**	**Mod Dur**	**Yield, %**	**Over UST**	**Z-Spread**	**1 wk**	**YTD**	**12mths**	**1 wk**	**YTD**	**12mths**
RWANDA 5.5% 09-AUG-2031	/B+	75.345	6.4	9.71	591	618	-32.7	198	228	0.4	-21.0	-22.2
SENEGL 6.25% 30-JUL-2024	Ba3/	94.855	1.7	9.35	507	501	-55.1	261	322	0.5	-7.0	-8.6
SENEGL 6.25% 23-MAY-2033	Ba3/	81.460	6.5	9.23	546	571	-10.2	105	132	-1.1	-16.4	-17.0
SENEGL 6.75% 13-MAR-2048	Ba3/	68.747	9.5	10.26	666	697	15.1	140	177	-3.2	-24.4	-26.5
SOAF 4.665% 17-JAN-2024	Ba2/BB-	98.762	1.2	5.66	138	129	2.9	13	26	-0.3	-2.9	-3.5
SOAF 5.875% 16-SEP-2025	Ba2/BB-	100.174	2.7	5.81	158	170	-14.1	-20	-16	-0.6	-5.4	-6.0
SOAF 4.875% 14-APR-2026	Ba2/BB-	95.327	3.1	6.37	217	237	-5.3	17	7	-0.9	-7.3	-7.3
SOAF 4.85% 27-SEP-2027	Ba2/BB-	91.972	4.3	6.77	274	299	-0.1	25	9	-1.4	-9.4	-9.0
SOAF 4.3% 12-OCT-2028	Ba2/BB-	85.771	5.0	7.25	326	357	9.1	61	42	-2.0	-12.4	-11.4
SOAF 4.85% 30-SEP-2029	Ba2/BB-	85.593	5.6	7.52	357	392	4.4	68	62	-1.9	-13.6	-13.1
SOAF 5.875% 22-JUN-2030	Ba2/BB-	89.081	5.9	7.78	386	421	4.6	106	99	-2.0	-16.3	-15.4
SOAF 5.875% 20-APR-2032	Ba2/BB-	85.398	6.8	8.10	433	460	8.5			-2.3		
SOAF 6.25% 08-MAR-2041	Ba2/BB-	77.998	9.7	8.66	508	530	8.2	93	108	-2.5	-21.8	-22.0
SOAF 5.375% 24-JUL-2044	Ba2/BB-	68.546	10.6	8.59	500	530	10.4	98	113	-2.5	-23.6	-24.2
SOAF 6.3% 22-JUN-2048	Ba2/BB-	73.764	10.4	8.91	531	567	10.1	108	119	-2.6	-24.6	-24.3
SOAF 5.65% 27-SEP-2047	Ba2/BB-	67.679	10.8	8.89	528	565	14.1	110	125	-3.1	-24.9	-25.6
SOAF 5% 12-OCT-2046	Ba2/BB-	64.014	10.9	8.55	494	531	13.0	104	109	-2.8	-25.2	-24.5
SOAF 5.75% 30-SEP-2049	Ba2/BB-	67.366	10.4	8.98	537	576	14.7	113	124	-3.1	-25.2	-24.9
SOAF 7.3% 20-APR-2052	Ba2/BB-	79.824	10.0	9.31	575	610	7.7			-2.5		
BTUN 5.75% 30-JAN-2025	Caa1/CCC	63.059	1.9	28.37	2 417	2 413	-200.3	948	1379	3.8	-11.5	-19.4
BTUN 8.25% 19-SEP-2027	Caa1/WD	63.853	3.6	20.06	1 592	1 624	-75.5	549	613	1.8	-18.1	-19.1
ZAMBIN 8.5% 14-APR-2024	/WD	54.299	1.1	56.56	5 237	5 221	223.4	3266	3206	-2.0	-22.5	-16.0
ZAMBIN 8.97% 30-JUL-2027	/WD	53.080	2.5	30.95	2 670	2 696	64.8	1164	1096	-2.4	-21.4	-17.1
SB Africa Eurobond (incl. SA)	B+		6.9	12.45	848	885	-17	226.9	291	-0.4	-25.0	-27.7
SB Africa Eurobond (excl. SA)	B+		6.7	13.52	956	989	-15	294	367	-0.4	-21.1	-24.3

Figure 25: African Eurobonds (spread over UST vs modified duration)



Source: Bloomberg; Standard Bank Research

Figure 26: African and broader EM bonds (spread over UST vs credit rating)



Source: Bloomberg; Standard Bank Research

Figure 27: Spread over UST: SB African Eurobond index vs EMBI Global

Source: Standard Bank Research

Figure 28: SBAFSO total return index vs 10-Y UST yield

Source: Standard Bank Research

Table 3: Open trades

Positions	Entry Date	Entry Yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %
						Since inception
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	17.12	19.50	71.8

Source: Bloomberg, Standard Bank Research

Table 4: Closed trades

Positions	Entry Date	Exit date	Entry Yield	Entry FX	Latest yield, %	Latest FX	Total return, %	
Uganda: buy UGANGB '24	11-Apr-19	30-Apr-19	15.00	3760.000	14.70	3735.000	2.40	57.65
Egypt: buy 12-m T-bill	01-May-18	30-Apr-19	16.92	17.704	17.52	17.183	18.42	18.48
Zambia: sell USD/ZMW 6-m NDF	30-Oct-18	25-Apr-19	34.27	11.570	5.00	12.350	9.62	20.85
Malawi: buy 12-m T-bill	02-May-18	02-May-19	15.00	725.500	9.35	736.740	11.25	11.25
Ghana: sell USD/GHS 12-m NDF	07-Jun-18	03-Jun-19	19.40	4.740	5.00	5.350	5.73	5.79
Kenya: buy INF 14	18-Feb-19	28-Jun-19	11.80	100.200	10.95	102.200	6.33	18.82
Angola: sell USD/AOA 12-m NDF	09-Jan-19	27-Sep-19	18.77	311.620	17.97	375.120	-6.14	-8.48
Angola: sell USD/AOA 12-m NDF	09-Jan-19	10-Oct-19	18.77	311.620	28.25	390.760	-11.52	-15.04
Egypt: buy 12-m T-bill	06-Nov-18	29-Oct-19	19.78	17.920	5.00	16.134	30.60	31.39
Nigeria: buy 12-m T-bill	01-Nov-18	31-Oct-19	16.82	363.000	5.00	363.000	14.78	14.82
BEAC: sell USD/XAF 2-y NDF	24-Nov-17	21-Nov-19	4.25	550.620	5.00	592.342	0.82	0.41
Kenya: buy INF 2035	28-Oct-19	31-Jan-20	12.40	103.600	11.35	100.560	13.20	61.02
Nigeria: buy NIGB '27	27-Feb-18	17-Mar-20	13.70	361.000	13.38	368.170	25.44	11.68
Zambia: sell USD/ZMW 6-m NDF	10-Dec-19	20-Mar-20	25.02	15.250	38.34	17.150	-8.27	-26.81
Nigeria: buy NIGB '27	27-Feb-18	17-Mar-20	13.70	361.000	13.38	368.170	25.44	11.68
Zambia: buy ZAMGB '26	18-Nov-16	14-Apr-20	24.50	9.810	33.81	18.403	-6.15	-1.85
Zambia: sell USD/ZMW 6-m NDF	10-Dec-19	14-Apr-20	25.02	15.250	32.63	18.400	-11.74	-30.36
Uganda: buy Uganda '29	14-Oct-19	15-Jun-20	14.90	3700.000	14.80	3720.000	8.75	13.31
Ghana: buy GHGB '20	31-Oct-16	23-Jun-20	20.00	3.985	15.60	5.791	24.87	6.28
Kenya: KenGB '29	08-Apr-20	20-Aug-20	12.10	106.000	10.60	108.000	10.41	30.96
Nigeria: sell USD/NGN 12-m NDF	22-Jun-20	13-Jan-21	18.06	387.800	20.96	393.180	6.37	11.61
Angola: buy USD/AOA 12-m NDF	09-Sep-20	13-Jan-21	26.15	620.750	17.57	652.500	-7.46	-20.11
Kenya: buy KenGB '31	24-Aug-20	17-Jan-21	11.24	108.000	11.00	110.080	3.93	10.12
Zambia: buy ZAMGB '24	22-Feb-21	07-Dec-21	34.50	21.675	19.00	17.525	43.97	58.70
Ghana: buy Ghana '29	03-Dec-20	04-Jan-22	21.00	5.940	21.95	6.420	11.30	10.35
Ethiopia: buy USD/ETB 24-m NDF	06-Aug-20	06-Aug-22	12.10	35.420	15.05	52.480	17.17	8.25
Nigeria: sell USD/NGN 12-m NDF	25-May-22	18-Aug-22	18.56	416.750	23.71	428.880	-2.41	-2.41
Egypt: sell USD/EGP 12-m NDF	23-May-22	29-Sep-22	22.46	18.270	34.28	19.520	-6.35	-6.35

Source: Bloomberg, Standard Bank Research

Angola: growth slows as oil prices drift down from highs

Medium-term outlook: subdued investment, and moderating oil prices

We retain our GDP growth forecasts at 3.3% y/y for 2022 and 2.4% y/y for 2023 due to moderating oil prices and the subsequent easing in Angola's oil exports. This economy remains heavily reliant on oil exports. It had exited a 5-y recession in 2021, with 0.8% y/y growth, when oil prices went up.

Higher oil prices boosted exports (95% oil sector reliance) and increased fiscal revenue (nearly 50% oil sector contribution to revenue) as well as FX liquidity. This saw the kwanza appreciating and inflation easing.

Recent investments in the oil & gas (O&G) sector, to sustain production, which had been in decline until 2021 (due to maturing fields and subdued investment), saw O&G output rising by 1.8% y/y in H1:22, to 1.267 m bpd, from 1.245 m bpd in H1:21. This reflects a 3.1% y/y rise in oil output, to 1.166 m bpd in H1:22. LNG output though fell by 11.6% y/y, to 101.5 k BOE/d, due to a 30-d planned maintenance in the LNG complex in Jun.

For 2022, we forecast O&G output up by 3.1% y/y, to 1,283 m bpd, from a contraction of 12.2% y/y in 2021 when it fell to 1.245 m bpd. For 2023, our base case sees O&G output growth decelerating to 1.4% y/y, pushing combined O&G output to 1.302 m bpd. This reflects a further 0.6% rise in oil output, to 1.173 m bpd, with LNG output up by 9.7% y/y, to 129 k BOE/d.

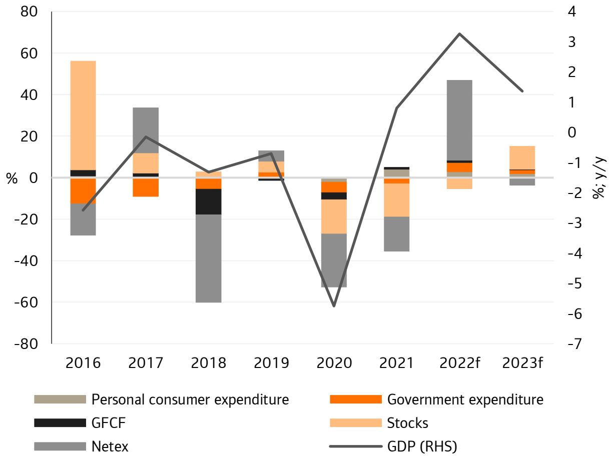
High inflation, limited jobs and fiscal prudency have seen both personal consumer expenditure (PCE) and government expenditure (GE) contributing little to GDP growth. Our base case sees no material acceleration in either PCE or GE, even as inflation, last reported at 19.8% y/y in Aug, continues to ease.

Our base case sees O&G output falling from 2024 onwards due to subdued investment and maturing fields, with GDP growth barely topping population growth rates of over 3% y/y.

Net exports' contribution has been strong this year, supported by buoyant oil prices (exports up by 54.7% y/y). However, it may turn negative next year as the expected decline in exports (13.4% y/y) outpaces the rise in imports (6% y/y). This case factors in an assumed average oil price of USD95.3/bbl for 2023, down from USD106.4/bbl this year, after USD70.7/bbl in 2021. Progress on structural reforms remains critical to sustain growth and improve both economic diversification and resilience.

Our bull case factors in both higher oil prices and stronger oil output, with our bear case considering the opposite. As result, inflation is higher, and growth is slower, in the latter scenario.

Composition of GDP by demand



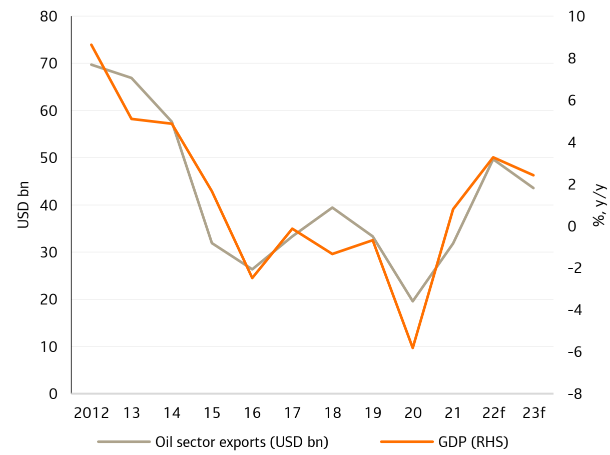
Source: Instituto Nacional de Estatística; Standard Bank Research

GDP composition by sector

	2015	2018	2021
Agriculture & forestry	4.3	4.6	5.7
Fishing	2.5	2.7	3.3
Oil	38.1	33.1	27.1
Other extractive industry	1.8	1.8	2.0
Manufacturing (incl. oil refinery)	3.4	4.1	4.2
Electricity & water supply	0.7	0.8	0.9
Construction	9.8	10.8	8.3
Wholesale and retail trade	13.1	13.0	16.6
Transport & storage	2.3	2.5	2.2
Courier & communication	1.8	1.8	1.7
Financial & insurance services	1.5	1.7	1.3
Real estate activities	4.7	5.2	5.6
Public administration & defence	8.7	7.8	8.3
Other services	5.6	6.3	6.4
Indirectly measured intermediary financial services	-0.6	-0.5	-0.3
Plus taxations minus subsidies	0.2	-0.9	1.1
Discrepancies	2.1	5.2	5.6
GDP	100.0	100.0	100.0

Source: Instituto Nacional de Estatística; Standard Bank Research

Oil sector exports versus GDP growth



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

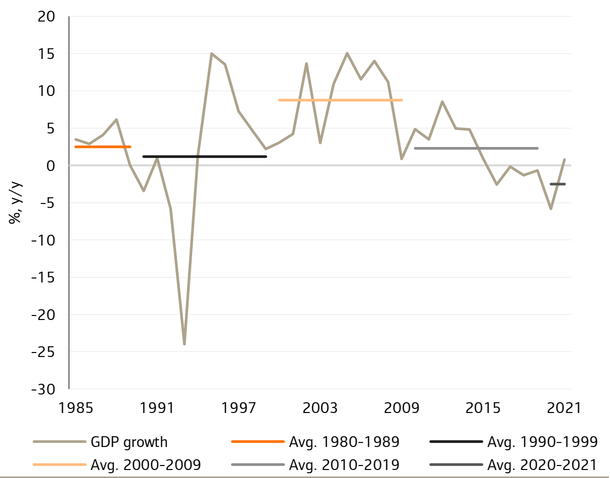
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	2.6	3.5	3.7	3.3	3.2	2.3	1.8	2.4	3.0	3.1	3.0	3.1	3.0	2.9	2.7	2.9
CPI (% y/y) pe	27.0	23.0	18.2	14.6	13.0	12.9	13.9	15.1	14.4	14.9	15.0	14.7	14.9	15.6	15.8	14.3
Policy rate (%) pe	20.00	20.00	19.50	18.00	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	16.00	16.00	16.00
3-m rate (%) pe	19.4	11.7	11.7	9.1	8.5	8.5	8.8	9.2	9.0	9.1	9.1	9.1	9.1	9.5	9.5	9.1
6-m rate (%) pe	14.0	12.4	12.0	10.0	10.0	10.0	10.3	10.7	10.5	10.7	10.7	10.6	10.7	11.0	11.1	10.6
USD/AOA pe	446.4	428.2	431.4	432.3	442.8	453.5	464.5	475.7	488.7	502.0	515.7	529.7	542.5	555.7	569.1	582.9
Bull scenario																
GDP (% y/y) pa	2.6	4.7	5.0	4.1	4.2	4.5	4.9	4.6	5.2	5.3	5.5	5.3	5.1	5.1	5.3	5.1
CPI (% y/y) pe	27.0	23.0	17.7	13.4	10.2	9.7	10.2	10.5	10.3	9.9	9.9	10.9	10.7	10.7	10.4	10.1
Policy rate (%) pe	20.00	20.00	19.50	16.50	13.00	13.00	13.00	13.00	13.00	11.50	11.50	11.50	11.50	12.50	12.50	12.50
3-m rate (%) pe	19.4	11.7	11.7	15.1	12.3	12.0	12.3	12.4	12.3	11.3	11.3	11.8	11.7	12.2	12.1	11.9
6-m rate (%) pe	14.0	12.4	12.0	15.3	12.4	12.2	12.4	12.5	12.4	11.4	11.4	11.9	11.8	12.3	12.2	12.1
USD/AOA pe	446.4	428.2	431.1	418.3	424.6	431.0	437.5	444.1	453.5	463.1	472.9	482.9	488.7	494.6	500.6	506.6
Bear scenario																
GDP (% y/y) pa	2.6	2.3	1.6	2.1	1.0	-0.4	-1.2	-0.2	-0.9	-2.1	-1.0	-1.3	1.2	1.4	1.2	1.2
CPI (% y/y) pe	27.0	23.0	18.6	16.9	15.6	17.1	18.7	18.2	18.5	18.9	19.2	19.6	18.9	18.2	17.5	16.8
Policy rate (%) pe	20.00	20.00	19.50	19.50	18.50	18.50	18.50	18.50	18.50	19.00	19.00	19.00	19.00	19.00	18.00	18.00
3-m rate (%) pe	19.4	11.7	11.7	7.3	6.8	7.1	7.4	7.3	7.4	7.6	7.6	7.7	7.6	7.4	7.1	7.0
6-m rate (%) pe	14.0	12.4	12.0	8.5	8.0	8.3	8.8	8.6	8.7	8.9	9.0	9.1	8.9	8.7	8.3	8.2
USD/AOA pe	446.4	428.2	431.8	444.9	458.3	472.2	486.5	501.3	518.0	535.3	553.2	571.6	588.9	606.8	625.2	642.8

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

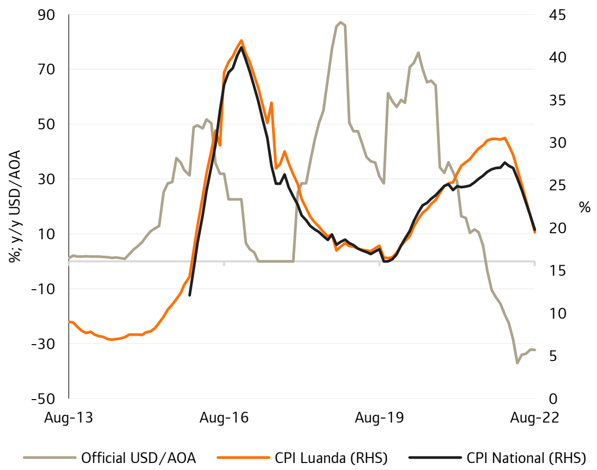
Notes: pa - period average; pe - period end

Long-term GDP performance



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

Annualised official FX rate versus inflation



Source: Banco Nacional de Angola; Standard Bank Research

Balance of payments: C/A still robust

The current account (C/A) surplus may rise by 115.2% y/y this year, to USD18.1bn, or 14.7% of GDP, from a C/A surplus of USD8.4bn, or 12.4% of GDP, in 2021.

This would reflect strong oil prices boosting goods and services exports to USD52.1bn, up by 54.7% y/y, but with goods and services imports rising at a slower pace of 34.5% y/y, to USD25.3bn.

The softer growth in imports reflects prudent fiscal and monetary policies, despite the Aug 22 general elections, which swelled the trade account surplus to an all-time high of USD26.8bn.

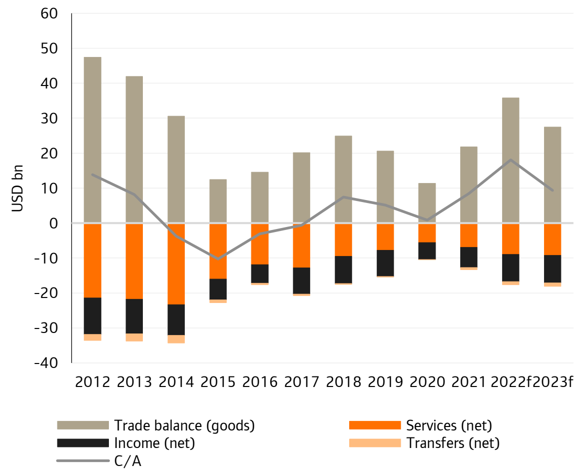
However, softer oil prices in 2023 should see the C/A surplus at USD18.3bn, or 9.4% of GDP, but that should still support this economy.

However, the BOP is heavily exposed to oil price fluctuation risk, with Angola's reliance on the oil sector for exports still quite high (O&G sector exports accounted for 94.8% of overall exports in 2021, with the diamond sector contributing just 4.6%).

Notwithstanding strong exports, FX reserves, last reported at USD14bn in early Sep (7.6-m of import cover), have been declining, from USD15.5bn (9.9-m of imports) at end 2021. This reflects fewer interventions from the BNA in the FX market, thereby allowing most FX liquidity made available to the market, thereby also supporting both the economy and kwanza.

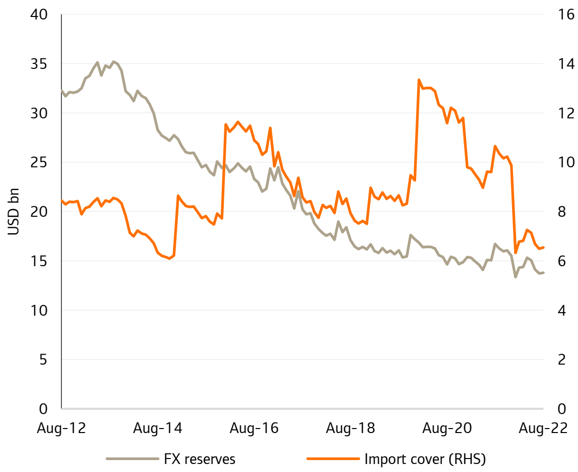
The slump in FX reserves also partly reflects external debt service pressures. The expiration of the DSSI saw external debt service commitments up by 46% y/y this year, to AOA3.917.7bn (c.USD6.1bn at original budget FX rate estimated at 650 kwanzas per US dollar, of which 44.1% is for interest and 55.9% for principal repayment), per the FY2022 budget.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves



Source: Banco Nacional de Angola; Standard Bank Research

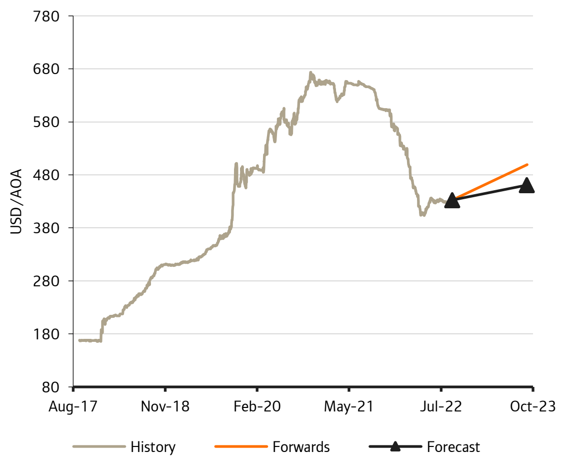
FX outlook: depreciating bias for the kwanza

We see the USD/AOA pair remaining relatively stable into Dec, closing at 432.2, then rising by some 10% y/y in 2023, to 475.7.

A softening kwanza would reflect softer oil prices in 2023 and tighter FX liquidity due to rising government external debt service for FY2023, as the 3-y principal moratorium on debt to China, agreed to in 2020, ends.

FX liquidity improved in H1:22, with commercial banks' FX purchases up by 30.9% y/y, to USD6.9bn, from USD5.3bn in H1:21 and USD4.2bn in H1:20. Per H1:22 data, oil companies contributed 32.3% to that, followed by the Treasury with 30.5%, the diamond sector selling 10.5%, and other players contributing 19.2%. BNA FX sales accounted for 7.5% of commercial banks' FX purchases in H1:22.

USD/AOA: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: an easing bias

The BNA will likely cut the BNA rate by another 150 bps this year, to 18%, from 19.5% at the time of writing, with a further 250 bps in Q1:23, to 15.5%, as inflation softens; the latest outcome was 19.8% y/y in Aug due to food inflation easing. A recent high was 27.3% y/y in Feb.

We now lower our inflation forecast to 14.6% y/y by Dec, from 16.1% y/y in the May AMR, and raise our 2023 Dec inflation forecast to 15.1% y/y, from 13.3% y/y in the May AMR.

We factor in strong FX liquidity into Dec and a stable kwanza. However, softer oil prices in 2023 may see the kwanza depreciate and imported inflation increase.

Even with oil prices coming off recent peaks, they may remain high in the short term, thereby supporting Angola's exports as well as the gradual depreciation we foresee for the kwanza. We therefore expect the BNA MPC to maintain an easing monetary policy bias.

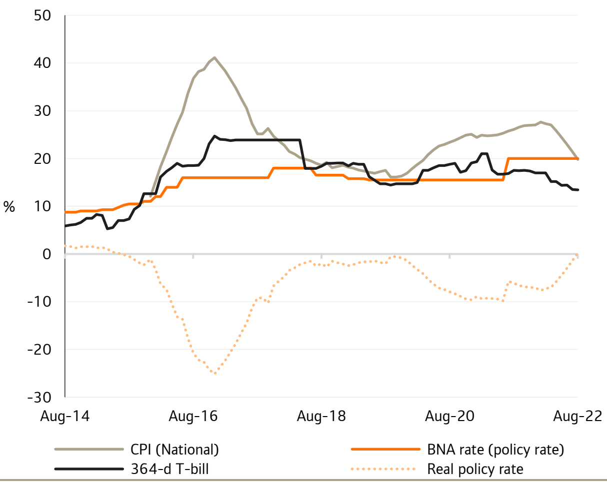
The expected policy rate cuts should still see the real policy rate in positive territory, thereby assisting a gradual transition towards an inflation-targeting regime.

Angola's heavy reliance on food imports sees onshore food prices tracking global food inflation (which has been easing due to increased food supply and the resumption of Ukraine's wheat Black Sea ports exports).

The BNA has thus far this year cut the required reserves ratio (RRR) for local currency (LCY) deposits by 500 bps, to 17%, from 22%, in two tranches; 300 bps in May and 200 bps in Jul – to support private sector credit growth, which should also receive some support as policy rates decline.

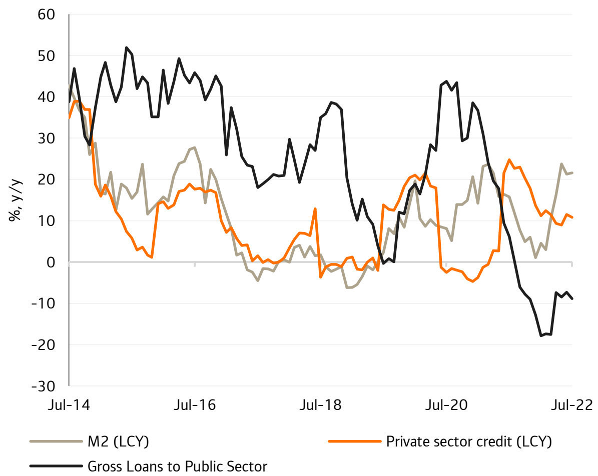
Softer government borrowings could see banks looking at private sector loans to deploy their local currency liquidity.

Inflation and interest rates



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

Monetary statistics



Source: Banco Nacional de Angola; Standard Bank Research

Yield curve outlook: a downward shift

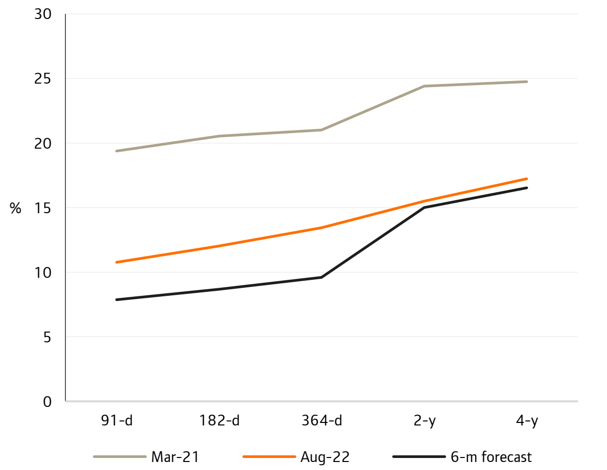
Yields will likely move lower over the next 6-m, especially at the shorter end of the curve, as the MPC is likely to ease further monetary policy.

Moreover, this year's strong fiscal performance has seen the Ministry of Finance accelerating domestic debt repayments.

Indeed, Aug data shows the combined T-bill and government bonds stock down by 12.8% ytd, or 19.3% y/y, to AOA9,347.9bn (USD21.8bn), or 17.1% of GDP, which impelled a downward shift in the yield curve.

The latest issuance of 180-d T-bill was 12%, from nearly 17% a year ago. Similarly, 4-y government bond yields plummeted to 17.2%, from 24.8%.

Yield curve changes



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

Fiscal policy: a strong performance

The FY2022 budget for the 12-m ending Dec 22 forecasts a zero fiscal deficit, from an estimated 3.8% of GDP surplus in 2021. The FY2022 budget assumes a conservative oil price of USD59/bbl, far below the H1:22 average of USD108.4/bbl.

This may imply a larger fiscal surplus due to higher oil prices than assumed in the budget. However, the kwanza appreciation effect may subdue the surplus.

We estimate the FY2022 budget to have been calculated using an FX rate around 650, with our annual average USD/AOA pair now forecast at 443.1, implying overall revenue 10.9% higher than budget, even considering that Angola's higher oil revenue would be converted at a much lower FX rate than assumed in the budget.

This should translate into a fiscal surplus of 3.4% of GDP for FY2022. Our break-even fiscal oil price for 2022 is now calculated at USD88.2/bbl, from a USD52.9/bbl break even in 2021.

Comparing with the FY2021 estimate, the FY2022 budget sees revenue growth at 2.5% y/y, to AOA11,637.4bn, or 21.3% of GDP, with expenditure, excluding loan principal repayments, up by 19.4% y/y, to AOA11.635.9bn, or 21.3% of GDP, resulting in the zero fiscal deficit.

An inflation-related rise in nominal GDP and the kwanza appreciation effect may see nominal GDP at USD123.2bn in 2022, from an estimated USD67.6bn in 2021.

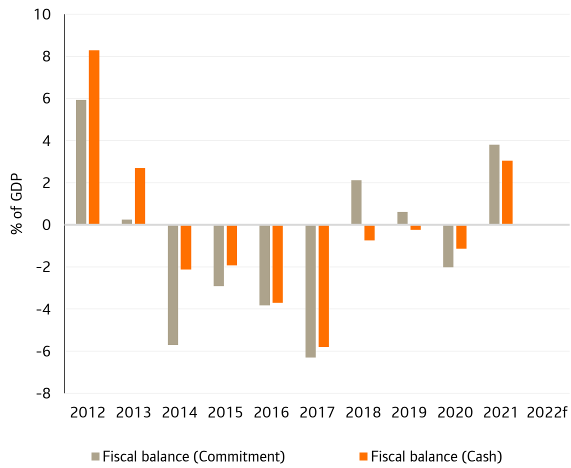
If so, Angola's debt-to-GDP ratio may slide below 70% this year, from a peak of 126.7% in 2020. We still see limited room for borrowing, as Angola's overall debt-service-to-revenue ratio, projected at 82.1% this year, from 70.8% in 2021, but lower than the recent peak of 114.2% in 2020, will likely rise in 2023 as China debt repayment kicks off and USD interest rates rise globally.

Central government budget

% of GDP	FY2020	FY2021e	FY2022
Total revenue	22.1	26.9	21.3
- Of which oil	11.3	14.0	11.2
Total expenditure	24.1	23.1	21.3
- Recurrent	18.6	18.5	17.6
- Development	5.6	4.6	3.7
Overall balance (commitment basis)	-2.0	3.8	0.0
Overall balance (cash basis)	-1.1	3.8	0.0
Net domestic borrowing	1.6	-4.7	-3.0
Net foreign borrowing	0.9	1.9	3.0
Statistical discrepancy	-1.4	-1.1	0.0

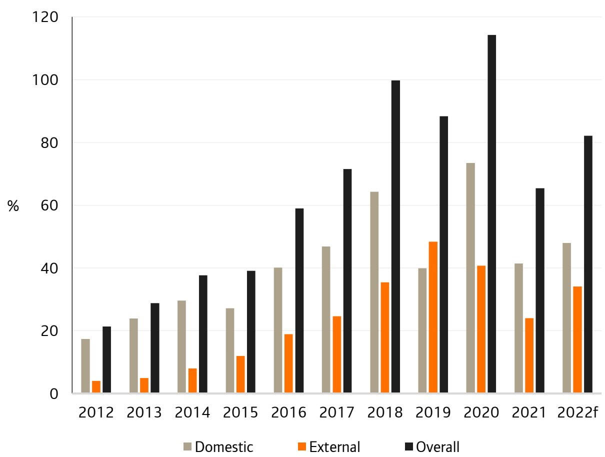
Source: Ministério das Finanças; Standard Bank Research

Fiscal performance



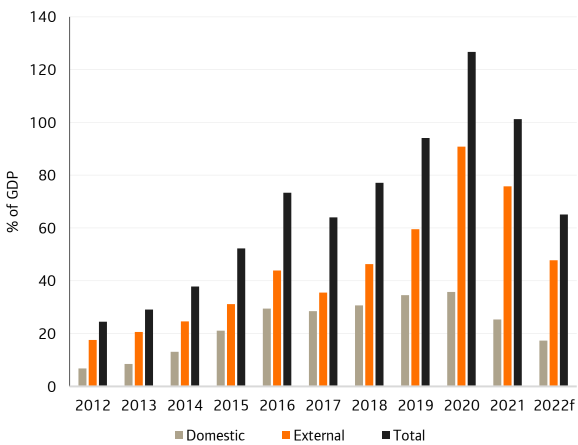
Source: Ministério das Finanças; Standard Bank Research

Debt service to revenue



Source: Ministério das Finanças; Standard Bank Research

Debt to GDP



Source: Ministério das Finanças; Standard Bank Research

Annual indicators

	2017	2018	2019	2020	2021	2022f	2023f
Output							
Population (million)	28.4	29.3	30.2	31.4	32.1	33.1	34.1
Nominal GDP (AOA bn)	20 262.3	25 627.7	30 330.4	31 894.7	42 199.4	54 578.2	63 046.2
Nominal GDP (USD bn)	122.1	101.4	83.2	55.1	67.6	123.2	138.4
GDP / capita (USD)	4 306.3	3 466.3	2 756.7	1 753.8	2 106.4	3 722.9	4 057.6
Real GDP growth (%)	-0.1	-1.3	-0.7	-5.8	0.8	3.3	2.4
Oil output (`000 bpd)	1 632.4	1 477.7	1 383.1	1 271.5	1 124.5	1 164.4	1 172.5
LNG output (`000 BOE/d)	189.6	115.3	140.7	146.0	120.5	117.9	129.1
Central Government Operations							
Budget balance (commitment basis) / GDP (%)	-6.3	2.1	0.6	-2.0	3.8	0.0	0.2
Budget balance (cash basis) / GDP (%)	-5.8	-0.7	-0.2	-1.1	3.8	0.0	0.2
Domestic debt / GDP (%)	28.5	30.7	34.6	35.8	25.4	17.3	15.0
External debt / GDP (%)	35.5	46.3	59.5	90.9	75.8	47.8	43.2
Balance of Payments							
Exports (USD m)	35.6	41.4	35.2	21.0	33.7	52.1	45.1
Imports (USD m)	-28.3	-25.9	-22.3	-15.1	-18.8	-25.3	-26.9
Trade balance (USD m)	7.3	15.5	12.9	5.9	14.8	26.8	18.3
Current account (USD m)	-0.6	7.4	5.1	0.9	8.4	18.1	9.4
- % of GDP	-0.5	7.3	6.2	1.6	12.4	14.7	6.8
Financial account (USD m)	-4.2	-7.8	-3.2	-3.4	-7.0	-8.3	-5.8
- FDI (USD m)	-8.7	-6.5	-1.7	-2.0	-3.3	-3.8	-3.5
Basic balance / GDP (%)	-3.9	-0.4	2.3	-4.5	2.0	8.0	2.5
FX reserves (USD m) pe	18.2	16.2	17.2	14.9	15.5	14.4	14.1
- Import cover (months) pe	7.7	7.5	9.3	11.8	9.9	6.8	6.3
Sovereign Credit Rating							
S&P	B-	B-	B-	CCC+	CCC+	B-	B
Moody's	B2	B3	B3	Caa1	B3	B3	B2
Fitch	B	B	B	CCC	CCC	B-	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	30.4	19.7	17.1	22.2	25.7	21.7	13.6
Consumer inflation (%) pe	23.7	18.6	16.9	25.1	27.0	14.6	15.1
M2 LCY money supply (% y/y) pa	0.8	0.3	2.7	11.9	13.4	17.0	16.0
M2 LCY money supply (% y/y) pe	0.5	-6.2	14.1	20.7	1.0	17.9	17.5
Policy interest rate (%) pa	16.33	17.25	15.58	15.50	17.75	19.58	15.50
Policy interest rate (%) pe	18.00	16.50	15.50	15.50	20.00	18.00	15.50
3-m rate (%) pe	16.2	13.6	9.5	19.0	19.4	9.1	9.2
1-y rate (%) pe	23.9	19.0	14.7	20.8	17.0	11.0	12.2
USD/AOA pa	165.9	252.8	364.6	578.4	624.1	443.1	455.5
USD/AOA pe	165.9	308.6	482.2	656.2	555.0	432.3	475.7

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: diamond sales still sound

Medium-term outlook: Economic Recovery and Transformation Plan (ERTP) may disappoint

Economic growth remains strong mainly due to Botswana's mining sector and the investments in the sector. However, our forecast for GDP growth is just 3.9% y/y in 2022 and 4.5% y/y in 2023 despite the increase of 7.0% y/y (6.5% q/q) in Q1:22, compared to 0.8% y/y (5.1% q/q) in Q1:21. Indeed, GDP growth averaged a mere 0.8% q/q in Q1 2017-2019.

Our bearish outlook reflects the downward trend in government and household spending. Indeed, household spending growth slowed by -0.1% q/q in Q1:22, accounting for 40% of GDP. With high inflation still sticky, disposable incomes will remain under strain because wage growth hasn't been keeping up with inflation.

Still, development work on the Motheo copper and Tati gold projects may boost capital formation but, in Q1:22, capital formation contracted by 4.5% q/q.

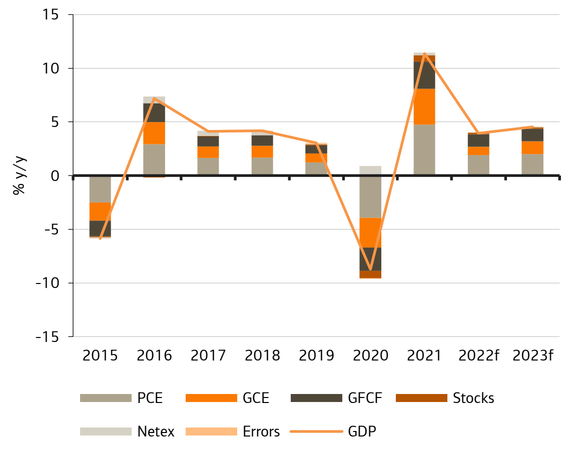
The government's investment drive under the economic ERTP may disappoint. In 2021/22, the government was still operating under a development budget, possibly due to lack of capacity, despite plans to implement some projects in the private sector. We therefore don't foresee sufficient policy stimulus to boost this economy. Per the BOB's monetary policy statement, this economy is operating below potential. However, given the tendency to favour fiscal policy probity, it is difficult to see how macroeconomic policies could boost GDP. This economy is therefore more likely rely on a significant recovery in external demand to grow in line with potential.

So, those sectors dependent on domestic demand may well slow, while those dependent on external demand may grow despite global growth likely slowing.

Firstly, the tourism sector has yet to reach pre-pandemic levels, thus it will benefit from numerical base effects. Secondly, given that the mining sector accounts for over 80-90% of external demand for goods, growth is likely to remain strong as demand for rough diamonds remains healthy. Indeed, rough diamond sales increased 23.2% y/y in Jul-Aug, after impressive growth in Q1:22 (according to data released by DeBeers). However, based on DeBeers production data, Botswana's diamond production declined 4.0% y/y in Q2:22 due to lower grades at the Jwaneng and Orapa mines.

Still, the mining sector is expected to grow significantly– but its employment elasticity is poor. Hence, growth does not necessarily coincide with a decline in unemployment. In 2021, the mining sector accounted for 11.4% of GDP but, by end 2021 less than 2% of the workforce was directly employed in that sector. In fact, the unemployment rate rose from 24.5% in Q4:20 to 26.0% in Q4:21.

Composition of GDP by demand



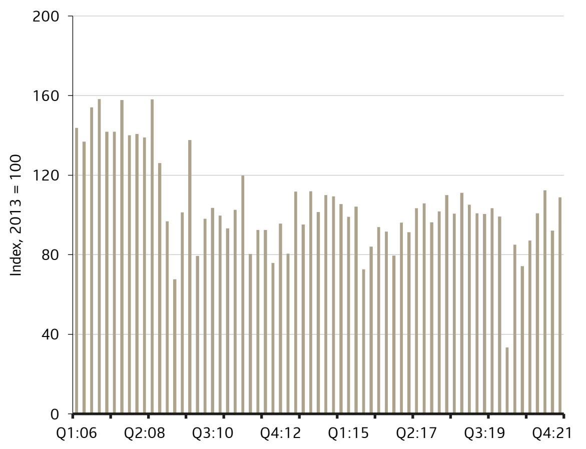
Source: Statistics Botswana; Standard Bank Research

Contribution to GDP by sector

% of GDP	2006	2017	2021
Agriculture	1.7	1.8	1.7
Mining	30.9	18.8	11.4
Manufacturing	7.1	6.2	5.6
Water & Electricity	1.4	1.7	1.1
Construction	7.2	10.5	11.6
Wholesale & Retail	6.3	9.2	11.5
Diamond Traders	2.1	2	1.3
Transport	1.4	1.9	2
Accommodation & Food	2.7	2.7	1.8
ICT	1.6	2.5	2.8
Finance	3.6	4.7	5.9
Real Estate	4.3	4.7	4.9
Administrative Activities	1.3	1.7	1.8
Public Admin	14.6	15.6	18.8
Education	4.4	5.1	5.2

Source: Statistics Botswana; Standard Bank Research

Diamond production



Source: Statistics Botswana

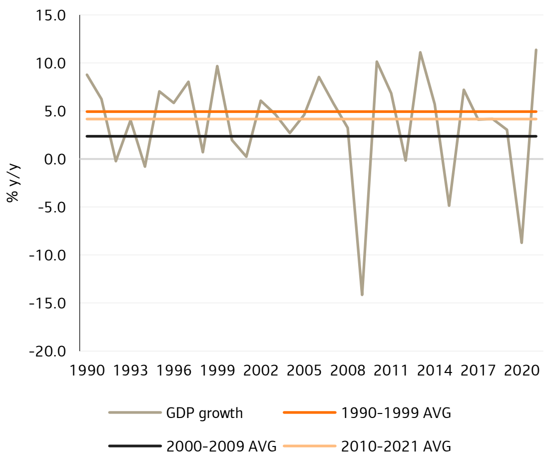
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	7.0	4.3	2.2	2.3	2.3	5.9	4.3	5.6	2.1	3.1	4.7	6.8	2.3	5.9	4.7	4.5
CPI (% y/y) pe	10.0	12.6	11.8	12.1	13.0	8.5	8.6	8.2	5.5	4.1	4.0	3.8	3.8	3.8	3.8	3.7
BOB policy rate (%) pe	3.75	1.65	2.15	3.15	3.65	4.15	4.65	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15
6-m rate (%) pe	1.9	3.7	4.5	5.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
USD/BWP pe	11.45	12.43	13.40	12.68	12.47	12.18	11.94	11.83	11.64	11.51	11.44	11.40	11.38	11.39	11.41	11.44
Bull scenario																
GDP (% y/y) pa	8.7	6.0	3.9	4.1	3.8	7.4	5.8	7.1	3.6	4.6	6.2	8.3	2.3	5.9	4.7	4.5
CPI (% y/y) pe	11.9	14.5	14.0	14.0	14.9	9.8	9.4	8.9	6.2	4.8	4.7	4.5	4.5	4.5	4.5	4.4
BOB policy rate (%) pe	4.8	2.7	3.2	4.2	4.7	5.2	5.7	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
6-m rate (%) pe	1.9	3.7	4.8	5.3	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
USD/BWP pe	10.97	11.95	12.90	12.15	11.92	11.59	11.30	11.19	11.00	10.87	10.80	10.76	10.74	10.75	10.77	10.80
Bear scenario																
GDP (% y/y) pa	5.3	2.6	0.5	0.5	0.8	4.4	2.8	4.1	0.6	1.6	3.2	5.3	2.3	5.9	4.7	4.5
CPI (% y/y) pe	8.8	11.4	11.3	11.6	12.5	7.8	7.9	7.4	4.7	3.3	3.2	3.0	3.0	3.0	3.0	2.9
BOB policy rate (%) pe	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
6-m rate (%) pe	1.9	3.7	4.3	4.8	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
USD/BWP pe	11.92	12.91	13.90	13.21	13.02	12.77	12.58	12.47	12.28	12.15	12.08	12.04	12.02	12.03	12.05	12.08

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

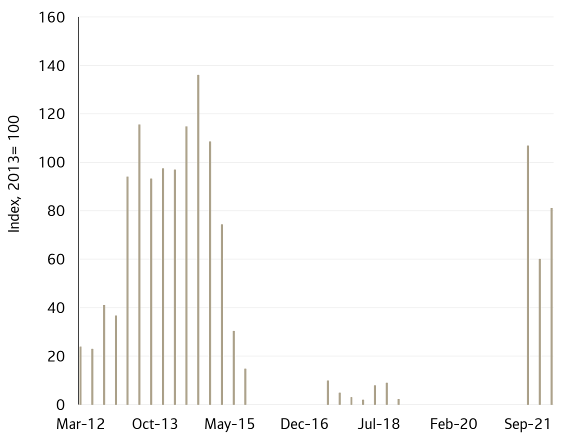
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Statistics Botswana

Copper production



Source: Statistics Botswana

Balance of payments: a likely C/A surplus for 2023, 2024

The C/A deficit may still widen to 0.8% of GDP in 2022 due to a soaring import bill and declining secondary income. However, due to the adjustment in international oil prices (albeit still relatively high), the C/A may shift into a surplus of 4.7% of GDP by 2023.

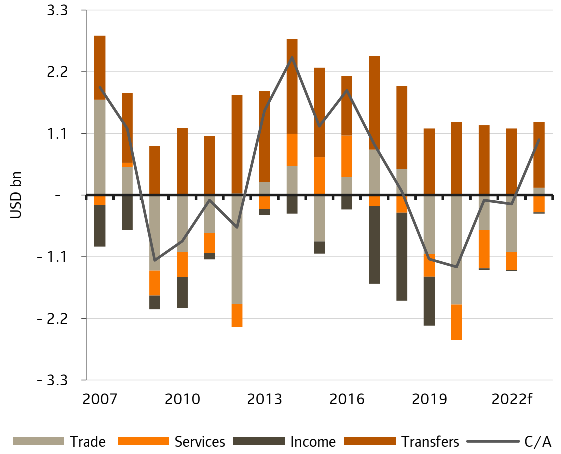
Notwithstanding the monthly import bill hitting a record high in H1:22, there was a goods trade surplus of USD207.9m as goods exports increased 24.5% y/y. Diamond exports accounted for 89.4%, followed by copper at 2.4%. Copper exports continued to gain momentum, generating about USD144m of export earnings in H1:22, attributed to Khoemacau copper, while in H1:21, nearly nothing was exported from this sub-sector.

Still, copper exports may bring meaningful value addition in 2023 when the Khoemacau copper mine reaches full potential and the Motheo copper mine begins production. However, it is still doubtful that copper could improve the C/A meaningfully yet this year. Moreover, H2 tends not to favour the C/A. Also, as inferred from the decline in FX reserves, despite the trade surplus, the C/A may have slid into deficit in Q2:22. FX reserves had fallen to USD4.4bn by Jun 22, from USD4.7bn in Jun 21, probably due to the SACU transfer. SACU transfer accounts for 18% of total C/A receipts.

The budget for fiscal year 2022/23 anticipates an adjustment to the SACU earnings after past overpayments. Given the upward revisions to SA budget payments in 2023/24 and 2024/25 and the improved outlook and performance for certain excises, we expect a recovery in the medium term.

FX reserves may have declined by end 2022. Reserves had reached USD4.4bn in Jun (covering about 6.4-m of imports of goods and services according to our estimates), nearing the lowest since the 1990s.

Current account developments



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

FX reserves

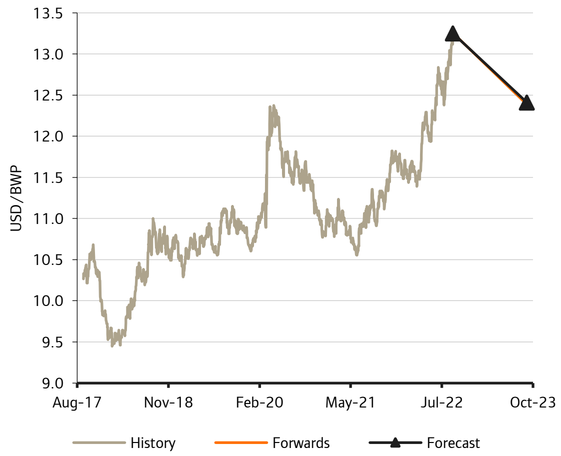
Source: Bank of Botswana; Statistics Botswana; Standard Bank Research

FX outlook: closely tied to the USD/ZAR

We expect USD/BWP to end Dec at 12.68. Indeed, as the performance of USD/BWP is closely linked to USD/ZAR, USD/BWP is likely to remain volatile in the coming months. The ZAR is expected to remain weak until the severity of the global slowdown becomes clear. However, based on our macroeconomic strategist’s econometric models, the ZAR remains undervalued. Furthermore, SA’s terms of trade, albeit weaker, will continue to support the ZAR this year. Given the US dollar's mid-term bearish forecast from our G10 strategist, the ZAR may strengthen against the US dollar in the medium term.

The BOB's exchange rate policy is targeting a depreciating nominal effective exchange rate (NEER) of 2.87. The ZAR still comprises 45% of the BWP basket, with SDR comprising the remaining 55%.

USD/BWP forwards versus forecasts



Source: Bloomberg; Standard Bank Research

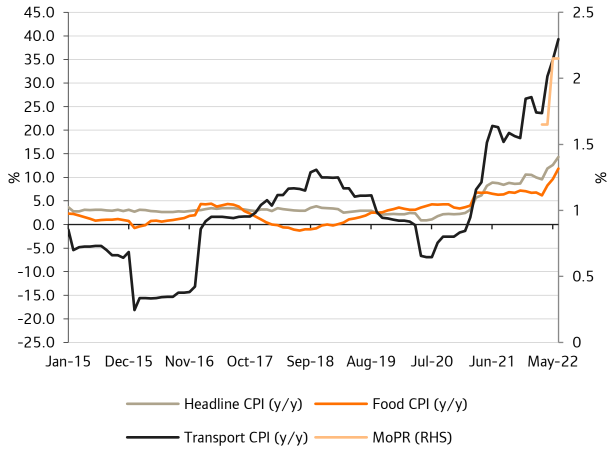
Monetary policy: hiking cycle to continue

We now increase our inflation forecast to an average of 11.8% y/y in 2022 and 12.1% by Dec. Inflation jumped to 14.6% y/y in Aug, we thought it would peak at 14.3% y/y in Jul. It is likely to remain sticky due to the delayed impact of food inflation and import bans on some vegetables. However, it will likely ease due to base effects, softer oil prices, lower international food prices, and the temporary reduction of the VAT rate to 12% from 14% from Aug.

A VAT hike saw inflation breaching 2% m/m in Apr 21. Thus, we had expected the cut to decrease inflation by the same magnitude in Aug 22 also complemented by the zero rating on cooking oil and gas, which too was expected to ease the pressure. Perhaps traders have not fully applied the reduced VAT rates yet. Which means that inflation is due for a correction in Sep which will be complemented by fuel prices likely being cut in Sep.

This trajectory would still induce the MPC to push the monetary policy rate up by 50 basis points at each remaining meeting this year. At its last meeting in Aug, the MPC, as expected, raised interest rates by 50 bps to anchor inflation expectations. When transport inflation rose during the past 16-m, food inflation and other factors lagged, so secondary effects are still to play out. Effects though tend to come with a delay and become more entrenched. Most importantly, the BOB does not aim to keep real interest rates negative over the medium- to long term. As such, the MPC may adjust its monetary tightening cycle to match significantly higher medium-term inflation expectations. The MPC has revised the date it expects inflation to return to the 3%-6% y/y objective range, to Q3:24, from Q3:23. The BOB is unlikely to keep real interest rates negative in forward-looking terms because rising inflation would impel monetary easing, thereby bumping up inflation over the medium term. Still, economic performance remains solid, with few trade-offs. Credit extension averaged 5.2% y/y in the first 5-m of 2022, compared to 4.4% y/y in the first 5-m last year. Asset quality poses no major concern; the non-performing loan ratio has risen but remains modest, at 4.6% in Q1:22, compared to 4.2% in Q4:21.

Inflation and interest rates



Source: Bank of Botswana; Statistics Botswana

Money supply

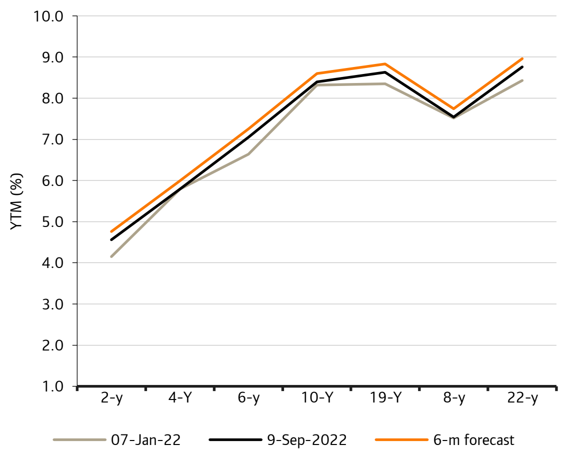
Source: Bank of Botswana

Yield curve outlook: still stable, for now

We expect long-term yields to remain broadly stable. Still, yields may rise as the monetary policy tightening cycle continues, especially at the short end of the yield curve. The Aug auction was well received. All papers were oversubscribed with an average bid-to-cover price ranging above 1.2. Nevertheless, the BOB fell short of the amount offered and only fully allocated the 27 and 31. It continued to reject aggressive bids.

At the short end of the curve, the market bids appear closer to deposit rates as deposit prices remain relatively high. We expect yields to rise slightly over the medium term, possibly combined with strong demand for paper and higher inflation. Government funding needs remain limited.

Change in yield curve



Source: Bank of Botswana; Standard Bank Research

Fiscal policy: replenishing government investment account

The government may start replenishing its investment account sooner than expected. In the first 11-m of FY2021/22, data released by the BOB shows government outperforming on revenue and underperforming on spending.

Expenditures amounted to 82% of the revised budget of BWP73.6bn, mainly due to the “under-development” budget. Only 67% of the planned development expenditure was spent, and 86% of recurring expenditure was spent. Government revenue outperformed, reaching BWP61.7bn over the same period, which is 97.3% of the revised revenue projections. This generated a budget surplus of approximately BWP995m.

Moreover, the Ministry of Finance's monthly economic monitor shows the government as achieving a surplus position (BWP3.9bn) in the first 2-m of FY2023. Total revenues reached BWP15.4bn, and expenses BWP11.4bn. This may result in lower borrowing requirements for FY2023.

Indeed, the government has taken temporary measures to help contain the effects of inflation, which will put some pressure on the budget deficit. This includes a VAT reduction, and VAT exemption for cooking oil and gas, increased allowances for students, and funds to the National Botswana Meat Board to support farmers. Overall, measures to help households cope with rising prices are expected to cost the government about BWP1.8bn, or 0.7% of GDP, which is still less than the Apr-May budget surplus.

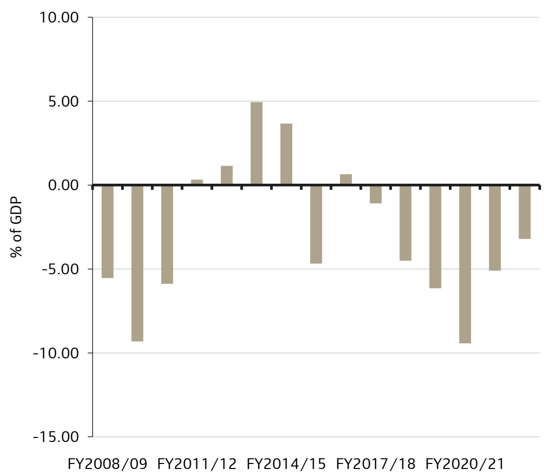
With governments pursuing conservative fiscal policies, usually due to capacity constraints, Botswana’s future productivity may be hindered, thereby derailing plans to diversify this economy.

Central government budget

% of GDP	FY2020/21	FY2021/22	FY2022/23
Total revenue	28.4	31.8	31.2
Total expenditure	37.8	36.9	34.4
Recurrent	32.0	29.6	26.9
- wages	16.5	14.4	13.0
-interest	0.7	0.8	0.9
- development	5.9	7.4	7.5
Overall balance (+ grants)	-9.4	-5.1	-3.2
Overall balance (- grants)	-9.5	-5.2	-3.3
Net external borrowing	4.0	2.5	1.4
Net domestic borrowing	-1.0	-0.8	-0.8

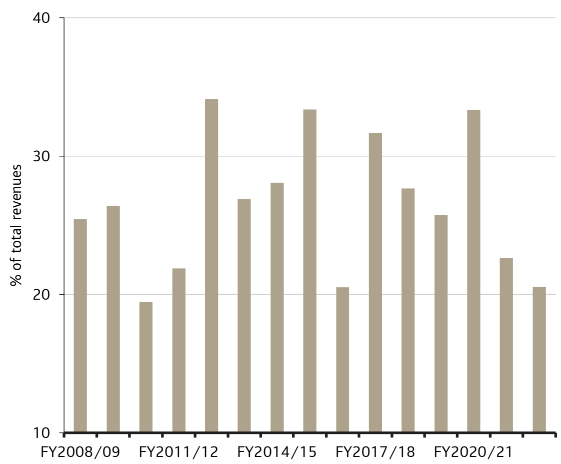
Source: Ministry of Finance; Statistics Botswana; Bank of Botswana; Standard Bank Research

Fiscal deficit



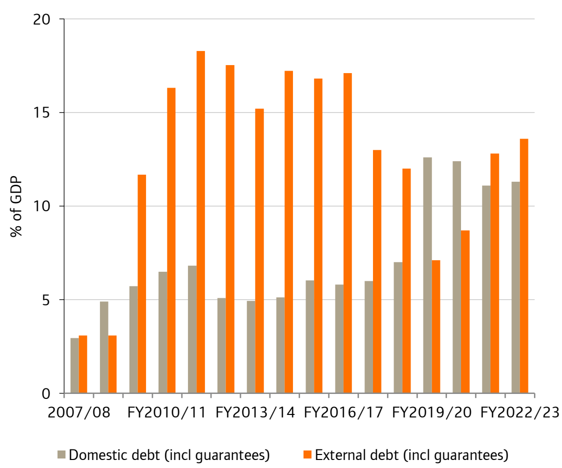
Source: Ministry of finance; Standard Bank Research

SACU revenue



Source: Ministry of Finance, Standard Bank Research

Domestic and external debt



Source: Ministry of Finance, Standard Bank Research

Annual indicators

	2017	2018	2019	2020	2021	2022f	2023f
Output							
Population (million)	2.2	2.3	2.4	2.4	2.4	2.4	2.5
Nominal GDP (BWP bn)	171.2	178.4	183.8	167.7	186.8	216.2	246.2
Nominal GDP (USD bn)	16.61	17.46	17.08	14.61	16.76	17.45	20.24
GDP / capita (USD)	7 550	7 481	7 189	6 151	6 984	7 196	8 096
Real GDP growth (%)	4.1	4.2	3.0	-8.7	11.4	3.9	4.5
Diamond ('000 carats)	22 941	24 496	23 686	16 868	23 967	25 592	27 326
Coal (thousand tons)	2 216	2 482	2 110	1 924	2 111	2 364	2 648
Central Government Operations							
Budget balance / GDP (%)	0.7	-1.1	-4.8	-6.1	-9.4	-5.1	-3.2
Domestic debt / GDP (%)	5.8	6.0	7.0	12.6	12.4	11.1	11.3
External / GDP (%)	17.1	13.0	12.0	7.1	8.7	12.8	13.6
Balance of Payments							
Exports of goods and services (USD bn)	6.1	6.5	5.3	4.3	7.2	7.6	8.8
Imports of goods and services (USD bn)	5.2	6.0	6.3	6.3	7.9	8.5	8.7
Trade balance (USD bn)	0.8	0.5	-1.1	-2.0	-0.6	-1.0	0.1
Current account (USD bn)	0.90	0.06	-1.14	-1.28	-0.08	-0.15	0.95
- % of GDP	5.4	0.3	-6.7	-8.8	-0.5	-0.9	4.7
Capital & Financial account (USD bn)	1.25	-0.36	0.43	0.66	0.49	0.38	0.36
- FDI (USD bn)	0.00	0.22	0.07	-0.04	-1.25	0.89	0.60
Basic balance / GDP (%)	5.4	1.6	-6.3	-9.0	-7.9	4.2	7.6
FX reserves (USD bn) pe	7.5	6.7	6.2	4.94	4.81	4.36	4.34
- Import cover (months) pe	17.2	13.2	11.8	10.1	7.5	6.1	6.0
Sovereign Credit Rating							
S&P	A-	A-	A-	BBB+	BBB+	BBB+	BBB+
Moody's	A2	A2	A2	A2	A3	A3	A3
Fitch	NR	NR	NR	NR	NR	NR	NR
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.3	3.2	2.8	1.9	6.7	11.8	9.4
Consumer inflation (%) pe	2.9	3.5	2.2	2.2	8.7	12.1	8.2
M3 money supply (% y/y) pa	3.4	4.3	11.1	6.0	4.9	6.3	6.6
M3 money supply (% y/y) pe	2.7	8.3	8.0	5.9	5.0	7.1	6.1
BOB policy rate (%) pa	5.4	5.0	4.88	4.17	3.75	2.68	4.40
BOB policy rate (%) pe	5.0	5.0	4.75	3.75	3.75	4.00	5.15
6-mnth rate (%) pe	1.3	1.6	1.8	1.3	1.5	5.0	5.5
5-yr rate (%) pe	4.1	4.4	4.2	5.1	6.6	6.6	6.7
USD/BWP pa	10.31	10.22	10.76	11.48	11.15	12.39	12.16
USD/BWP pe	10.23	10.72	10.60	10.82	11.75	12.68	11.83

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

Notes: pa – period average; pe – period end

Côte d'Ivoire: National Development Plan to propel growth

Medium-term outlook: broad-based expansion

At 6.7% y/y growth in 2021, this economy overshot the initial estimate of 6.2% y/y. Still, we now trim our 2022 growth forecast to 6.6% y/y (from 6.9% y/y) due to base effects – but we increase our 2023 forecast to 7.0% y/y, from 6.6% y/y in the May edition of the AMR.

We still foresee broad-based growth for 2022, largely supported by the agricultural, services and construction sectors. Reforms under the new National Development Plan (NDP) 2021-2025 too should spur medium-term growth. However, the ongoing war in Ukraine, further supply-chain disruptions from bouts of widespread lockdowns by China, and the slowdown in domestic demand owing to monetary tightening pose downside risks to our outlook.

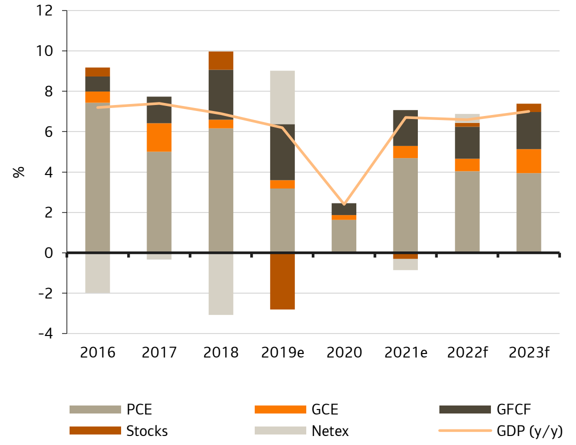
By 2023, the oil and associated gas finds in the Baleine oilfield should boost oil output when planned production, and first oil, commence in H1:23 (the first phase). Côte d'Ivoire produces about 30,000 bbl/day currently, and the production estimates at Baleine are at 12,000 bbl/d of crude oil and 17.5m cubic feet/d of natural gas. The second phase, in 2026, is projected at 75,000 bbl/d -100,000 bbl/d of crude oil and 140m cubic feet/d of natural gas. Furthermore, tourism and the related activities in the hospitality, entertainment, transport and auxiliary sectors should benefit from the 2023 African Cup of Nations (AFCON). The added benefits to infrastructure improvements should unlock opportunities for the construction sector (which grew by 1.2% y/y in 2021).

The 6.7% y/y GDP growth in 2021 was mainly attributable to a strong performance by tertiary sectors which grew by 7.2% y/y due to a stellar 89.7% y/y rebound by hotels and restaurants. The secondary sector too grew, by 4.6% y/y. Still, the primary sector expanded merely modestly, to 2.2% y/y, with only agricultural exports posting growth. However, forestry, food crop production, livestock and fishing declined.

The above-average rainfall from Apr should benefit the agricultural sector numerically from a low base as well as from robust production. For H1:22, coffee production was up by 94% y/y, after years of declines, due to the new variety 'arabusta'. Interventions to control cane diseases should keep sugar production on an upward trend too. Meanwhile, cocoa bean production was down 4.9% y/y (994,512.7 tonnes) due to the heavy rains disrupting harvests, drying and storage. Some farmers had concerns that this could trigger black pod disease.

Poor electricity sector capacity poses an ongoing risk. Still, the above-average rains over the Apr to mid-Nov rainy season should increase hydropower production. In addition, the Divo biomass power plant, which uses cocoa waste, may boost future electricity production when it comes online in 2023, estimated to add 60-70 MW to the grid.

Composition of GDP by demand



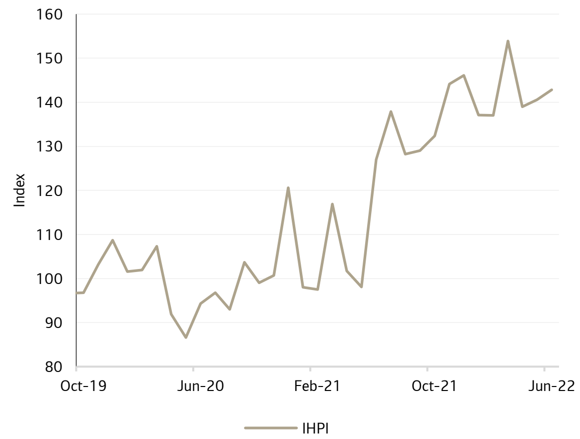
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; International Monetary Fund; Standard Bank Research

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



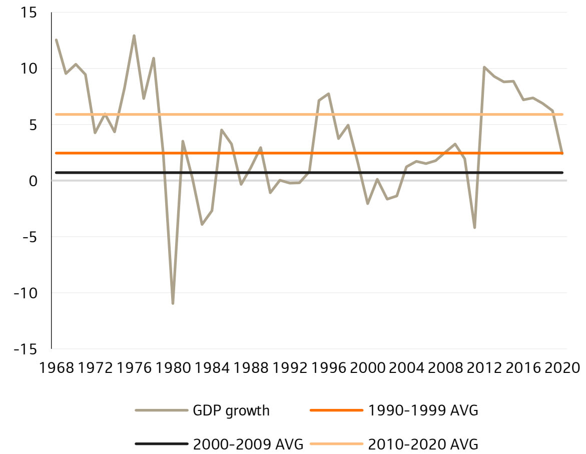
Source: Institut National de la Statistique

Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	6.7	9.2	3.7	6.6	6.7	9.5	5.3	6.5	6.5	7.6	7.6	7.6	7.5	7.0	5.3	6.6
CPI (% y/y) pe	4.5	5.4	5.1	4.1	4.1	2.7	2.6	2.6	2.7	2.3	2.5	1.8	1.4	1.4	1.3	1.3
Policy interest rate (%) pe	4.00	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
3-m rate (%) pe	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
6-m rate (%) pe	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
USD/XOF pe	595.3	620.8	656.0	676.2	624.7	585.7	596.3	570.4	551.2	546.6	546.6	524.8	512.5	504.6	496.9	485.9
Bull scenario																
GDP (% y/y) pa	7.4	10.0	5.0	7.4	8.0	10.7	6.6	7.8	7.8	8.9	8.9	8.9	8.8	8.2	6.6	7.9
CPI (% y/y) pe	5.2	5.7	5.7	5.1	5.4	4.0	4.3	3.9	2.5	1.9	2.0	1.5	0.9	1.1	0.8	1.0
Policy interest rate (%) pe	4.0	4.3	4.5	4.8	5.0	5.0	5.0	5.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
3-m rate (%) pe	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
6-m rate (%) pe	3.7	3.5	3.5	3.5	3.5	3.5	3.5	3.4	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
USD/XOF pe	595.3	620.8	596.3	613.0	570.4	537.7	546.6	524.8	508.5	504.6	504.6	485.9	475.3	468.5	461.9	452.4
Bear scenario																
GDP (% y/y) pa	5.9	8.5	3.0	6.1	6.5	9.2	5.1	6.3	5.5	6.6	6.6	6.6	6.5	6.0	4.3	5.6
CPI (% y/y) pe	4.1	5.0	4.9	3.9	3.9	2.5	2.4	2.4	3.2	2.8	3.0	2.3	1.9	1.9	1.8	1.8
Policy interest rate (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
3-m rate (%) pe	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
6-m rate (%) pe	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
USD/XOF pe	595.3	620.8	728.8	754.0	690.5	643.1	656.0	624.7	601.8	596.3	596.3	570.4	555.9	546.6	537.7	524.8

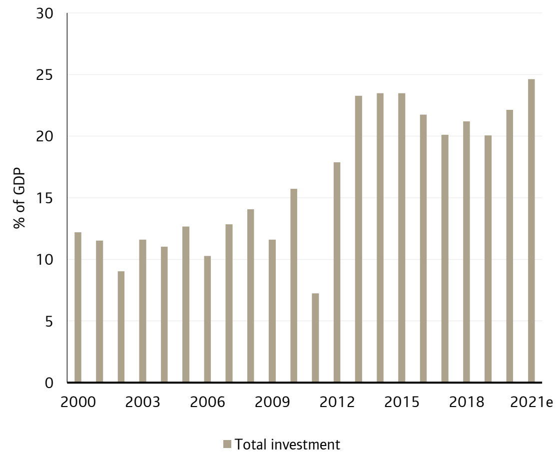
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; Bloomberg; Standard Bank Research

Long-term GDP performance



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

Investment spending



Source: IMF

Balance of payments: C/A deficit deepening

We now expect the C/A deficit to deepen to 4.5% of GDP in 2022, from an estimated 3.8% of GDP in 2021. Though the trade balance should remain in surplus this year, too, the persistent growth in imports, due to the war in Ukraine, may constrain exports this year. The C/A also faces pressure from growth in primary income.

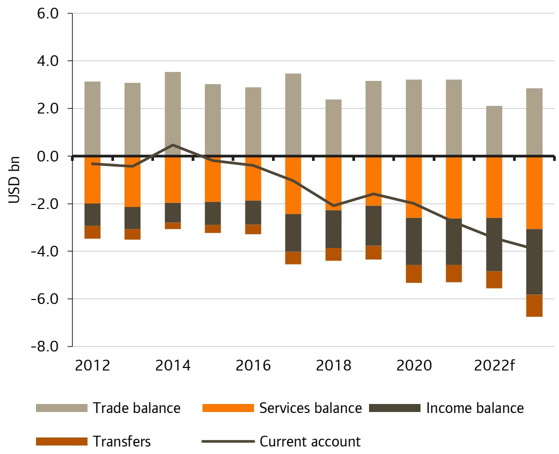
For the first 7-m of 2022, exports increased 25.1% y/y, while imports were up 37.8% y/y due to increases in both prices and volumes. In nominal terms, the trade balance recorded a surplus of XOF305.2bn in H1:22, well below XOF669.1bn in H1:21. The trend here is expected to keep pace in H2:22 as commodity prices remain elevated. However, import prices overshooting export prices saw the terms of trade deteriorate.

The increase in goods exports was however broad-based between Jan-Jul. Cocoa beans, rubber and cashew nuts contributed respectively 21.2%, 10.3% and 7.0% to total exports. Still, cocoa sales fell by 5.7% due to a 3.7% drop in export prices from excess market supply. Reportedly, cocoa farmers have welcomed the light rains in Aug; they now plan to harvest the main Oct-Mar crop. Soil moisture has been high, boosting both the size and quality of the main crop.

Though international oil prices are markedly lower, growth in goods imports will probably remain elevated into Dec. The increase in consumer goods imports from Jan-Jul stemmed from food products (up 22.5%), and other consumer goods, in particular petroleum products other than crude oil (up187.9%). Fuel imports grew by 33.4%, which too may weigh on the overall C/A for 2022. Though Côte d'Ivoire exports petroleum products, its imports are 1.8x what it exports. Perhaps the first phase of Baleine oilfields in H1:23, by ENI, estimated at 12,000 bbl/d of crude oil, will boost the C/A.

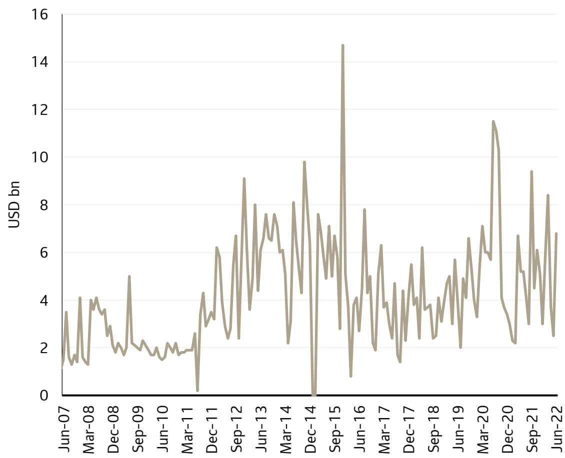
Primary income too could pressure the C/A as debt-servicing costs may grow due to the DSSI not being extended beyond 2021.

Current account developments



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

FX reserves



Source: Bloomberg

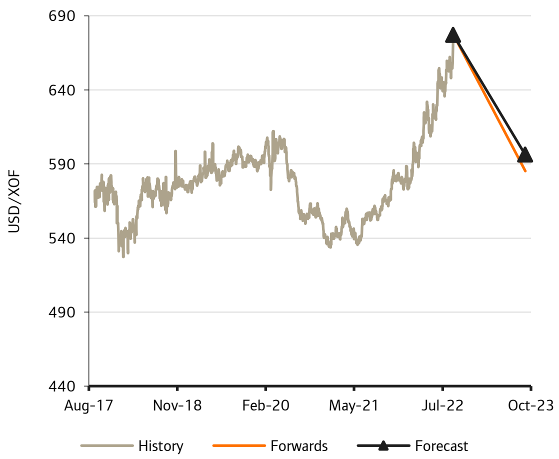
FX outlook: XOF still tracking EUR

The XOF will likely remain pegged at 655.96 to the EUR over our forecast period. We had previously targeted the parity level for euro/dollar, but that has been met, and dollar strength seems relentless. Indeed, our G10 strategist sees a likelihood that the EUR/USD pair may range at 0.95-1.20 for the next 2-y, from current levels of 1.01.

Though the euro may have been bolstered by the ECB's Sep rate hike (75 bps), our houseview sees conditions for a sustained recovery in the euro as only in place when gas price tensions ease, economic recovery starts, and the Fed stops hiking.

Therefore, the bias is for USD/XOF to reach a peak of 676 by Dec before declining to 570 by end-2023. Due to the economic fallout from the pandemic, plans to adopt a new currency, the eco, have been postponed to 2027.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: hiking cycle resumes

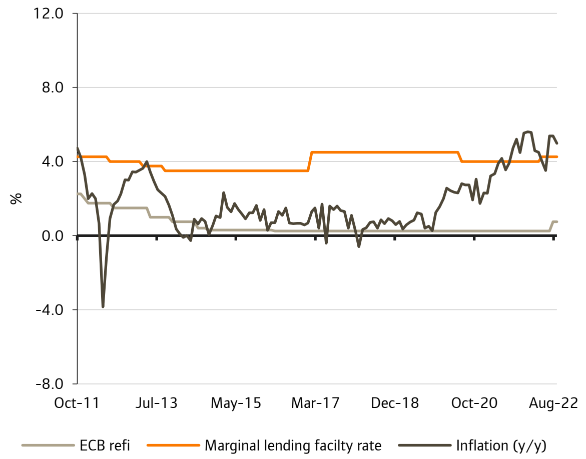
After hiking by 25 bps in Jun, the BCEAO's Monetary Policy Committee raised the minimum bid rate and marginal window rate by a further 25 bps in Sep, to 2.50% and 4.50% respectively. The reserve coefficient applied to banks will however remain unchanged at 3%, it been the case since Q1:17. This hiking cycle comes after the BCEAO had kept policy rates unchanged since mid-2020. We expect a further 25 bps hike at the Dec meeting as supply-side prices pressures are likely to have persisted.

This hiking cycle broadly matches our expectation. The BCEAO has noted upside risks to this region's inflation outlook given food production declines during the 2021/2022 season, ongoing supply constraints, and high global commodity prices. Rising food costs have also kept inflation sticky, in particular the prices for cereals, fruits and vegetables, tubers, plantains, as well as fish products. The BCEAO expects consumer prices at 6.2% y/y in 2022, then dropping to 3.2% y/y in 2023, before settling gradually into the targeted range of 1%-3% in Q1:24, at 2.5% y/y. The apex bank sees the balance of risks to headline inflation as broadly to the upside, as insurgency in the northern parts of the country could spread to other areas, thereby affecting food production during the upcoming agricultural season. The prolonged war in Ukraine may also further disrupt global food supply chains.

Into Dec, inflation in Côte d'Ivoire may remain elevated because of high global commodity prices, supply-chain challenges, high transport costs, and currency weakness against the USD.

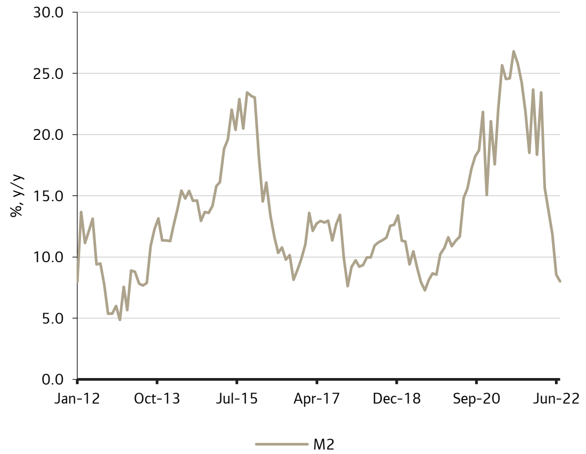
Indeed, we now see headline at 4.1% y/y by Dec (previously 3.6% y/y), from an average of 4.2% y/y in 2021. Still, notwithstanding underlying inflationary pressures, base effects may keep headline inflation contained in H2:22. Though M2 money supply growth declined to 8.0% y/y in Jun, from 13.8% y/y in Mar, it may recover to 10.5% y/y by Dec. Additionally, the BCEAO's financing measures should continue supporting savings.

Inflation and interest rates



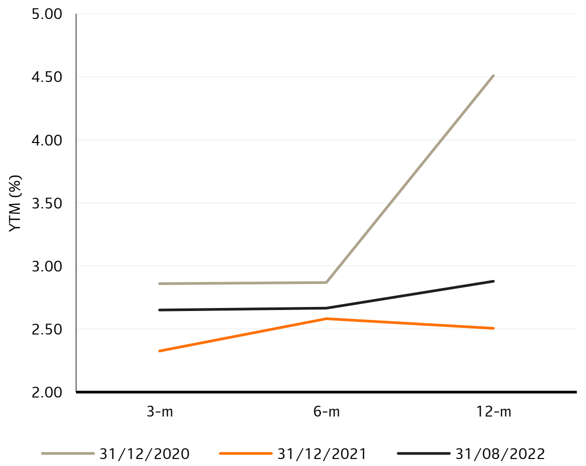
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; European Central Bank

Money supply



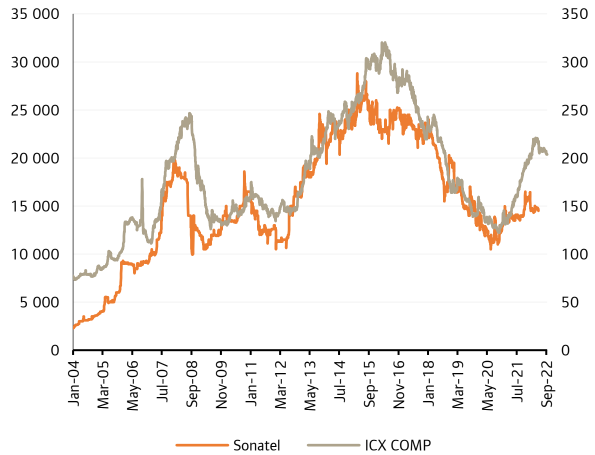
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Yield curve changes



Source: Bloomberg

Capital market outlook



Source: BRVM; Bloomberg

Fiscal policy: still consolidating

For 2022, the Ivorian government had budgeted for a fiscal deficit (incl. grants) of 5.3% of GDP (XOF2.2tr), from an estimate of 5.1% in 2021, driven by faster growth in expenditure (5.5% y/y) than total revenue (1.9% y/y).

However, the latest fiscal outturn as at end Jun shows the fiscal deficit at 5.7% of GDP (XOF0.48tr). Total revenue collected (incl. grants) was 9.7% higher than in H1:21, at XOF3,273.4bn, attributable to tax revenue being higher by XOF154b.1bn. Therefore, the government had realised 52.5% of its budgeted total revenue (XOF6,031.5bn) for FY2022.

Similarly, total expenditure was 9.9% higher, at XOF3,735.5bn, than in H1:21. Expenditure however is expected to fall to 20.0% of GDP in 2022, from 20.9% last year, due to faster growth in nominal GDP than expenditure as well as a slight reduction in recurrent expenditure (-1.2% y/y). Development expenditure was budgeted to increase to 26.8% y/y, to 6.6% of GDP, from 5.7% in 2021.

Given that only 42.7% of this year's budget wallet has been spent ytd, we may well see increased expenditure into Dec, augmented by security outlays and social protection measures, alongside expected debt servicing costs besides the Debt Service Suspension Initiative (DSSI) program. in 2021(Jan-Dec), Côte d'Ivoire had saved about USD150.3m (0.3% of GDP) under the DSSI initiative. With the DSSI not being extended into 2022, public debt servicing in H2:22 may reach USD967.1m, from USD944.8m in H1:22, per the latest World Bank data.

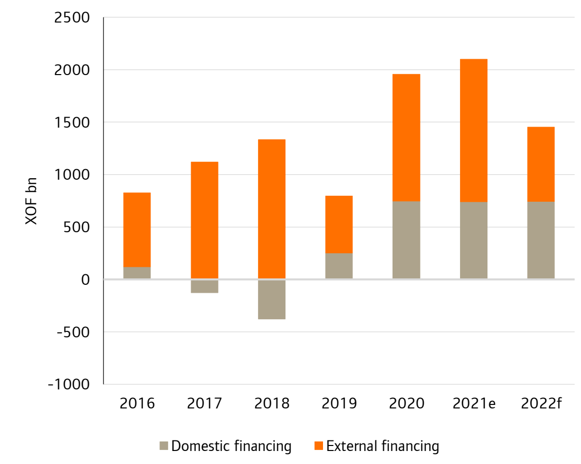
The 2022 fiscal deficit (incl. grants) of XOF2,242.3bn will be financed almost equally domestically (51.5% or XOF1,155.1bn) and by external borrowing. Due to higher borrowing costs in international capital markets, the Eurobond issuance for 2022 has been postponed.

Central government budget

(%of GDP)	2020	2021	2022f
Tax revenue	12.3	13.1	12.3
Non-tax revenue	2.1	2.2	1.9
Grants	0.5	0.5	0.5
Total expenditure	20.5	20.9	20.0
Recurrent expenditure	15.1	15.3	14.0
- Of which: interest due	1.9	2.0	2.0
- Of which: wages	5.2	4.8	4.6
Capital expenditure	5.4	5.6	6.0
Budget deficit (incl. grants)	-5.6	-5.1	-5.3
Budget deficit (excl. grants)	-6.1	-5.5	-5.8
Domestic financing	1.9	1.7	2.7
External financing	3.4	3.4	2.5

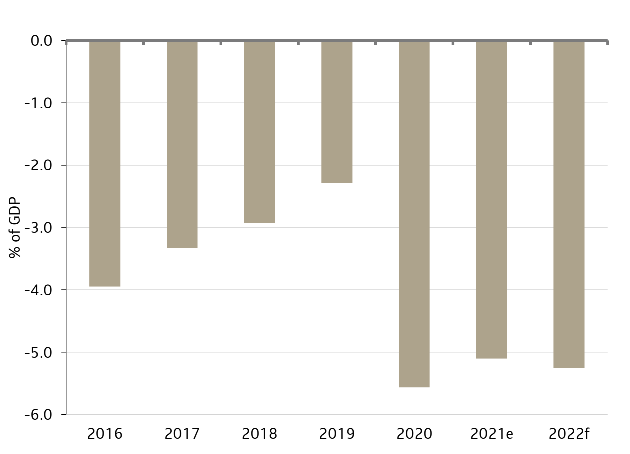
Source: Ministère de l'Economie et des Finances

Financing the fiscal deficit



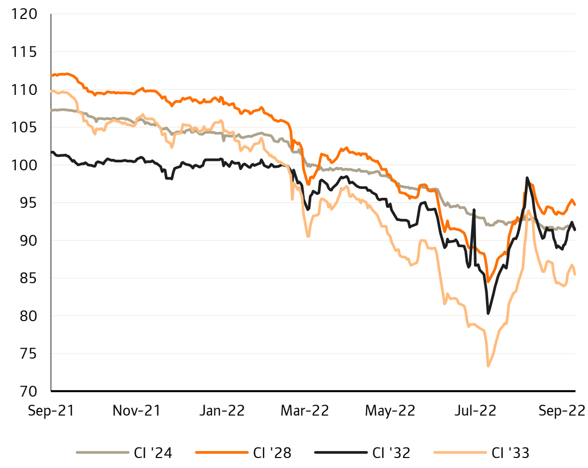
Source: Ministère de l'Economie et des Finances

Budget deficit (incl. grants)



Source: Ministère de l'Economie et des Finances

Eurobond prices



Source: Bloomberg

Table 1: Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	25.0	25.0	26.0	26.2	26.4	26.8	26.8
Nominal GDP (XOF bn)	29955.0	32222.3	34298.9	35949.8	39854.8	44369.2	48897.9
Nominal GDP (USD bn)	50.9	58.3	69.2	63.1	72.4	76.4	96.0
GDP / capita (USD)	2035.0	2332.7	2660.2	2409.3	2744.1	2851.2	3580.7
Real GDP growth (%)	7.4	6.9	6.2	2.4	6.7	6.6	7.0
Oil production (m bbl)	11.0	11.0	13.0	15.0	15.5	15.7	16.2
Cocoa production (m tonnes)	2.0	2.0	2.2	2.1	2.2	2.3	2.4
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-4.2	-3.7	-3.1	-6.1	-5.6	-4.5	-4.5
Budget balance (incl. grants) / GDP (%)	-3.3	-2.9	-2.3	-5.6	-5.1	-4.1	-4.1
Domestic debt / GDP (%)	14.3	12.5	12.3	13.4	13.6	10.2	10.2
External debt / GDP (%)	19.3	23.3	26.7	31.1	30.3	33.0	33.0
Balance of Payments							
Exports of goods (USD bn)	11.7	12.0	14.9	12.6	15.3	16.2	19.9
Imports of goods (USD bn)	-8.4	-9.5	-11.2	-9.6	-11.9	-14.1	-17.1
Trade balance	3.3	2.5	3.7	3.0	3.4	2.1	2.9
Current account (USD bn)	-1.0	-2.1	-1.6	-2.0	-2.8	-3.4	-3.9
- % of GDP	-2.0	-3.6	-2.3	-3.2	-3.8	-4.5	-4.1
Capital & Financial account (USD bn)	1.0	2.6	2.6	3.1	4.7	4.5	5.3
- FDI (USD bn)	0.3	0.5	0.9	0.7	0.9	1.0	1.4
Basic balance / GDP (%)	-1.5	-2.8	-1.0	-2.0	-2.6	-3.2	-2.6
FX reserves (USD bn) pe	5.2	3.1	4.0	3.4	5.3	6.4	7.8
- Import cover (months) pe	7.4	3.9	4.3	4.2	5.4	5.4	5.5
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	BB-	BB-	BB-
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	B+	B+	B+	B+	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.4	0.6	0.8	2.4	4.2	4.7	3.2
Consumer inflation (%) pe	1.3	0.6	1.6	2.3	5.6	4.1	2.6
M2 money supply (% y/y) pa	11.8	11.0	9.4	15.7	22.8	11.4	13.0
M2 money supply (% y/y) pe	9.2	13.4	10.8	21.1	18.3	10.5	5.7
Marginal lending facility (%) pe	4.50	4.50	4.50	4.00	4.00	4.75	5.00
USD/XOF pa	588.8	552.5	495.9	569.5	550.1	637.0	594.2
USD/XOF pe	564.2	546.6	468.5	537.6	573.5	676.2	570.4

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: extractive sector in the lead

Medium-term outlook: copper production up

We retain our GDP growth forecast of 5.5% y/y for 2022 and 5.8% y/y for 2023. The IMF sees growth at 6.1% y/y and 6.7% y/y in 2022 and 2023 respectively.

The extractive sector seems set to drive growth, with the non-extractive sector still in recovery, with unwinding base effects proving supportive. Notwithstanding growth in the extractive sector, inflation will weigh on growth, particularly for the non-extractive sector.

Higher food and transport prices due to the Ukraine war too could constrain GDP growth. Notwithstanding DRC's vast natural resources, structural challenges, infrastructure deficiencies and rising insecurity may weigh on growth.

Still, at end Apr 21, cumulative copper production was up 36% y/y, at 28.9k tons, while cobalt production was down 3% y/y, at 2.9k tons. Mineral production capacity is expected to expand in 2022 as production shifts to phase 3 of Kamoa's expansion plan.

DRC stands to benefit from the global energy transition via increased demand for lithium and cobalt. Though copper prices have come off their highs in Oct 21, they remain above the average production breakeven, which should support continued activity in this sector.

A strong result in the mining sector should also spill over to DRC's ancillary sectors such as transport, construction, fuels, chemicals and other mining support services.

Though integration into the East African Community may still take time, the more immediate benefits could include increased investment, besides the minerals sector.

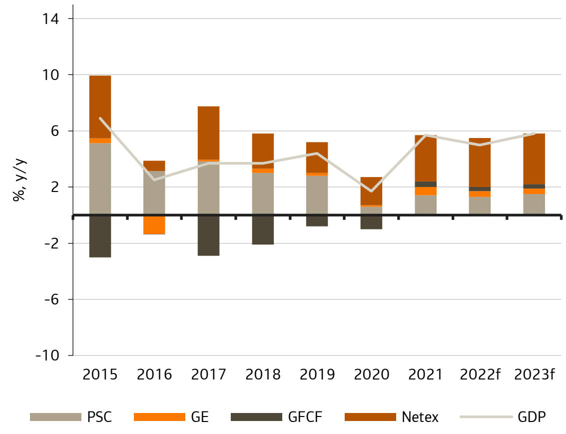
Infrastructure investment should expediate regional integration and address DRC's infrastructural inadequacies. However, rising insecurity in the eastern regions of the DRC may discourage investment.

Fiscal adjustment (recommended by the IMF's 3-y ECF) has allowed fiscal space for increased government spending, including capital projects, which has supported GDP growth.

Our bear case models further pandemic-related shocks. With less than 4% of the population fully vaccinated, DRC may be particularly vulnerable.

Further public health restrictions would prove disruptive, as would the insecurity in the eastern regions. Stalling investment in the extractive sector could see GDP growth remaining largely below 5% y/y until 2024, which would be well below the 2010-19 average of 6.2% y/y.

Composition of GDP by demand



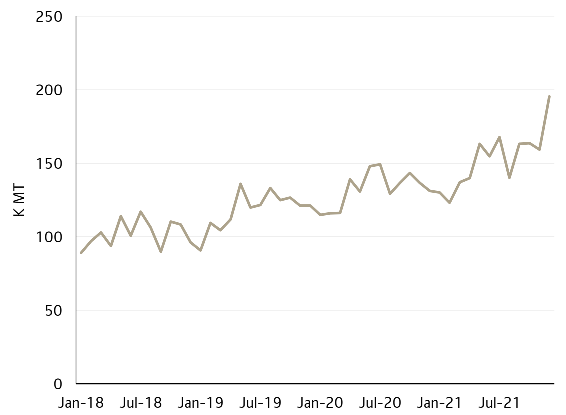
Source: Banque Centrale du Congo; Standard Bank Research

Contribution of GDP by sector (% of total)

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

Source: Banque Centrale du Congo; Standard Bank Research

Copper production



Source: Banque Centrale du Congo; Standard Bank Research

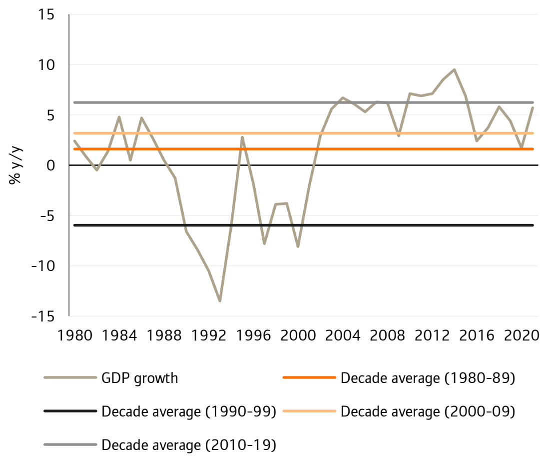
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	5.5	5.5	5.5	5.5	5.8	5.8	5.8	5.8	6.5	6.5	6.5	6.5	6.9	6.9	6.9	6.9
CPI (% y/y) pe	9.6	11.9	12.8	13.3	13.6	8.2	6.5	6.2	5.9	5.9	6.1	6.2	6.3	6.5	6.6	6.7
Policy rate (%) pe	7.5	7.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	8.5	8.5	8.5	8.5
USD/CDF pe	1995.1	1993.7	2014.6	2022.7	2032.8	2043.0	2053.2	2063.5	2073.8	2084.1	2094.6	2105.0	2115.6	2126.1	2136.8	2147.5
Bull scenario																
GDP (% y/y) pa	5.2	5.2	5.2	5.2	6.2	6.2	6.2	6.2	7.3	7.3	7.3	7.3	7.7	7.7	7.7	7.7
CPI (% y/y) pe	9.6	11.9	11.0	11.5	11.6	7.1	5.4	5.1	5.1	5.1	5.2	5.3	5.4	5.6	5.8	5.9
Policy rate (%) pe	7.5	7.5	8.5	8.5	8.5	8.5	7.0	7.0	7.0	7.0	7.0	7.0	8.0	9.0	10.0	11.0
USD/CDF pe	1995.1	1993.7	2012.6	2014.7	2020.7	2026.8	2032.9	2039.0	2045.1	2051.2	2057.4	2063.6	2069.8	2076.0	2082.2	2088.4
Bear scenario																
GDP (% y/y) pa	3.6	3.6	3.6	3.6	3.9	3.9	3.9	3.9	4.6	4.6	4.6	4.6	5.0	5.0	5.0	5.0
CPI (% y/y) pe	9.6	11.9	17.7	18.2	18.5	13.0	11.4	11.1	10.8	10.8	11.0	11.1	11.2	11.4	11.5	11.6
Policy rate (%) pe	7.5	7.5	13.5	13.5	13.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
USD/CDF pe	1995.1	1993.7	2025.5	2034.6	2048.8	2063.2	2077.6	2092.2	2106.8	2121.6	2136.4	2151.4	2166.4	2181.6	2196.9	2212.2

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

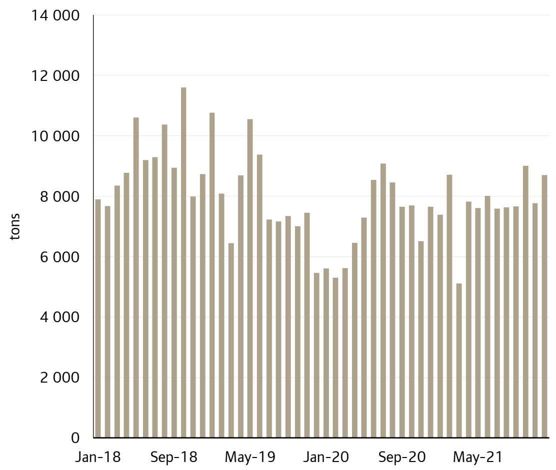
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF; Standard Bank Research

Cobalt production



Source: Banque Centrale du Congo; Standard Bank Research

Balance of payments: FX reserves recovering

Since average copper prices has fallen since May, and food and fuel prices pressures are unlikely to relent immediately, we now foresee a C/A deficit of -0.6% of GDP at end 2022, from a surplus of 0.7% before. The current account should then move to a surplus of 0.4% of GDP next year. DRC's current account deficit had reached an estimated 0.8% of GDP in 2021.

Notwithstanding softer copper prices, the terms of trade improved tremendously over the past 2-y and remain strong since cobalt, copper and gold account for over 95% of goods exports. While this has benefited the external accounts, it also highlights DRC's dependence on mineral exports and exposes export receipts to swings in commodity prices.

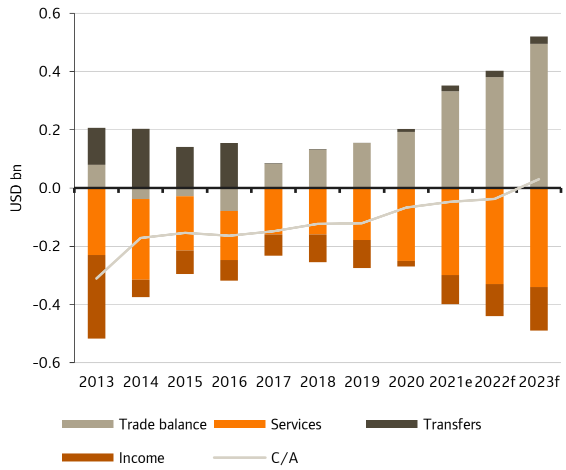
Notwithstanding DRC's export gains, recovering import growth, combined with a higher food, fuel and fertiliser import bill, should offset this. Since basic goods form a large component of the import bill, DRC's EAC membership may reduce import times, which may imply some near-term benefits.

FDI increased 12.5% y/y in 2021, to USD1.8bn, after increasing 33% y/y in 2020. Besides the extractive sector, the telecommunications sector, particularly investment in the regional fibre network infrastructure, has benefited from investment. Other notable projects include investment in a facility for treatment of municipal organic waste for USD136m.

The IMF programme, and its recommended structural reforms, may spur future investment.

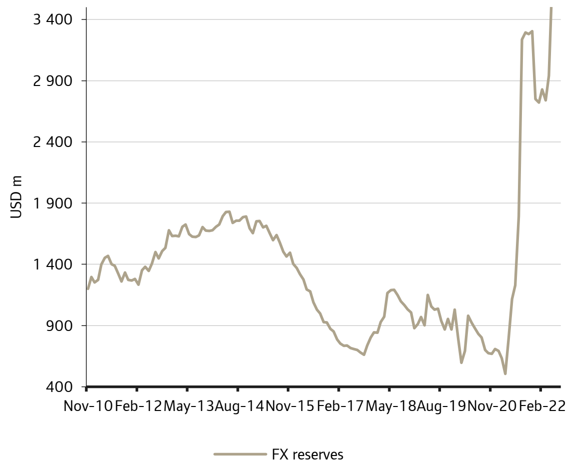
Indeed, DRC has completed the second review under the IMF's ECF, which led to the disbursement of USD203m in Jun 21. This, combined with strong trade inflows, should continue supporting FX reserves, which reached USD4.2bn (10-w of import cover) in Jul 22, from USD1.8bn (7-w of import cover) in Jul 21.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves



Source: Banque Centrale du Congo

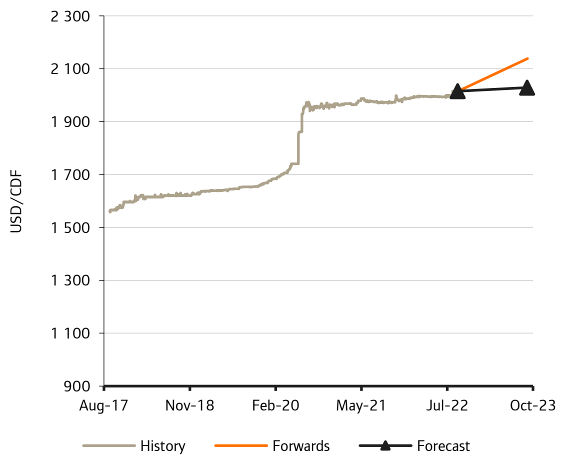
FX outlook: USD/CDF still steady

We expect the USD/CDF pair to reach 2,023 by end 2022 and 2,043 by Jun 23. Despite the strong performance of mineral exports, the currency will likely maintain a depreciating bias due a strong dollar, globally and tighter access to USD funding.

So far, improving external fundamentals has supported the crawling-peg currency arrangement. Since Jan, the CDF has depreciated by 1.2% to the USD, compared with 0.32% in 2021 and 15.01% in 2020.

Our bear case incorporates increased pressure on the currency, which may be exacerbated by a sudden decline in mining inflows and IMF funding. We see the currency pair at 2,035 by end Dec 22 and 2,063 by end Jun 23.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: MPC to tighten as inflation rises

We expect the BCC's MPC to increase the policy rate by at least 200 bps over the next 12-m. Inflation remains above the BCC's medium-term target of 7.0% and has been rising since Dec 21.

Indeed, inflation reached 12.13% y/y in Jul, from 11.90% y/y in Jun, and averaged 11.32% y/y in Q2:22. Inflation is being largely supply-side driven by higher food and transport costs.

However, tighter monetary policy should contain inflation expectations.

Since the transmission mechanism is weak, the MPC would have to move the policy rates by larger increments to increase the efficacy of policy interventions.

Combined with inflation rising, unfavourable base effects too should bump up inflation over the next 7-m. Still, we expect inflation to peak in Mar 22, at 13.65% y/y.

The MPC may be reticent to hike rates given that the recovery is uneven, with the non-extractive sector still lagging.

The stable currency has also moderated the trajectory of inflation.

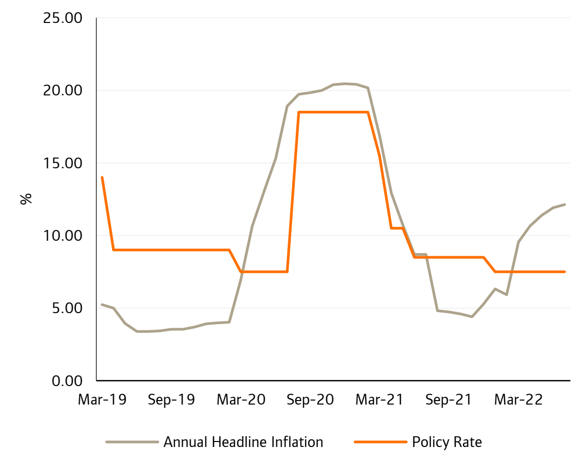
Typically, sharp, sudden moves in the exchange rate pass through quickly to inflation, which also captures DRC's high import dependence.

The government's reliance on the central bank for financing typically precipitates a series of devaluation.

Since the government has limited its reliance on this source of financing, the risk to the inflation outlook is diminished.

Moreover, the IMF programme has set limits on changes in net credit from the central bank to the government.

Inflation and interest rates



Source: Banque Centrale du Congo; Standard Bank Research

Broad money supply growth

Source: Reuters; Standard Bank Research

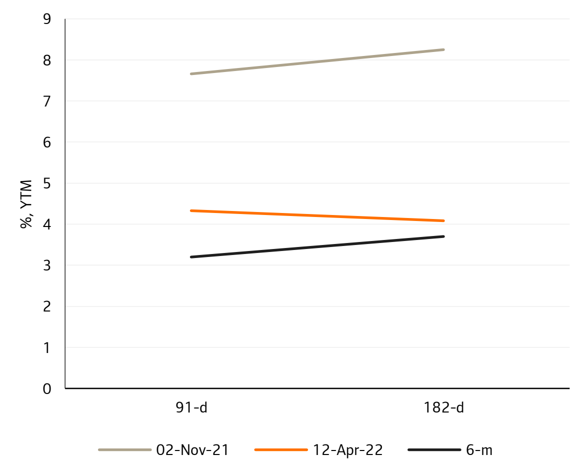
Yield curve outlook: yields move lower still

We expect yields to decline further in the next 6-m. The MOF has issued both 91-d and 182-d USD-linked T-bills since Nov 21. This year, authorities seem to be favouring the issuance of 6-m bills, with the last 3-m paper going on auction in Mar.

Auctions have remained well subscribed, benefiting the price-sensitive fiscal authorities that have consistently been rejecting higher bids, thereby driving down yields.

Policymakers aim to develop the local debt market. However, strong revenue mobilisation and the expanded external funding options may have reduced the sovereign's focus on this source of financing, with only a few auctions taking place.

Yield curve change



Source: Banque Centrale du Congo; Standard Bank Research

Fiscal policy: a credible revenue performance

The FY2022 budget foresees the deficit (including grants) rising to 1.4% of GDP, from an estimated outturn of cash surplus of 4.3% of GDP in FY2021. The anticipated increase in revenue from the mineral sector is however not likely to offset the increase in expenditure from fuel subsidies and social transfers.

Access to external finance has improved, with the FY2022 budget flagging the government as securing CDF5.652trn, or 4.2% of GDP, in project financing and budget support, up from an estimated 3.5% of GDP in FY2021. Disbursements from the IMF programme may also partly finance the FY2022 budget.

The FY2022 budget sees domestic revenue reaching CDF14,76trn (or 11.0% of GDP) in FY2022, around 9% higher than FY2021's revenue outturn. At end Jul, cumulative revenues beat the prorated target by 13%. Though the mining sector contributed to strong revenue performance, structural changes, including improvement in administration and strengthening of internal controls has also supported revenue mobilisation.

The government continues to accumulate payment arrears to the private sector, including payments to oil importers and VAT refunds. At end Mar, the stock of payment arrears reached 8% of GDP, with roughly half of that audited. The government is currently auditing payment arrears accrued in FY2021.

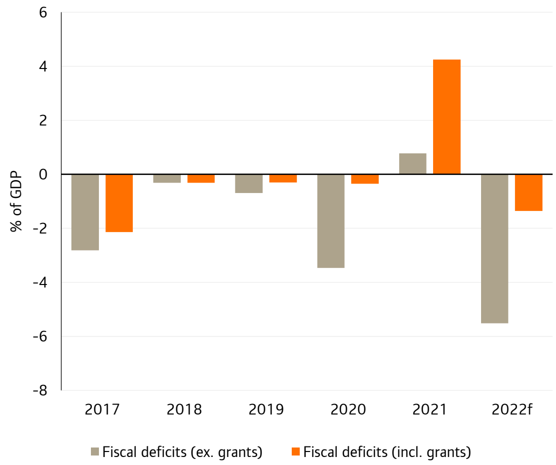
The FY2022 budget sees expenditure at 16.6% of GDP (CDF22,26trn). Fiscal authorities have agreed to gradually phase out fuel subsidies. Still, the subsidy mechanism appears complex and obscure. However, the IMF estimates that fuel subsides may cost the government USD500m for the direct subsidy and USD1.2bn in foregone taxes and other fiscal charges during FY2022.

Central government finances

% of GDP	2019	2020	2021	2022f
Total central govt. revenue	12.4	7.1	12.1	11.0
Total central govt. expenditure	12.8	10.6	11.3	16.6
- Recurrent	8.6	7.2	11.1	11.0
- Interest	0.8	0.4	0.4	0.9
- Wages	4.6	4.8	5.0	4.7
- Development/transfers	2.4	0.8	0.8	3.4
Central govt. bal. (ex. grants)	-0.7	-3.5	0.8	-5.6
Central govt. bal. (incl. grants)	-0.3	-0.4	4.3	-1.4
Net domestic borrowing (saving)	0.2	0.4	0.2	n.a
Net external borrowing (saving)	0.0	0.0	0.0	n.a
Grants (incl. HIPC)	0.3	3.1	3.5	4.2

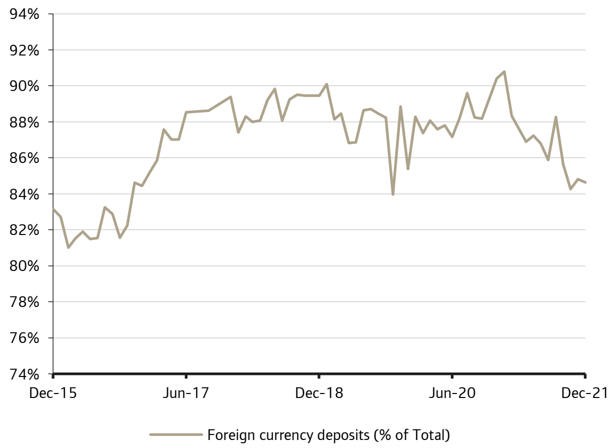
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Fiscal deficit



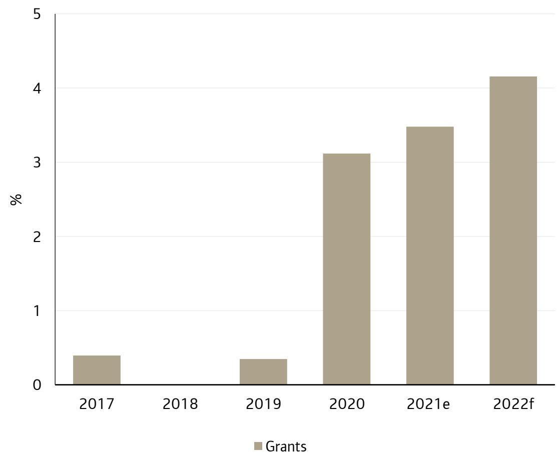
Source: Banque Centrale du Congo; Ministere du budget; Standard Bank Research

Foreign currency deposits



Source: Banque Centrale du Congo; Standard Bank Research

Grants



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

Annual indicators

	2017	2018	2019	2020	2021	2022f	2023f
Output							
Population (million)	86.3	88.8	91.3	93.9	95.0	96.2	97.3
Nominal GDP (CDF bn)	59 446.6	74 750.9	80 959.4	99 504.6	112 924.5	134 179.6	150 230.5
Nominal GDP (USD bn)	39.6	46.2	49.8	50.6	57.2	66.9	73.4
GDP / capita (USD)	458.3	520.7	545.6	539.1	601.4	695.1	753.9
Real GDP growth (%)	3.7	3.8	4.4	1.7	5.7	5.5	5.8
Diamond production (m carats)	18.9	15.1	18.9	16.6	12.8	12.8	12.8
Crude oil ('000 barrels)	7 363.0	8 392.6	6 817.0	4 090.2	4 499.2	4 949.1	5 444.1
Copper ('000 tonnes)	1 090.0	1 225.3	1 420.4	1 590.9	1 790.0	1 933.2	2 087.9
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.8	-0.3	-0.7	-3.7	-4.4	-5.6	n.a
Domestic debt / GDP (%)	n.a	6.6	7.0	7.4	6.9	n.a	n.a
External debt / GDP (%)	16.9	13.7	14.3	14.4	14.6	15.5	16.0
Balance of Payments							
Exports (USD bn)	10.8	13.0	15.9	13.8	17.0	23.0	26.4
Imports (USD bn)	9.9	11.7	14.4	11.9	13.7	19.1	21.4
Trade balance (USD bn)	0.8	1.3	1.5	1.9	3.3	3.8	4.9
Current account (USD bn)	-1.5	-1.2	-1.2	-0.7	-0.5	-0.4	0.3
- % of GDP	-3.8	-2.7	-2.4	-1.3	-0.8	-0.6	0.4
Financial account (USD bn)	1.3	1.2	1.5	2.0	1.8	2.0	1.5
- FDI (USD bn)	1.0	1.1	1.2	1.6	1.8	2.0	1.5
Basic balance / GDP (%)	-1.4	-0.3	0.0	1.8	2.3	2.4	2.5
FX reserves (USD bn) pe	-1.4	-0.3	0.0	1.8	2.3	2.4	2.4
- Import cover (months) pe	0.8	0.9	1.0	0.7	2.8	3.5	2.3
Sovereign Credit Rating							
S&P	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	B3	B3	B3	Caa1	Caa1	Caa1	Caa2
Fitch	CC	CC	CCC	CCC	CCC	CCC	CCC
Monetary & Financial Indicators							
Headline inflation (%) pa	53.0	21.9	4.3	14.8	13.8	11.9	8.6
Headline inflation (%) pe	46.8	7.7	3.9	21.2	7.8	13.3	6.2
M3 money supply (% y/y) pa	43.4	16.7	4.8	40.4	25.6	18.4	15.3
Policy bank rate (%) pa	18.5	14.0	10.3	15.8	10.3	9.3	10.5
Policy bank rate (%) pe	20.0	14.0	9.0	18.5	10.5	10.5	10.5
USD/CDF pa	1 503.0	1 617.4	1 625.2	1 871.0	1 975.7	2 006.5	2 048.1
USD/CDF pe	1 595.0	1 625.0	1 667.6	1 965.1	1 987.8	2 022.7	2 063.5

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: IMF programme delays may disrupt borrowing plans

Medium-term outlook: relatively positive

Preliminary figures show GDP growth of 6.2% y/y in FY2021/22; it averaged 7.8% y/y in the first 3-q of FY2021/22, with this economy remaining resilient despite the Omicron variant wave in Q4:21 and external account pressures arising from declining global risk appetite.

GDP growth may begin ease from Q3:22 largely due to inflationary pressures and waning external demand. Indeed, GDP growth slowed to 5.4% y/y in Q1:22, from 8.3% y/y in Q4:21 and 9.8% y/y in Q3:21.

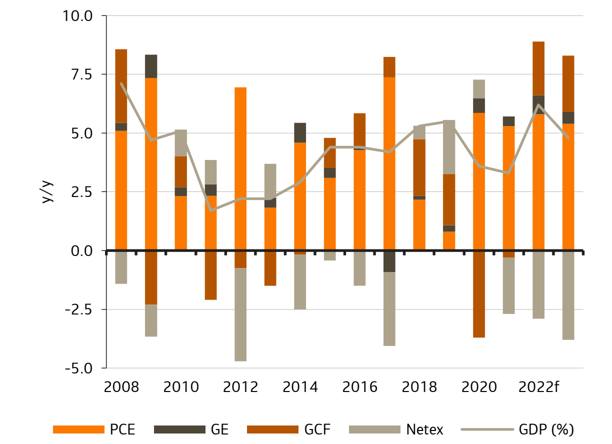
Notably, 35-40% of annual tourist arrivals stem from Russia and Ukraine. Still, Egypt's tourism sector was surprisingly resilient in H1:22, and we would foresee a further recovery over the coming year as international travel continues to normalise and the pandemic fades.

The government has announced the Russian rouble to be listed as one of the currencies permitted to be used in Egypt from Sep 22 as they seek to attract tourists ahead of the peak season in Q4. A stronger tourism sector may therefore bump up our 4.8%-5.2% y/y GDP growth forecast for FY2022/23. However, notable downside risks to economic growth persist.

The devaluation of the EGP in Mar and the second-round effects on inflation may drain real disposable incomes over the coming year. Furthermore, with growing concerns that the CBE may be forced to devalue the EGP again, consumer spending may remain subdued.

Moreover, any further delays in securing the pending IMF financing deal may see the government's external borrowing plans for FY2022/23 be disrupted, which may curb public investment in infrastructure and weigh down economic activity.

GDP by expenditure



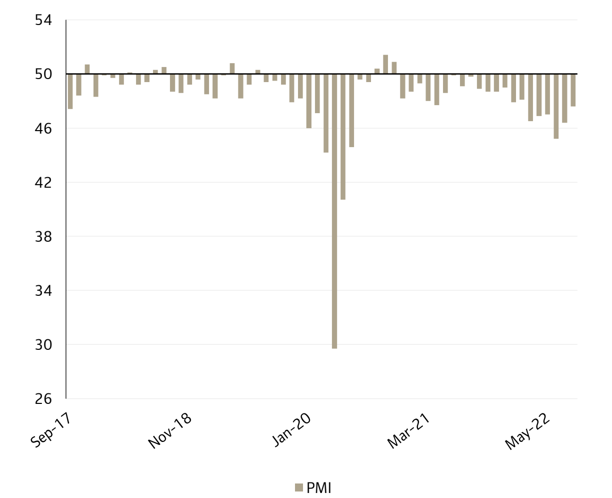
Source: Ministry of Planning; Standard Bank Research

Contribution to GDP by sector

% of GDP	FY2008/ 09	FY2010/ 11	FY2020/ 21
Agriculture	13.6	14.5	10.0
Petroleum	6.2	6.2	2.7
Natural gas	8.3	8.3	2.6
Manufacturing	16.6	16.5	16.3
- Petroleum refinement	1.0	1.1	4.2
Construction	4.4	4.6	7.1
Transport	4.1	4.1	5.2
Wholesale and retail trade	11.4	11.5	15.0
Financial intermediation	3.6	3.4	3.8
Real estate	2.7	2.6	8.2
General government	9.9	10.2	7.3

Source: Ministry of Planning

Egypt PMI



Source: IHS Markit

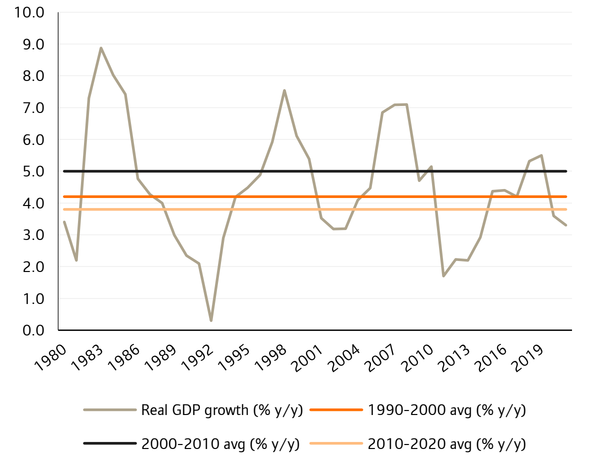
Medium-term economic growth forecasts

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	5.4	1.4	3.8	4.5	5.1	5.6	5.4	5.7	5.9	5.8	6.2	6.2	6	6	5.8	6
CPI (% y/y) pe	10.5	13.1	14.1	12.7	9.4	7	5.9	5.9	6	5.8	6.2	6.5	6.2	6.4	6.4	6.6
CBE prime lending rate (%) pe	10.25	10.25	10.25	11.25	11.25	11.25	10.75	10.5	10.5	10	10	9.5	9.5	9.5	9.5	9.5
3-m rate (%) pe	11.49	15.26	15.45	15.2	14.8	14.5	13.9	13.5	13.2	12.6	11.9	11.5	11.5	11.4	11.6	11.6
6-m rate (%) pe	12.83	15.3	16.1	15.7	15.3	14.9	14.7	14.1	13.8	13.2	12.7	12.2	11.9	11.6	11.7	11.7
USD/EGP pe	18.3	18.8	19.5	20.9	21.5	21.85	21.75	21.6	21	20.8	21.3	21.5	19.5	21.1	21.2	21.6
Bull scenario																
GDP (% y/y) pa	5.4	3.5	5.9	6.8	6.9	6.9	6.6	7	7.2	7.5	7.6	7.6	7.4	7.1	7.2	7.3
CPI (% y/y) pe	10.5	13.1	11	9.5	7.4	5.3	3.9	4.2	4.5	4.1	4.6	4.8	4.3	4.3	4.1	4.5
CBE prime lending rate (%) pe	10.25	10.25	10.25	10.25	10.25	10.25	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
3-m rate (%) pe	11.49	15.26	15.1	14.7	13.8	12.9	12.7	12.5	12.1	11.4	10.8	10.7	10.5	10.5	10.3	10.6
6-m rate (%) pe	12.83	15.3	15.8	15	14.5	13.2	13.1	13.1	12.6	12.5	12.2	11.8	11.6	11.4	11.2	11.1
USD/EGP pe	18.3	18.8	19.3	19.7	19.9	20.1	20.3	20.5	20.1	19.8	19.8	20	20.1	20.1	20.4	20.4
Bear scenario																
GDP (% y/y) pa	5.4	1.4	2.3	3.5	4.2	4.5	4.7	4.5	5.1	5.4	5.5	5.2	4.9	4.8	5.1	5.1
CPI (% y/y) pe	10.5	13.1	15.1	16.5	16.7	15.6	13.8	13.8	12.6	11.7	11.5	11.2	10.3	9.9	7.8	7.1
CBE prime lending rate (%) pe	10.25	10.25	10.25	12.25	14.25	14.25	14.25	14.25	13.75	13.75	13.50	13.00	12.00	12.00	12.00	12.00
3-m rate (%) pe	11.49	15.26	15.9	17.7	20	20	19.9	19.2	18.5	18.1	17.4	17.2	16.9	16.8	16.5	16.5
6-m rate (%) pe	12.83	15.3	16.5	18.1	21.5	21.7	21	19.9	19.7	19	18.4	18.1	18.1	17.6	17.3	14.1
USD/EGP pe	18.3	18.8	19.8	21.5	21.8	22.2	22.4	22.7	22.5	22.1	22	21.9	22.3	22.5	22.8	22.8

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

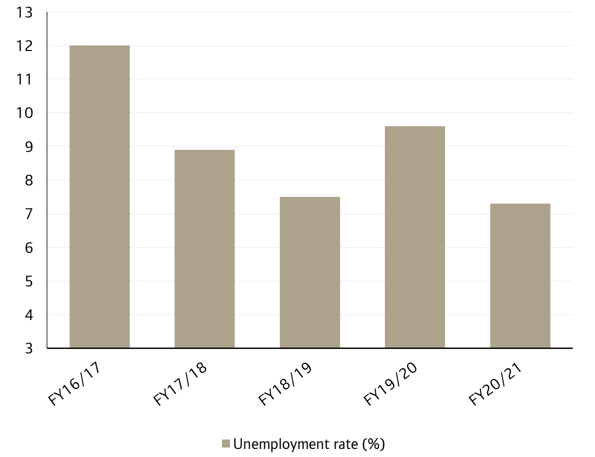
Notes: pe – period end; pa –a period average

Long-term GDP performance (% y/y)



Source: World Bank

Unemployment (%)



Source: Ministry of Finance

Balance of payments: inadequate funding

We expect the C/A deficit to widen to 7.6% of GDP in 2020 but thereafter narrow to 5.1% in 2023.

Exports of goods in 2022 are likely to be spurred by higher international oil prices. Petroleum exports rose to USD5.1bn in Q1:22, from USD2.9bn in Q3:21. However, with international oil prices likely to ease further in 2023, oil export receipts may moderate. That said, oil imports may also decline in 2023 and thereby support a narrowing of the C/A deficit.

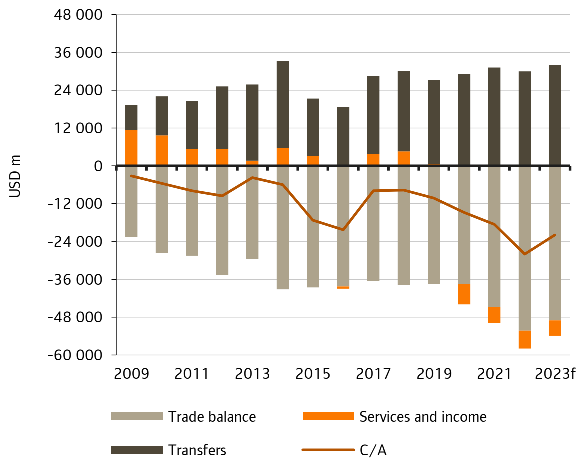
Per our May AMR edition, tourism earnings were likely to decrease owing to far fewer tourist arrivals from Russia and Ukraine. However, it has proved more measured than we had expected as travel receipts declined to USD2.4bn in Q1:22, from USD2.9bn in Q4:21. Tourism earnings should gradually recover from Q4:22 but global growth will likely dwindle in 2023, so tourism arrivals may well remain subdued.

Given precarious global risk sentiment, inflows into the capital and financial account may be inadequate to finance a wider C/A deficit. The government has notable external debt obligations over the coming year – but Eurobond financing may remain out of reach at least until H2:23.

The government may therefore explore other options, such as a Samurai or Panda bonds, as alternatives. Additionally, convert around USD12bn in GCC deposits currently at the CBE into direct investments.

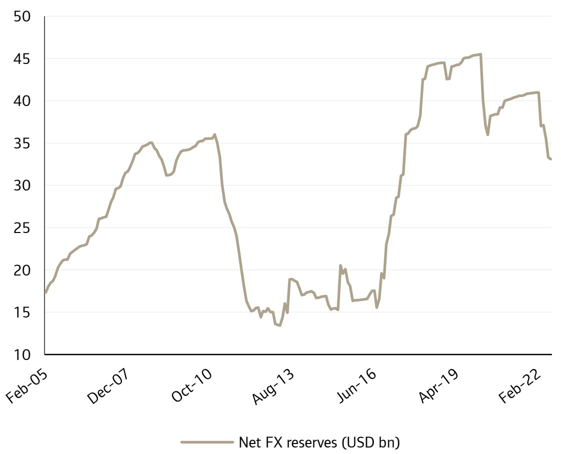
Net FX reserves decreased to USD33.1bn (4.5 months of import cover) in Jul 22, from USD37.0bn (5.1 months) in Mar 22 and USD40.9bn (5.6 months) in Dec 21.

Current account developments



Source: Central Bank of Egypt; Standard Bank Research

Net FX reserves (USD bn)



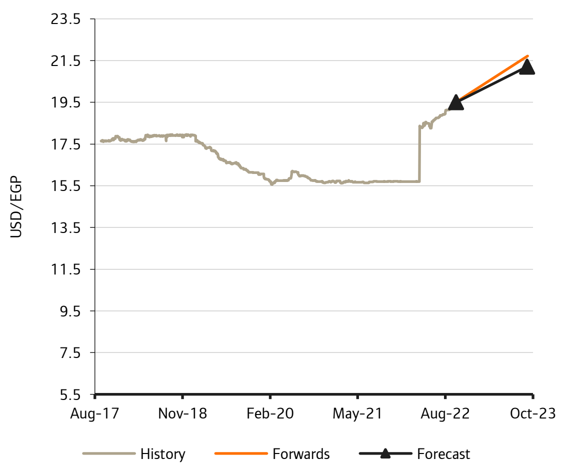
Source: Central Bank of Egypt

FX outlook: EGP to weaken further

We now see the USD/EGP pair at 20.5-20.9 by Dec. As indicated by offshore USD/EGP implied NDF yields, the market is pricing in another devaluation of the EGP, even after its devaluation of around 15% in Mar 22.

According to our Real Effective Exchange Rate (REER) estimates, the EGP is around 7.0% overvalued. The contentious issue, of how flexible the EGP is as an exchange rate, may be the primary stumbling block for the government in securing the pending IMF-funded deal. Our base case assumes the authorities allowing for a gradual weakening of the EGP. However, they may be impelled to devalue the EGP abruptly by more than 10.0% should foreign portfolio investment fail to recover fast enough amidst deteriorating global risk sentiment and growing onshore FX liquidity concerns.

USD/EGP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: tightening bias persists

We expect the MPC to increase the key policy rate by a further 50-100 bps in 2022. It had already hiked rates by a cumulative 300 bps in H1:22 due to rising inflation.

Headline inflation reached 14.6% y/y in Aug 22, from 10.5% y/y in Mar 22 and 5.9% y/y in Dec 21. Inflationary pressures have stemmed largely from higher food prices and the devaluation of the EGP in H1:21 (in May).

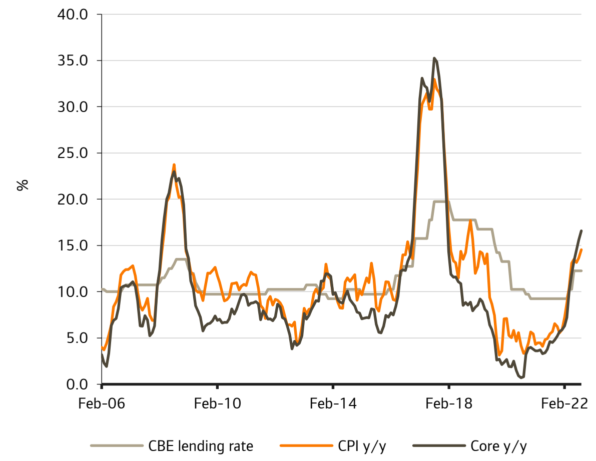
Even though food prices have eased in the last few months, the second-round effects from the weaker EGP are still filtering through to the economy. On a positive note, the grain deal between Russia and Ukraine will likely help ease food inflation over the next 6-m or so.

We see headline inflation easing to 12.7% y/y in Dec 22 and 9.4% y/y in Mar 23. Thereafter, we expect headline inflation to average 6.1% y/y in H2:23.

Our inflation outlook is largely predicated on our base case assumption that the authorities would allow the EGP to depreciate gradually over the next 4-m or so. However, should there be another one-off devaluation, as in Mar 22, inflationary pressures may prover stickier.

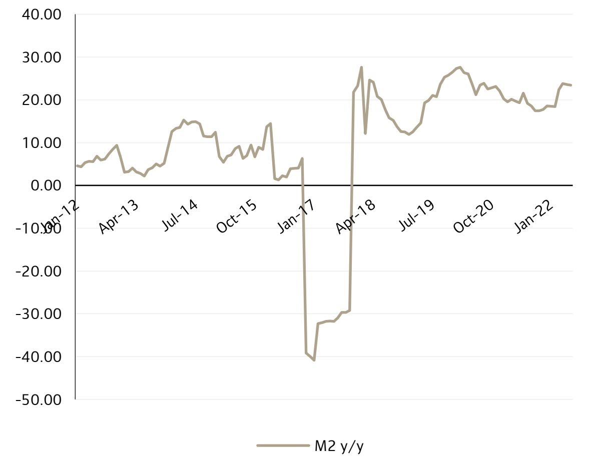
At the Aug meeting, the MPC noted the current drivers of inflation as primarily exogenous, implying some tolerance of inflation exceeding the government's target in the near term.

Inflation and interest rates



Source: Central Bank of Egypt

M2 money supply growth (%)



Source: Bloomberg

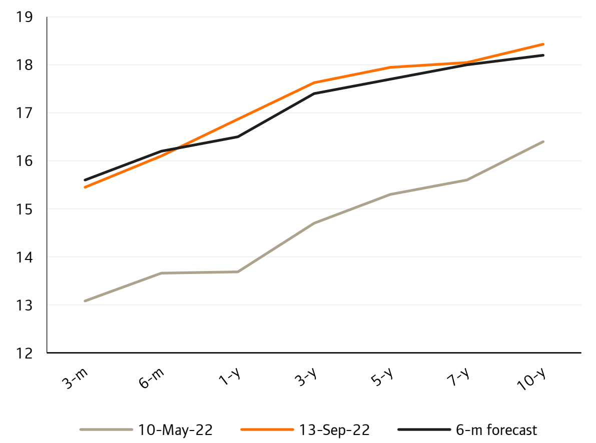
Yield curve outlook: upside risks at the short end

Yields at the short end of the curve will likely rise moderately over the next 3-m. Real EGP yields have shrunk since the beginning of the year, deterring foreign portfolio investment inflows, particularly in a volatile global risk environment.

With advanced economies' monetary policy tightening likely to continue into H1:23, offshore investment into EGP local debt may remain subdued over the next 6-m or so.

Furthermore, concerns around the EGP, and broad investor community expectations for another devaluation, may restrain foreign portfolio inflows until the EGP sees some form of material adjustment.

Changes in the yield curve (%)



Source: Central Bank of Egypt; Standard Bank Research

Fiscal policy: seeking alternatives to Eurobond financing

The government's re-financing risks remain high over the coming year. Between Sep and Dec 22, foreign currency T-bills worth USD4.36bn will be maturing, with a further USD3.63bn due in H1:23.

Additionally, Eurobond principal repayments of USD1.25bn and USD500m are due in May 23 and Nov 23 respectively. The government will also have to service Eurobond coupon payments of USD2.4bn in 2023.

Uncertain global risk environment would make it unlikely that Egypt can issue another Eurobond in H1:23. Perhaps in H2:23 at the earliest, although that would be contingent primarily on whether the government can finally secure the pending IMF-funded programme before Dec 22.

Our base case sees the government securing the IMF programme by Dec 22. The government is also exploring whether to issue another Samurai bond, or even a Chinese Panda bond, in FY2022/23.

Furthermore, they are exploring ways to convert GCC deposits of around USD12-15bn at the CBE into direct investments, which may underpin budget support financing.

Encouragingly, despite a significant slowdown in foreign portfolio investment into EGP local debt, the domestic market still has the capacity to assist financing the budget regardless of the challenges in sourcing external funding.

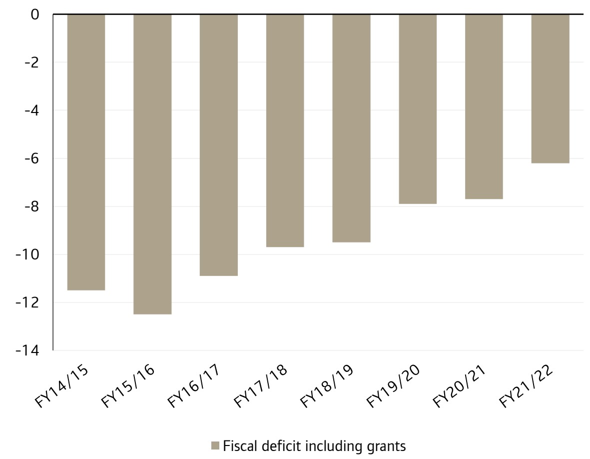
According to law, 75% of assets at the state pension fund ought to be invested in government bonds. Over the past 3-y, the Ministry of Finance has disbursed around EGP510bn to the pension fund, while the employee contribution is around EGP150bn annually.

Central government budget

% of GDP	FY2019/20	FY2020/21	FY2021/22
Total Revenue	21.5	21.8	23.5
Grants	0.0	0.0	0.0
Total Expenditure	29.2	29.5	29.7
Wages and salaries	5.0	5.3	5.0
Interest payments	9.8	8.9	8.0
Subsidies	3.9	5.1	4.5
Overall balance (- grants)	-7.9	-7.7	-6.2
Overall balance (+ grants)	-7.9	-7.7	-6.2

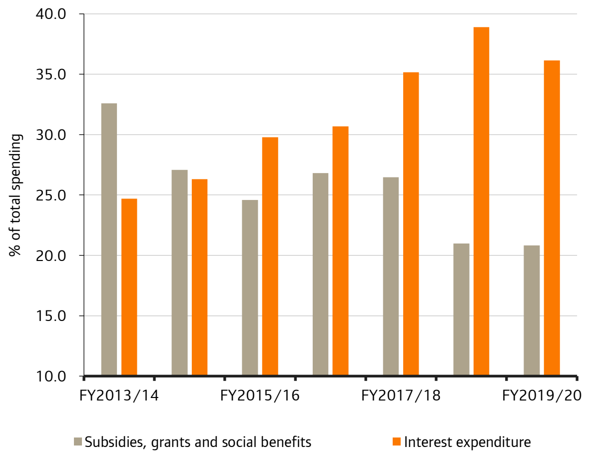
Source: Ministry of Finance

Fiscal deficit including grants (% of GDP)



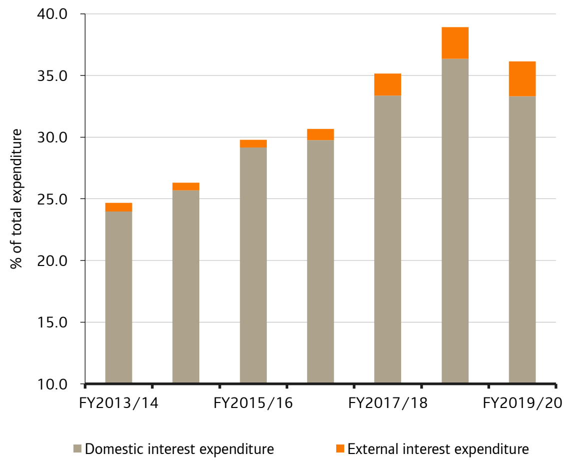
Source: Ministry of Finance

Components of expenditure



Source: Ministry of Finance

Composition of interest expenditure



Source: Ministry of Finance

Annual indicators

	2017	2018	2019	2020	2021	2022f	2023f
Output							
Population (million)	95.2	97.1	98.9	100.9	102.9	104.95	107.05
Nominal GDP (EGP bn)	3 470	4 437	5 332	5 842	6 257	7062	7950
Nominal GDP (USD bn)	193.1	248.3	321.2	368.8	398.8	366.3	427.2
GDP / capita (USD)	2 028	2 557	3 248	3 656	3 876	3 490	3 991
Real GDP growth (%)	4.2	5.3	5.5	3.6	3.3	6.2	4.8
Oil Production ('000 b/d)	627	638	622	586	562.5	615.9	630.5
Central Government Operations							
Budget balance (incl. grants) / GDP (%)	-10.9	-9.7	-9.5	-7.9	-7.7	-6.2	-6.1
Budget balance (excl. grants) / GDP (%)	-11.2	-9.8	-9.6	-7.9	-7.7	-6.2	-6.1
Domestic debt / GDP (%)	98.12	91.25	85.71	83.93	79.64	80.45	78.55
External debt / GDP (%)	20.82	20.55	18.89	18.93	19.64	20.23	21.89
Balance of Payments							
Exports of goods and services (USD bn)	42.87	51.62	53.52	40.1	58.33	60.25	66.48
Imports of goods and services (USD bn)	-70.22	-76.33	-78.95	-73.0	-94.0	-95.15	-82.05
Trade balance (USD bn)	-27.35	-24.71	-25.43	-32.9	-35.67	-34.9	-15.57
Current account (USD bn)	-7.9	-7.7	-10.2	-14.8	-18.6	-28	-21.9
- % of GDP	-4.10	-3.09	-3.18	-4.00	-4.66	-7.64	-5.13
Capital & Financial account (USD bn)	23.84	14.7	11.97	9.31	27.77	12.27	24.18
- FDI (USD bn)	7.41	7.82	9.00	5.85	3.50	7.50	9.20
Basic balance / GDP (%)	-0.26	0.05	-0.38	-2.42	-3.79	-5.6	-2.97
FX reserves (USD bn) pe	37.00	42.55	45.42	40.00	40.93	30.5	38.1
- Import cover (months) pe	6.32	6.69	6.9	6.58	5.51	3.85	5.57
Sovereign Credit Rating							
S&P	B-	B	B	B+	B+	B+	B+
Moody's	B3	B3	B2	B2	B2	B2	B2
Fitch	B	B	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%, y/y) pa	29.61	14.4	9.37	5	5.2	12.3	7.5
Consumer inflation (%, y/y) pe	21.87	11.98	7.07	5.4	5.4	12.7	5.9
M2 money supply (%, y/y) pa	39.7	17.9	11.3	16.8	19.1	20.2	17.7
M2 money supply (%, y/y) pe	21.9	13.3	11.5	20.2	18.3	19.9	17.3
CBE overnight lending rate (%) pa	18.08	18	15.63	10	9.25	10.25	10.93
CBE overnight lending rate (%) pe	19.75	17.75	13.25	9.25	9.25	11.25	10.5
3-m rate (%) pe	18.8	19.5	16.2	12.6	11.6	15.2	13.1
1-y rate (%) pe	18.5	19.8	16.3	12.7	13.2	16.5	13.5
5-y rate (%) pe	15.73	18.8	14.7	14.1	14.3	17.4	15.6
USD/EGP pa	17.97	17.87	16.6	15.84	15.69	19.37	21.67
USD/EGP pe	17.81	17.92	16.04	15.7	15.7	20.9	21.6

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: Opening the banking sector to foreign investors

Medium-term outlook: economic, and export, diversification

Medium- to long-term growth prospects remain solid, supported by reforms implementation, now more inviting to foreign investors, and the mooted opening up of Ethiopia's banking sector. Reforms should boost diversification and growth in the medium term. However, the governments would have to provide policies and institutions to support a coherent and predictable investment environment. Still, Ethiopia's GDP growth in 2023 may reach 7.1% y/y, but this is still below the long-term average. Downside risks here range from insecurity to droughts. Also, external demand may remain subdued due to the war in Ukraine.

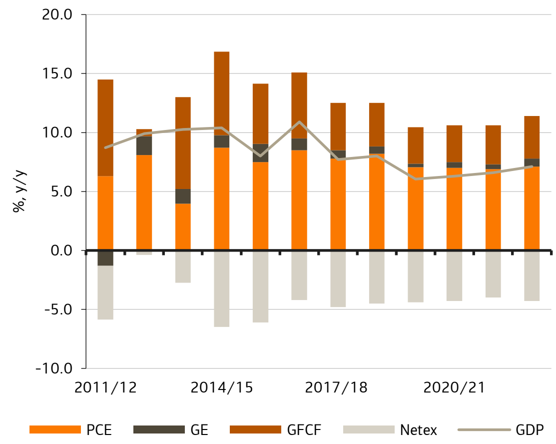
2022 growth is estimated at 6.6% y/y. However, despite increased investment in infrastructure over the last few years, significant gaps persist. Export growth, averaging around 10% over the past five years, remains insufficient to close the BOP gap, thereby exacerbating FX liquidity constraints. This macroeconomic imbalance has seen GDP growth slow down to an average of 7.0% y/y over the last four years, compared to 10% y/y in the four years prior. The recent y/y export growth of over 20% alone is unlikely to resolve FX liquidity constraints, especially in the short term. However, in the long term, economic diversification may expand the export base.

Diversification is expected to come from the energy, financial, mining and telecommunications sectors. However, these sectors contribute little to GDP. Still, these sectors may grow exponentially (as has been the case for construction) and thereby contribute more over the next 2-5 years.

Ethiopia has started generating electricity from the Grand Ethiopian Renaissance Dam (GERD), which has expanded export opportunities. The construction of the 1,068 km electricity highway between Kenya and Ethiopia is due to be commissioned by Nov 22, which would allow Kenya to import electricity from Ethiopia. This may be supported by converter stations at the Wolayta-Sodo (Ethiopia) and Suswa (Kenya) sub-stations.

Despite periodic droughts, the agricultural sector still accounts for over 30% of GDP. Agricultural production will be boosted by the expansion of wheat production in the lowlands. Ethiopia's wheat sector, seemingly in transition, foretells of rising production. This sector should also be supported by reforms in the sugar sector. Indeed, the government is calling on investors to submit "expression of interest" to participate in sugar enterprises' tender processes. Successful privatisation of this sector should bump up productivity in the medium- to long term.

Composition of GDP by demand



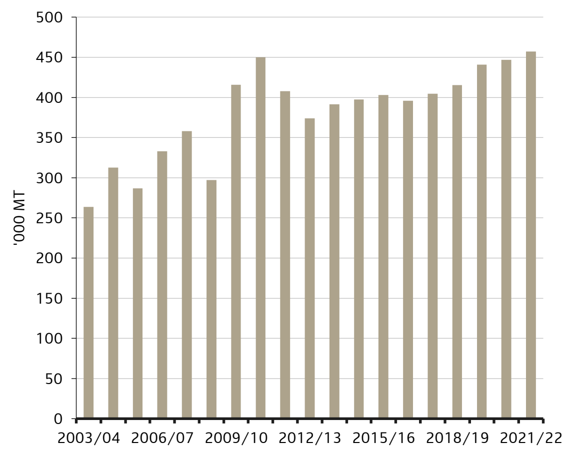
Source: National Bank of Ethiopia; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010/11	2016/17	2019/20	2020/21
Agriculture, hunting, fishing, and forestry	44.6	36.3	32.7	32.5
Mining and quarrying	1.4	0.2	0.3	0.5
Manufacturing	4.0	6.4	6.7	6.8
Electricity and Water	1.0	0.7	0.7	0.8
Construction	4.0	16.4	20.4	20.9
Wholesale and retail trade	14.5	13.8	14.4	14.3
Hotels and restaurants	3.6	2.7	2.5	2.4
Transport and communication	4.2	5.2	5.3	5.3
Real Estate, Renting and Business activities	9.3	4.5	4.4	4.5
Public admin and defence	5.4	4.5	4.3	4.2

Source: National Bank of Ethiopia

Coffee production



Source: National Bank of Ethiopia

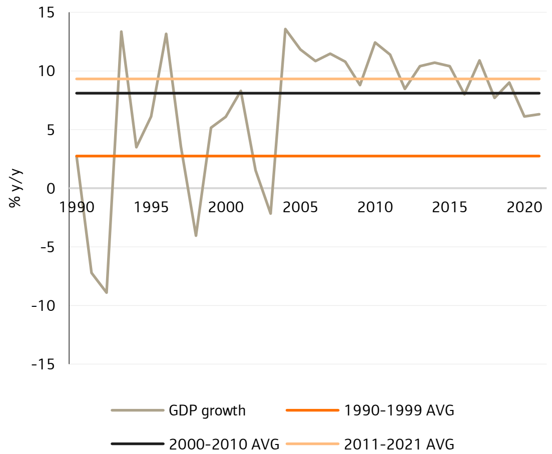
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	6.6	6.6	7.1	7.1	7.1	7.1	7.2	7.2	7.2	7.2	7.0	7.0	7.0	7.0	7.4	7.4
CPI (% y/y) pe	34.7	34.0	31.0	32.5	27.5	22.5	18.3	15.9	16.3	16.6	16.6	16.8	17.0	17.4	17.8	17.8
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	9.2	9.4	9.6	9.8	10.0	10.2	10.4	10.6	10.8	11.0	11.2	11.4	11.6	11.8	12.0
6-m rate (%) pe	10.3	10.3	10.7	10.7	11.1	11.1	11.5	11.5	11.9	11.9	12.3	12.3	12.7	12.7	13.1	13.1
USD/ETB pe	51.21	52.66	52.61	54.04	55.51	57.03	58.58	60.18	61.82	63.50	65.23	67.01	68.83	70.71	72.63	74.61
Bull scenario																
GDP (% y/y) pa	6.6	6.6	8.8	8.8	8.6	8.6	8.7	8.7	8.7	8.7	8.5	8.5	8.5	8.5	8.9	8.9
CPI (% y/y) pe	34.7	34.0	33.2	34.4	29.4	23.8	19.1	16.6	16.5	16.9	16.9	17.0	17.3	17.7	18.0	18.1
Policy rate (%) pe	8.0	8.0	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	9.0	9.2	9.6	9.8	10.0	10.2	10.4	10.6	10.8	11.0	11.2	11.4	11.6	11.8	12.0	12.2
6-m rate (%) pe	10.3	10.3	10.9	10.9	11.3	11.3	11.7	11.7	12.1	12.1	12.5	12.5	12.9	12.9	13.3	13.3
USD/ETB pe	51.2	52.7	52.41	53.84	55.31	56.83	58.38	59.98	61.62	63.30	65.03	66.81	68.63	70.51	72.43	74.41
Bear scenario																
GDP (% y/y) pa	6.6	6.6	4.6	5.4	5.4	4.4	5.4	5.7	5.4	5.4	5.3	5.3	5.3	5.4	5.8	5.8
CPI (% y/y) pe	34.7	34.0	28.8	30.6	25.6	21.2	17.5	15.2	16.0	16.3	16.4	16.5	16.8	17.1	17.5	17.5
Policy rate (%) pe	8.0	8.0	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	9.0	9.2	9.3	9.5	9.7	9.9	10.1	10.3	10.5	10.7	10.9	11.1	11.3	11.5	11.7	11.9
6-m rate (%) pe	10.3	10.3	10.6	10.6	11.0	11.0	11.4	11.4	11.8	11.8	12.2	12.2	12.6	12.6	13.0	13.0
USD/ETB pe	51.2	52.7	52.81	54.24	55.71	57.23	58.78	60.38	62.02	63.70	65.43	67.21	69.03	70.91	72.83	74.81

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

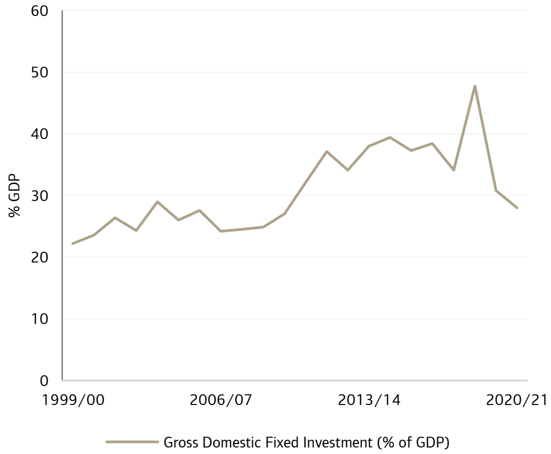
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: National Bank of Ethiopia

Domestic fixed investment



Source: National Bank of Ethiopia

Balance of payments: a mixed bag

The C/A deficit has been widening in 2022; it may have increased to 3.5% of GDP in FY2022, from 2.6% of GDP in FY2021, but should then ease as of H2:23-2024 due to lessening commodity prices. Also, the percentage change in import volumes has been declining steadily.

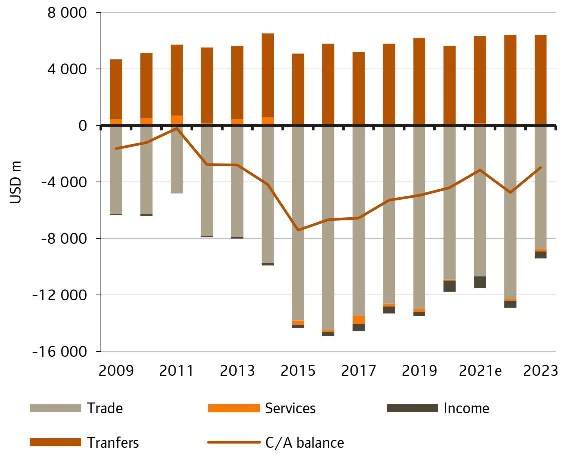
In Q3 FY2020, export revenues increased 20.6% y/y, to USD2.9bn, as coffee exports grew 75% y/y and gold grew 17% y/y (driven by higher export volumes despite falling international prices). The services account surplus rose 55% y/y, to USD944m, as services exports recorded impressive growth of 30.9% y/y, at USD4.7bn. This coupled with remittances reaching USD5.2 bn, up 14.7% y/y, bode well for the C/A balance.

However, those improvements were offset by rising imports, up 26% y/y, to USD13.1bn over the same period. Although import volumes slowed, commodity prices supported import growth. In the first 3-q of FY2022, fuel imports increased 70% y/y and cereal imports increased 121% y/y. Wheat production seems on the rise but wheat consumption for FY2022 is now estimated at 7.17m tonnes, compared to 5.52m tonnes of production. This implies a deficit of about 23%, or 1.7m tonnes, which should be covered by imports. Despite increased production, indicated by increased exports of cereals and flour and fewer imports of cereals (volume), this is however insufficient to negate the production deficit. Still, slowing import volumes, alongside softer international prices, may mean both a lower import bill and a narrowing C/A deficit from H2: FY23.

The USD2.1bn financial account surplus in the first 3-q of FY2022, supported by FDI, was insufficient to finance a USD3.7bn C/A deficit.

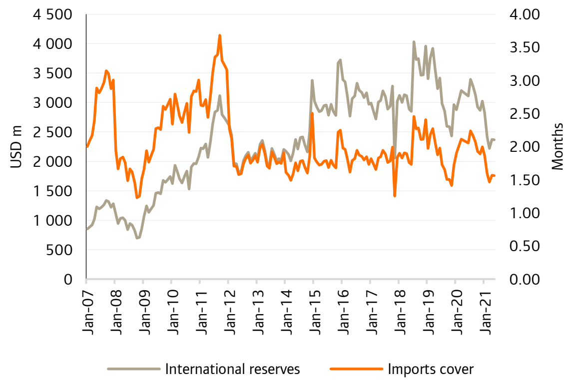
FX reserves likely fell to less than 1-m import cover by end FY2022. However, in 2023 financial account inflows should cover a relatively smaller C/A deficit. This may also be boosted by support from the IMF program (if approved), debt restructuring, and privatisation proceeds.

Current account developments



Source: National Bank of Ethiopia; Standard Bank Research

FX reserves



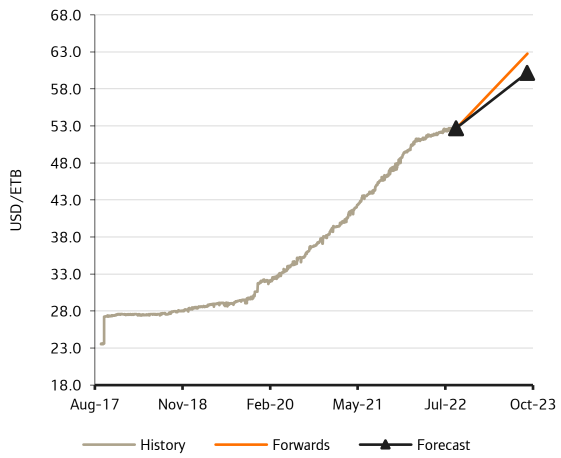
Source: Bloomberg

FX outlook: further IMF-sponsored depreciation

USD/ETB may end Dec at 54.04 and Dec 23 at 60.2. However, the ETB remains heavily overvalued. The IMF is expected to start discussing a funded program in Sep-Oct, which may again include a shift to a market-driven currency as a condition. Therefore, a stepped-up devaluation in 2023 cannot be ruled out.

The exchange rate remains heavily regulated, and there are various restrictions, such as foreign exchange prioritisation and rationing, that prevent participation in the interbank foreign exchange market. Exporters and banks must surrender a significant amount (70%) of foreign currency earnings to the NBE. The NBE has kept the ETB stable for most of the last 5-m. Therefore, the ETB should remain stable in the absence of an IMF program, should those discussions be hampered by intermittent conflicts between the government and the Tigray People's Liberation Front (TPLF).

USD/ETB: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: monetisation of fiscal deficit still likely

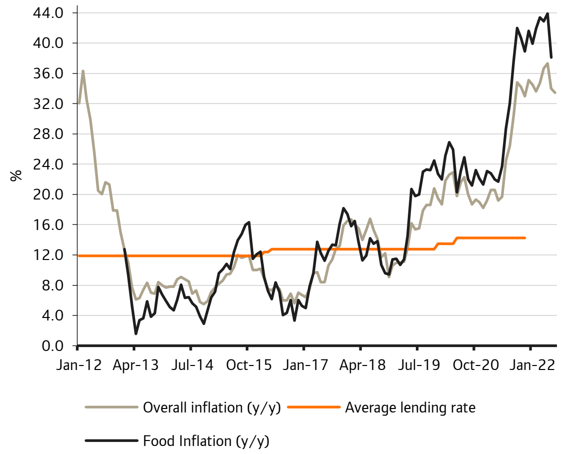
Monetary policy will likely continue setting monetary targets to ensure price and exchange rate stability and support economic growth. The NBE has adopted a tight stance, raising the reserve requirement ratio to 10%, from 5%. However, the NBE is unlikely to refrain from monetising the fiscal deficit, thereby reducing the effectiveness of monetary policy. Indeed, increasing money supply will likely keep inflation in double digits.

Funding the persistent fiscal deficit from the central bank's direct advances may have led to persistently high inflation despite favourable base effects. The NBE's total claims to the central government reached ETB347.4bn at end Mar, up 37.9% y/y. Of the ETB347.4 bn, government bonds accounted for 57% and direct advances for 43%. However, growth in direct claims was much faster, averaging 157.6% y/y between Jun 21 and Mar 22, compared to -77.5% between Jun 20 and Mar 21.

Moreover, as of Q1:22, the impact of the Ukraine-Russia conflict has sped up inflation, with food inflation peaking at 43.4% y/y in Mar, compared to a 5-y average of 20.8% y/y. Inflation then eased to 33.5% y/y in Jul, after reaching 34.0% in Jun, as non-food inflation rose, while food inflation fell in Jul due to base effects.

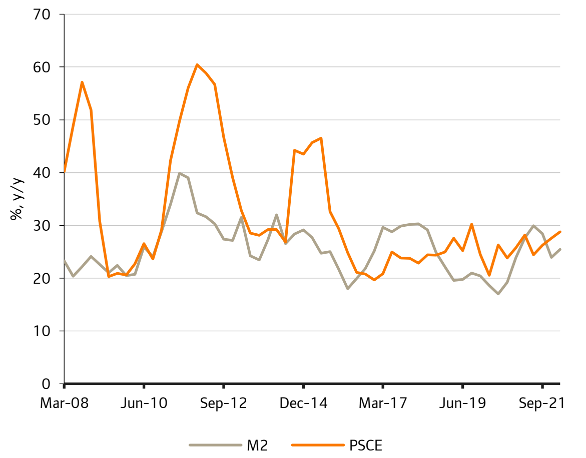
We now increase our inflation forecast to an average of 33.82% y/y, ending Dec at 32.5% y/y, from our 32.58% y/y average and 29.8% y/y Dec forecast in the AMR May edition, due largely to fuel price increases (30% to 40%) to ease the pressure on the fuel stabilisation fund. Inflation will likely stay sticky despite the upcoming harvest season.

Inflation and interest rates



Source: National Bank of Ethiopia; Central Statistics Agency

Money supply



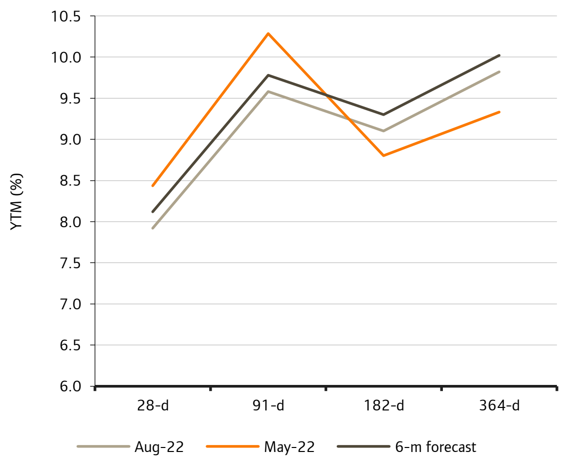
Source: National Bank of Ethiopia

Yield curve outlook: still range-bound

We still see yields ranging at 9.1%-10.0% on average in the next 3 to 6-m. The bid cover ratio stayed under 1 in the past 3-m but the government started rejecting some bids during May-Jun, rather favouring to monetise the budget deficit rather than relying on the T-bill market to fund it.

The NBE may need to raise interest rates further to stimulate demand and eliminate the budget deficit in absence of external funding. The government converted direct advances to the central government into government bonds on Jun 20 and had planned to reduce monetisation of the budget deficit and increase T-bill issuance. T-bills yield increased significantly after the introduction of market-based T-bills auction. Now, however, a change of guard, toward monetisation, may have occurred due to a large T-bill redemption.

Change on yield curve



Source: National Bank of Ethiopia; Standard Bank Research

Fiscal policy: support from privatisation proceeds

Any further delay in debt restructuring under the G20 Common Framework will continue to undermine the servicing of government debt due to FX liquidity constraints. Moreover, the government's debt-servicing capacity has been weakened by disbursements undershooting debt-servicing costs in 2021/22.

In fact, the government plans to finance almost all of the fiscal 2022/23 budget deficit from domestic sources. However, a thin domestic market may imply the budget deficit needing to be monetised. Still, were the sugar sector to be successfully privatised, proceeds may help pay down debt-servicing costs as well as partly pay off the USD1bn Eurobond due in 2024.

In FY2022/23, total federal government revenue, including development assistance, may reach ETB477.8bn, while the total budget is expected to reach ETB786.6bn. To cover the ETB308.8bn deficit, the government plans to borrow ETB224.5bn from domestic sources and ETB84.3bn from external sources.

External debt decreased 5.4% y/y, to USD27.9bn in FY2022, mainly due to currency movements and USD1.6bn principal repayments against USD1.08bn worth of disbursements (largely from IDA).

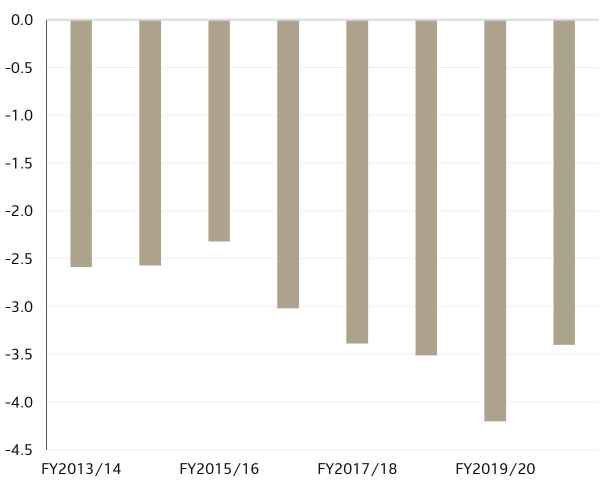
It may take time for the government to access external funding from non-development partners. However, if the IMF program is not derailed by new disputes, it may come into effect in 2023, allowing debt restructuring under the G20 common framework.

Central government budget

% of GDP	FY2020/21	FY2021/22
total revenue	9.3	10.0
tax revenue	7.3	7.7
current expenditure	3.6	3.7
capital expenditure	4.3	4.2
regional transfers	4.7	4.7
total expenditure	12.7	12.9
Deficit incl grants	-3.4	-2.9
net external borrowing	1.3	1.3
net domestic borrowing	2.1	1.6

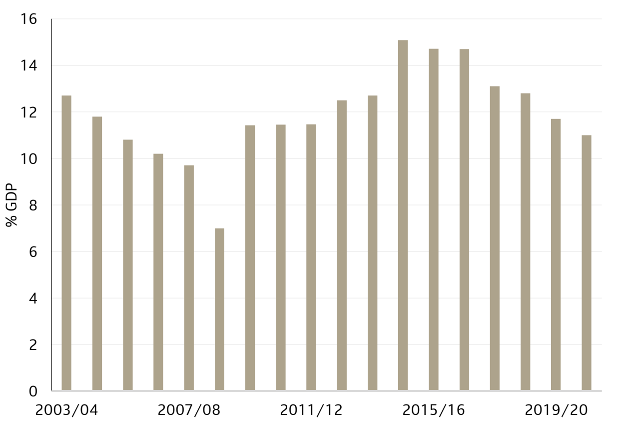
Source: Ministry of Finance

Fiscal deficit excl. grants (%) of GDP



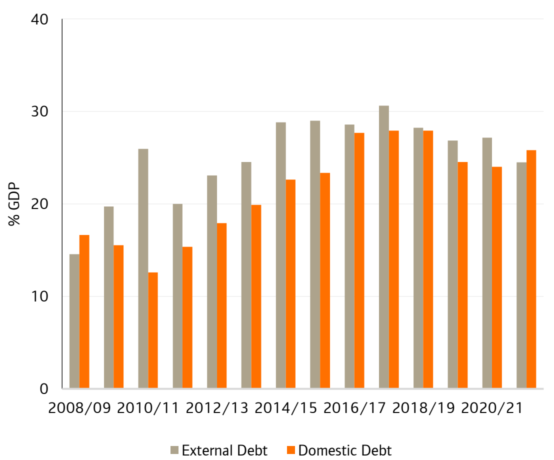
Source: Ministry of Finance

Tax revenue



Source: National Bank of Ethiopia

Domestic and external debt



Source: Ministry of Finance

Annual indicators

	2017	2018	2019	2020	2021	2022f	2023f
Output							
Population (million)	93.4	95.5	97.6	99.8	102.1	104.5	106.9
Nominal GDP (ETB bn)	1717.1	1834.1	1987.2	3374.3	4341.4	6094.9	7909.8
Nominal GDP (USD bn)	81.8	84.4	96.1	107.7	120.6	135.0	151.3
GDP / capita (USD)	875.4	883.3	984.7	1078.3	1180.5	1292.4	1415.0
Real GDP growth (%)	10.9	7.7	8.0	6.1	6.3	6.6	7.1
Coffee production ('000 MT)	396.0	404.7	415.5	441.0	457.3	474.2	491.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.6	-3.6	-3.0	-4.2	-4.6	-4.1	-4.1
Budget balance (incl. Grants) / GDP (%)	-3.4	-3.5	-2.8	-3.1	-3.4	-2.7	-2.7
Domestic debt / GDP (%)	27.5	27.9	27.8	24.3	20.6	21.8	21.2
External debt / GDP (%)	28.6	30.6	28.2	26.8	24.5	20.7	18.4
Balance of payments							
Exports (USD bn)	6.3	7.1	7.7	7.7	8.5	10.3	11.3
Imports (USD bn)	19.7	19.7	20.7	18.2	18.6	22.5	20.0
Trade balance (USD bn)	-13.5	-12.6	-13.0	-10.5	-10.1	-12.3	-8.8
Current account (USD bn)	-6.5	-5.3	-4.9	-4.4	-3.2	-4.7	-3.0
- % of GDP	-8.0	-6.3	-5.1	-4.1	-2.6	-3.5	-2.0
Financial and Capital account (USD bn)	6.9	6.2	4.8	4.2	4.7	2.5	3.1
- FDI (USD bn)	4.2	3.7	3.0	2.4	2.9	3.2	2.9
Basic balance / GDP (%)	-2.9	-1.9	-2.0	-1.8	-0.2	-1.1	0.0
FX reserves (USD bn) pe	3.0	2.8	3.7	3.0	3.2	0.8	3.2
- Import cover (months) pe	1.8	1.7	2.2	2.0	2.1	0.4	1.9
Sovereign Credit Rating							
S&P	B	B	B	B	CCC	CCC	CCC
Moody's	B1	B1	B1	B2	Caa2	Caa2	Caa2
Fitch	B	B	B	B	CCC	CCC	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	10.9	13.9	15.7	20.4	26.5	33.8	22.7
Consumer inflation (%) pe	13.2	10.6	19.5	18.2	35.1	32.5	15.9
M2 money supply (% y/y) pa	29.6	26.6	20.2	23.9	18.4	16.6	17.9
M2 money supply (% y/y) pe	0.0	22.2	26.0	24.2	17.6	15.7	16.8
Policy rate (%) pa	5.9	7.0	7.0	7.0	8.0	8.0	8.0
Policy rate (%) pe	7.0	7.0	7.0	7.0	8.0	8.0	8.0
USD/ETB pa	24.2	27.7	29.4	34.8	45.1	52.6	57.8
USD/ETB pe	27.6	28.3	32.0	38.7	49.1	54.0	60.2

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

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

Ghana: some form of debt restructuring likely

Medium-term outlook: macroeconomic instability presents multiple risks

We now lower our GDP growth forecast for 2022 to 2.6% y/y, from 3.1% y/y, and to 3.3% y/y for 2023, from 4.1% y/y. GDP growth averaged 4.1% in H1:22. However, unfavourable base effects may moderate growth in H2:22.

Acute inflationary pressures will drain private consumption expenditure in H2:22 and 2023. In response, the Bank of Ghana's MPC has aggressively hiked the key policy rate. Further rate hikes would restrain commercial banks' private sector lending due to pervasive asset quality concerns.

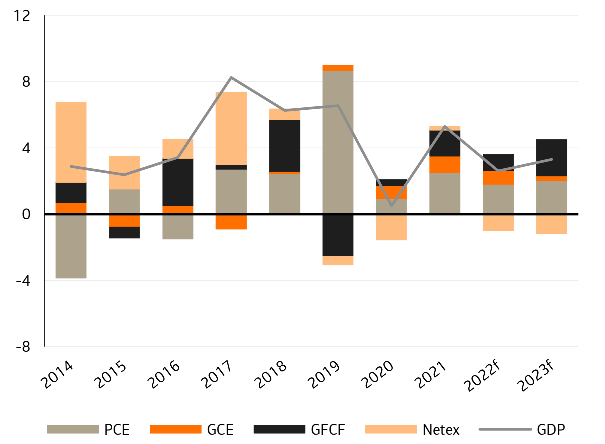
External funding remaining out of reach will likely weigh down growth, with expenditure on development therefore likely to be materially scaled back in the next few years. Even should the government secure an IMF deal in the next 6-m or so, expenditure on capital projects may have to be postponed in order to consolidate public finances.

GDP growth rose to 4.8% y/y in Q2:22, from 3.4% y/y in Q1:22, and from an average of 6.8% y/y in H2:21. Growth in Q2:22 was supported by the broader industrial sector which grew at 4.4% y/y, from a contraction of 0.5% y/y in Q1:22. The mining sub-sector spearheaded this growth by expanding by 4.4% y/y in Q1:22, from a 3.0% y/y contraction in Q1:22.

Net exports, underpinned by oil and gold, have been trending upward since Mar 22. We still expect gold production to recover further in 2022 after the sharp decline last year following the closure of key mines.

Higher oil prices have boosted growth in the oil sub-sector. However, with investment in the oil sector still expected to remain subdued over the coming year, and global oil prices likely to ease, growth in this sector may moderate in 2023.

Composition of GDP by demand



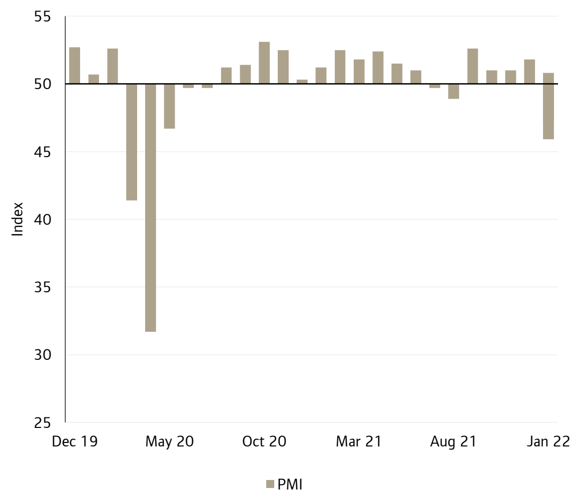
Source: Ghana Statistical Service; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2017	2020	2021
Crops	14.6	14.5	16.2	16.8
- Cocoa	1.7	1.7	1.8	1.9
Livestock	3.7	2.6	2.8	2.8
Mining and Quarrying	13.6	13.4	15.6	13.0
- Oil and gas	5.8	7.7	8.4	7.0
Manufacturing	12.4	11.8	12.3	12.6
Construction	9.1	8.8	8.1	8.2
Trade	11.2	10.5	10.0	10.1
Hotels and Restaurants	3.9	3.7	2.4	2.3
Transport and Storage	6.0	5.8	5.9	5.9
Financial services	5.1	4.9	4.6	4.5
Public administration	3.7	3.3	3.7	4.4
Education	4.0	3.9	4.5	4.1

Source: Ghana Statistical Service

Ghana PMI



Source: IHS Markit

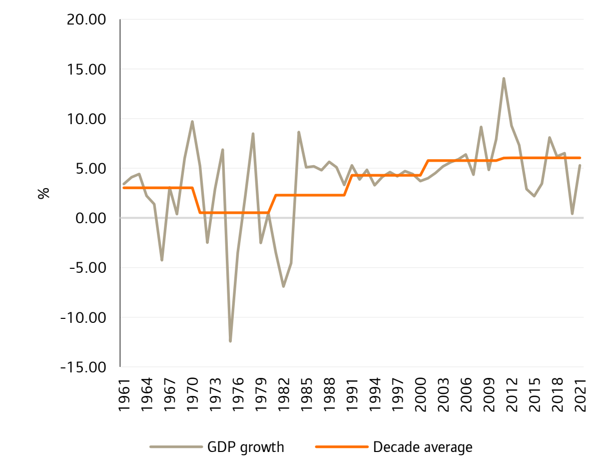
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pe	3.4	4.8	3.4	-1.3	2.4	4.3	3.4	3.1	3.0	15.2	9.1	7.3	7.3	4.8	7.8	8.0
CPI (% y/y) pe	19.40	29.90	35.00	33.30	25.90	14.60	7.30	7.60	8.30	8.70	8.80	9.60	9.60	10.10	10.90	10.00
BOG prime rate (%) pe	17.00	19.00	22.00	25.00	25.00	25.00	22.00	20.00	17.00	15.00	15.00	14.00	14.00	14.00	14.00	14.00
3-m rate (%) pe	14.10	25.60	30.10	31.10	32.00	27.40	25.20	19.90	16.70	15.90	15.40	14.80	13.40	13.30	13.30	12.80
6-m rate (%) pe	14.50	26.40	31.30	32.20	33.00	28.10	26.30	20.50	17.30	16.10	15.80	15.20	14.70	13.80	13.80	13.50
USD/GHC pe	7.45	7.98	10.34	10.72	10.91	10.85	10.67	10.48	10.31	10.15	10.28	10.03	10.27	10.32	10.41	10.46
Bull scenario																
GDP (% y/y) pe	3.4	4.8	6.4	2.5	3.1	8.5	8.9	9.1	9.0	15.9	10.9	11.1	12.1	12.4	11.8	12.2
CPI (% y/y) pe	19.40	29.90	31.00	28.50	21.60	12.50	6.40	6.80	7.10	7.40	7.70	8.10	8.10	8.50	8.80	7.90
BOG prime rate (%) pe	17.00	19.00	22.00	22.00	22.00	20.00	17.00	15.00	15.00	13.00	13.00	12.00	12.00	12.00	12.00	12.00
3-m rate (%) pe	14.10	25.60	30.10	28.60	25.40	17.50	15.20	14.10	13.80	13.50	13.40	13.20	12.80	12.80	12.60	12.60
6-m rate (%) pe	14.50	26.40	31.30	29.90	26.70	18.40	15.80	15.50	14.70	13.90	13.90	13.70	13.20	13.10	12.90	12.80
USD/GHC pe	7.45	7.98	10.22	10.36	10.45	10.37	9.96	9.33	8.79	8.65	8.32	8.48	8.62	8.81	8.78	8.94
Bear scenario																
GDP (% y/y) pe	3.4	4.8	2.5	-4.5	1.8	2.4	2.6	2.2	1.7	5.2	4.6	4.2	4.4	4.5	4.5	5.1
CPI (% y/y) pe	19.40	29.90	28.10	26.70	23.50	18.10	17.70	17.80	15.70	15.20	14.60	14.80	11.40	10.80	9.90	9.10
BOG prime rate (%) pe	17.00	19.00	22.00	28.00	30.00	28.00	26.00	24.00	22.00	18.00	18.00	17.00	16.00	16.00	16.00	16.00
3-m rate (%) pe	14.10	25.60	30.10	33.80	36.70	39.80	39.10	37.10	32.50	27.50	24.80	25.10	21.20	19.20	18.50	18.30
6-m rate (%) pe	14.50	26.40	31.30	34.60	37.20	40.10	39.70	37.30	33.20	27.90	24.70	25.90	21.80	19.70	18.70	18.80
USD/GHC pe	7.45	7.98	10.85	11.62	12.44	13.23	13.49	13.21	13.17	12.83	12.65	12.43	12.62	12.67	12.87	12.91

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

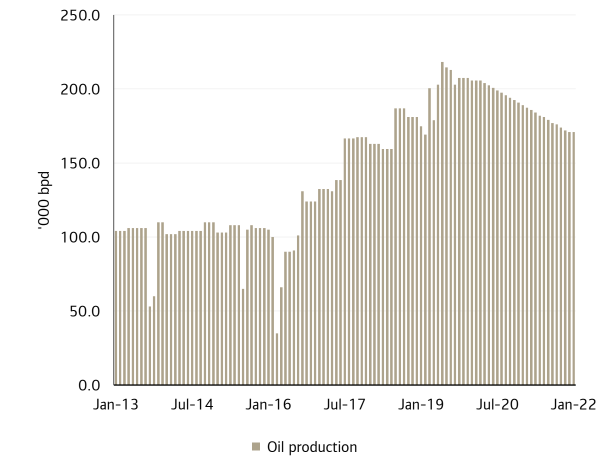
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: World Bank; Ghana Statistical Service

Oil production



Source: Bloomberg

Balance of payments: encouraging goods exports

We now expect the C/A deficit to narrow to 2.1% of GDP in 2022, but thereafter widen to 3.6% in 2023.

Growth in goods exports has been robust, and the rise in goods imports gradual.

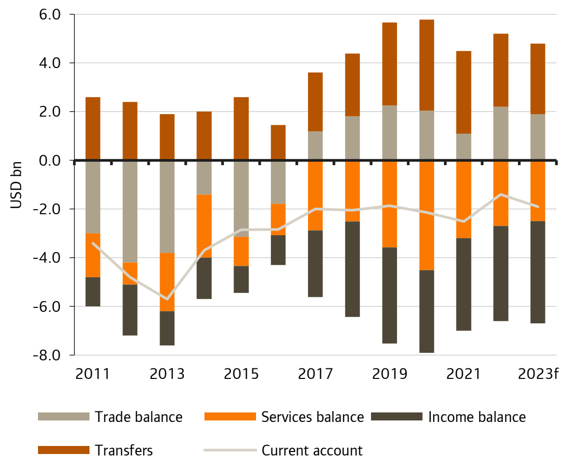
Gold exports grew by 13.1% y/y, to USD3.0bn in Jun 22, while oil exports receipts rose 61.3% y/y, to USD2.8bn. Oil export earnings may moderate in 2023 as international prices soften further. Gold prices too may trend down over the coming year, although domestic production may recover further and support goods exports.

Constraints in issuing external debt have been subduing goods imports in 2022, and supported the narrowing of the trade balance, as the government reduced foreign-financed development expenditure. Though the government may secure external financing in 2023, fiscal consolidation under a mooted IMF programme would further limit capital goods expenditure.

The BOG's gross FX reserves fell to USD7.68bn (3.4 months import cover) in Jun 22, from USD8.80bn (3.9 months) in Mar and USD9.76 (4.4 months) in Jan. Furthermore, net FX reserves declined to USD3.58bn in Jun 22, from USD6.09bn in Jan 22.

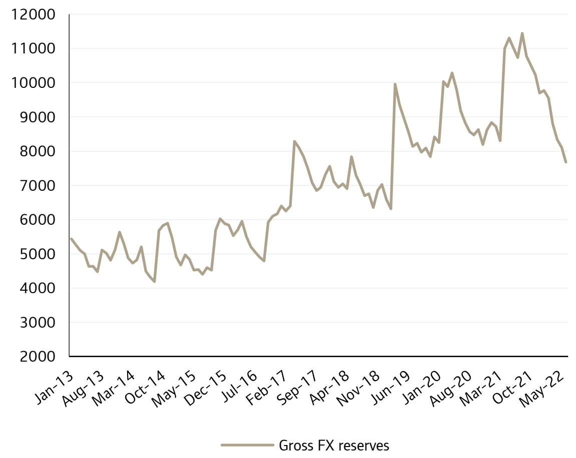
Our base case foresees at least a staff level agreement with the IMF for a funded programme worth around USD3.0bn between Dec 22 and Apr 23. However, disbursement here may depend on the requisite debt restructuring requirements and the concomitant timeliness.

Current account developments



Source: Bank of Ghana; Standard Bank Research

Gross FX reserves (USD m)



Source: Bank of Ghana

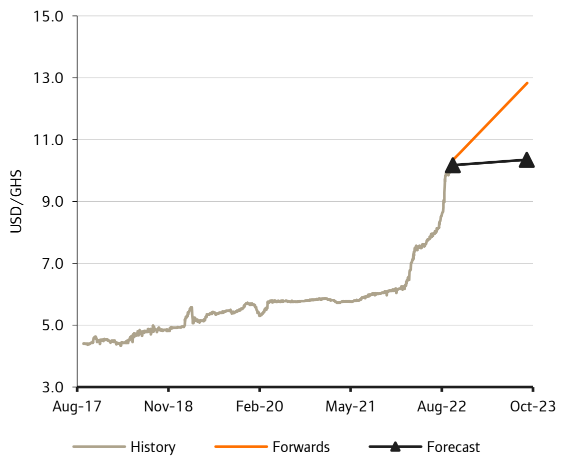
FX outlook: USD/GHS further upside

We expect the USD/GHS official rate to rise to 10.54-10.72 by Dec. Until then, the GHS may remain under pressure due to shaky global risk sentiment.

Still, the recent USD750m multilateral loan that the government received from the Afreximbank in Aug 22 has eased USD/GHS volatility. Even so, the BOG may be unable to intervene meaningfully in the FX market given the likely external debt obligations over the next 6-m.

Gross FX reserves were down around USD2.1bn between Jan and Jun 22 and USD3.4bn between Jun 21 and Jun 22. Should the government have secured a staff level agreement with the IMF by Dec 22, the GHS may receive a sentiment boost. However, debt restructuring concerns may restrain foreign portfolio investment until such time of clarity on the mooted IMF deal.

USD/GHS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: further tightening

We still expect the MPC to riase the key benchmark rate by a further 200-300 bps by Dec.

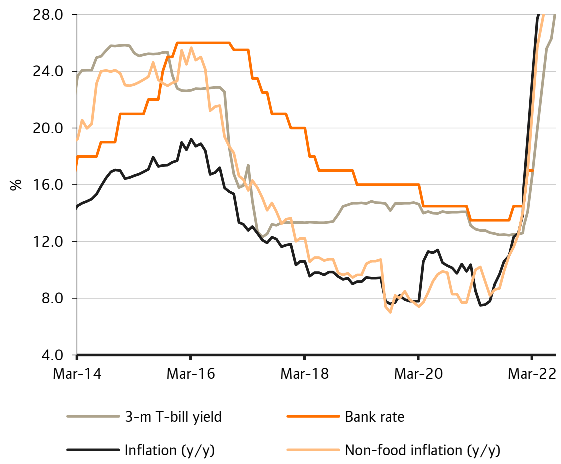
The Aug emergency meeting saw the MPC raise the MPR rate by 300 bps, to 22%. They also hiked the primary reserve requirement for commercial banks to 15%, from 12%, to be phased in from Sep to Nov 22.

The MPC will have to factor in elevated underlying inflation pressures and second-round impacts of a weaker GHS. Still, the MPC sees a potential IMF deal as beginning to address fiscal challenges, thereby helping to anchor inflation expectations. Furthermore, the MPC is still working with mining firms to find a structure to enable them to boost the FX reserves via direct FX sales from this large export-earning sector.

Headline inflation may ease from Oct-Nov 22 but stay in double digits until at least Aug 23. This inflation outlook is primarily predicated on an IMF deal being secured, which should reduce USD/GHS volatility.

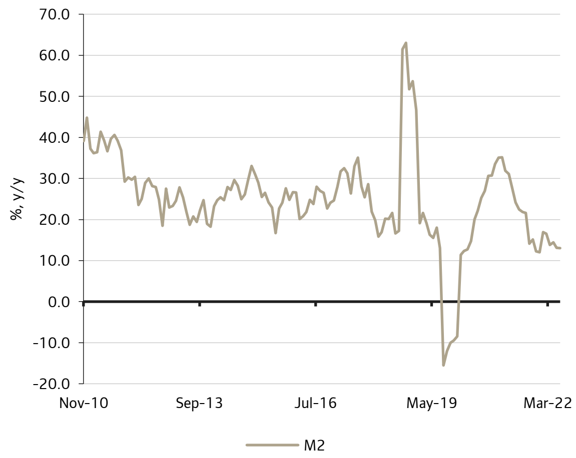
However, should negotiations with the IMF prove protracted, foreign portfolio outflows may burgeon amidst a still volatile global risk environment, placing further upward pressure on USD/GHS, as well as keep inflation stickier than we currently anticipate.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

M2 money supply growth



Source: Bank of Ghana

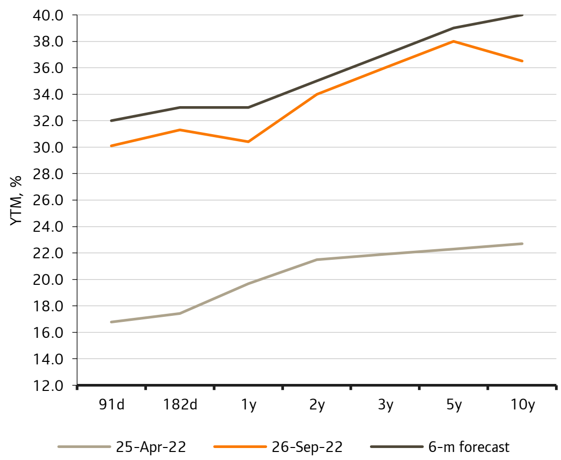
Yield curve outlook: concerns about debt restructuring

Nothing much implies that yields at the shorter end of the curve will ease over the next 4-m or so. Indeed, with headline inflation likely elevated for the most of H1:23, T-bill yields may prove sticky.

Moreover, the growing consensus amongst both local and offshore investors, that the government may be forced to restructure local debt, too may crimp appetite for local debt. The authorities may need to furnish some more clarity here.

But investors would probably wait for an IMF deal to clarify whether local debt would have to be restructured.

Changes in the yield curve



Source: Bank of Ghana; Standard Bank Research

Fiscal policy: IMF programme to enhance funding options

In the much-anticipated mid-year budget review, the government revised the budget deficit target for FY2022 to 6.6% of GDP, from 7.4%. With external funding issuance still a challenge, expenditure inevitably had to be reduced.

Indeed, total expenditure was lowered to 22.9% of GDP, from 27.4% in the initial budget, while total revenue and grants were slashed to 16.4% of GDP, from 20.0%.

The delayed implementation of the E-tax levy will weigh on revenue in FY2022. The government had initially banked on this levy to support fiscal consolidation in 2022.

Now, the authorities expect net external financing to rise to GHS10.8bn, from GHS4.5bn. The government was already 64.6% behind its net external funding target in H1:22.

However, multilateral financing from Afreximbank has already been secured, while the authorities are still keen to issue a commercial syndicated loan.

Should an IMF deal indeed be secured over the next 6-m, financing from other multilateral sources may thereby be unlocked.

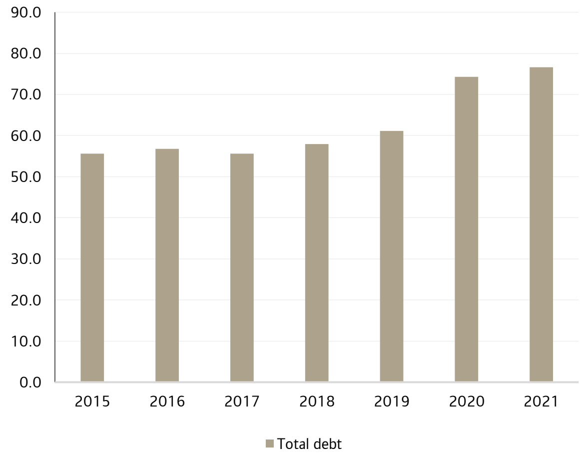
However, issuing a Eurobond seems unlikely until 2024-2025. Also, with an IMF programme, non-concessional borrowing curbs may come into effect.

Central government budget

	FY2021	FY2022
Total revenue and grants	16.0%	16.4%
Total expenditure	24.5%	22.9%
Wages	7.5%	7.1%
Interest payments	7.4%	8.4%
Development expenditure	2.9%	2.1%
Overall Balance (Commitment) as % of GDP	-8.50%	-6.2%
Overall Balance (Cash) as % of GDP	-9.40%	-6.6%

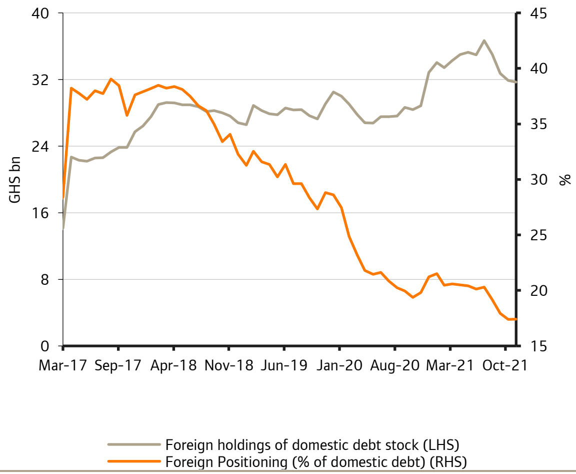
Source: Ministry of Finance

Total debt (% of GDP)



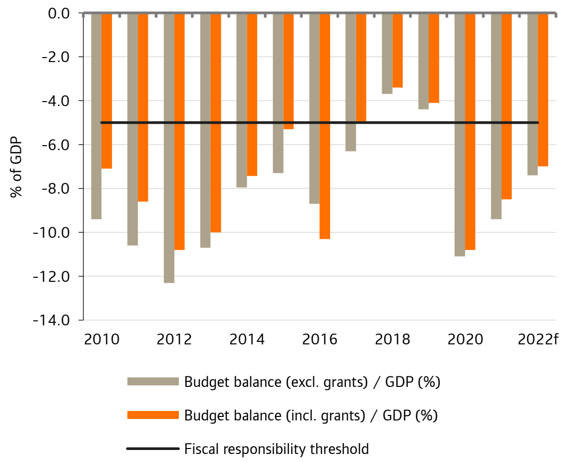
Source: Ministry of Finance

Foreign holdings of domestic debt



Source: Central Securities Depository

Fiscal balance



Source: Ministry of Finance

Annual indicators

	2017	2018	2019	2020	2021	2022f	2023f
Output							
Population (million)	28.9	29.5	30.1	30.7	31.2	32	32.9
Nominal GDP (GHC bn)	263	309	356	392	459	599	573
Nominal GDP (USD bn)	60	66	66	68	77	66	53
GDP / capita (USD)	2 066	2 231	2 204	2 228	2 473	2 055	1 623
Real GDP growth (%)	8.2	6.3	6.6	0.4	5.3	2.6	3.3
Gold Production ('000 FO)	3 795	4 175	4 279	4 429	3 756	4 030	4425
Cocoa bean production ('000 MT)	969	905	812	800	1 040	980	1050
Oil production (k bpd)	81.2	135.4	199	200	179	190	210
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-6.3	-3.7	-4.4	-11.1	-9.4	-6.6	-6
Budget balance (incl. grants) / GDP (%)	-5	-3.4	-4.1	-10.8	-8.5	-6.2	-5.5
Domestic debt / GDP (%)	26	29.1	29.5	38.2	39.6	43.7	45.5
External debt / GDP (%)	29.5	28.8	31.6	36.1	37	38.5	42.1
Balance of Payments							
Exports (USD bn)	13.8	14.9	15.7	14.5	14.7	16.7	15.6
Imports (USD bn)	-12.6	-13.1	-13.4	-12.4	-13.6	-14.5	-13.7
Trade Balance	1.2	1.8	2.3	2	1.1	2.2	1.9
Current account (USD bn)	-2	-2	-1.9	-2.1	-2.5	-1.4	-1.9
- % of GDP	-3.4	-3.1	-2.8	-3.1	-3.3	-2.1	-3.6
Capital & Financial account (USDbn)	3	1.5	3.1	2.9	3.3	-2.5	1.1
- FDI (USD bn)	3.2	2.9	3.2	1.3	2.4	1.6	2.1
Basic balance / GDP (%)	2	1.3	2	-1.2	-0.1	0.3	0.4
Gross FX reserves (USD bn) pe	7.6	7	8.4	8.6	9.7	7.5	8.4
- Import cover (months) pe	4.3	3.6	4	4	4.3	3.6	4.1
Sovereign Credit Rating							
S&P	B-	B-	B-	B-	B-	CCC	CCC
Moody's	B3	B3	B3	B3	B3	Caa1	Caa1
Fitch	B	B	B	B	B	CC	CC
Monetary & Financial Indicators							
Consumer inflation (%) pa	12.4	9.8	8.6	9.9	10	27.8	16
Consumer inflation (%) pe	11.8	9.4	7.7	10.5	12.6	33.3	7.6
M2 money supply (% y/y) pa	28.5	33.8	5.6	23	22.5	16.2	13.8
M2 money supply (% y/y) pe	19.8	46.7	-8.4	35.1	11.9	19.5	9.2
BOG prime rate (%) pa	22.7	17.9	16.1	14.9	14	20.8	23
BOG prime rate (%) pe	21	17	16	14.5	14.5	25	20
3-m rate (%) pe	11.5	16.5	15.1	14.1	12.6	31.1	19.9
1-y rate (%) pe	14.8	19.5	15.5	17	16.6	32.2	20.5
2-y rate (%) pe	18	21.3	19.3	19.1	20.3	37.9	24.5
5-y rate (%) pe	17.9	21.5	19	19.7	21.7	40.1	25.9
USD/GHC pa	4.4	4.7	5.37	5.73	5.95	9.1	10.73
USD/GHC pe	4.51	4.9	5.69	5.87	6.17	10.72	10.48

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

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

Kenya: a new president, and the promise of a new dawn

Medium-term outlook: a sturdy focus on agriculture

We forecast GDP growth of 5.2%-5.5% y/y for 2022, and now increase our 2023 forecast to 5.6%-5.8% y/y, from 4.3% y/y.

GDP growth in Q1:22 reached 6.8% y/y despite unfavourable weather. Still, the agricultural sub-sector contracted by 0.7% y/y in Q1:22, from a contraction of 1.2% y/y in Q4:21. Growth here will likely remain subdued into Dec due to the long rains coming late and expensive fertiliser costs.

Even the short rains in Q4:22 may disappoint, per the Kenya Meteorological Department, which would prove a drag on agricultural output in H1:23, although base effects may have turned favourable by then.

Furthermore, manufacturing output too may remain subdued in 2022, after the industry lobby, the Kenya Association of Manufacturers (KAM), cited USD shortages of source inputs for production.

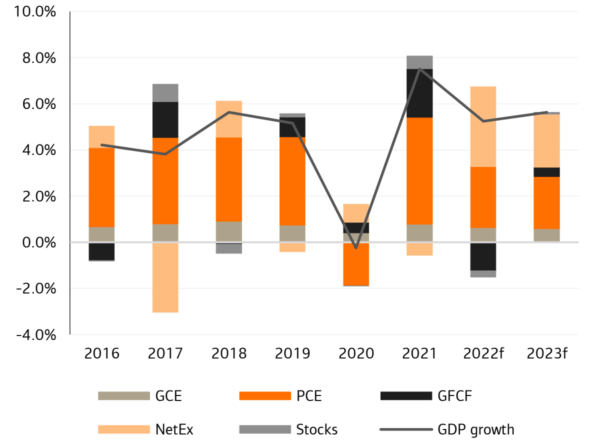
The government's decision to withdraw fuel subsidies in Sep 22 will likely subdue private consumption expenditure in Q4:22 and H1:23. This, and concerns of adverse weather conditions persisting into H1:23, may pose downside risks to our growth outlook for 2023.

However, the new administration is displaying a prominent focus on reviving agricultural productivity as the cornerstone of its economic recovery plan. This may prove a work in progress during 2023, but higher agricultural productivity should still boost medium-term growth; agriculture accounts for over 20% of GDP.

Public investment in infrastructure, a key driver of GDP growth over the best part of the last decade, may fade over the coming year as the government looks to tighten fiscal policy and rein in expenditure, as prescribed by the current IMF programme.

The tourism sector, which has recovered impressively in 2022, should rebound further in 2023. However, with global growth expected to slow further, this might imply fewer tourist arrivals.

Composition of GDP by demand



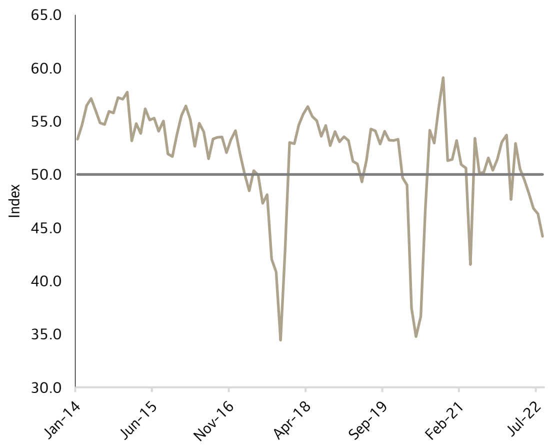
Source: Kenya National Bureau of Statistics

Contribution to GDP by sector

% of GDP	2019	2020	2021
Agriculture	20.9	22.6	22.4
Mining & quarrying	0.7	0.7	0.8
Manufacturing	7.9	7.6	7.2
Electricity & water	2.2	2.1	2.0
Construction	6.2	7.0	7.0
Wholesale & retail trade	8.2	8.1	7.9
Accommodation	1.2	0.7	1.0
Transport & storage	11.7	10.7	11.4
ICT	2.5	2.6	2.4
Financial & insurance	6.5	6.8	7.1
Public administration	5.3	5.5	5.2
Real estate	9.2	9.2	8.9
Education	4.2	3.9	4.3

Source: Kenya National Bureau of Statistics

Stanbic Bank Kenya PMI (index)



Source: IHS Markit

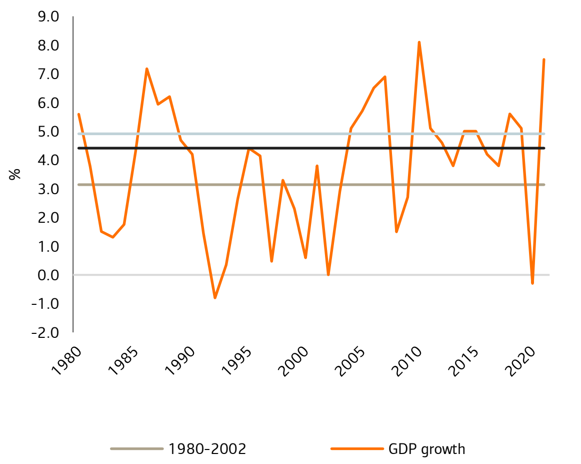
Medium-term economic growth forecasts

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	6.8	4.8	6.8	2.5	3.4	5.5	5.5	8.2	8.5	6.6	5.4	5.8	6.1	6.2	5.9	6.3
CPI (% y/y) pe	5.6	7.9	11.4	13.1	14.1	12.3	8.2	6.2	6.4	6.6	6.6	6.8	6.3	5.9	5.8	5.5
Policy rate (%) pe	7.00	7.50	7.50	8.50	9.00	9.00	9.00	8.50	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00
3-m rate (%) pe	7.3	7.9	9.1	9.9	12.0	12.3	12.0	11.9	8.3	8.2	7.3	7.2	7.2	6.9	7.4	7.1
6-m rate (%) pe	8.2	9.1	10.0	10.8	13.1	13.2	12.8	12.3	10.2	8.9	8.6	7.8	7.4	7.2	7.6	7.8
USD/KES pe	115.0	117.9	120.6	122.4	123.7	125.2	126.9	126.9	127.5	129.3	131.5	131.5	131.9	133.5	135.3	135.4
Bull scenario																
GDP (% y/y) pa	6.8	5.0	8.6	3.2	4.0	6.9	6.0	8.7	8.3	6.3	6.5	6.9	7.0	6.8	5.7	6.1
CPI (% y/y) pe	5.6	7.9	7.3	6.5	5.5	2.5	2.2	1.5	1.8	1.9	2.0	2.1	1.6	1.3	1.2	0.9
Policy rate (%) pe	7.00	7.50	7.50	8.00	8.50	8.50	8.50	8.00	8.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50
3-m rate (%) pe	7.3	7.9	9.3	12.0	12.7	13.0	13.5	13.1	12.9	13.6	14.8	14.0	13.9	14.2	14.7	14.3
6-m rate (%) pe	8.2	9.1	10.5	11.3	15.6	16.2	17.0	16.4	16.3	17.6	19.6	18.1	18.1	18.6	19.5	18.8
USD/KES pe	115.0	117.9	120.0	120.9	120.3	121.0	122.3	122.9	121.5	123.4	124.8	123.8	124.6	139.2	126.3	128.2
Bear scenario																
GDP (% y/y) pa	6.8	3.1	2.9	0.7	-0.5	3.5	1.8	4.4	4.1	1.7	1.5	1.9	2.2	2.2	1.9	2.3
CPI (% y/y) pe	5.6	7.9	8.9	10.4	13.4	12.9	11.8	11.0	11.3	11.4	11.5	11.7	11.1	10.7	10.7	10.3
Policy rate (%) pe	7.00	7.50	7.50	9.50	10.00	10.00	10.00	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00
3-m rate (%) pe	7.3	7.9	8.8	9.4	9.5	9.2	8.7	9.0	9.0	9.1	9.3	9.2	9.2	9.0	8.5	8.8
6-m rate (%) pe	8.2	9.1	10.4	10.8	10.8	10.2	9.4	10.0	10.0	10.2	10.5	10.3	10.3	9.8	8.9	9.6
USD/KES pe	115.0	117.9	121.1	125.9	126.5	129.9	129.1	128.9	130.4	134.6	138.7	138.4	139.3	143.9	147.9	147.6

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

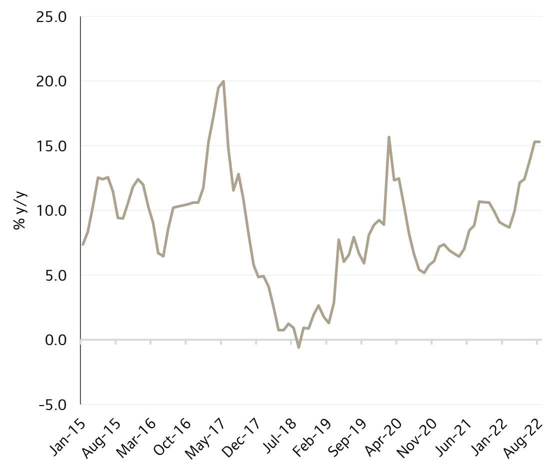
Notes: pe – period end; pa –a period average

Table 2: Long-term GDP performance



Source: Kenya National Bureau of Statistics; World Bank

Food inflation



Source: Kenya National Bureau of Statistics

Balance of payments: global risk appetite improving will be key for FX reserve accretion

We still see the C/A deficit widening to 6.7% of GDP in 2022, from 5.5% in 2021.

Higher international oil prices may further widen the trade balance in H2:22. However, as noted by the KAM, should sourcing USD liquidity remain troubled, import demand from both consumers and the industrial sector may remain restrained and thereby constrain goods imports.

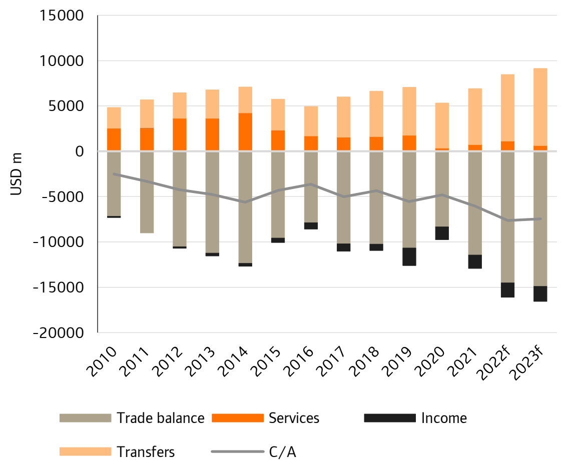
Gross FX reserves have been under pressure, falling to USD7.6bn at end Aug 22, from USD8.3bn in Jan 22. Barring the USD750m budget support loan from the World Bank in Mar 22, FX reserves accretion has been limited this year. Notably, the government has had to postpone Eurobond plans this year as well as any planned syndicated loan issuance.

With volatile global risk conditions likely to persist into H1:23, issuing another Eurobond may only be likely in H2:23. However, the government is still targeting another budget support loan from the World Bank of around USD700-800m in FY2022/23.

Given the current limited options to boost FX reserves, amidst rising external debt service obligations, BOP concerns will therefore remain rife.

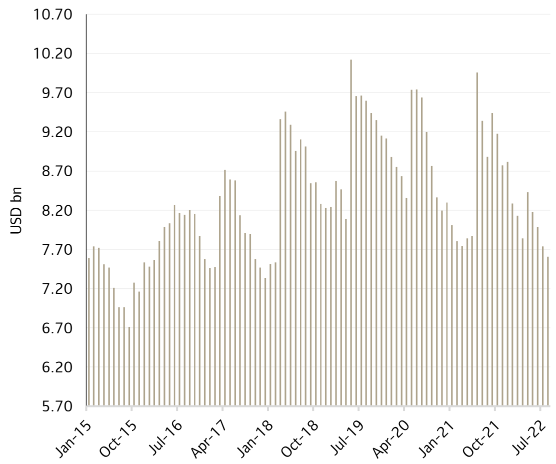
However, international oil prices are expected to moderate into 2023, which should ease the C/A balance. However, a global economic slowdown may reduce tea and floriculture export earnings as well as diaspora remittances.

Current account developments



Source: Central Bank of Kenya; Standard Bank Research

FX reserves



Source: Central Bank of Kenya; Bloomberg

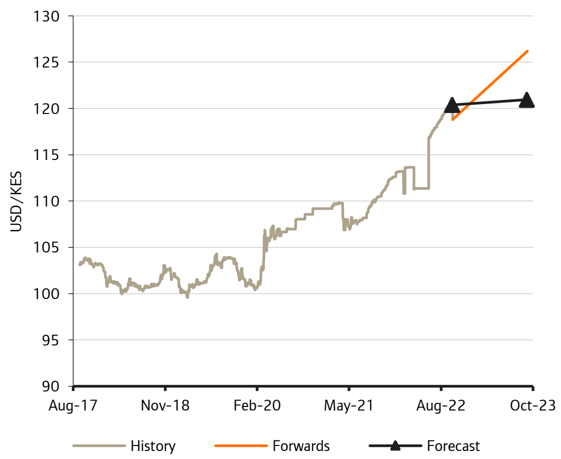
FX outlook: USD/KES upside risks

We now expect the USD/KES pair to reach 122.4-123.8 by end Dec 22. After the electioneering period, corporate import demand may increase again as many firms had opted to frontload USD purchases ahead of the elections.

Moreover, foreign portfolio investors remain concerned about patchy onshore USD liquidity, which may further diminish USD inflows, even if the government issued another Infrastructure Bond (IFB) in Q4:22.

The KES will probably remain under pressure over the next 4-m or so, both due to a stronger USD globally as well the government's external debt obligations. Waning export receipts from diminishing external demand too may pose upside risk to USD/KES in H1:23.

USD/KES: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: further tightening

The MPC will likely have raised the CBR by a further 50-100 bps by Dec. It had opted to pause at the Jul meeting, following the 50-bps hike in May, with that hike still to play out in the economy. At that time, the MPC was expecting headline inflation to moderate largely due to the government's maize subsidy programme.

However, the new government won't be continuing the maize subsidy, and also aims to scrap the fuel subsidy before Dec 22. Therefore, headline inflation may rise much faster than the MPC anticipates, which may impel a resumption of tightening to tame rising inflation expectations.

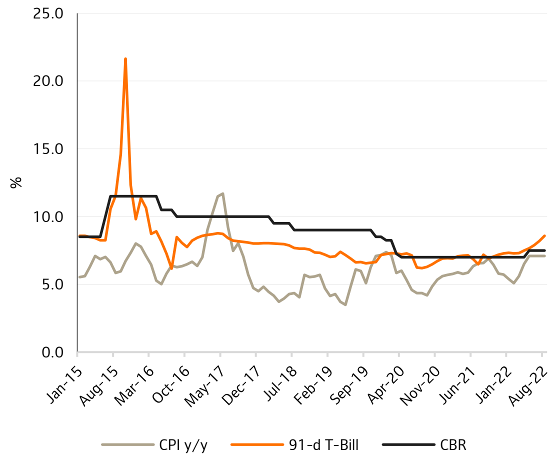
We now see headline inflation averaging 8.7% y/y in 2022, from our previous forecast of 6.4% y/y, and 10.9% y/y in 2023, from 7.1% y/y previously. At the time of writing, the Kenya Revenue Authority (KRA) was expected to adjust excise tax by 6.3% in Oct 22 for certain goods.

The near-term inflation outlook will depend largely on how quickly the government can withdraw the fuel subsidy; it has made some progress during Sep.

As domestic fuel pump prices rise, transport costs will follow suit, and generate second-round inflationary pressures that may persist into H1:23. Electricity costs too rose in Sep, by around 15%.

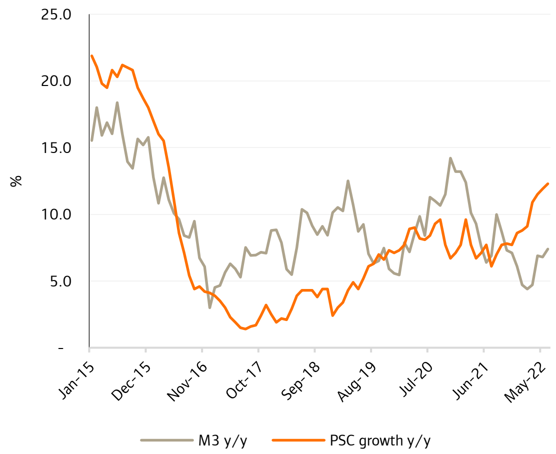
Therefore, the MPC may need to hike the CBR more aggressively than we currently expect. However, the committee may take the initial view that inflationary pressures should fade due to demand pressures remaining muted.

Inflation and interest rates



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

Monetary aggregates



Source: Central Bank of Kenya

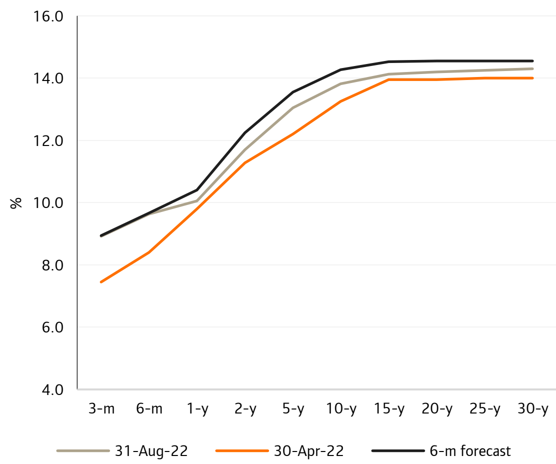
Yield curve outlook: bear-flattening

The yield curve may bear-flatten over the next 6-m or so. Given that inflation is likely to increase to low double digits over the coming months, T-bill real yields may need to remain positive to deflect further pressure on the KES.

Moreover, the new government's external funding plans may not mirror those of the previous administration. However, since external financing from the Eurobond market seems unlikely in the near term, the new government may have to increase issuance from the domestic market, which may bump up T-bill yields.

Infrastructure bond yields too may edge up as offshore interest wanes. However, these bonds are looking quite cheap relative to historical valuations, which may embolden domestic investor appetite.

Changes in the yield curve



Source: Central Bank of Kenya; Standard Bank Research

Fiscal policy: a pleasant surprise

During FY2021/22, the government managed to reduce the fiscal deficit, including grants, to 6.2% of GDP, from the initial target of 8.2% and matching actual outturn of 8.2% in FY2020/21.

Even though overall expenditure declined to 23.7% of GDP, from 24.4% in FY2020/21, it was impressive revenue outperformance that largely reduced the deficit.

Revenue collection grew to 17.3% of GDP, from 15.9% in the previous fiscal year, despite growth concerns ahead of the Aug 22 elections. After the full removal of pandemic restrictions, the economic rebound would have supported revenue collection, thereby somewhat counterbalancing the slowdown in economic activity ahead of the elections.

For funding, the government may still issue a commercial syndicated loan in FY2022/23, in addition to further budget support from the World Bank (circa USD700-800m).

Any Eurobond issuance seems likely only in H2:23, though this would be highly contingent on global risk conditions.

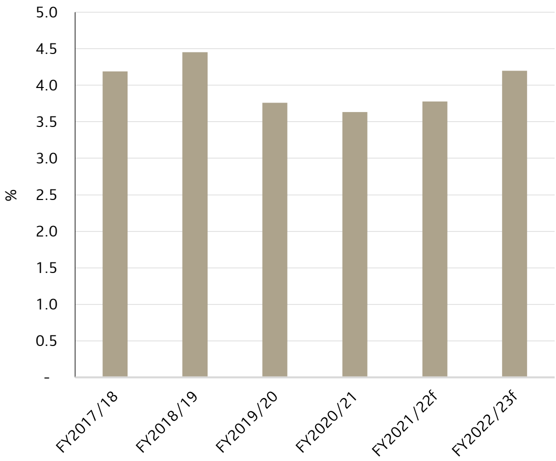
Restraining expenditure in FY2022/23 is a moot question. Still, the removal of subsides will help. This however would erode disposable incomes, calling into question whether the government can sustain stellar growth in tax revenue for FY2022/23, amidst downside risks to growth from the removal subsidies.

Central government budget

% of GDP	FY2021/22	FY2022/23
Total revenue	17.3	17.5
Total expenditure	23.7	23.9
Wages	4.1	4.0
Interest	4.5	4.9
Development	4.2	4.8
Overall balance (+ grants)	-6.2	-6.1
Overall balance (- grants)	-6.5	-6.4
Net external borrowing	1.1	1.9
Net domestic borrowing	4.7	4.2
Donor support	0.4	0.3

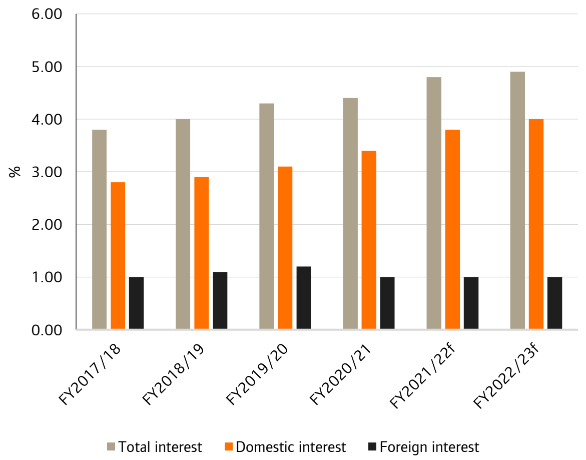
Source: National Treasury

VAT collections (% of GDP)



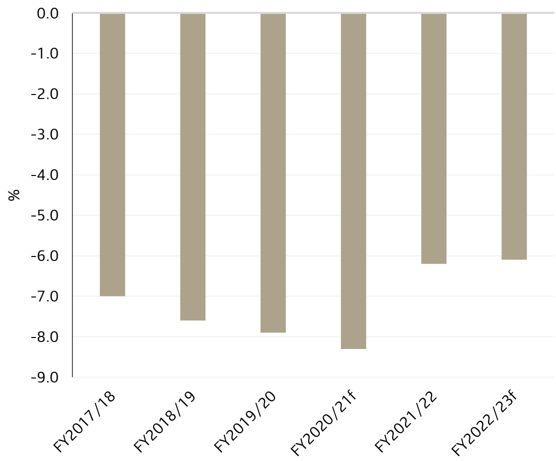
Source: National Treasury

Debt service (% of GDP)



Source: National Treasury

Fiscal deficit including grants



Source: National Treasury

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	45.4	46.5	47.6	48.5	49.4	50.5	51.4
Nominal GDP (KES bn)	8 483	9 340	10 226	10 716	12 098	13 547	15 326
Nominal GDP (USD bn)	79.0	87.8	95.4	100.6	109.7	113.9	121.9
GDP / capita (USD)	1 693	1 829	1 931	2 075	2 221	2 256	2 371
Real GDP growth (%)	4.9	6.3	5.4	-0.3	7.5	5.2	5.6
Coffee production ('000 tons)	33.7	36.8	33.6	24.4	28.2	32.0	35.8
Tea production ('000 tons)	439.9	493.0	458.9	569.5	537.8	583.5	594.3
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-9.0	-7.3	-7.9	-8.1	-8.5	-6.5	-6.4
Budget balance (incl. grants) / GDP (%)	-8.8	-7.0	-7.7	-7.8	-8.4	-6.2	-6.1
Domestic debt / GDP (%)	27.5	28.4	24.5	26.3	27.6	30.0	31.3
External debt / GDP (%)	27.3	29.5	32.5	34.6	35.4	33.9	32.6
Balance of Payments							
Exports of goods (USD bn)	5.8	6.1	5.9	6.1	6.7	7.4	7.8
Imports of goods (USD bn)	15.9	16.3	16.5	14.4	18.2	21.9	22.7
Trade balance (USD bn)	-10.1	-10.2	-10.6	-8.3	-11.4	-14.5	-14.9
Current account (USD bn)	-5.1	-4.4	-5.5	-4.8	-6.0	-7.6	-7.4
- % of GDP	-6.5	-5.0	-6.0	-4.8	-5.5	-6.7	-6.1
Financial account (USD bn)	4.6	5.3	6.2	3.0	6.7	5.6	5.8
- FDI (USD bn)	1.4	1.1	1.1	0.7	0.4	0.6	0.5
Basic balance / GDP (%)	-5.8	-4.2	-5.0	-4.1	-5.1	-6.2	-5.7
FX reserves (USD bn) pe	7.1	8.0	8.8	7.8	8.8	6.8	7.5
- Import cover (months) pe	4.7	5.2	5.4	4.8	5.4	4.0	4.8
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B	B	B
Moody's	B1	B2	B2	B2	B2	B2	B2
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.8	5.0	4.9	5.4	6.2	8.7	10.9
Consumer inflation (%) pe	4.5	5.7	5.8	5.6	5.7	13.1	6.2
M3 money supply (% y/y) pa	7.4	8.7	8.4	9.9	9.4	11.1	10.4
M3 money supply (% y/y) pe	9.5	10.1	5.6	13.2	8.7	14.5	12.6
Policy interest rate (%) pa	10.00	9.10	8.90	7.25	7.00	7.63	8.88
Policy interest rate (%) pe	10.00	9.00	8.50	7.00	7.00	8.50	8.50
3-m rate (%) pe	8.1	7.3	7.2	6.9	7.3	9.9	11.9
1-y rate (%) pe	11.1	10.0	9.8	8.3	8.9	11.6	13.5
2-y rate (%) pe	11.7	10.8	10.4	9.3	9.8	12.4	14.4
5-y rate (%) pe	12.5	11.6	11.5	10.5	11.4	14.0	16.0
USD/KES pa	103.3	101.3	102.1	106.5	110.2	118.9	125.7
USD/KES pe	103.3	102.0	101.4	109.6	113.1	122.4	126.9

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

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

Malawi: merely muddling through

Medium-term outlook: agriculture a let-down

We retain our GDP growth forecast at 2.8% y/y for 2022 and 3.0% y/y for 2023. A lower agricultural outturn, combined with rising fertiliser prices, fertiliser supply disruptions and elevated inflation will crimp growth. The government's weak fiscal position will also curtail government spending.

Agriculture accounts for 22% of GDP; therefore, a strong agricultural outturn correlates with a strong economic result. This sector is a material source of employment, and a large portion of the population relies on subsistence farming. However, climate change and unfavourable weather conditions underline downside risks to the outlook. Indeed, over the past 5-y, more frequent, and more severe, cyclones have disrupted agricultural production.

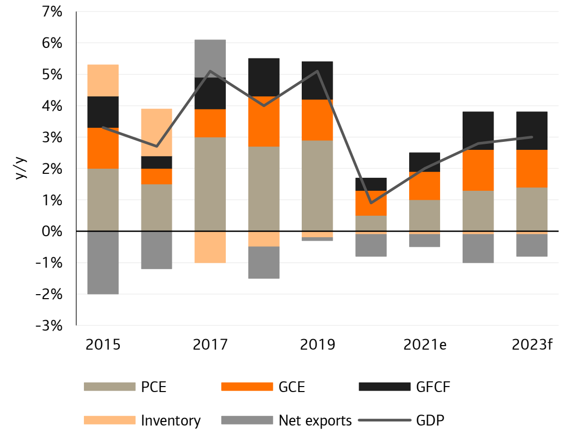
In Jul, the Ministry of Agriculture decreased expected maize production by 19% y/y for the 2022 harvest, from 14% expected in May. Production fell to 3.7m MT, from 4.6m MT in the 2020/21 farming season, due to drought, tropical cyclones, and inadequate supply of subsidized fertiliser. Though lower maize production may affect food security, the output of other food crops (including groundnuts, sesame and soya beans) may reportedly increase this season.

Maize production received a boost from the government's Affordable Inputs Programme over the last 2 to 3-y. Still, during FY2022/23 the government reduced spending on the AIP by 30%. Elevated fertiliser prices may still reduce the number of beneficiaries in this programme as well as diminish production in the next harvest season.

Our bear case models further shocks stemming from any pandemic resurgence. With less than 10% of the population fully vaccinated, Malawi may prove vulnerable. Public health restrictions could still prove disruptive, with GDP growth averaging 2.4% y/y until 2025. Uncertainty related to the sovereign's debt restructuring plans may also retard gross capital formation should the sovereign fail to secure financing for projects. Protracted negotiations with the IMF may also stall multilateral financing and donor support.

However, our bull case sees a stronger economic recovery, with GDP growth averaging 5.1% y/y during 2022-2025, topping the decade average of 4.15% y/y. Here, the government makes progress on an IMF programme, with increasing donor inflows encouraging higher economic growth.

Composition of GDP growth by demand



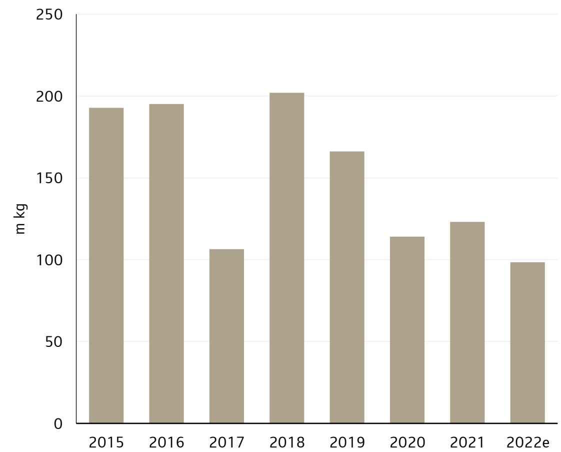
Source: Reserve Bank of Malawi; National Statistical Office; Standard Bank Research

GDP composition by sector

	2017	2019	2020
Agriculture, forestry & fishing	23.3	22.5	22.8
Mining & quarrying	0.7	0.7	0.7
Manufacturing	11.5	12.0	12.2
Electricity gas &water supply	2.8	2.9	3.0
Construction	3.1	3.3	3.3
Wholesale and retail trade	12.9	12.8	12.4
Transport and storage	4.5	4.8	4.3
Accommodation and food	1.6	1.5	1.2
Information and communication	5.3	5.8	6.0
Financial and insurance services	6.0	6.1	6.2
Real estate activities	7.3	6.6	6.6
Professional & support services	1.2	1.3	1.2
Public administration & defence	3.0	3.1	3.3
Education	4.4	4.4	4.0
Health and social work activities	4.4	4.4	5.5
Other services	1.7	1.9	1.8
Plus: Taxes less Subsidies on products	6.3	6.1	5.5
GDP	100.0	100.0	100.0

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

Tobacco auction sales



Source: Reserve Bank of Malawi, Ministry of Agriculture

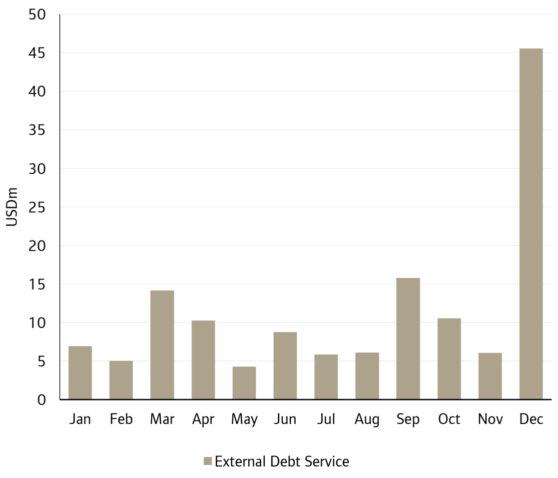
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	2.8	2.8	2.8	2.8	3.0	3.0	3.0	3.0	4.5	4.5	4.5	4.5	5.8	5.8	5.8	5.8
CPI (% y/y) pe	14.1	23.5	28.0	27.4	26.0	20.2	16.5	15.0	12.5	12.7	12.7	13.2	8.5	7.3	8.1	8.5
Policy rate (%) pe	12.0	14.0	14.0	15.5	17.0	17.0	17.0	17.0	17.0	15.0	15.0	15.0	12.0	12.0	12.0	12.0
3-m rate (%) pe	9.5	9.8	10.4	10.7	10.9	10.7	10.6	10.6	10.5	9.3	8.9	8.8	8.3	8.1	8.1	8.1
6-m rate (%) pe	13.0	15.0	15.7	16.8	16.8	16.6	16.5	16.5	16.4	15.2	14.8	14.7	14.2	14.0	14.0	14.0
USD/MWK pe	817.3	1024.0	1039.4	1055.0	1070.8	1086.8	1103.1	1114.2	1125.3	1133.2	1141.1	1149.1	1158.3	1167.6	1176.9	1186.3
Bull scenario																
GDP (% y/y) pa	4.9	4.9	4.9	4.9	3.7	3.7	3.7	3.7	5.1	5.1	5.1	6.1	6.6	6.6	6.6	6.6
CPI (% y/y) pe	14.1	23.3	27.6	27.0	25.6	19.8	16.1	14.6	12.2	12.4	12.4	12.9	8.2	7.0	7.8	8.2
Policy rate (%) pe	12.0	14.0	14.0	15.5	15.5	15.5	15.5	14.0	14.0	14.0	14.0	11.5	11.5	11.5	11.5	11.5
3-m rate (%) pe	9.5	9.8	9.9	10.2	10.4	10.2	10.1	10.1	10.0	8.8	8.4	8.3	7.6	7.6	7.6	7.7
6-m rate (%) pe	13.0	15.0	13.3	13.6	13.8	13.6	13.5	13.5	13.4	12.2	11.8	11.7	11.0	11.0	11.0	11.1
USD/MWK pe	817.3	1024.0	1019.4	1035.0	1050.8	1066.8	1083.1	1089.2	1100.3	1108.2	1116.1	1124.1	1133.3	1142.6	1151.9	1161.3
Bear scenario																
GDP (% y/y) pa	1.10	1.10	1.10	1.10	2.90	2.90	2.90	2.90	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.00
CPI (% y/y) pe	14.10	12.6	34.23	33.62	30.71	24.44	18.50	17.00	14.77	14.91	14.73	15.19	10.48	9.30	10.12	10.53
Policy rate (%) pe	12.00	14.0	14.00	16.50	18.50	18.50	18.50	18.50	16.50	16.50	16.50	15.00	15.00	15.00	15.00	15.00
3-m rate (%) pe	9.50	9.8	12.60	12.30	12.15	12.45	12.50	12.05	11.85	11.65	10.99	10.25	10.27	10.17	10.17	10.30
6-m rate (%) pe	13.00	15.0	17.00	16.70	16.55	16.85	16.90	16.45	16.25	16.05	15.39	14.65	14.67	14.57	14.57	14.70
USD/MWK pe	817.3	1024.0	1054.7	1086.4	1108.1	1130.3	1152.9	1175.9	1199.4	1223.4	1245.4	1267.9	1290.7	1313.9	1337.6	1361.6

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

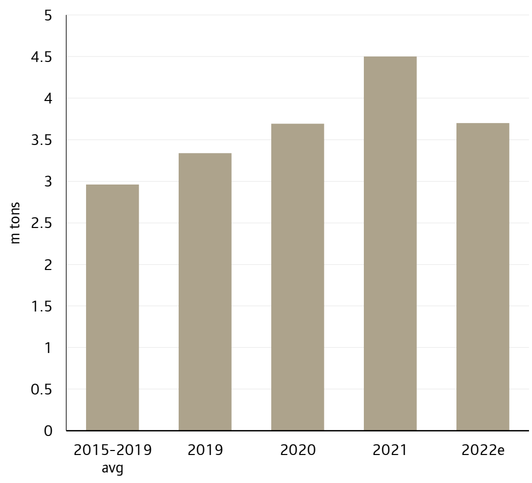
Notes: pa - period average; pe - period end

2022's external debt service payments



Source: World Bank

Maize production



Source: Reserve Bank of Malawi, United Nations, Ministry of Agriculture

Balance of payments: a still deep deficit

We expect Malawi's current account deficit at 17.7% of GDP in 2022 from 13.9% in 2021. It should then narrow to 15.3% of GDP in 2023. Malawi's weakening terms of trade underlines the deterioration in the current account.

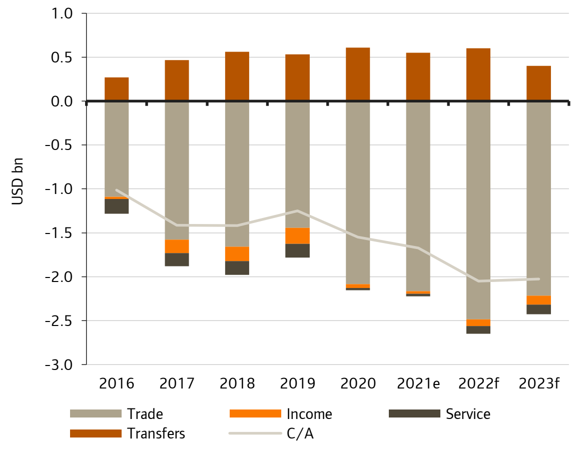
At end May, the merchandise trade deficit widened to USD232.1m, up nearly 25% y/y. The higher prices of essential imports, such as fertiliser, petroleum and pharmaceuticals, have kept the import bill elevated, which is likely to persist into Dec, and thereafter potentially easing in 2023.

Adverse weather may reduce agrarian exports, thereby fuelling external pressures. Though tobacco production is down nearly 20% y/y, prices stayed up throughout the market season, averaging USD2.14/kg. This may support export receipts, with the crop generating USD181.6m at the end of week 19.

The government remains in talks with the IMF for a funded programme. These talks have advanced, with the special audit of the official FX reserves now in the final stages. Once finalized, this report will form the basis for consideration by the IMF's Executive Board following the RBM misreporting FX reserves. IMF funding will alleviate external financing pressures, especially should the authorities garner a debt advisor to support debt restructuring efforts.

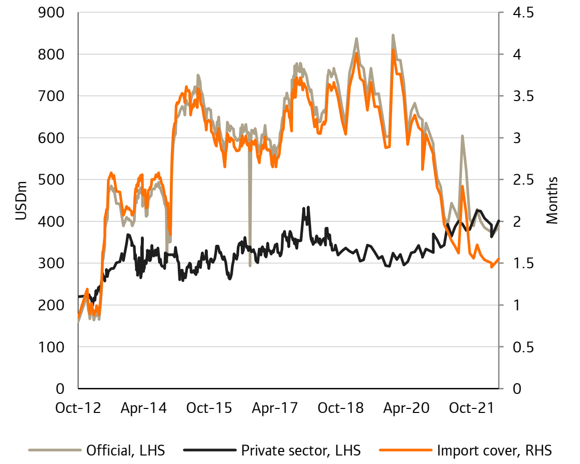
Notwithstanding the slight recovery in FX reserves, they remained depressed, at USD397m (1.61-m of import cover) at end Jun. External debt service for 2022 is estimated at USD139m. Debt service (due to official multilateral creditors) accounts for USD101m of total external debt service. From Jun-Dec, external debt service is USD98.6m, which is around 25% of gross FX reserves.

Current account developments



Source: Reserve Bank of Malawi

FX reserves



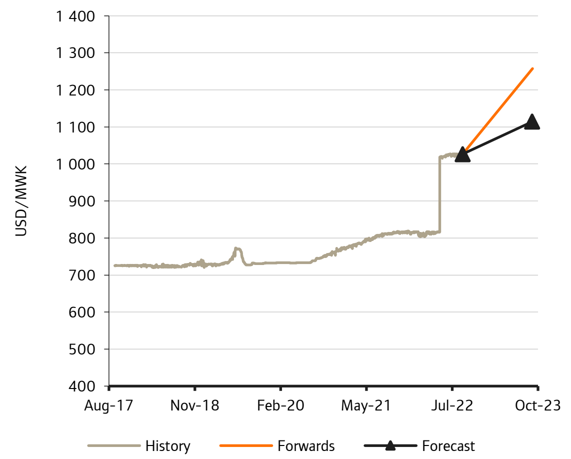
Source: Reserve Bank of Malawi

FX outlook: still poor FX liquidity

Bar further policy interventions, the USD/MWK may reach 1,055 at end 202, and 1,087 by Jun 23. The FX trading regulations should support the currency's stability. However, via negotiations with the sovereign for an IMF programme, the IMF seems supportive of a more flexible exchange rate. But, notwithstanding the adjustment in the FX rate, there was little improvement in onshore FX liquidity conditions.

Furthermore, earlier this year the RBM mandated exporters sell 30% of export proceeds directly to the central bank. With exports rarely converting more than that, FX market inflows were down. As the RBM intervenes infrequently in the market, FX liquidity will likely remain under pressure. The tobacco marketing season has helped alleviate some pressure – but auctions ended in Aug. Therefore, poor FX liquidity will likely persist.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation keeps the bias hawkish

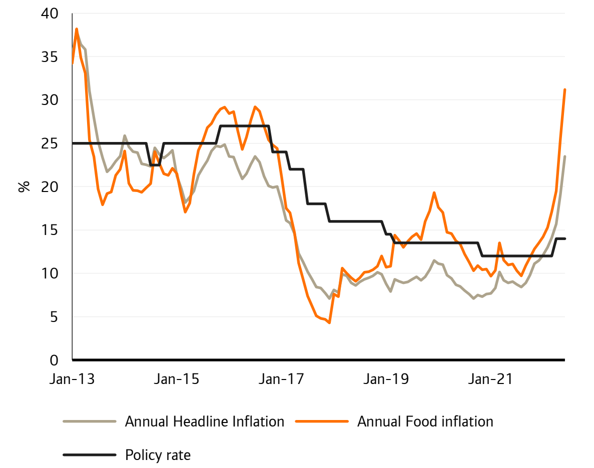
The RBM's MPC maintained a neutral stance at the Jul MPC meeting to access the impact of the Apr 200 bps hike. The policy rate remains at 14%. However, with inflation trending higher and moving well above the RBM's medium-term inflation target of 5.0% y/y, with a 200 bps corridor, the MPC may speed up policy rate hikes. We therefore foresee at least a further 300 bps of hikes in the next 12-m.

Following the devaluation of the currency, combined with rising food and transport inflation, inflation reached 25.5% y/y in Aug, from 24.6% y/y in Jul. And, m/m inflation increased to 1.7% in Aug, from 0.9% in Jul. At the Jul MPC, the RBM has increased its average annual inflation forecast to 23.2% for 2022, from12.3%. We see inflation averaging 21.6% in 2022, peaking at 27.4% in Dec 22.

Food inflation rose to 31.2% y/y in Jun, which has brought the average in Q2:22 to 25.4%. Maize is a staple food in Malawi; so, maize prices are a major contributor to food inflation. Typically, maize prices rise ahead of the harvesting season, but start falling in Apr when maize supply improves. Notwithstanding the sharp decline in maize production during the 2022 harvest season, compared to the national requirement of 3.1m MT, it still represents a surplus of 0.6m MT. However, maize supply across the country is uneven, which has kept maize prices elevated.

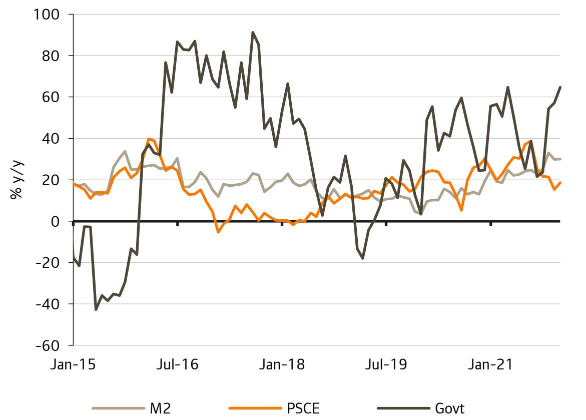
Non-food inflation rose to 16.6% y/y in Jun, after averaging 14% y/y in Q2:22. Sharp increases in domestic fuel prices will add to the upward momentum in transport inflation. That said, the second-round inflationary pressures arising from these fuel price hikes may prove long-lasting. Though the exchange rate has adjusted, further unexpected shifts pose an upside risk to non-food inflation.

Inflation and interest rates



Source: Reserve Bank of Malawi; Standard Bank Research

Money supply growth



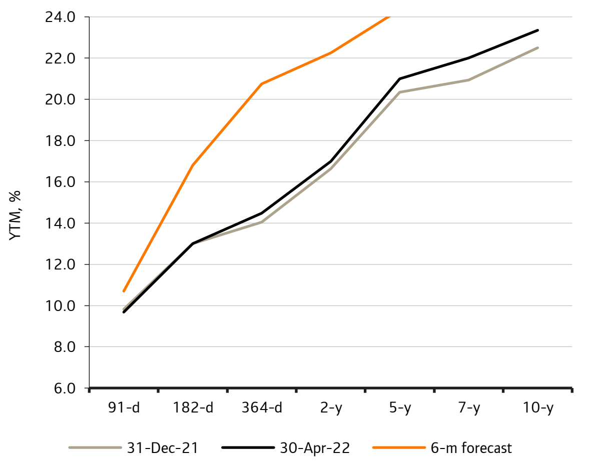
Source: Reserve Bank of Malawi; Standard Bank Research

Yield curve outlook: still higher

Yields will likely move higher over the next 6-m as the MPC is likely to continue tightening monetary policy. Moreover, the RBM appears to have started accepting higher bids, which has started driving up yields in certain yield segments. Since May, yields across the curve are higher, with the 5 to 10-y yields increasing over 300 bps. The increase on the shorter end has been more contained, with the 91-d T-bills up only 26 bps. In this segment, yields have likely stayed more contained due to more bidding.

The government has announced plans to restructure debt and remains in talks with the IMF for a funded programme. Hence, sources of budget financing remain constrained. With the local debt market still accessible, the government could begin relying on it more extensively, also pushing up yields.

Yield curve changes



Source: Reserve Bank of Malawi; Standard Bank Research

Fiscal policy: debt restructuring in the offing

For FY2022/23, the budget forecasts a deficit of 7.7% of GDP (MWK884bn). This is a significant reduction from 8.0% of GDP estimated in FY2021/22 (which only covered 9-m). Malawi's new fiscal year will run from 1 Apr 22 to 31 Mar 23, which is better aligned to the country's main agricultural cycles.

This budget carries execution risk given past fiscal performance where Malawi's fiscal deficit came in materially higher than originally planned in FY2021/22. The planned fiscal consolidation hinges on stronger revenue assumptions but, with domestic growth set to slow, revenue may well underperform.

That said, the government's fiscal consolidation plans will be core to the sovereign debt restructuring initiative. While we understand that the sovereign has engaged with advisors, the timelines around debt restructuring remain unclear.

The FY2022/23 budget indicates that the government plans to restructure both external and domestic debt, thereby reducing the sovereign's immediate debt service burden. Interest expense is set to rise sharply, to 4.6% of GDP, with most of the sovereign's interest expense being on domestic debt.

Should the authorities apply the G20's common framework to debt restructuring, Malawi's external debt composition should be well positioned, with negligible commercial debt. According to the IMF, Malawi's multilateral and bilateral debt combined accounts for 70% of external debt. Chinese creditors hold less than 6% of external loans through bilateral credit facilities. The remaining component of external debt might well be a blend of commercial and concessional financing, which would include facilities from AFREXIM Bank and Trade Development Bank.

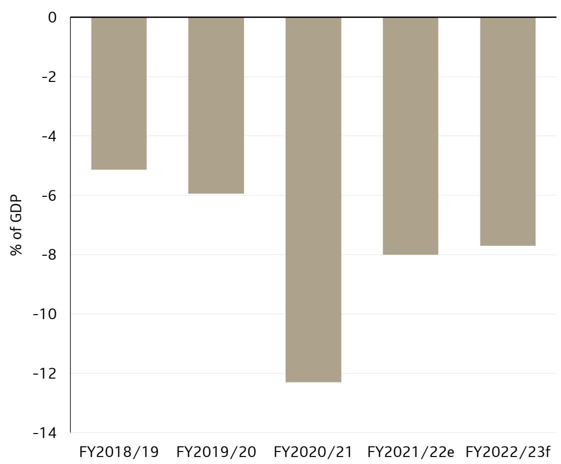
Central government budget

% of GDP	FY2020/21	FY2021/22*	FY2022/23f
Total revenue	16.3	12.1	17.2
Total expenditure	25.0	20.1	24.9
- Recurrent	18.4	14.6	17.7
- Development	6.6	5.4	7.2
Overall balance (- grants)	-12.3	- 8.0	-7.7
Overall balance (+grants)	-8.7	- 6.6	-4.9
Net domestic borrowing	6.1	1.3	2.0
Net foreign borrowing	2.6	6.7	5.6

Source: Ministry of Finance

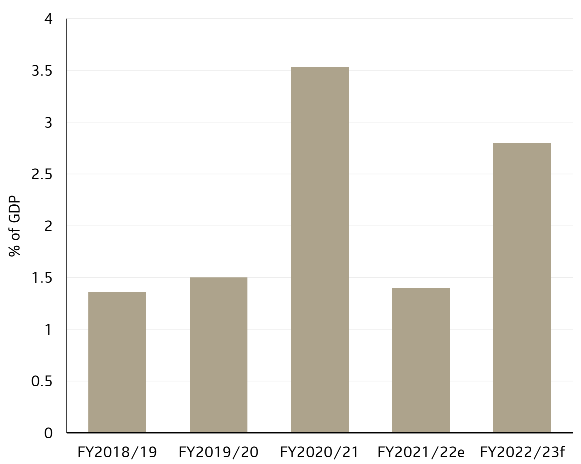
*Fiscal period of 9 months.

Fiscal deficits



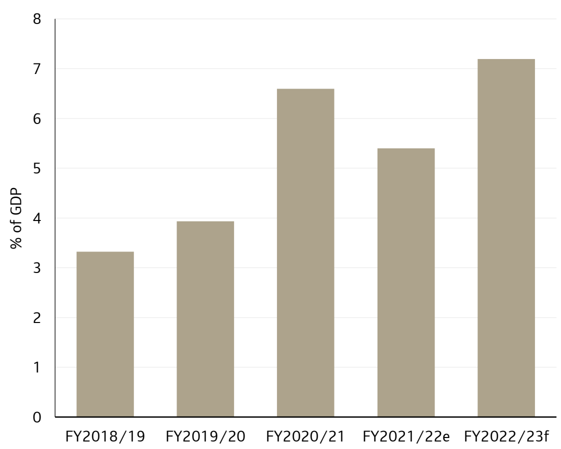
Source: Ministry of Finance; Standard Bank Research

Budget grants



Source: Ministry of Finance; Standard Bank Research

Developmental spending



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	17.0	17.3	17.5	17.8	18.0	18.2	18.4
Nominal GDP (MWK bn)	6 417.3	7 113.1	8 098.5	8 841.6	9 841.5	12 238.0	14 805.2
Nominal GDP (USD bn)	8.8	9.8	10.9	11.5	12.1	11.6	13.3
GDP / capita (USD)	520.6	565.2	624.7	642.7	669.8	637.0	722.2
Real GDP growth (%)	5.1	4.0	5.1	0.9	2.0	2.8	3.0
Tobacco auction sales (million kgs)	106.5	202.0	166.1	114.0	123.1	124.0	125.0
Tea production (million kgs)	46.2	50.5	48.2	48.6	49.6	51.0	52.5
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.5	-4.5	-5.1	-5.9	-12.3	-8.0	-7.7
Budget balance (incl. Grants) / GDP (%)	-2.3	-3.0	-3.8	-4.6	-8.7	-6.6	-4.9
Domestic debt / GDP (%)	29.0	21.0	25.0	38.8	43.8	46.5	48.8
External debt / GDP (%)	33.0	31.0	30.0	30.0	32.9	34.9	36.6
Balance of Payments							
Exports (USD m)	909.7	945.4	1 149.0	966.0	1 246.0	1 097.0	1 231.0
Imports (USD m)	-2 486.5	-2 603.7	-2 593.0	-3 052.0	-3 410.0	-3 582.0	-3 448.0
Trade balance (USD m)	-1 576.9	-1 658.4	-1 444.0	-2 086.0	-2 164.0	-2 485.0	-2 217.0
Current account (USD m)	-1 414.2	-1 418.6	-1 249.7	-1 547.0	-1 674.0	-2 050.0	-2 027.0
- % of GDP	-16.0	-14.5	-11.4	-13.5	-13.9	-17.7	-15.3
Financial account (USD m)	198.4	458.3	452.8	359.5	468.9	439.1	439.1
- FDI (USD m)	95.2	107.1	118.5	94.0	120.0	135.0	135.0
Basic balance / GDP (%)	-14.9	-13.4	-10.3	-12.7	-12.9	-16.5	-14.2
FX reserves (USD m) pe	759.0	730.0	700.0	574.3	362.0	400.0	480.0
- Import cover (months) pe	3.7	3.4	3.2	2.8	1.4	1.5	1.8
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	12.3	9.2	9.4	8.3	9.3	21.6	18.0
Consumer inflation (%) pe	7.1	9.9	11.5	7.6	11.5	27.4	15.0
M2 money supply (% y/y) pa	18.0	15.7	13.2	10.5	14.9	31.0	16.2
M2 money supply (% y/y) pe	19.7	11.4	3.6	24.4	30.0	27.2	12.0
Policy interest rate (%) pa	20.0	14.8	14.8	13.1	12.0	13.9	17.0
Policy interest rate (%) pe	16.0	16.0	13.5	12.0	12.0	15.5	17.0
3-m rate (%) pe	14.5	11.5	10.9	9.5	9.4	10.7	10.6
USD/MWK pa	725.1	727.5	740.8	747.3	861.3	983.9	1 093.7
USD/MWK pe	725.5	736.8	730.0	771.5	815.0	1 055.0	1 114.2

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: still a financial gateway to other markets

Medium-term outlook: favourable base effects

We maintain our GDP growth forecasts of 6.3% y/y for 2022 and 4.6% y/y for 2023, largely due to base effects. This economy will be boosted by its Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with India, which focuses on trade in goods and services, sanitary and phytosanitary measures, technical barriers to trade, and trade remedies. A trade deal with China too may bring economic benefits.

In the medium term, these trade deals may spur expansion in the non-traditional sectors and boost growth after a protracted period of GDP growth below 4.0% y/y (since 2011).

However, Mauritius's latest budget highlights the protracted pandemic impact as well as soaring inflation due to the trade and supply disruptions caused by Russia/Ukraine on economic activity. GDP growth in 2020 was significantly below the long-term average (-14.9% y/y) as international travel restrictions deterred tourist arrivals. Economic growth in 2021 was just 4.0% y/y. As a result, GDP remains below pre-pandemic levels in real terms. However, there should be some recovery in the medium term.

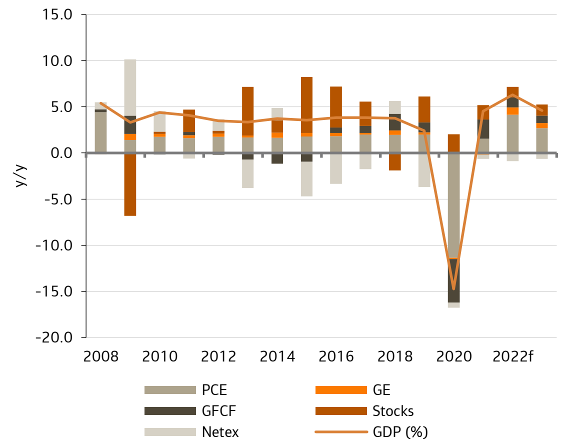
The tourism sector's recovery remains far from pre-pandemic levels, still at only 50% of full capacity, but y/y growth has been robust, reaching 453% y/y in Q1:22. This should continue into Dec, although the increase in travel demand in Q4:21 may imply a relatively high base.

The greatest risk for Mauritius is its dependency on Europe. A recession there seems imminent, which might imply a reduction in spending. Moreover, the EUR weakness against most currencies makes imported goods expensive to purchase and traveling abroad more expensive. Also, bouts of global risk aversion would pose further risks to this economy. Relatively low financial flows would affect both GDP and the BOP. The global business sector which dominates the inflows contributes about 8% to GDP. Our bearish case sees 2022 y/y growth at only 5.9% y/y.

But our bull case foresees Europeans travelling abroad to avoid the winter energy crisis which would boost the tourism sector in Mauritius.

Governmental budgetary measures may mitigate the impact of multiple imminent risks, with such measures ranging from price controls, pharmaceutical margins, and subsidies for some key products, and a monthly allowance. However, policymakers have little capacity to implement expansionary fiscal policies after so many instances of pandemic-induced fiscal stimulus; therefore, government spending may not be able to boost aggregate demand but the abovesaid measures should still reduce the spill over impact of the war in Ukraine on inflation and disposable incomes. Besides direct spending measures, taxes remain will unchanged, or be reduced, in addition to the extension of various exemptions. However, the multiplier effect of tax cuts usually undershoots direct spending.

Composition of GDP by demand



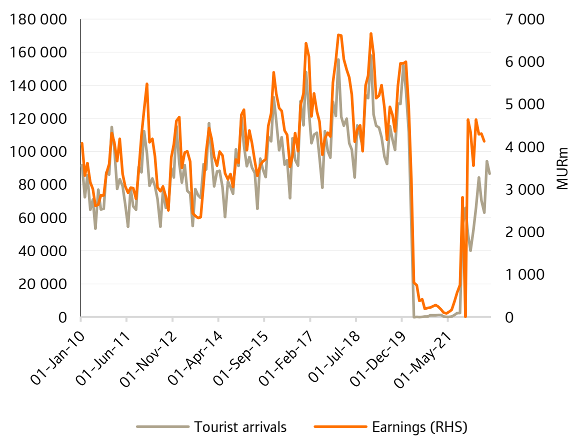
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector

% of GDP	2014	2016	2021
Agriculture	3.3	3.2	3.8
- Sugarcane	0.8	0.8	0.5
Manufacturing	13.6	12.4	11.8
- Food excl. sugar	4.8	4.4	4.6
- Textiles	4.1	3.7	2.8
Construction	4.2	3.7	4.8
Wholesale and retail trade	10.6	10.6	11.5
Transport and storage	5.4	5.6	4.8
Accommodation and food services	5.5	6.1	2.1
Financial and insurance services	10.5	10.7	10.9
Real estate services	5.4	5.2	5.6
Public administration	5.5	5.7	6.6
ICT	3.8	3.8	4.5
Education	4.2	4.4	4.6

Source: Statistics Mauritius

Tourism trend



Source: Statistics Mauritius

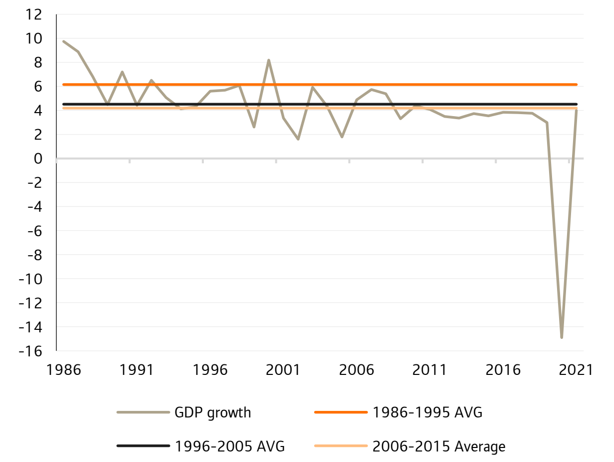
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	8.9	15.2	0.1	1.1	1.5	7.8	5.8	3.2	3.7	4.9	4.1	4.4	1.5	1.8	8.1	5.4
CPI (% y/y) pe	10.7	9.6	11.8	11.8	9.3	7.1	5.0	3.8	3.4	3.5	3.5	3.6	4.0	3.8	3.9	3.8
BOM policy rate (%) pa	2.00	2.25	3.00	3.75	4.00	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
3-m rate (%) pe	0.6	0.8	1.5	2.3	2.5	2.8	2.8	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
6-m rate (%) pe	0.8	0.9	2.3	3.0	3.3	3.5	3.5	3.5	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
USD/MUR pe	45.00	46.37	46.41	46.91	46.82	46.20	45.88	45.39	44.65	43.96	43.41	42.56	42.74	42.92	43.09	43.27
Bull scenario																
GDP (% y/y) pa	8.9	15.2	1.0	2.0	2.4	8.7	6.7	4.1	4.6	5.8	5.0	5.3	2.4	2.7	9.0	6.3
CPI (% y/y) pe	10.7	9.6	12.6	12.6	10.1	7.9	5.8	4.5	4.1	4.2	4.2	4.3	4.7	4.5	4.6	4.5
BOM policy rate (%) pa	2.00	2.25	3.00	3.00	5.50	5.75	5.75	5.75	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
3-m rate (%) pe	0.6	0.8	2.5	3.3	3.5	3.8	3.8	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
6-m rate (%) pe	0.8	0.9	3.3	4.0	4.3	4.5	4.5	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
USD/MUR pe	45.0	46.4	46.4	46.11	46.02	45.40	45.08	44.69	43.95	43.26	42.71	41.86	42.04	42.22	42.39	42.57
Bear scenario																
GDP (% y/y) pa	8.9	15.2	-0.8	0.2	0.6	6.9	4.9	2.3	2.8	4.0	3.2	3.5	0.6	0.9	7.2	4.5
CPI (% y/y) pe	10.7	9.6	11.0	11.0	8.5	6.3	4.2	3.1	2.7	2.8	2.8	2.9	3.3	3.1	3.2	3.1
BOM policy rate (%) pa	2.00	2.25	3.00	2.00	2.50	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
3-m rate (%) pe	0.6	0.8	1.3	2.0	2.3	2.5	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
6-m rate (%) pe	0.8	0.9	2.0	2.8	3.0	3.3	3.3	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
USD/MUR pe	45.0	46.4	46.4	47.71	47.62	47.00	46.68	46.09	45.35	44.66	44.11	43.26	43.44	43.62	43.79	43.97

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

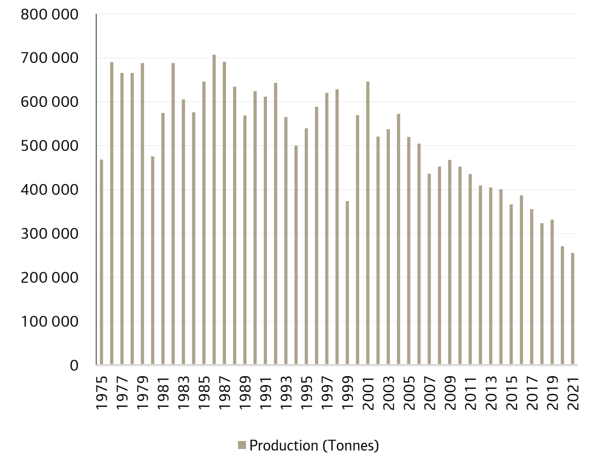
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Statistics Mauritius

Sugar production



Source: Statistics Mauritius

Balance of payments: financial flows unlikely to cover C/A deficit

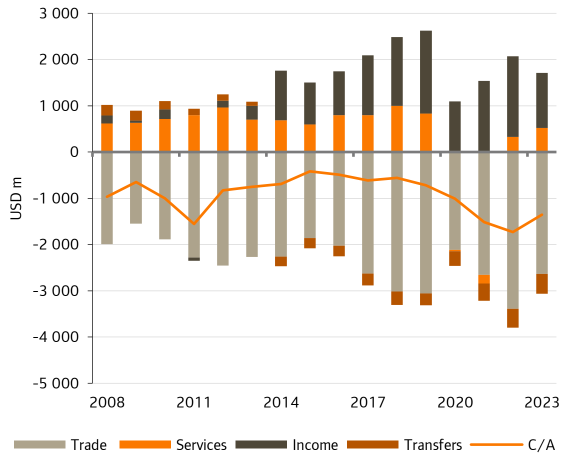
The BOM is expected to use FX reserves to rectify the imbalance between the C/A deficit and the declining financial account surplus. Financial flows typically outstrip C/A balances by a large margin, but it is unlikely that it will be strong enough in 2022 to finance C/A deficits. In Q1:22, a financial surplus of USD29.5m was insufficient to cover a C/A deficit of USD340m.

Mauritius is likely to remain a financial gateway to various markets, and we also expect it to benefit from being removed from the Financial Action Task Force (FATF) grey list, but heightened global risks mean that global business sector flows may underperform, implying a deficit for the entire BOP. Most FDI flows comes from developed markets, and the expected slowdown globally may reduce capital flows channelled via Mauritius. In addition, the government's external debt reduction plan (USD94m net repayment) should weigh on the external balance.

Mauritius's competitive tax system in particular faces challenges. Especially since the OECD and G20 countries adopted the Action Plan on Base Erosion and Profit Shifting, facilitating the need for economic substance. Furthermore, in line with base erosion and profit-shifting measures, the government has had to introduce a minimum tax rate so that large multinationals can be taxed at a minimum rate of 15%. The move is supported by 130 countries around the world and, while the development will be positive for some countries, it could reduce the influx of GBC flows into Mauritius. However, we still expect that Mauritius will be used as a financial gateway to other countries due to its ease of doing business, conducive legislation, and still comparatively attractive tax regime.

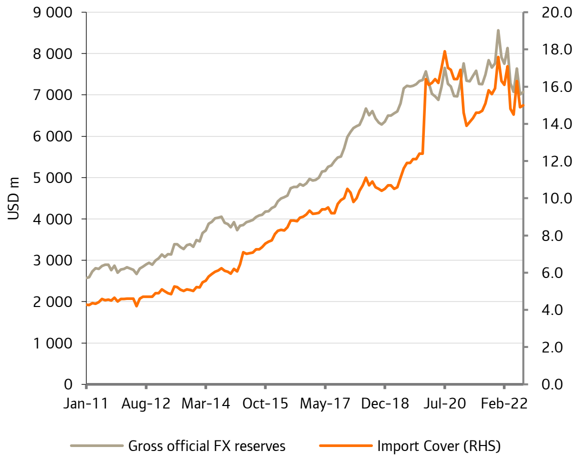
For now, the combination of the impact of the war in Ukraine and one-off import of items such as machinery for metro terminals and helicopters will deepen the C/A deficit as goods import growth outweighs rising goods export growth, the service account surplus and strong primary income.

Current account developments



Source: Bank of Mauritius Standard Bank Research

FX reserves



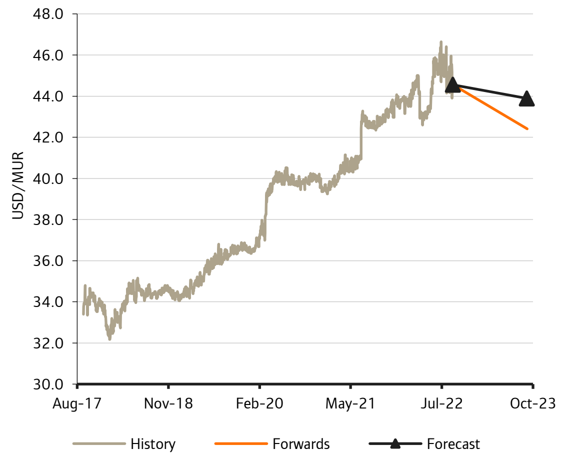
Source: Bank of Mauritius

FX outlook: a depreciation bias

The BOM would prefer to keep the currency from depreciating further due to concerns about inflationary pressures. During the pre-pandemic period, the BOM intervened to prevent currency appreciation, resulting in higher FX reserves.

However, should USD demand stay high, depreciation may still occur as central bank intervention may delay depreciation only temporarily. Still, the BOM will likely keep the nominal trade-weighted MUR stable. The measure of the trade-weighted MUR, computed by the BOM, which uses goods trade as well as tourism in computing the trade weights, depreciated by 0.36%, while the one based on just goods trade depreciated by 0.67%. Also, the MUR is overvalued due to a deepening C/A deficit and a high debt percentage of GDP yet undervalued based on both REER and the financial account surplus.

USD/MUR: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: gradually tighter

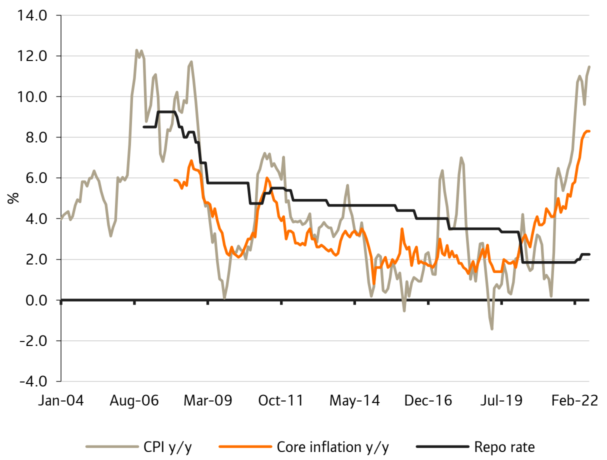
We expect annual inflation at 11.8% y/y by Dec and averaging 10.6% y/y in 2022. Mauritius has not been immune to supply shocks, which have spilled over to domestic inflation. The country imports over 75% of its food.

Inflation fell to 10.7% y/y in May and 9.6% y/y in Jun, before rising to 11.5% in Aug. Nothing much may have changed significantly in the domestic market to change the MPC's assessment of broader economic development in the medium term. Indeed, the forward guidance after its last meeting laid out plans to step up the monetary policy normalization process until a neutral rate is achieved. The MPC expects inflation to rise for some time, and monetary policy will need to respond to mounting inflationary pressures. Fortunately, bank asset quality remains adequate, with NPLs at 4.0% on June 22 compared to 4.9% on June 21.

Inflation may remain sticky into Q2:23. Food inflation has been on the rise, averaging 14% y/y over the last 7-m and 8.4% y/y in the 7-m prior, with a historical average of 3.0% y/y. The food and non-alcoholic beverages index tend to rise meaningfully in Q1. In fact, this seasonal pattern has been observed since 2014. From 2014 to 2022, the food index rose an average of 1.3% m/m from Jan to Mar and fell an average of -0.19% m/m, from Apr to Jun. Inflation is therefore likely to peak in Q1:23 before declining from Q2:23.

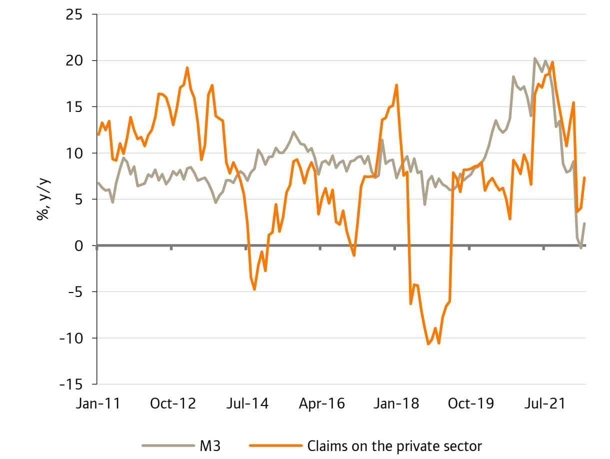
Core inflation, which excludes prices of volatile items, and a more reliable indicator of whether inflationary pressures are widespread and sustained, confirms inflationary pressures. Core inflation, measured by excluding food, beverages, tobacco, mortgage rates, energy and administrative prices from the headline consumer price index, was 8.3% y/y in Aug, compared with 5.7% y/y in Jan. The average is typically around 2.4% y/y.

Inflation and interest rates



Source: Bank of Mauritius; Statistics Mauritius

Money supply



Source: Bank of Mauritius

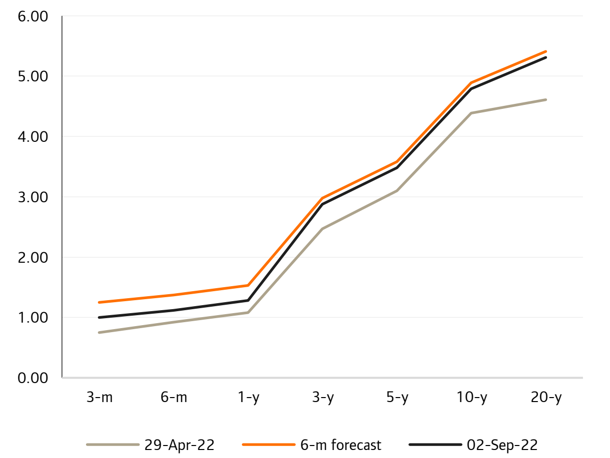
Yield curve outlook: set to rise further

The BOM consistently draws down excess liquidity, which has been driving up the yield curve. Since the introduction of the 7-d BOM bill, the transmission mechanism now seems stronger due to the successful draining of excess liquidity from the banking system.

Therefore, the MUR liquidity surplus had decreased to MUR22.1bn on 25 Aug, from MUR34.47bn MUR on 30 Jun, perhaps implying that the BOM aims to, through the issuing of BoM securities, keep excess liquidity stable. This should see yields rising further.

Inflationary pressure, alongside tightening, will keep yields rising, especially in the short end of the curve. However, the budget deficit will be funded by stock sales, which won't increase government's demand for funds, thereby limiting any chance of long-term yields rising significantly further from current levels.

Change in yield curve



Source: Bank of Mauritius; Standard Bank Research

Fiscal policy: selling equity stakes

Budget FY2022/23 revised budget estimates for FY2021/22. Total revenue is below budget by 0.4% due to a decrease in tax revenue. Although recurrent expenditures exceeded budget by 2.2% due to a slight increase in wages, grants and social benefit, total budget expenditure was 0.6% lower due to lower capital expenditure, resulting in lower total borrowing requirements. In fact, the drop in financial needs was largely driven by equity sales.

Although the budget remains in deficit, total borrowing is expected to fall further in FY2022/23 due to the sale of stake in state-owned entities National Insurance Co. and MauBank, with net acquisition of financial assets expected to cover MUR19.2bn, or 83.7%, of the MUR22.9bn in fiscal deficit. The remaining MUR3.2bn is expected to come from the domestic market. Net issuance of domestic debt is projected at MUR8bn, while net repayment of external debt is MUR4.8bn. The Ministry of Finance has also announced a first sustainable bond to be issued.

The government appears to be trying to reduce its highest ever debt percentage of GDP, swelled by Covid-19 measures which cost about 30% of GDP. As a result, the debt percentage of GDP rose from 65.0% of GDP in 2018/19, to 91.4% of GDP in 2021/22, after which rising nominal GDP pushed the estimated decline to 86.4%. But then, the debt as a percentage GDP is understated due to the establishment of a quasi-financing. In fact, when Mauritius's rating was downgraded to Baa3, quasi-financing weighed heavily on the institution's assessment and governance strength by Moody's.

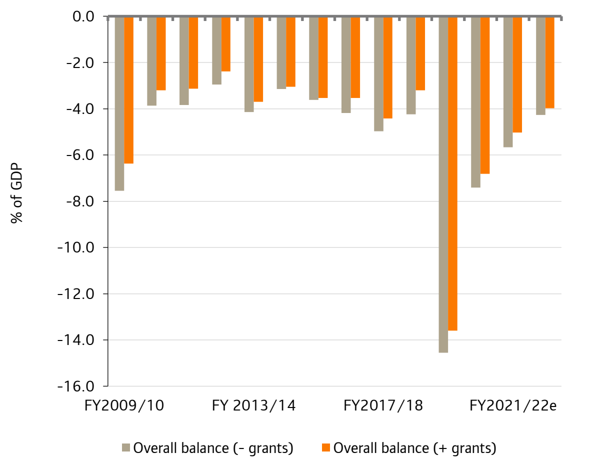
Still, 75% of the debt is in local currency. Should future proceeds from the sale of public assets prove insufficient, the government will likely not hesitate to finance the growing need from domestic sources that are still accessible and inexpensive. The spread between MUR and the US 10-year bond yield was around 157 bps at the Aug auction, below the 308 bps in Jun 21. Furthermore, external debt not only accounts for about 25% of total debt, but domestic debt held by non-residents is minimal.

Central government budget

% of GDP	FY2021/22	FY2022/23f
Total revenue	27.3	26.0
Total expenditure	32.3	30.0
- Interest	2.6	2.3
- Wages	7.4	6.4
- Capital expenditure	4.7	3.2
Net lending	-1.4	-3.3
Overall balance (- grants)	-5.7	-4.3
Overall balance (+ grants)	-5.0	-4.0
Net lending to parastatals	0.1	0.2
Net external borrowing	-0.8	-0.8
Net domestic borrowing	4.5	1.4
Donor support (grants)	0.6	0.3

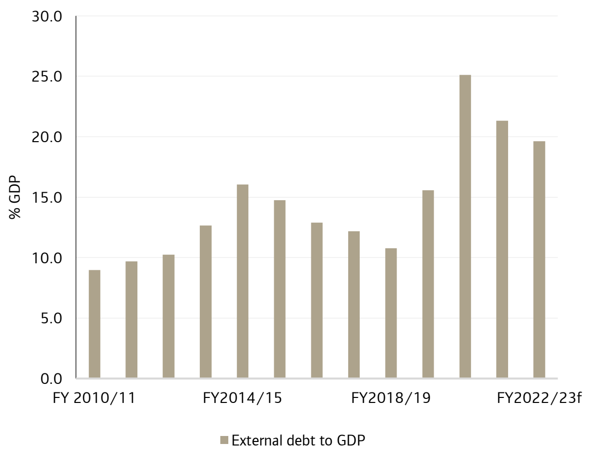
Source: Ministry of Finance and Economic Development

Fiscal deficit



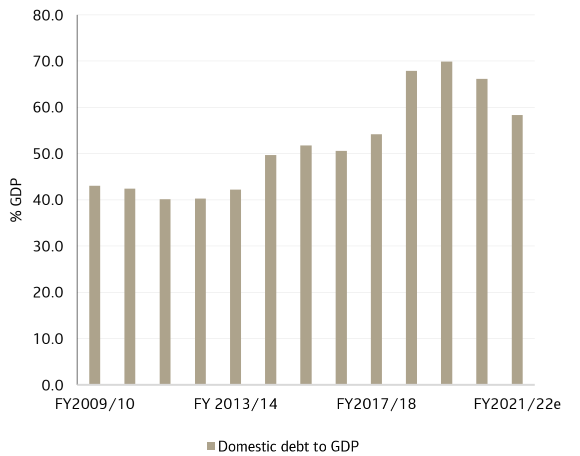
Source: Ministry of finance and Economic Development

External debt



Source: Ministry of Finance and Economic Development

Domestic debt



Source: Ministry of Finance and Economic Development

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	1.265	1.266	1.265	1.266	1.272	1.280	1.300
Nominal GDP (MUR bn)	457.2	481.3	498.3	429.7	465.1	536.4	583.7
Nominal GDP (USD bn)	13.3	14.1	14.0	10.8	10.7	11.6	12.7
GDP / capita (USD)	10501.8	11174.6	11030.9	8542.5	8425.4	9076.0	9744.6
Real GDP growth (%)	3.8	3.8	3.0	-14.6	4.0	6.3	4.6
Sugar production ('000 Tonnes)	355.2	323.4	331.1	322.0	331.1	340.2	349.3
Tourism arrivals ('000)	1341.9	1399.3	1541.5	309.0	195.7	690.0	1680.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.2	-5.0	-4.2	-14.6	-7.4	-5.7	-4.3
Budget balance (incl. Grants) / GDP (%)	-3.5	-4.4	-3.2	-13.6	-6.8	-5.0	-4.0
Domestic debt/GDP (%)	51.8	50.6	54.2	67.9	69.9	66.1	58.3
External debt/GDP (%)	12.9	12.2	10.8	15.6	25.1	21.3	19.6
Balance of Payments							
Exports of goods and services (USD bn)	5.4	5.5	5.1	3.0	3.1	4.2	4.9
Imports of goods and services (USD bn)	7.5	7.8	7.7	5.5	6.3	7.5	7.2
Trade balance (USD bn)	-2.1	-2.3	-2.5	-2.4	-3.2	-3.3	-2.3
Current account (USD bn)	-0.6	-0.6	-0.7	-1.0	-1.5	-1.7	-1.3
- % of GDP	-4.6	-3.9	-5.1	-9.2	-13.7	-14.6	-10.4
Capital & Financial account (USD bn)	0.0	2.5	-2.0	1.5	3.7	0.0	0.9
- FDI (USD bn)	-3.6	7.3	3.3	2.8	3.4	1.3	1.9
Basic balance / GDP (%)	-4.67	13.57	-19.57	4.41	20.47	-15.83	-3.11
FX reserves (USD bn) pe	6.0	6.4	7.4	7.3	8.6	6.9	7.8
- Import cover (months) pe	9.5	10.5	12.4	16.9	17.6	13.3	14.1
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa1	Baa1	Baa1	Baa1	Baa2	Baa3	Baa3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.7	3.2	0.5	2.5	4.0	10.6	7.0
Consumer inflation (%) pe	4.2	1.8	0.9	2.7	6.8	11.8	3.8
M2 money supply (% y/y) pa	9.0	7.7	7.1	13.2	16.4	3.9	6.1
M2 money supply (% y/y) pe	9.3	6.3	8.5	16.8	8.8	7.3	2.3
BOM Policy rate (%) pa	3.8	3.5	3.4	2.1	1.9	2.8	4.2
BOM Policy rate (%) pe	3.50	3.50	3.35	1.85	1.85	3.75	4.25
3-m rate (%) pe	2.4	3.4	2.2	0.2	0.6	2.3	2.8
5-y rate (%) pe	4.3	5.2	5.2	1.2	3.5	4.4	5.4
USD/MUR pa	34.414	34.028	35.693	39.732	43.413	46.172	46.075
USD/MUR pe	33.575	34.297	36.347	43.391	43.751	46.908	45.394

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

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

Mozambique: emerging from multiple shocks, risks

Medium-term outlook: agriculture, external assistance and FDI to support growth

Considering agriculture's solid performance despite this year's cyclones, we now lift our GDP growth forecast to 4.2% y/y for 2022 and 4.4% y/y for 2023, from respectively 3.4% y/y and 3.8% y/y in the May AMR edition.

However, cyclical adverse weather and northern region insecurity still pose risks to the outlook.

Growth accelerated to 4.4% y/y in H1:22, from 3.5% y/y in H2:21 and 1.2% y/y in H1: 21, due to both idiosyncratic factors and favourable base effects.

Agriculture, accounting for nearly 25% of GDP, and employing over 70% of the population, mostly in subsistence farming, grew 4.6% y/y in H1:22, same as in H2:21, and up from 3.2% y/y in H1:21.

There was an increase in cultivated area, translating into higher output and a shift towards higher-income crops under the Sustenta governmental program that provides funding, seeds, equipment and technology to strengthen farming.

External assistance should also support growth. Under the IMF 3-y USD456m program, which started in Jun, marking the resumption of general budget support (GBS), external assistance should increase. GBS was halted in Apr 16 when over USD2bn in undisclosed loans had come to light.

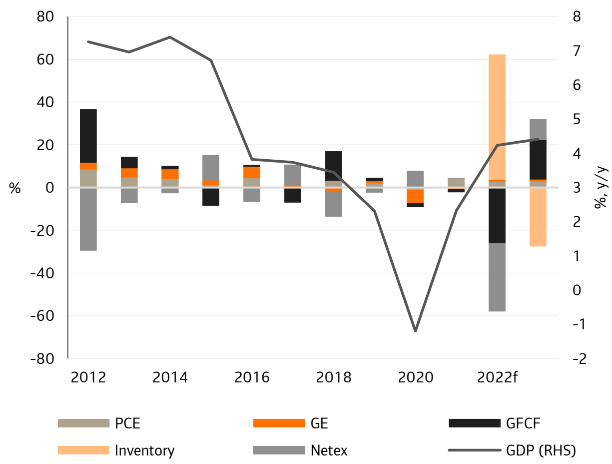
Under GBS, the World Bank recently disbursed USD300m in grants. And, in Aug it approved USD400m under project support for roads rehabilitation to support economic integration and resilience to climate change.

However, even if other development partners follow suit, external assistance may still fall short of the FY2022 budget.

Strong commodity prices have been supporting domestic exports. This, alongside pending maiden exports from the Coral South floating liquified natural gas (FLNG) platform, too should support the outlook.

Foreign direct investment (FDI) too should be supportive. Even considering softer commodity prices next year as global growth slows, with exports likely declining temporarily from this year's record high, GDP growth should be supported by progress on LNG investment as Total Energies resumes construction, most likely in H1:23. Growth supporting measures in the view of 2023 municipality elections and 2024 general elections also could support this economy. However, despite external military support, insecurity in northern Mozambique still poses downside risks to the outlook. Our bear case factors in slower growth due to higher inflation and lower FDI.

Composition of GDP growth by demand



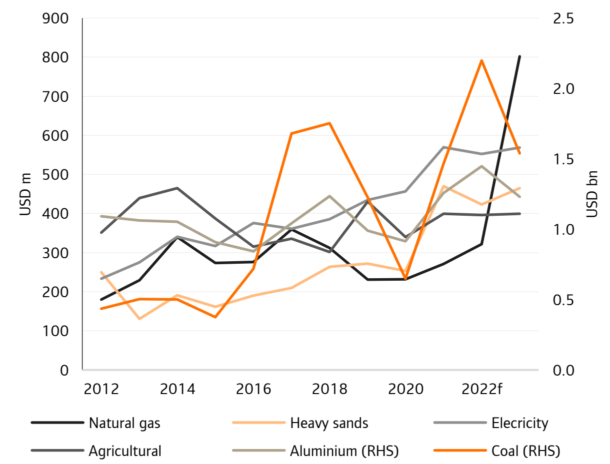
Source: Instituto Nacional de Estatística; Standard Bank Research

GDP composition by sector

	2015	2018	2021
Agriculture, forestry & fishing	23.1	23.2	24.4
Extractive industry	4.9	7.4	6.0
Manufacturing	8.1	7.9	7.7
Electricity & gas	2.9	2.5	2.4
Water supply	0.2	0.2	0.3
Construction	1.9	1.7	1.7
Trade and motor vehicle repairs	10.9	9.6	9.3
Transport & storage	7.0	6.9	6.8
Accommodation & food	2.0	1.8	1.3
Information & communication	3.3	3.3	3.5
Financial services	4.8	5.2	5.3
Real estate activities	5.3	4.9	5.0
Public administration & defence	6.4	6.4	5.9
Education	6.3	5.9	5.9
Health and social work activities	1.4	1.5	1.7
Other services	0.8	0.8	0.8
Plus taxation minus subsidies	10.6	10.8	11.9
GDP	100.0	100.0	100.0

Source: Instituto Nacional de Estatística; Standard Bank Research

Principal exports



Source: Banco de Moçambique; Standard Bank Research

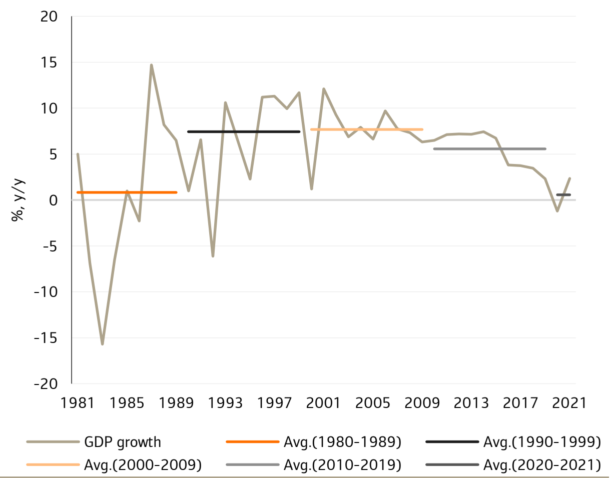
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	4.1	4.6	4.0	4.2	4.3	4.4	4.6	4.4	4.5	4.6	4.7	4.6	4.7	4.8	4.9	4.8
CPI (% y/y) pe	6.7	10.8	12.1	11.7	11.2	8.1	7.3	8.1	6.8	6.6	7.1	6.5	6.6	5.2	5.7	5.9
Policy rate (%) pe	15.25	15.25	15.25	15.25	15.25	15.25	15.25	15.25	15.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25
3-m rate (%) pe	13.4	15.4	15.4	15.4	15.6	15.6	15.4	15.2	15.0	14.0	14.0	13.9	13.9	13.8	13.7	13.7
6-m rate (%) pe	13.4	15.4	15.5	15.5	15.7	15.7	15.4	15.2	15.0	14.0	14.0	14.0	13.9	13.9	13.8	13.7
USD/MZN pe	63.8	63.9	63.9	63.9	63.4	63.4	63.9	65.3	65.6	65.6	65.8	66.3	66.6	66.4	66.7	67.3
Bull scenario																
GDP (% y/y) pa	4.1	4.6	4.7	4.5	4.8	5.1	5.4	5.1	6.8	6.7	6.2	6.6	7.1	7.2	7.1	7.1
CPI (% y/y) pe	6.7	10.8	11.6	10.2	9.5	6.2	5.7	7.4	6.4	6.1	6.6	6.1	6.4	5.0	5.1	4.5
Policy rate (%) pe	15.25	15.25	15.25	15.25	15.25	13.25	13.25	13.25	13.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
3-m rate (%) pe	13.4	15.4	15.4	15.4	15.5	13.6	13.3	13.1	13.0	12.1	12.1	12.1	12.0	12.0	11.9	11.8
6-m rate (%) pe	13.4	15.4	15.5	15.4	15.5	13.6	13.3	13.2	13.0	12.1	12.1	12.1	12.1	12.0	11.9	11.9
USD/MZN pe	63.8	63.9	63.9	61.4	61.0	60.9	61.3	62.7	62.9	62.9	63.1	63.6	63.9	63.6	63.9	64.3
Bear scenario																
GDP (% y/y) pa	4.1	4.6	3.1	3.9	1.9	2.0	3.1	2.3	2.3	2.4	2.5	2.5	2.6	2.7	2.8	2.7
CPI (% y/y) pe	6.7	10.8	12.3	12.3	11.9	9.8	9.4	10.1	8.8	8.0	8.1	7.1	7.2	6.6	7.2	7.3
Policy rate (%) pe	15.25	15.25	15.25	16.25	16.25	16.25	16.25	16.25	16.25	15.25	15.25	15.25	15.25	15.25	15.25	15.25
3-m rate (%) pe	13.4	15.4	15.4	16.4	16.6	16.6	16.5	16.4	16.3	15.3	15.2	15.1	15.0	14.9	14.8	14.8
6-m rate (%) pe	13.4	15.4	15.5	16.4	16.6	16.7	16.5	16.4	16.3	15.3	15.2	15.1	15.0	14.9	14.9	14.9
USD/MZN pe	63.8	63.9	64.0	65.1	65.5	65.9	66.3	66.6	67.0	67.5	67.9	68.3	68.7	69.1	69.5	69.9

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

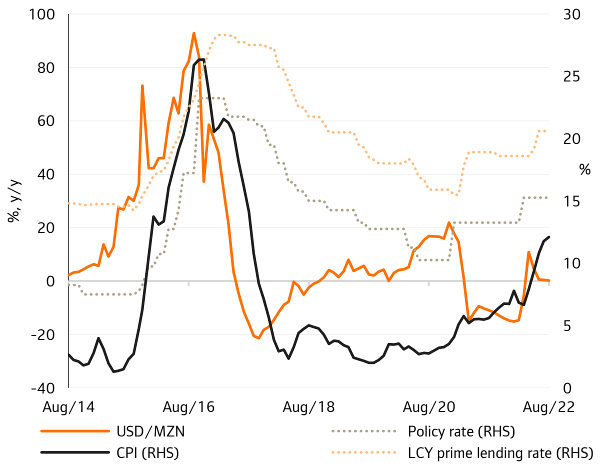
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Instituto Nacional de Estatística; Standard Bank Research

Annualised USD/MZN change, inflation, and interest rates



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

Balance of payments: buoyed by commodity prices

We forecast the current account (C/A) deficit at 46.3% of GDP this year, from 22.8% of GDP in 2021, mainly due to a spike in imports under the FLNG platform (with the import value of goods and services topping USD4.7bn in Q1:22), thereby partly offsetting the positive impact of this year's robust exports.

Even considering softer commodity prices next year, which may reduce exports, we forecast a softer C/A deficit of 33.3% of GDP in 2023. We see the goods and services trade balance towards a USD7.4bn deficit in 2023, from an expected deficit of USD9.1bn deficit in 2022, as the one-off FLNG platform import impact would have played out.

H1:22 data shows strong export performance, supported by stronger commodity prices and an increase in export volumes.

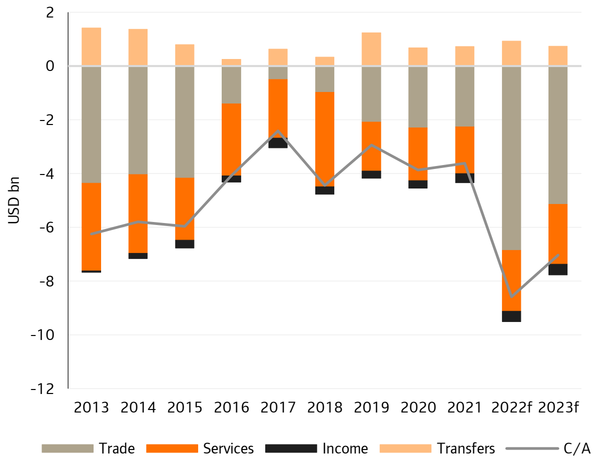
Coal exports, accounting for 35% of goods exports, rose by 256% y/y in H1:22, to USD1,358.0m, from USD1,083.6m in H2:21 and USD381.9m in H1:21. This reflects both the rise in coal prices due to the Ukraine invasion and higher coal output due to the production ramp-up at the Moatize coal mine. Coal output rose by 40.3% y/y, to 6.6 mtpa in H1:22 (54% of the annual output planned at 12.3 mtpa).

Aluminium bars exports, accounting for 24.4% of goods exports, rose by 68.2% y/y, to USD946m, also supported by strong prices.

Notwithstanding the stable metical for the past 16-m, FX reserves have been declining, last reported at USD3.1bn in Jun, or 2.3-m of import cover (4.4-m excluding the large projects (LP) imports).

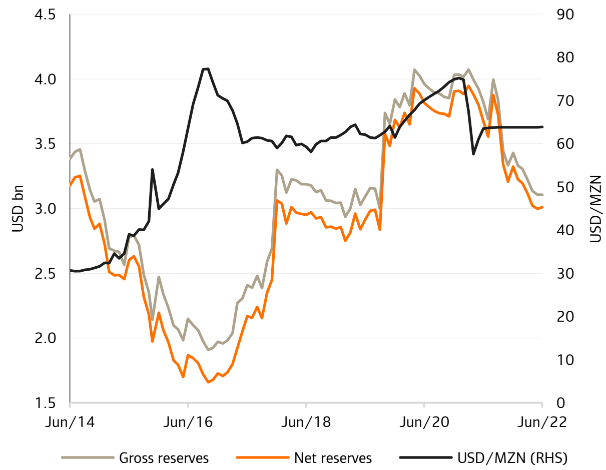
External assistance should help rebuild FX reserves. This combined with the resumption of LNG FDI next year will likely lift FX reserves to USD3.8bn, or 3.1-m imports (5-m excluding LP imports).

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX reserves versus FX rate



Source: Banco de Moçambique; Standard Bank Research

FX outlook: short-term depreciating bias

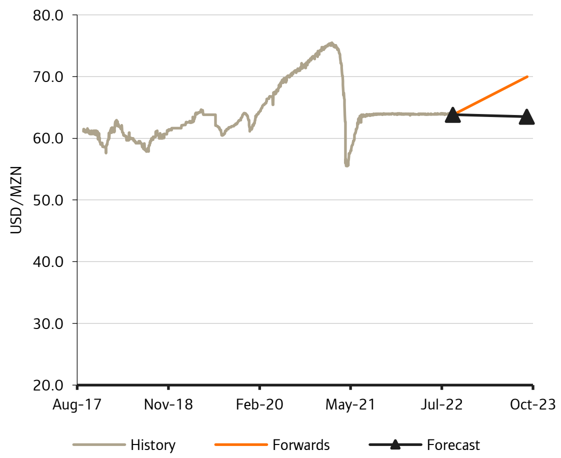
Despite the stronger US dollar globally, the USD/MZN pair has been stable for the past 16-m, even during intermittent FX liquidity shortages.

Our base case factors in no material changes to the USD/MZN pair, even as we see a depreciating bias prevailing in the short term. We factor in an already relatively tight monetary policy stance, which could also support MZN stability.

As the IMF program advances, the FX market should see reform progress towards a more flexible metical.

For now, USD/MZN stability has seen the ZAR/MZN, trading at the level of 3.7 at the time of writing, and the EUR/MZN, trading at 64.1, down by respectively 12.2% y/y and 13.3% y/y, representing important buffers against imported inflation.

USD/MZN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: policy rates on hold

The BOM's MPC maintained a neutral stance at the Jul MPC meeting in anticipation of further metical stability, and softer global fuel prices, incurring domestic inflation to slide towards single digits in the medium term.

Our base case sees the main policy rate, MIMO, being kept on hold at 15.25% this year and next.

Inflation likely peaked at 12.1% y/y in Aug, from 11.8% y/y in Jul, due to easing food price pressures, and it may decline to 11.7% y/y by Dec, supported by relatively stable local fuel prices, declining food inflation as agricultural output remains strong, and a stable metical.

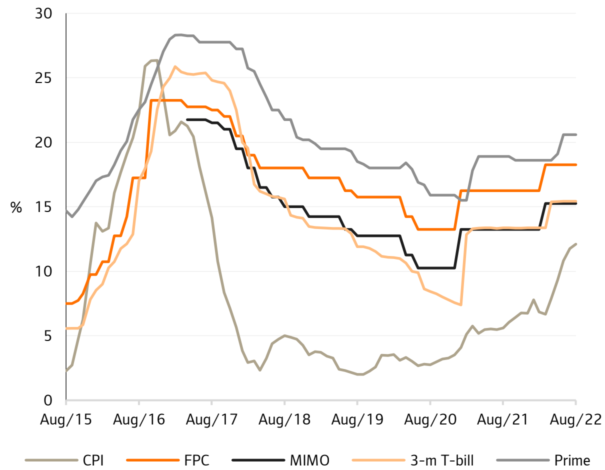
BOM monetary policy is already tight enough to help contain inflation pressures, and the bank has cited certain components of the CPI basket as not necessarily responding immediately to policy rate hikes.

Still, the BOM may hike policy rates should risks to the inflation outlook materialise. After the military campaign against insurgents in Cabo Delgado, insecurity has spread to the south near villages in Nampula. This may increase fiscal and inflationary pressures, per our bear case which foresees a 100 bps policy rate hike in Nov.

BOM hiked the MIMO policy rate by 300 bps in Jan 2021 and 200 bps in Mar 2022, thereby lifting commercial banks' local currency prime lending rate to 20.6%.

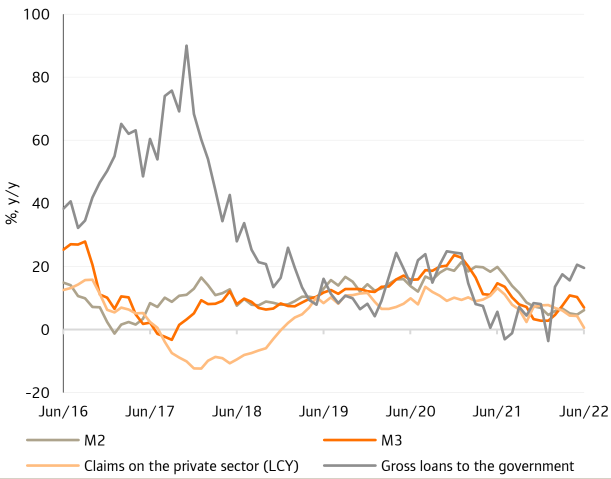
Tight monetary policy has seen local currency (LCY) private sector credit growth easing to 0.6% y/y in Jun 22, from 13.1% y/y in Jun 21, as real interest rates remain elevated.

Inflation and interest rates



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

Monetary statistics



Source: Banco de Moçambique; Standard Bank Research

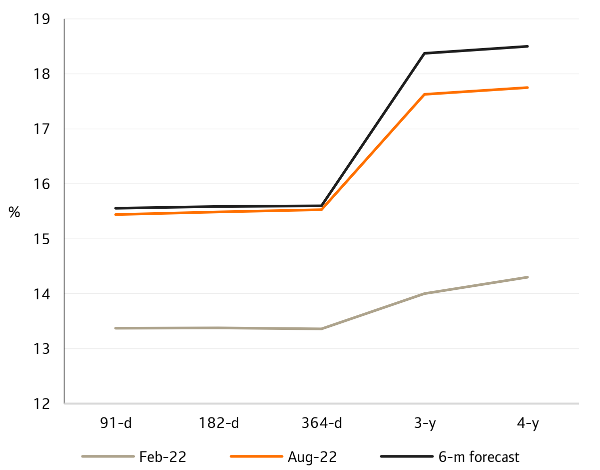
Yield curve outlook: still higher

Yields will likely drift higher over the next 6-m even as the MPC keeps policy rates on hold, especially at the longer end of the curve. The BOM may have started accepting higher bids on T-bills, thereby driving up yields in certain yield curve segments.

Following the MIMO rate 200 bps hike in Mar, yields across the curve are higher. However, the increase at the shorter end is more contained than the rise in the longer end of the curve, as bidders still see inflation risks as elevated and are demanding higher remuneration for longer-dated paper.

Despite the IMF program, the government's ability to increase external debt remains constrained. With the local debt market still accessible, the government has been relying on it more extensively, which has also been pushing up yields.

Yield curve changes



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: external support missing budget

H1:22 fiscal performance data denotes soft revenue collection. To subdue the fiscal deficit, the government has been seeking expenditure containment by way of low execution of investment expenditure.

H1:22 revenue rose by 5.1% y/y, to MZN133.9bn, or 22.6% of GDP, representing 45.6% of the annual budget, with overall expenditure excluding loan principal repayments up by 5.4% y/y, to MZN150.5bn, 25.4% of GDP, or 37.2% of the annual budget.

Subsequently, the fiscal deficit (incl. grants) widened to MZN11.4bn, or 1.9% of GDP in H1:22, from a deficit of MZN8.6bn in H1:21, or 1.7% of GDP, and an overall deficit after grants of MZN34.6bn in FY2021, or 3.4% of GDP. The deficit (incl. grants) for FY2022 is targeted at MZN23.5bn or 2% of GDP.

The FY2022 budget targets an increase in grants to MZN86.9bn (c.USD1.36bn), or 7.3% of GDP, from MZN18.7bn (USD292.6m) in the FY2021 budget. We see the combined assistance from the IMF and World Bank contributing nearly half of this year's targeted grants. However, other development partners and donors are unlikely to fully fill the gap.

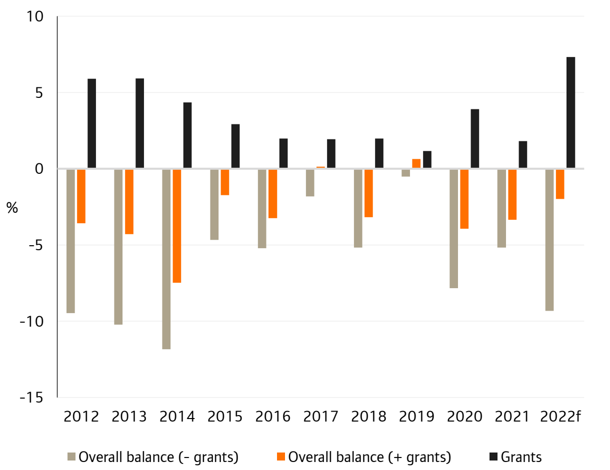
The government may well contain investment expenditure to avoid a ballooning fiscal deficit and to contain debt growth. However, the municipality elections in Q4:23 and general elections in Q4:24 may still exert pressure on development expenditure in the next 2-y. Fiscal consolidation efforts and faster growth in nominal GDP have seen overall debt to GDP easing to 100.5% in Jun, from 113.4% in Dec 21. Overall domestic debt rose by 8% ytd in Jun, with central government domestic debt up by 10.2% ytd, or 14.2% y/y, to MZN250.7bn, or 21.2% of GDP. Adding State Enterprise Entities (SEE's) debt, overall domestic debt stands at 23.3% of GDP. External debt rose by 2% ytd, to USD14.3bn, or 77.2% of GDP in Jun, including SEE debt of 18.5% of GDP.

Central government budget

% of GDP	FY2020	FY2021	FY2022f
Total revenue	23.9	25.7	24.8
Total expenditure	31.8	30.9	34.1
- Recurrent	23.1	23.9	24.1
- Development	8.0	6.6	9.7
- Net lending to SOEs	0.7	0.3	0.4
Overall balance (- grants)	-7.8	-5.2	-9.3
Overall balance (+grants)	-3.9	-3.4	-2.0
Grants	3.9	1.8	7.3
Net domestic borrowing	3.6	2.4	2.8
Net foreign borrowing	2.2	0.6	-1.2
Previous years revenue	1.8	1.5	0.4
Changes in balances	-3.6	-1.2	0.0

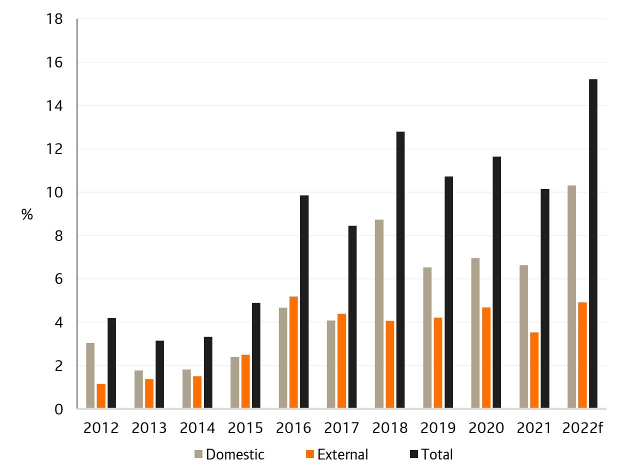
Source: Ministério da Economia e Finanças; Standard Bank Research

Fiscal performance



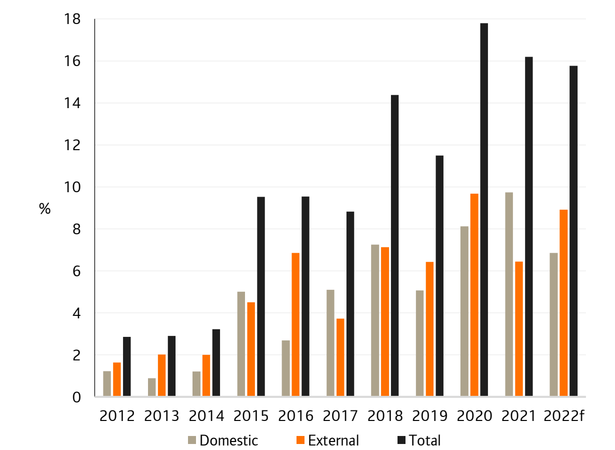
Source: Ministério da Economia e Finanças; Standard Bank Research

Interest expenditure to revenue



Source: Ministério da Economia e Finanças; Standard Bank Research

Principal repayments to revenue



Source: Ministério da Economia e Finanças; Standard Bank Research

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	27.9	28.6	29.3	30.1	30.8	31.6	32.4
Nominal GDP (MZN bn)	840.5	895.6	962.6	983.4	1 032.8	1 184.5	1 346.5
Nominal GDP (USD bn)	13.2	14.9	15.4	14.2	15.8	18.5	21.1
GDP / capita (USD)	474.2	519.6	524.9	470.8	513.8	586.7	650.4
Real GDP growth (%)	3.7	3.4	2.3	-1.2	2.3	4.2	4.4
Coal output (mtpa)	11.8	15.2	10.3	8.0	8.7	12.3	15.5
LNG output (000 BOE/d)						1.229	16.225
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-1.8	-5.2	-0.5	-7.8	-5.2	-9.3	-3.9
Budget balance (incl. Grants) / GDP (%)	0.1	-3.2	0.6	-3.9	-3.4	-2.0	-0.8
Domestic debt / GDP (%)	20.0	21.0	21.2	23.0	24.8	23.8	24.4
External debt / GDP (%)	80.4	83.6	85.9	91.1	88.6	80.1	83.6
Balance of Payments							
Exports (USD m)	5.4	6.0	5.6	4.4	6.4	7.4	7.2
Imports (USD m)	-8.1	-10.5	-9.5	-8.6	-10.4	-16.6	-14.6
Trade balance (USD m)	-2.7	-4.5	-3.9	-4.3	-4.0	-9.1	-7.4
Current account (USD m)	-2.4	-4.4	-2.9	-3.9	-3.6	-8.6	-7.0
- % of GDP	-18.3	-29.9	-19.1	-27.3	-22.8	-46.3	-33.3
Financial account (USD m)	2.4	4.4	2.9	3.9	3.6	8.6	7.0
- FDI (USD m)	2.3	1.7	3.4	3.0	5.1	1.9	4.3
Basic balance / GDP (%)	-0.9	-18.4	3.1	-5.9	9.4	-35.9	-13.1
FX reserves (USD m) pe	3.3	3.0	3.8	4.0	3.4	3.5	3.8
- Import cover (months) pe	4.2	3.5	4.7	4.7	4.0	2.5	3.1
- Import cover (months) excl. large proj. pe	6.8	6.3	7.0	7.2	5.0	4.7	5.0
Sovereign Credit Rating							
S&P	SD	SD	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	Caa3	Caa3	Caa2	Caa2	Caa2	Caa2	Caa2
Fitch	RD	RD	CCC	CCC	CCC	CCC+	CCC+
Monetary & Financial Indicators							
Consumer inflation (%) pa	15.1	3.9	2.8	3.1	5.7	10.0	8.9
Consumer inflation (%) pe	5.6	3.5	3.5	3.5	6.7	11.7	8.1
M2 money supply (% y/y) pa	6.4	10.3	12.4	15.5	15.3	5.8	10.3
M2 money supply (% y/y) pe	12.9	7.9	14.3	18.7	6.9	7.1	10.1
Policy interest rate (%) pa	21.77	16.19	13.46	11.04	13.25	14.92	15.25
Policy interest rate (%) pe	19.50	14.25	12.75	10.25	13.25	15.25	15.25
3-m rate (%) pe	22.5	13.5	11.2	7.6	13.4	15.4	15.2
USD/MZN pa	63.6	60.3	62.6	69.5	65.2	63.9	63.9
USD/MZN pe	59.0	61.5	61.5	74.9	63.8	63.9	65.3

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: mining production propping up GDP

Medium-term outlook: mining sector upside

We retain our 2022 GDP growth forecast at 3.1% y/y, but trim our 2023 forecast to 3.3% y/y, from 3.5% y/y. Revised GDP data, published by the Namibia Statistics Agency (NSA), shows growth of 2.7% y/y for 2021; this is a 0.3 percentage point increase from the initial reporting of 2.4% y/y.

Growth in the near- to medium term is likely to be broad-based across all sectors, though the secondary industries (including manufacturing, construction, electricity, and water) may grow merely gradually, particularly construction which has been in contraction since 2016.

Q1:22 growth was 5.3% y/y, with strong performances from all sectors except public administration (-2.8% y/y), construction (-7.5% y/y), and fishing (-2.0% y/y). Even then, the pace of contraction in those sub-sectors eased.

Mining production in 2022 should underpin growth, particularly diamond mining, largely due to the new marine vessel *Benguela Gem* that was launched in Mar, and which is projected to boost annual production by 500k carats. For the first 7-m of this year, diamond production was higher by 396.6k carats, at 1.21m carats, from 817.5k carats in the first 7-m of 2021; cumulative diamond production for 2021 was 1.47m carats, while uranium production was 6.8k tons. Uranium and gold production posted 3, 726 tonnes and 3, 376 kgs respectively for Jan-Jul, and we foresee further upside.

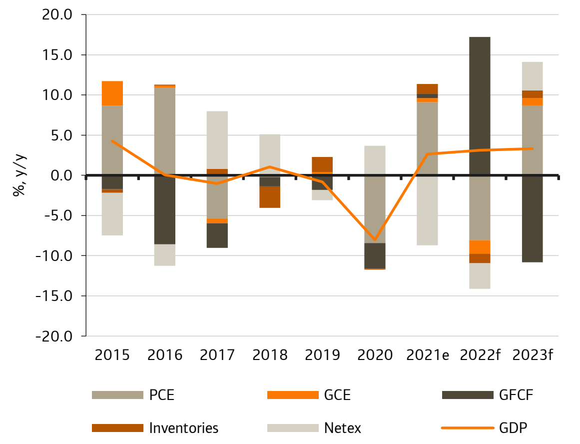
Our slightly softer forecast for 2023 comes on the higher probability of further policy rates hikes, likely to last into Q1:23, thus dampening consumer demand and straining household consumption. Furthermore, a global recession may ensue in the wake of most central banks now tending to tighten policy, even raising rates at faster pace to curb rocketing inflation due to the war in Ukraine. This may weigh on Namibia's growth prospects and, by extension, subdue commodity prices and their export demand.

Encouragingly, the tourism sector has been regaining some ground due to fewer travel restrictions; however, it's still below pre-pandemic levels. Total airport arrivals, a proxy for activity in this sector, increased on both an annual and quarterly basis. A total of 31,233 passengers arrived in Jun, from 30,967 in May and 9,074 in Jun-21.

Our bull case sees GDP growth of 3.5% in 2023, should the green hydrogen production project in the Erongo region start operating in 2023, per preliminary guidelines.

In the long term, the two recent offshore oil discoveries, estimated at 1.5-2.0 billion barrels of light oil, too should boost domestic activity, depending on the timing of the final investment decision (FID).

Composition of GDP by demand



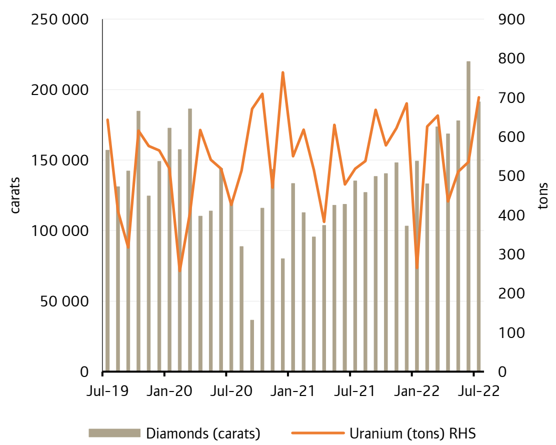
Source: Namibia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2018	2021
Agriculture, forestry & fishing	6.7	7.8	9.5
-Fishing	2.6	2.5	2.6
Mining and quarrying	8.9	8.8	9.1
Manufacturing	11.4	12.3	11.3
Electricity and Water	1.7	3.7	3.1
Construction	5.5	2.1	1.8
Wholesale and retail trade	11.2	9.9	10.0
Hotels and restaurants	1.9	1.9	2.0
Transport	3.1	3.2	2.8
ICT	1.4	1.4	1.7
Financial and insurance	7.0	7.7	7.2
Real estate	5.1	5.3	5.7
Professional, scientific & technical	0.8	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	11.4	11.4	10.4
Education	8.8	9.6	10.6
Health	3.5	3.4	3.7

Source: Namibia Statistics Agency

Diamond vs. uranium production



Source: Namibia Statistics Agency

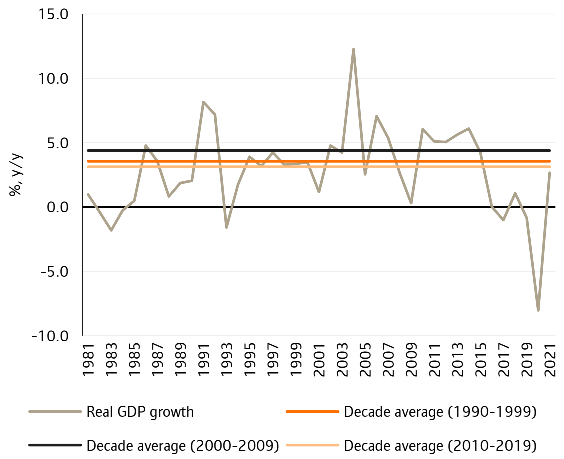
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	5.3	3.9	4.0	-0.6	3.8	3.7	3.7	1.8	2.2	2.5	4.7	4.7	4.9	5.0	2.4	4.2
CPI (% y/y) pe	4.51	5.99	7.28	6.68	6.46	4.85	4.47	4.47	4.45	4.49	4.46	4.42	4.41	4.43	4.45	4.42
Policy interest rate (%) pe	4.00	4.75	5.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
3-m rate (%) pe	5.24	6.15	5.90	6.90	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15
6-m rate (%) pe	5.81	6.50	6.10	7.10	7.35	7.35	7.35	7.35	7.35	7.35	7.35	7.35	7.35	7.35	7.35	7.35
USD/NAD pe	14.97	15.83	16.70	16.50	16.28	16.05	15.83	15.60	15.53	15.45	15.38	15.30	15.37	15.44	15.51	15.58
Bull scenario																
GDP (% y/y) pa	7.0	5.6	5.7	1.1	5.5	5.4	5.5	3.5	4.0	4.3	6.4	6.4	6.6	6.7	4.2	6.0
CPI (% y/y) pe	5.06	6.74	7.78	7.18	6.96	5.35	4.97	4.97	4.95	4.99	4.96	4.92	4.91	4.93	4.95	4.92
Policy interest rate (%) pe	4.25	5.00	5.75	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
3-m rate (%) pe	5.49	6.40	6.15	7.15	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40
6-m rate (%) pe	6.06	6.75	6.35	7.35	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
USD/NAD pe	14.20	15.28	16.25	16.00	15.75	15.60	15.26	15.01	14.94	14.86	14.79	14.76	14.83	14.90	14.97	15.04
Bear scenario																
GDP (% y/y) pa	4.6	3.4	3.5	-1.1	3.3	3.2	3.2	1.3	1.7	2.0	4.2	4.2	4.4	4.5	1.9	3.7
CPI (% y/y) pe	4.28	5.76	7.05	6.45	6.23	4.62	4.24	4.24	4.22	4.26	4.23	4.19	4.18	4.20	4.22	4.19
Policy interest rate (%) pe	4.50	5.25	6.00	7.00	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25
3-m rate (%) pe	5.74	6.65	6.40	7.40	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65
6-m rate (%) pe	6.31	7.00	6.60	7.60	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85
USD/NAD pe	16.67	17.33	17.70	17.50	17.28	17.05	16.83	16.60	16.53	16.45	16.38	16.30	16.37	16.44	16.51	16.58

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

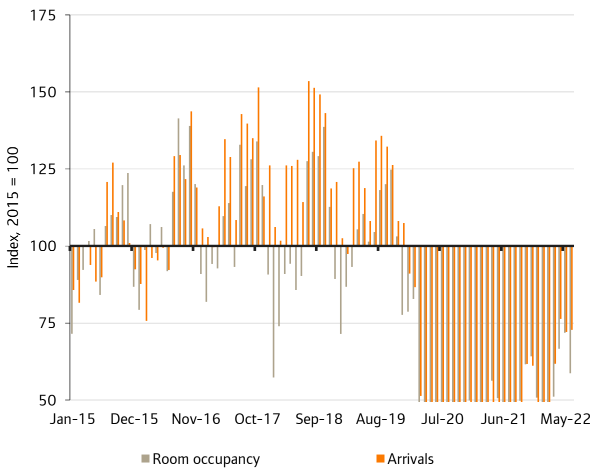
Notes: pa - period average; pe - period end

Long-term growth performance



Source: Namibia Statistics Agency; Standard Bank Research

Tourism indices



Source: Namibia Statistics Agency

Balance of payments: C/A deficit deepening

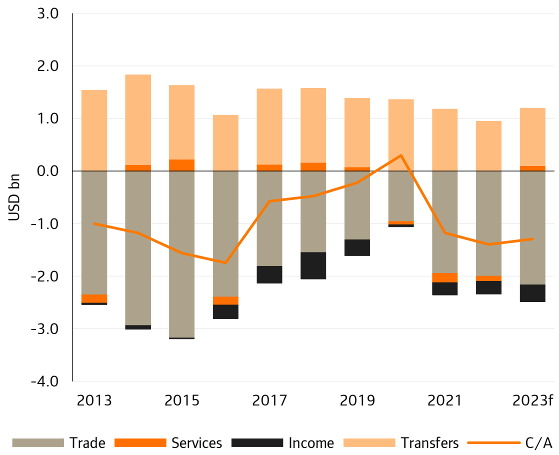
We now see the C/A deficit widening to 11.0% of GDP in 2022, then narrowing to 9.4% of GDP in 2023, from 9.6% of GDP in 2021. Latest data from the BON shows the C/A deficit at 14.3.% of GDP (USD0.48bn) in Q1:22 – nearly double the USD0.26bn in Q4:21 and USD0.23bn in Q1:21.

Bar manufactured products, all goods exports were down in Q1:22, resulting in a USD0.35bn drop in exported goods, from USD1.17bn in Q4:21. Indeed, the higher oil import bill (up 36.4% q/q) saw imports increase marginally by USD0.06bn, to USD1.47bn in Q1:22, causing the trade balance to widen by almost double, to USD0.66bn, from USD0.37bn. However, easing international oil prices should ease the strain on trade balances into year-end for net oil importers such as Namibia. The upside risk here is OPEC+ members cutting crude production, thus sending oil prices north of USD100/bbl again for protracted periods.

Though the expected pick-up diamond exports may provide some reprieve to the widening trade balance owing to the new diamond vessel, the poor global outlook and lower international diamond prices, due to a possibly lower demand, pose downside risk. Diamonds exports earnings were up, 38.8% y/y in Q1:22, though down 41.9% q/q due to seasonal sale breaks. Uranium exports may benefit further from higher demand for alternative sources of cleaner energy. Still, for the first 7-m, uranium production was 3.73k tonnes, marginally above the corresponding period's 3.69k tonnes in 2021.

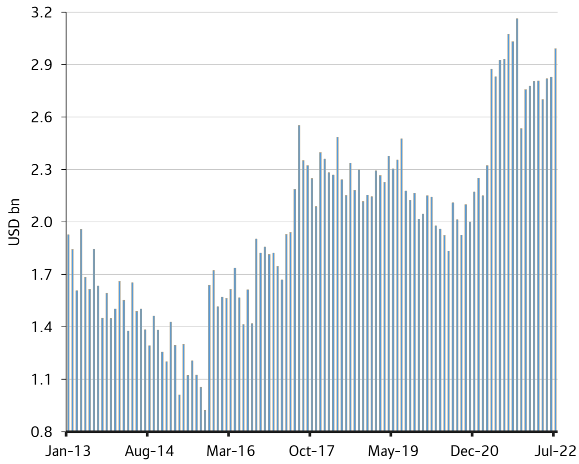
FX reserves should stabilise at USD2.3bn (4.8-m cover) by Dec, from USD2.8bn in Jun, premised on a still higher import bill. The rebound in custom receipts should help buoy FX reserves over the next two years, with SACU revenue likely to increase to NAD17.6bn (c.USD1.1bn) in FY2023/24 and NAD18.5bn (c.USD1.2bn) in FY2024/25, with the latter coinciding with the USD750m RepNam'25 redemption.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves



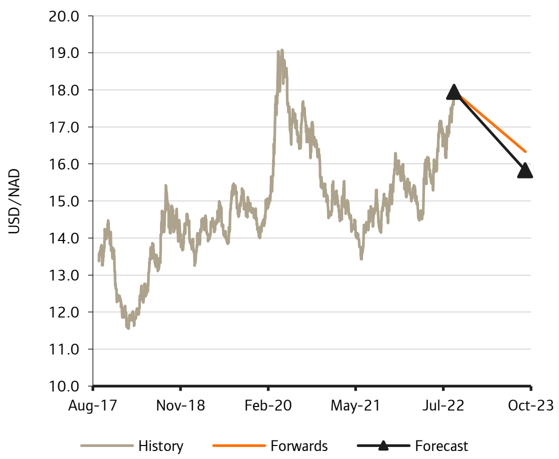
Source: Bank of Namibia

FX outlook: terms of trade still supportive, albeit fading in H2:22

As reiterated by the BON's MPC at each meeting, the 1:1 arrangement linking the NAD to the ZAR will likely be maintained in the near- to medium term. The BON typically refers to studies conducted thus far still showing the benefits of keeping the peg as outweighing the costs. Therefore, it is highly probable that USD/NAD will end this Dec at 16.50 and Dec 2023 at 15.60; supported by SA's economic recovery, fiscal consolidation, and still relatively stronger terms of trade (though likely easing in H2:22).

Given our G10 strategist's bearish dollar projections, the rand may recover against the USD in the medium term. Indeed, the rand is still undervalued against its medium-term fair value, per our SA macroeconomic strategists' model. The strong rand-dollar outlook is largely influenced by the abovesaid bearish dollar view.

USD/NAD: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation likely peaking

Year-to-date, the Bank of Namibia's (BON) MPC raised policy rates by a cumulative 175 bps, and we expect a further 100 bps in hikes, to 6.50%, by Dec. Then, a further 25 bps may occur in Q1:23.

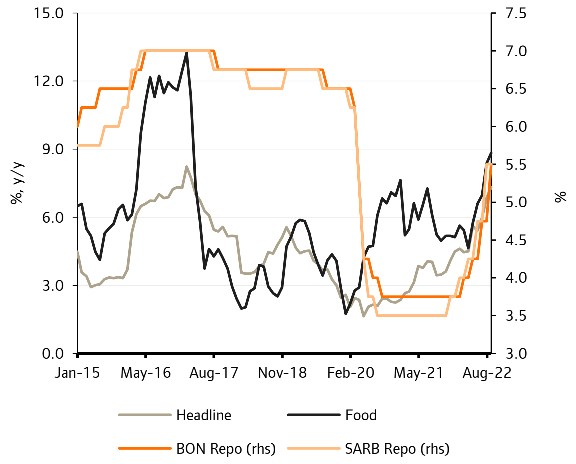
We had initially placed the repo rate at 5.25% by end-2022; however, the second-round effects of oil price shocks augmented inflationary pressures in Q2 and Q3 for both South Africa and Namibia, exacerbated by bouts of ZAR weakness. The ZAR is the anchor currency under the Common Monetary Area (CMA) which binds South Africa, Namibia, Lesotho and Eswatini to a monetary union. Therefore, the Bank of Namibia's MPC will continue to mirror policy decisions by the SARB to preserve the one-to-one currency link between the NAD and the ZAR. Per our SA macro strategists, the SARB may well frontload rate hikes and further raise the repo rate by 75 bps in Sep, and 25 bps in Nov.

Broadly above the BON's stated target of 3%-6%, headline inflation climbed to 7.3% y/y in Aug, from 6.8% y/y in Jul and 3.4% y/y in Aug 21, due to food and transport inflation respectively accounting for16.45% and 14.28% of the overall inflation index.

For the next 3-m (Aug-Oct), headline inflation may still edge higher due to unwinding unfavourable base effects; it may then peak at 7.4% y/y in Oct. We therefore increase our 2022 average inflation forecast to 6.1% (from 5.6%) and 5.2% for 2023. Note that the temporary reductions in fuel levies (introduced in May) have been extended until further notice, except the 90c/l fuel tax which was reinstated as of Aug. This poses upside risk to our inflation forecasts as consumers navigate higher transport costs. From Aug, fuel retailers' margin was increased by 50 cents, to 163c/l.

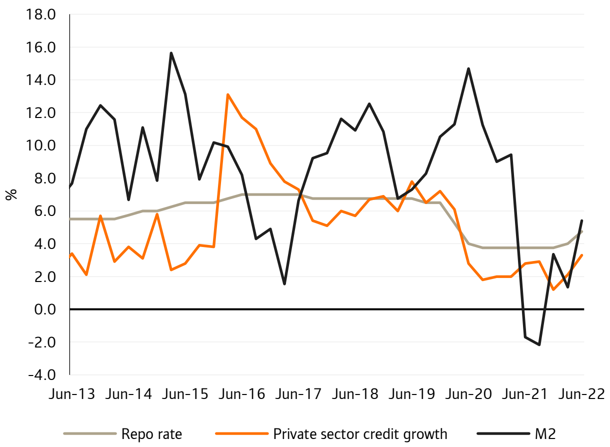
Though credit extension to the private sector has been recovering, to 3.3% y/y in Jun, from 2.1% y/y in Mar, and 1.0% y/y in Dec, this growth rate is still low by historical standards due to a subdued credit market.

Inflation and interest rates



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

Monetary statistics, policy rate



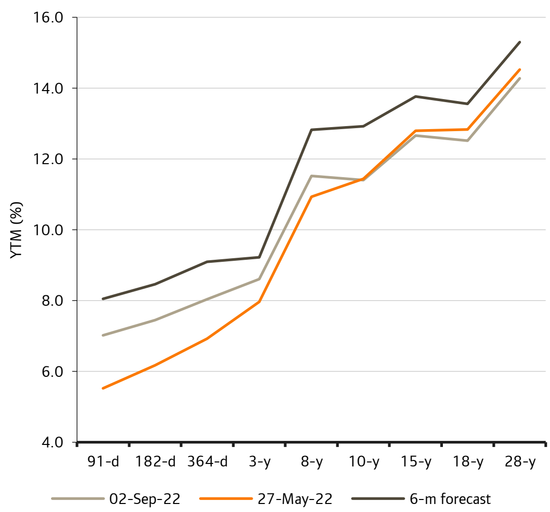
Source: Bank of Namibia

Yield curve outlook: may rise further

The balance of risks is weighted towards the MPC raising the policy rate further, with yields too likely to head higher in the coming months. The cumulative 100 bps worth of hikes in the repo rate (that we foresee at the Oct and Nov meetings) may drive T-bill yields higher over the next 6-m. Given subdued credit demand and strained asset quality, commercial banks may well deploy excess liquidity into the market.

Bond yields picked up more at the shorter end of the curve, with sharply rising inflation becoming dominant and investors therefore pricing in heightened market risk. Even then, domestic issuances are likely to be limited to longer-dated bonds, per the FY2022/23 borrowing plan. Therefore, the yield curve may steepen further, perhaps prolonged by the MPC's tightening bias. Still, the policy rate trajectory will remain largely determined by the trajectory of the SARB's repo rate. The Namibian government opted to only re-open bonds maturing between 2022-2025 (and the GC27) on special auctions to unwind the concentration of debt maturities over that period.

Yield curve changes



Source: Bank of Namibia; Standard Bank Research

Fiscal policy: mobilising non-tax revenue

The finance minister is likely to reiterate the government's commitment to fiscal consolidation when he presents the mid-year budget review in Oct/Nov. In the budget tabled in Mar, the ministry had set an ambitious target to trim the fiscal deficit to 5.6% of GDP in FY2022/23, from 8.7% of GDP in FY2021/22.

However, this target may be missed when considering the recent agreement that the government signed with the Namibia National Teachers Union (NANTU) and the Namibia Public Workers Union (NAPWU). Here, all civil servants are to receive a maximum of a 3% increase in their basic salaries for FY2022/23. In addition, non-management employees will gain a 11% increase on their housing benefit and a 14% increase in transport benefits to buffer against the rising cost of living. Namibia's public sector wage bill remains high, at NAD30.1bn (c.42.9% of total expenditure).

The government premise a narrowing fiscal deficit on ambitious non-tax revenue targets (projected to jump 140%, to NAD9.3bn), largely owing to the expected dividends and profit share from SOEs. However, tax revenue will likely remain flat. Other sources include the proceeds from last year's listing of Mobile Telecommunications Company's (MTC). Furthermore, the government expects about NAD1.6bn in dividends from the SOEs in the diamond sub-sector, in line with the projected strong performance from diamonds. Amidst a global economic slowdown, 2023 faces a rising risk that Namibia's diamond-dependent revenue too may underperform due to subdued demand.

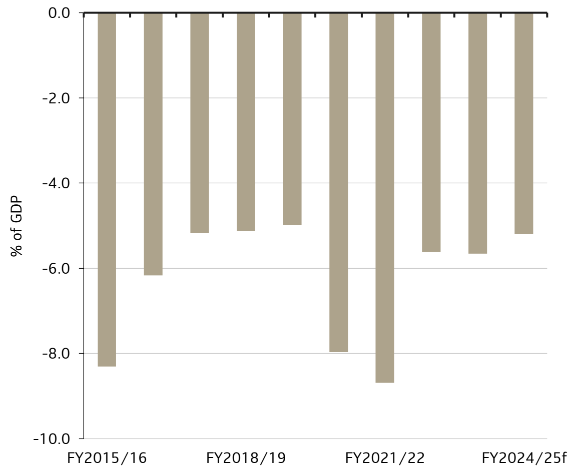
Public debt is set to swell to 71.0% of GDP in FY2022/23, then reach an alarming 75.2% of GDP by FY2024/25. This debt backdrop, coupled with reduced shock-absorption capacity, has seen the sovereign's debt downgraded by both Fitch and Moody's rating agencies. Moreover, any disappointing domestic GDP outcomes would pressure total revenue – and, as a result, the fiscal trajectory. Net borrowing requirements may reach NAD16.8bn, NAD13.65bn (81%) of which is to be financed domestically.

Central government budget

	FY2020/21	FY2021/22	FY2022/23
% of GDP	Actual	Estimate	Budgeted
Total revenue and grants	32.5	28.6	30.2
Total expenditure	40.4	37.3	35.8
- Operational	37.0	34.4	33.3
- Interest	4.2	4.4	4.7
- Development	3.4	2.8	2.5
Budget deficit (excl. grants)	-8.1	-8.7	-5.6
Budget deficit (incl. grants)	-8.0	-8.7	-5.6
Domestic debt	43.2	50.0	53.0
Foreign debt	18.9	17.2	18.0
Total debt	62.1	67.3	71.0

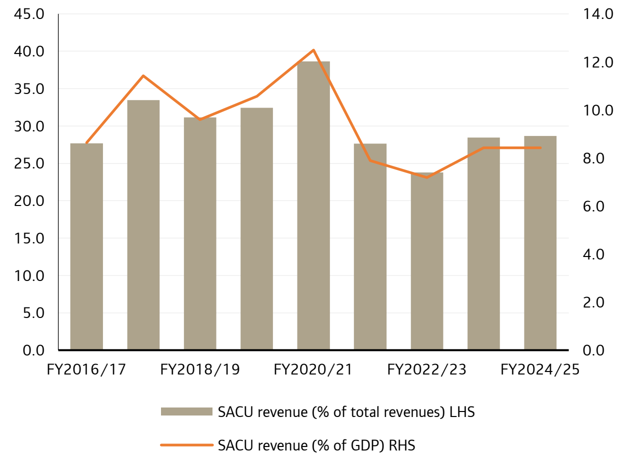
Source: Ministry of Finance

Fiscal deficit



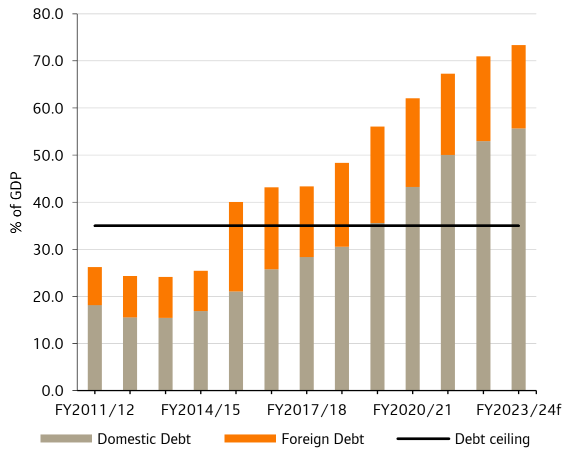
Source: Ministry of Finance

SACU revenue



Source: Ministry of Finance, Standard Bank Research

Composition of total debt stock



Source: Ministry of Finance

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	2.2	2.3	2.3	2.4	2.5	2.5	2.5
Nominal GDP (NAD bn)	171.6	181.1	180.6	174.8	185.8	202.9	220.1
Nominal GDP (USD bn)	12.9	13.8	12.5	10.6	12.6	12.7	13.8
GDP / capita (USD)	5 859	5 993	5 434	4 424	5 026	5 072	5 523
Real GDP growth (%)	-1.0	1.1	-0.8	-8.0	2.7	3.1	3.3
Diamonds ('000 carats)	1 816	2 028	1 713	1 461	1 461	1 826	2 465
Uranium (MT)	5 303	6 935	6 529	6 382	6 782	6 985	7 125
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.2	-5.2	-5.2	-5.0	-8.1	-8.7	-5.6
Budget balance (incl. Grants) / GDP (%)	-6.2	-5.2	-5.1	-5.0	-8.0	-8.6	-5.6
Domestic debt / GDP (%)	25.7	28.3	30.6	35.6	43.2	51.3	53.0
External debt / GDP (%)	17.5	15.1	17.8	20.5	18.9	18.0	18.0
Balance of Payments							
Exports (USD bn)	3.7	4.2	3.9	3.1	3.6	3.5	3.9
Imports (USD bn)	5.6	5.7	5.2	4.1	5.5	5.5	6.1
Trade balance (USD bn)	-1.8	-1.5	-1.3	-1.0	-1.9	-2.0	-2.2
Current account (USD bn)	-0.6	-0.5	-0.2	0.3	-1.2	-1.4	-1.3
- % of GDP	-4.4	-3.5	-1.8	2.8	-9.6	-11.0	-9.4
Financial account (USD bn)	-0.3	-0.3	0.0	0.3	-0.9	-0.5	-0.3
- FDI (USD bn)	0.0	0.8	1.0	0.7	1.4	1.2	2.2
Basic balance / GDP (%)	-4.3	2.3	6.2	9.4	1.8	-1.5	6.6
FX reserves (USD bn) pe	2.4	2.1	2.0	2.2	2.8	2.3	2.4
- Import cover (months) pe	5.2	4.5	4.7	6.4	5.8	4.8	5.0
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Ba1	Ba1	Ba2	Ba3	Ba3	B1	B1
Fitch	BB+	BB+	BB	BB	BB	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	6.2	4.3	3.7	2.2	3.6	6.1	5.2
Consumer inflation (%) pe	5.2	5.1	2.6	2.4	4.5	6.7	4.5
M2 money supply (% y/y) pa	6.3	9.2	8.5	11.2	11.9	12.6	12.1
M2 money supply (% y/y) pe	13.7	7.8	9.3	8.8	11.0	10.4	10.6
BON bank rate (%) pa	6.90	6.75	6.75	4.19	3.75	5.19	6.75
BON bank rate (%) pe	6.75	6.75	6.75	3.75	3.75	6.50	6.75
3-m rate (%) pe	7.8	7.9	7.7	4.3	4.6	6.9	7.2
5-y rate (%) pe	9.4	9.4	8.9	9.4	9.9	10.3	10.6
USD/NAD pa	13.31	13.14	14.45	16.47	14.79	16.00	15.94
USD/NAD pe	12.40	14.30	14.00	14.87	15.89	16.50	15.60

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

Notes: pa - period average; pe - period end

Nigeria: mired in domestic insecurity, inadequate FX liquidity

Medium-term outlook: non-oil picking up the slack

We still see real GDP growth at 3.2% y/y in 2022 and 3.3% y/y in 2023, bolstered by the services sector which has been an economic mainstay in the last 6-q, supported by a favourable base, with average growth of 5.7%y/y, compared to average growth of -3.5% y/y and 2.1% y/y respectively for the industrial and agricultural sectors. The oil sector has been a major drag on industrial sector growth as it remains hamstrung by oil theft, pipeline sabotage, and structural impediments. The non-oil sector has therefore been driving growth. However, with elections soon due, any significant improvement in oil production is unlikely in the near term.

The non-oil sector grew by 4.77% y/y in Q2:22, but the oil sector contracted further, by 11.77% y/y, amidst declining oil production. Oil production in Q2:22 was 1.43mbpd (including condensates), compared with 1.49mbpd and1.50mbpd in Q1:22 and Q4:21 respectively.

The ICT sector should continue to support growth as it has proven resilient despite regulatory hurdles. Indeed, the government has barred SIMs not linked to national identity numbers, which led to 44m subscribers being disconnected from the mobile network. However, improved compliance has seen some barred lines being reconnected. This sector should continue growing as it has recorded 7m new subscribers from Jan to May 22.

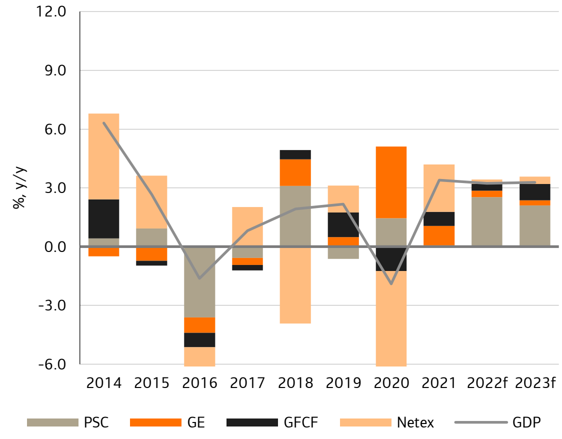
The manufacturing sector too has been resilient, with growth of 3% y/y in Q2:22. The Stanbic IBTC PMI shows that private sector output has continued to expand despite higher production costs, rocketing diesel prices, increasing input costs due to imported inflation, and FX illiquidity. Producers have however been passing on higher prices to consumers amidst relatively strong demand.

Commencing operations at the Dangote refinery has been moved out by management to H1:23, from Q3:22, partly due to unmet funding requirements. We however expect the refinery to commence operations only from H1:24 amid global supply-chain constraints and funding requirements likely being further delayed. Still, this refinery should spur economic growth as net exports should improve.

However, persistent insecurity, high inflation and FX illiquidity present downside risks. Insecurity has now spread to various regions, including the food-producing regions. Nevertheless, the harvest session starting in Sep should improve agricultural production.

Should FX liquidity improve, economic activity, particularly in the non-oil sector, too should improve in the medium term. However, poor FX conditions will likely persist until year end 2022.

Composition of GDP by demand



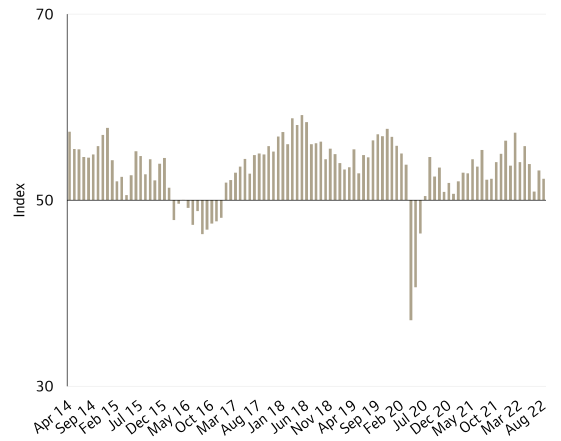
Source: National Bureau of Statistics; Standard Bank Research

GDP by sector (%) contribution

	2010	2016	2019	2020	2021
Agriculture	40.87	18	25.16	26.21	25.9
Mining and Quarrying (Oil)	15.88	7.7	8.91	8.31	7.41
Manufacturing	4.16	9	9.06	8.91	8.98
Electricity, Gas, Steam and Air	0.4	0.6	0.39	0.38	0.47
Water Supply, Sewerage, Waste	0.08	0.1	0.17	0.18	0.21
Construction	1.99	4	3.72	3.5	3.49
Trade	18.69	18.9	16.01	14.94	15.68
Accommodation	0.5	0.5	0.89	0.75	0.72
Transportation and Storage	1.27	1.5	1.48	1.18	1.32
Information and Communication	4.55	14.7	13.04	15.28	15.56
Financial and Insurance	3.56	3.8	3.01	3.36	3.57
Real Estate	1.74	8.8	6.12	5.66	5.6
Professional and Scientific Services	3.13	4	3.57	3.35	3.24
Public Administration	3.66	2.9	2.06	2.1	2.03
Education	1.51	1.8	2.13	1.88	1.8
Other Services	6.82	2.6	3.37	3.24	3.12
GDP	100	100	100	100	100

Source: National Bureau of Statistics; Standard Bank Research

Stanbic IBTC Purchasing Managers Index



Source: IHS Markit

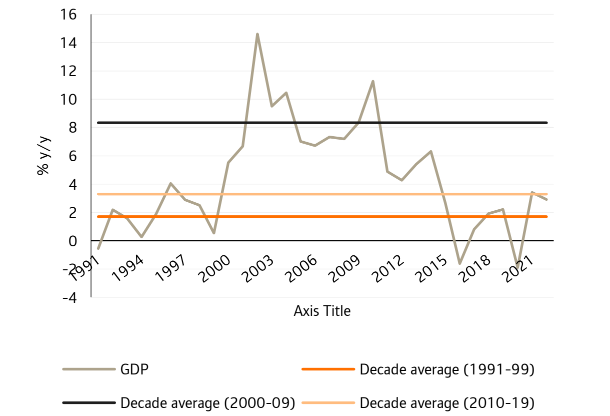
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	3.1	3.5	3.3	3.1	3.0	3.5	3.2	3.3	3.6	3.8	3.2	3.3	3.3	3.1	3.6	2.8
CPI (% y/y) pe	15.9	18.6	21.2	22.0	19.7	17.3	14.5	12.0	12.3	12.6	13	13.2	12.9	12.6	12.1	11.9
CBN policy rate (%) pe	11.5	13	15.5	16.5	16.5	16.5	15	15	15	14	14	14	13.5	13.5	13	13
3-m rate (%) pe	1.74	2.5	5.5	5.6	5.9	6.2	6	6.3	6.6	6.4	6.2	6.6	7	7.2	7.5	7.3
6-m rate (%) pe	3	3.84	5.85	6	6.2	6.8	6.5	6.5	7	7.4	7.2	7.4	7.9	8.2	8.5	8.1
USD/NGN pe	416	421	440	460	480	490	510	520	535	535	540	545	545	560	560	580
Bull scenario																
GDP (% y/y) pa	3.1	3.54	3.8	3.6	3.6	4.0	3.7	3.8	4.1	4.3	3.7	3.8	3.8	3.6	4.1	3.3
CPI (% y/y) pe	15.9	18.6	21.1	21.9	19.6	17.2	14.4	11.9	12	12.4	12.5	13	12.9	12.6	12	11.8
CBN policy rate (%) pe	11.5	13	15.5	15.5	15.5	14.5	14.5	13.5	13.5	13.5	13.5	13.5	12.5	12.5	12.5	12.5
3-m rate (%) pe	1.74	2.5	5.27	5.2	5.5	5.8	5.6	5.9	6.2	6	5.8	6.2	6.6	6.8	7.1	6.9
6-m rate (%) pe	3	3.84	5.5	5.7	5.9	6.5	6.2	6.2	6.7	7.1	6.9	7.1	7.6	7.9	8.2	7.8
USD/NGN pe	416	421	438	450	475	480	500	500	530	532	535	540	545	555	555	560
Bear scenario																
GDP (% y/y) pa	3.1	3.54	2.5	2.3	2.6	2.7	2.5	2.9	2.8	3.2	2.3	3.0	2.4	2.4	2.7	2.1
CPI (% y/y) pe	15.9	18.6	21.2	22.1	19.8	16.5	3.6	3.7	14.5	12.8	13.3	13.5	13.1	12.9	12.5	12
CBN policy rate (%) pe	11.5	13	15.5	17	17	17	16	16	15	14	14	14	13.5	13.5	13	13
3-m rate (%) pe	1.74	2.5	5.27	6	6.3	6.6	6.4	6.7	7	6.8	6.6	7	7.4	7.6	7.9	7.7
6-m rate (%) pe	3	3.84	6	6.3	6.7	7.1	6.8	6.8	7.3	7.7	7.5	7.7	8.2	8.5	8.8	8.4
USD/NGN pe	416	421	438	470	487	500	540	560	570	575	600	600	620	620	625	630

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

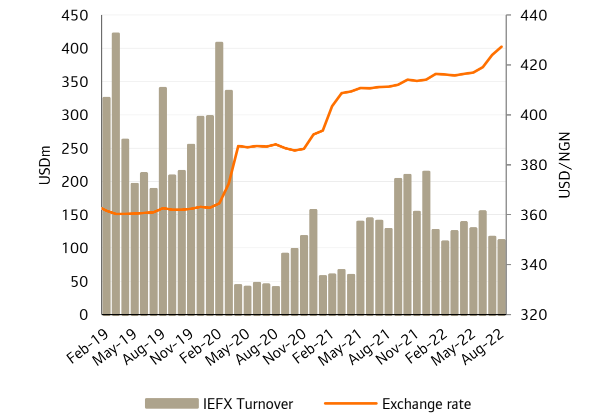
Notes: pa - period average; pe - period end

Long-term GDP growth rate



Source: Bloomberg; Standard Bank Research

USD/NGN rate and IEFX market turnover



Source: FMDQ; Standard Bank Research

Balance of payments: tight FX liquidity

We still forecast a C/A surplus of 2.0% and 1.5% of GDP for 2022 and 2023. High oil prices should support the C/A through improved oil exports (accounting for over 80% of total exports). The impact on the terms of trade should remain favourable despite the impact of higher imported fuel prices and food prices. Import growth will likely remain constrained due to FX demand management, amidst tight FX liquidity.

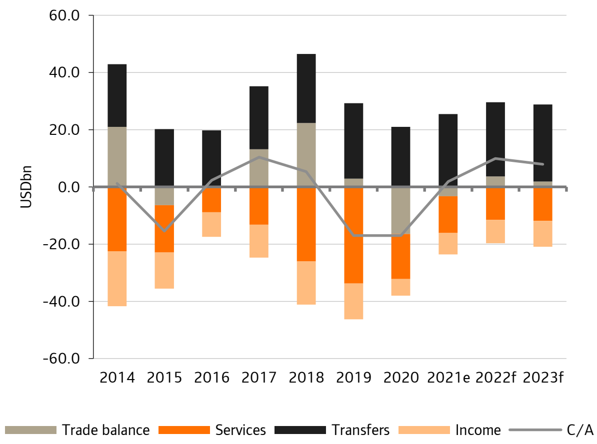
The C/A has been in surplus for 4-q now. In Q1:22, the surplus was 2.36% of GDP (USD2.5bn), supported by the trade balance through improved total export receipts. High oil prices have supported total exports, but oil production is being hampered by operational challenges, oil theft and vandalism, with oil production way below Nigeria's OPEC quota and government's target. We see no significant change before the elections. We also don't foresee significant investment to tackle operational and insecurity challenges; this would be likely only after the full implementation of the PIA and the conclusion of the 2023 elections.

Imports expanded by 12% y/y in Q1:22; near-term import growth will likely be marginal largelt due to FX illiquidity. Remittances (4.5% of GDP) improved further in the last 7-q. Remittance inflows grew by 20% y/y and 2.5% q/q in Q1:22. The CBN attributes this to the impact of the naira-for-dollar scheme (introduced in 2021 to improve FX inflows). However, recession concerns in the US and UK, both significant source markets, may keep remittances growth subdued.

Indeed, FDI and FPI flows are therefore unlikely to improve in 2022 due to a tight regulatory environment, FX illiquidity, surging inflation which will widen negative real interest rates, and the upcoming elections.

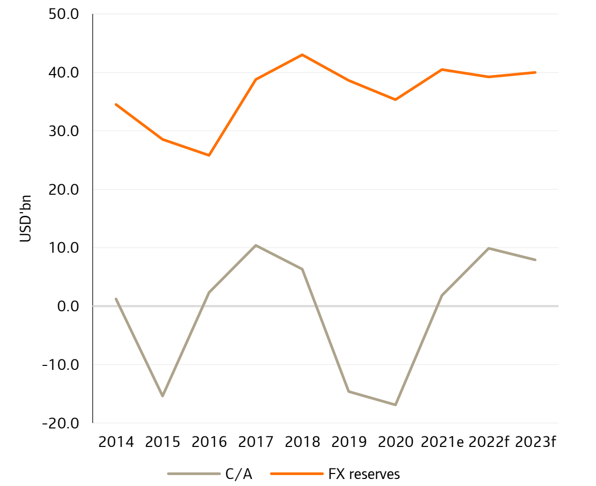
Despite the abiding C/A surplus, BOP pressures persist due to the financial account being in the negative, which has seen poor FX reserves accretion. As at Aug 22, FX reserves were USD39.18bn (8.7-m import cover) as CBN management has prevented them from plummeting. We therefore see reserves around USD38bn by Dec.

Current account developments



Source: Central Bank of Nigeria; Standard Bank Research

FX reserves and current account



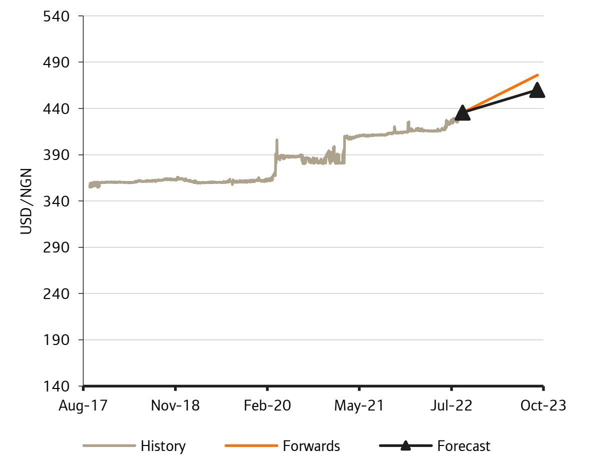
Source: Central Bank of Nigeria; Standard Bank Research

FX outlook: further gradual naira depreciation

We see the USD/NGN pair at 460 by Dec, with the CBN still favouring gradual naira depreciation. The pair has moved from 416 in Jan to 435 by mid-Sep. It also moved in other FX intervention segments such as the invisibles (personal and business travel allowance, school fees, and health), from 417 in Jan, to 435 by Sep.

FX illiquidity may persist due to FX demand, with Jun-Sep usually being high due to travel and international school fees being at a peak. To clear outstanding FX forward obligations, the CBN has paused FX interventions to FPIs for over a month. We see FPI FX demand backlog as less than USD1bn; the CBN may commence sales after clearing outstanding obligations. The corporate backlog is likely USD2.5bn. The CBN has maintained regular interventions across the other official FX market windows.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: hiking again, to contain inflation

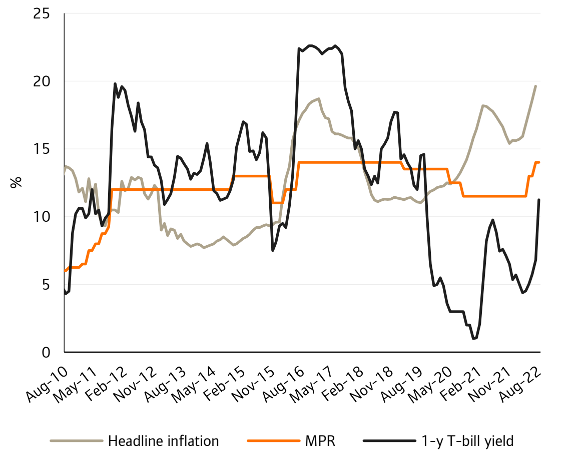
The MPC has hiked the policy rate by a cumulative 400 bps since May. We see a further 100bps by Dec in order to help contain inflation. It should also help tame inflation expectations ahead of planned election spending later this year. To manage system liquidity, the CBN will likely continue employing the excess cash reserving ratio applied to banks. At the Sep MPC meeting, the committee increased the cash reserving requirement to 32.5% from 27.5%. Additionally, the CBN reviewed the negotiable minimum interest rate on naira deposit to 30% of the monetary policy rate from 10%. Essentially, the CBN aims to restore price stability.

Headline inflation will likely average 19-20% y/y this year. It was 20.52% y/y in Aug, having risen for 7-m now, due to rising diesel prices, global supply-chain challenges, and domestic structural challenges. M/m headline inflation averaged 1.76% in Q2:22, from 1.63% in Q1:22. Central bank interventions, to spur domestic production, have yielded some progress, with rice production reaching over 8.4m MT as of Mar 22, from 350,000 MT as of 2015. However, domestic insecurity may limit upcoming interventions.

The CBN's current approach to managing monetary policy will likely be maintained. It still favours the current 65% loan-to-deposit ratio applied to all banks, and the CBN has continued to deploy its development finance initiatives for the real sector to boost output and food supply. Notably, intervention loan interest rates for the backward integration programme have been revised to 9% from 5%. As at Jun, credit to the private sector had grown 12% ytd, with oil and gas, manufacturing, general commerce sectors the top beneficiaries of bank loans. Asset quality has further improved as non-performing loans declined to 4.75% in Jun 22, from 4.9% and 5.7% in Dec 21 and Jun 21 respectively.

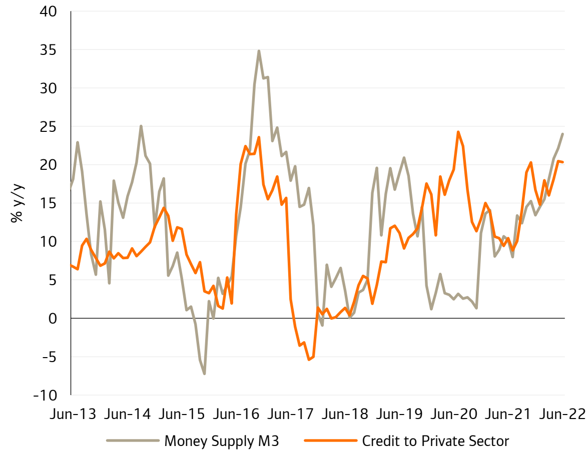
Money supply growth remained elevated despite tighter liquidity in the period, largely supported by low base. It averaged 19.2%y/y in H1:22, compared to 10.9% in the same period in 2021.

Inflation and interest rates



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

Monetary statistics



Source: Central Bank of Nigeria

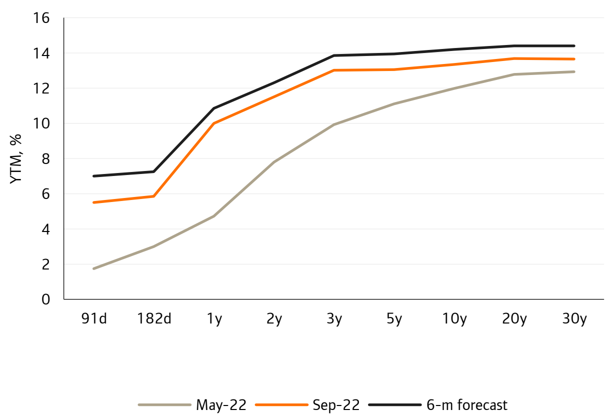
Yield curve outlook: yields up across the curve

Tight liquidity in Q2:22 and Q3:22, and the reaction to recent MPR hike, caused yields to rise across the curve. Overnight rates too are higher, averaging 14.25% in Q3:22, from an average of 10.21% and 9.16% for Q2:22 and Q1:22 respectively.

System liquidity could improve in Q4:22 as about NGN351bn and NGN250bn in coupon payments will reach the market by late Sep and Oct respectively, keeping yields stable in the near term.

The government has achieved over 60% of its domestic funding target (NGN3.5tr) as at end Aug. However, given the expansionary budget and unfavourable external financing conditions, some foreign funding target could be shifted to the domestic market, or be filled via higher usage of the government's overdraft at the CBN.

Yield curve changes



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

Fiscal policy: fuel subsidy driving expansionary budget

The federal government's fiscal deficit for FY2022 may well surpass the budgeted 4% of GDP and the Fiscal Responsibility Act benchmark of 3.5% of GDP, as oil revenue keeps underperforming.

Already, government's revenue for the first 4-m of FY2022 undershot the pro-rated budget target by 51%. In the last 2-y, oil revenue has subdued overall revenue, which may persist this year as high oil prices keep the petrol subsidy expenditure elevated, and hardly assisted by inadequate oil production. Indeed, insecurity risks have kept oil production below par. The authorities estimate a loss of USD1bn, attributable to oil theft alone, in Q1:22.

Debt service in first 4-m of this year overshot the pro-rated budgeted target, as in FY2021. Rising debt service, amid low revenue, has kept the debt-service-to-revenue ratio high, at 119% in the 4-m to Apr 22, per a narrow revenue base and fast growth in interest expenses. The debt service on the government overdraft at the CBN (the ways and means allowance) accounted for 21% of total debt service as the debt stock, attributable to the ways and means financing, rose steadily, now estimated at over NGN18tr (USD42.86bn or 9% of GDP).

The capital budget may be compromised by attempting to reel in the rising fiscal deficit. In the 4-m to Apr 22, capital expenditure was under target by 58%. The government has been spending on security, allocating 13.4% to it. Increased social spending may also keep expenditure elevated. Therefore, borrowing in the domestic market may exceed target due to global risk-off sentiment.

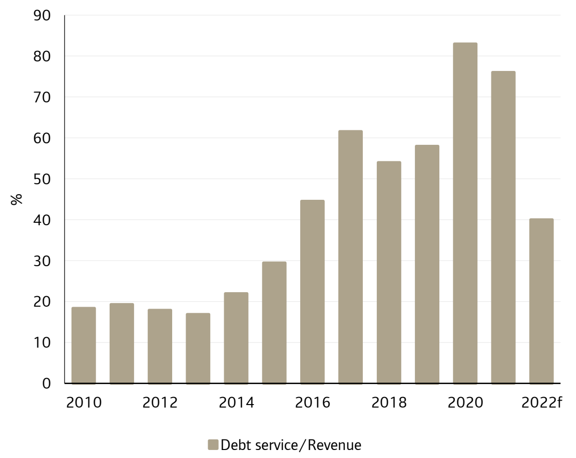
The government plans to finance the budget deficit with privatization proceeds of NGN90.7bn (USD221m). multilateral and bilateral project loans of NGN1.16tr (USD2.8bn), external borrowings of NGN2.5tr (USD6.1bn) and domestic borrowings of NGN 3.5tr (USD8.54bn).

Federal Government Budget

	FY2020	FY2021e	FY2022f
% of GDP			
Revenue	2.5	3.1	5.4
Capital expenditure	1.1	1.9	2.9
Recurrent expenditure	4.9	4.9	6.0
Statutory transfers	0.2	0.3	0.4
Service debt	1.8	2.4	2.2
Supplementary budget	0.0	0.1	0.0
Total expenditure	6.3	7.1	9.4
Oil price assumption (US$/bbl)	43.0	79.3	73.0
Oil production assumption (m bbl)	1.7	1.6	1.6
Exchange rate assumption	360.0	410.2	410
External Financing	1.2	2.9	1.9
Domestic Financing	1.4	0.9	1.4
Fiscal deficit	-3.8	-4.0	-4.0

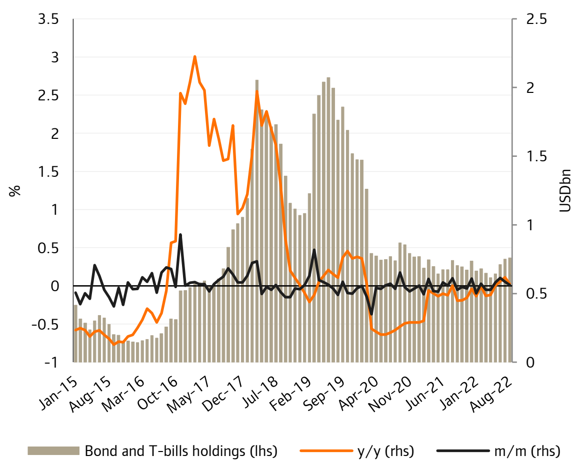
Source: Federal Ministry of Finance; Standard Bank Research

Debt-service-to-revenue



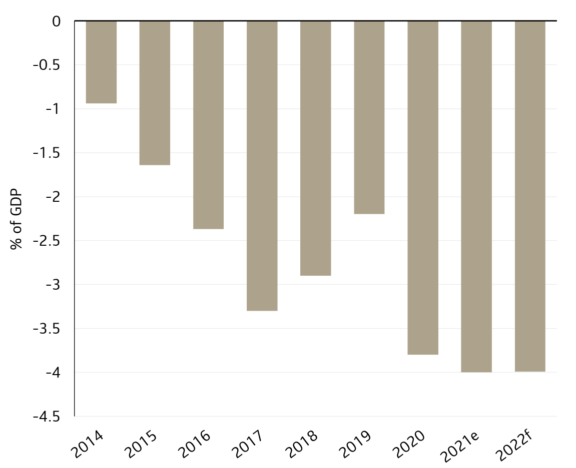
Source: Federal Ministry of Budget and National Planning; Standard Bank Research

Domestic debt held by foreigners



Source: Standard Bank Research

Fiscal deficit



Source: Federal Ministry of Budget and National Planning

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	182.7	187.5	192.3	197.3	202.5	207.7	213.1
Nominal GDP (NGN bn)	113712.0	127762.0	145639.0	154252.3	176075.5	211008.9	245150.1
Nominal GDP (USD bn)	325.0	352.9	402.7	403.9	430.5	494.7	541.8
GDP / capita (USD)	1778.5	1882.5	2093.6	2046.7	2126.1	2381.5	2541.8
Real GDP growth (%)	0.8	1.8	2.3	-1.9	3.4	3.2	3.3
Crude oil production (mbpd) pa	1.8	1.8	2.0	1.7	1.6	1.5	1.5
Central Government Operations							
Budget balance / GDP (%)	-3.3	-3.4	-2.2	-3.8	-4.0	-4.0	-3.3
Domestic debt / GDP (%)	11.1	12.9	12.6	13.0	17.8	17.7	17.2
External debt / GDP (%)	5.8	7.1	6.2	7.9	12.4	12.0	15.0
Excess crude account/SWF (USD bn)	2.3	2.0	0.3	0.0	0.0	0.0	0.0
Balance of Payments							
Exports (USD bn)	45.8	63.1	65.0	35.9	46.9	68.3	60.8
Imports (USD bn)	32.7	40.8	62.1	52.3	50.1	64.7	59.0
Trade balance (USD bn)	13.1	22.3	2.9	-16.4	-3.3	3.7	1.9
Current account (USD bn)	10.4	5.3	-14.6	-17.0	-1.9	9.9	7.9
- % of GDP	3.2	1.5	-3.6	-4.2	-0.4	2.0	1.5
Financial account (USD bn)	-4.3	3.5	21.4	5.1	3.9	-11.4	-13.2
FDI (USD bn)	2.4	0.8	2.3	2.4	3.3	2.5	2.7
Basic balance / GDP (%)	4.6	2.0	-3.1	-3.6	0.3	1.9	1.4
FX reserves (USD bn) pe	38.8	43.0	38.6	35.0	40.7	38	40.0
Import cover (months) pe	14.3	12.7	7.5	6.8	10.6	7.1	8.1
Sovereign Credit Rating							
S&P	B	B	B	B-	B-	B-	B-
Moody's	B1	B2	B2	B2	B2	B2	B2
Fitch	B+	B+	B+	B	B	B	B
Monetary and financial Indicators							
Headline inflation pa	16.6	12.2	11.4	13.2	17.0	19.0	16.7
All items less farm produce CPI pa	13.6	10.6	9.2	10.8	13.1	15.2	13.9
Food CPI pa	19.5	14.5	13.7	16.1	20.6	20.5	19.5
M2 money supply (% y/y) pa	4.2	4.6	15.4	3.5	11.9	20.9	11.1
M2 money supply (% y/y) pe	1.2	16.4	4.3	11.1	13.4	18.4	10.3
Policy interest rate (%) pa	14.0	14.0	13.6	12.3	11.5	13.6	15.8
Policy interest rate (%) pe	14.0	14.0	13.5	11.5	11.5	16.5	15.0
3-mth rate (%) pe	12.5	12.3	3.8	0.0	2.5	5.6	6.3
1-yr rate (%) pe	14.0	17.0	4.4	1.0	5.3	10.2	10.6
3-yr rate (%) pe	14.0	15.2	10.0	3.9	9.2	11.9	12.2
5-yr rate (%) pe	14.4	15.0	10.0	5.7	12.3	13.4	14.0
USD/NGN pa	349.9	362.0	361.7	381.9	409.0	434.0	500.0
USD/NGN pe	362.0	365.0	364.7	400.3	415.0	460.0	520.0

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: losing some steam

Medium-term outlook: a slower recovery

We now trim our GDP growth forecast to 6.8% y/y for 2022, from 7.4% y/y. GDP growth was 10.9% y/y in 2021, boosted by favourable base effects. Rwanda's economy had started to recover from the pandemic but price shocks, spill-over from geopolitical tensions and unfavourable base effects will likely restrain GDP growth this year. The impact of price pressures will likely linger into 2023, posing downside risk to the outlook. Therefore, we now forecast GDP growth of 6.7% y/y, from 7.3% y/y before.

While underlying growth momentum was approaching pre-pandemic performance in Q4:21, at 4.3% q/q, from 1.2% q/q in Q3:21, q/q growth faltered in Q1:22, to -2.3% q/q. This is well below the average of 1.96% q/q in the 5-y to 2019. Sure, momentum improved in Q2:22 to 4.1% q/q above the average of 2.5% q/q in the 5-y to 2019.

Though price pressures may constrain private consumption, ongoing infrastructure projects, including the expansion of roads and the rehabilitation of water and electricity supply resources, may assist gross capital formation and thereby support the construction sector. Furthermore, this sector has aided manufacturing sector as some building materials are sourced locally. Indeed, the industrial and services sector grew by 6% y/y and 12% y/y in Q2:22 after posting 10% y/y and 11% y/y in Q1:22.

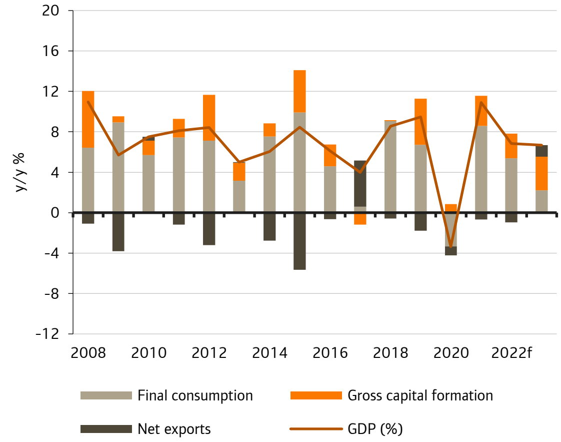
Within the services sector, tourism should stage a further recovery due to dwindling public health restrictions. Successful domestic vaccination roll-out too will play a supporting role. Indeed, the tourism sector should have normalised by 2023 as global travel restrictions fade.

However, agriculture faced unfavourable weather conditions earlier this year. Furthermore, fertiliser supply disruptions persist, which may imply a disappointing upcoming harvest season. The drought in the eastern province already affected output in H1:22, with agriculture expanding by a mere 1.5% y/y in H1:22, from 5.5% y/y in H2:21.

Still, our bull case assumes a limited impact from geopolitical tensions. Price pressures should be easing soon, too. We also assume minimal economic structural damage from the pandemic. This may mean a swifter recovery, with GDP growth averaging 8.3% y/y during 2023-2025.

Our bear case however models more persistent price shocks and further supply chain disruptions. Here, medium-term growth dwells below 7.0% y/y.

Composition of GDP by demand



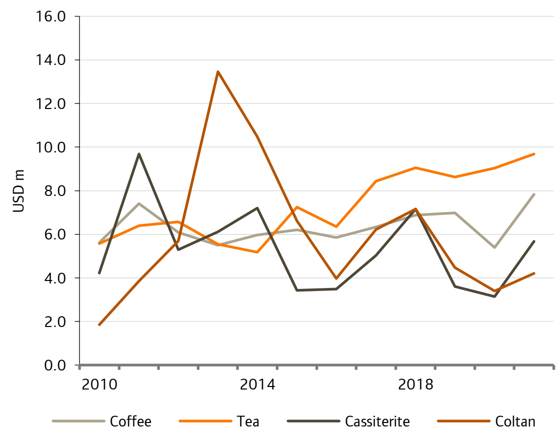
Source: National Institute of Statistics of Rwanda; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2019	2020	2021
Agriculture	27.7	23.7	26.0	24.0
- Food crops	16.3	13.5	16.0	13.0
- Forestry	5.9	5.9	6.0	1.0
Industry	17.2	19.4	19.0	20.0
- Manufacturing	5.9	8.9	9.0	9.0
- Construction	7.6	8.1	7.5	6.9
Services	47.8	48.4	46.0	48.0
- Wholesale and retail trade	7.8	8.3	8.0	9.0
-ICT	1.6	2.0	2.1	2.0
- Financial services	3	2.5	2.3	2.6
- Real estate services	7.9	6.1	6.6	6.2
- Public administration	4.6	5.5	3.2	5.4
- Education	2.6	2.7	1.8	3.0
Taxes less subsidies	7.2	8.5	8.0	8.0

Source: National Institute of Statistics of Rwanda

Principal exports



Source: National Bank of Rwanda

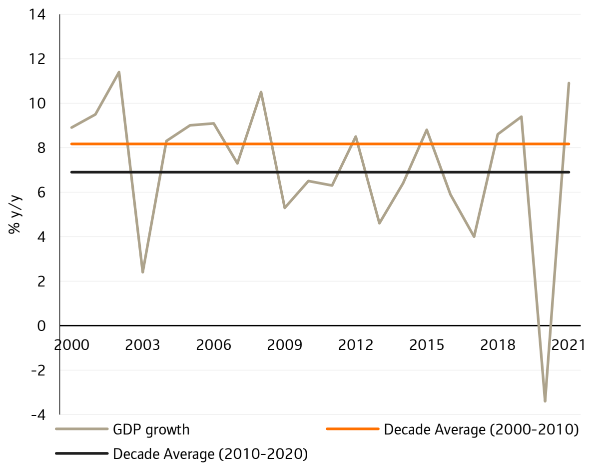
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	7.9	7.4	7.3	4.7	8.1	5.9	6.8	5.9	7.0	7.4	6.3	6.8	6.9	7.3	8.0	8.0
CPI (% y/y) pe	7.5	13.6	16.5	16.7	11.0	6.6	4.2	3.4	3.7	3.7	4.6	6.0	5.4	4.3	5.1	3.4
Policy rate (%) pe	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
3-m rate (%) pe	6.7	6.2	7.1	7.2	7.3	7.0	7.1	7.2	7.1	7.1	7.0	7.0	7.1	7.2	7.1	7.1
6-m rate (%) pe	7.0	6.5	8.9	9.0	9.1	8.8	8.8	8.9	8.8	8.8	8.7	8.8	8.9	9.0	8.9	8.9
USD/RWF pe	1015.2	1022.8	1045.0	1057.6	1070.3	1083.2	1096.3	1109.5	1122.9	1136.4	1150.1	1163.9	1178.0	1192.1	1206.5	1221.0
Bull scenario																
GDP (% y/y) pa	7.9	7.4	8.8	6.2	9.4	7.2	8.1	7.2	8.3	8.7	7.6	8.1	8.2	8.6	9.3	9.3
CPI (% y/y) pe	7.5	13.6	17.2	17.7	12.0	7.6	5.2	4.4	4.7	4.7	5.6	7.0	6.4	5.3	6.1	4.4
Policy rate (%) pe	5.0	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
3-m rate (%) pe	6.7	6.2	6.6	6.7	6.8	6.5	6.6	6.7	6.6	6.6	6.5	6.5	6.6	6.7	6.6	6.6
6-m rate (%) pe	7.0	6.5	7.2	7.3	7.6	7.3	7.4	7.5	7.4	7.4	7.3	7.3	7.4	7.5	7.4	7.4
USD/RWF pe	1015.2	1022.8	1033.9	1040.1	1046.4	1052.7	1059.1	1065.4	1071.9	1078.3	1084.8	1091.3	1097.9	1104.5	1111.2	1117.9
Bear scenario																
GDP (% y/y) pa	7.9	7.4	6.5	3.8	7.2	5.0	5.9	5.0	5.8	6.2	5.1	5.6	5.7	6.1	6.8	6.8
CPI (% y/y) pe	7.5	13.6	16.3	16.6	10.9	6.5	4.0	3.2	3.6	3.6	4.4	5.8	5.3	4.1	4.9	3.2
Policy rate (%) pe	5.0	5.0	6.0	6.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
3-m rate (%) pe	6.7	6.2	16.8	17.1	11.4	7.0	4.5	3.7	4.1	4.1	4.9	6.3	5.8	4.6	5.4	3.7
6-m rate (%) pe	7.0	6.5	17.6	17.8	12.0	7.6	5.1	4.3	4.7	4.7	5.5	7.0	6.4	5.2	6.0	4.4
USD/RWF pe	1015.2	1022.8	1043.3	1064.2	1085.4	1107.2	1129.3	1151.9	1174.9	1198.4	1220.0	1242.0	1264.3	1287.1	1310.2	1333.8

Source: Standard Bank Research

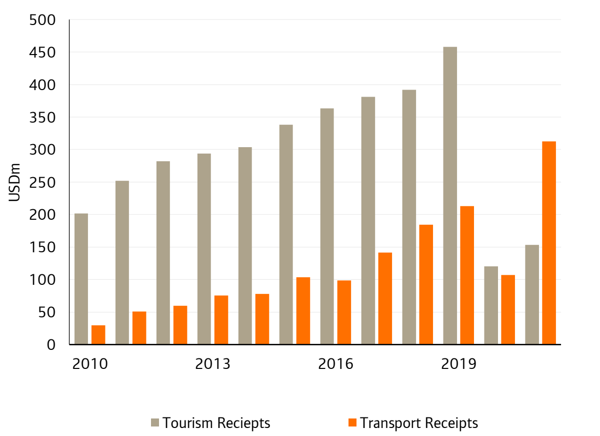
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: IMF, Standard Bank Research

Annual tourism and transport receipts



Source: National Bank of Rwanda

Balance of payments: a still deep deficit

We retain our C/A deficit forecast of 12.8% of GDP for 2022. Though we expect service inflows to recover, the widening of the current account is largely a function of the terms-of-trade deterioration. The C/A deficit may reach 11.7% of GDP in 2023.

At end Q1:22, the trade balance was USD436m, up 33% y/y. Elevated global fuel, food, and fertiliser prices will likely keep inflating the import bill and trade deficit into Dec. Still, the slower economic recovery, implying fewer consumer goods imports, may support the current account. Given the government's focus on investment spending, capital goods import demand should stay stable.

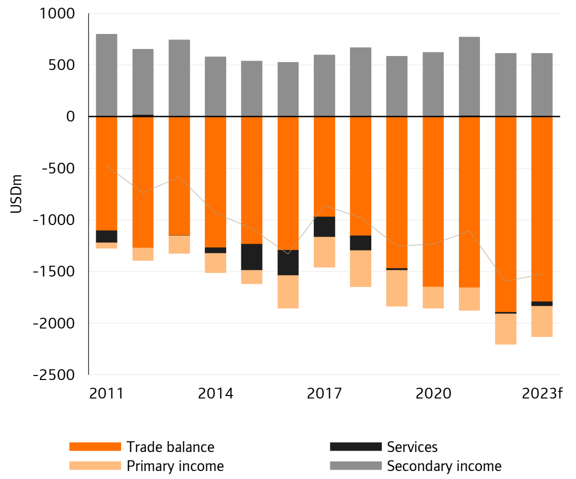
Strong export performance in Q1:22 somewhat offset the impact of the rising import bill, with goods and services exports up 48% y/y. Rwanda's export base, particularly the traditional exports of tea and coffee, remains exposed to adverse weather conditions and disruptions to global fertiliser supply.

Services receipts from tourism and transport should continue recovering. Tourism inflows should now stage a more meaningful recovery as global travel restrictions are easing. Indeed, tourism receipts approached pre-pandemic levels in Q1:22, up 32% q/q.

Donor inflows are a key source of Rwanda's external financing, with flows up 31% q/q, to USD130.8m, at end Q1:22. In 2021, donor inflows were USD383m (3.5% of GDP).

FX reserves recovered to USD1.7bn at end Jun, from USD1.57bn last Dec. We see FX reserves ending this year at USD1.6bn, adequately at over 6-m of import cover.

Current account developments



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

FX reserves

Source: Bloomberg

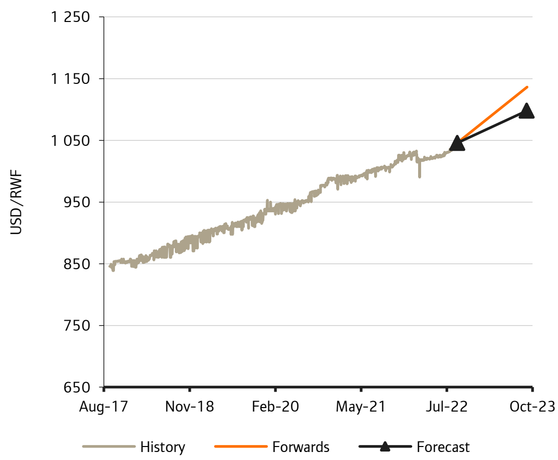
FX outlook: relatively stable

The currency will likely depreciate further into Dec. We see the USD/RWF at 1,057 at end 2022 and 1,109 at end Q2:23.

The RWF's depreciation against the USD has been contained, reaching 3.89% in 2021. Current transfers, mainly from foreign aid inflows, may keep the currency relatively stable.

That said, our bear case models elevated external pressures, potentially pushing the RWF higher against the USD. Here, the USD/RWF reaches 1,107 by Jun 23, probably partly due to an elevated import bill.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation still on the rise

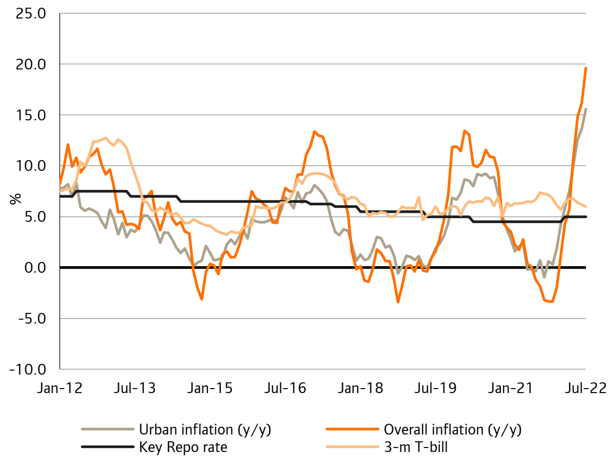
The National Bank of Rwanda (NBR) sees annual inflation averaging 9.2% in 2022, above the 8% upper target. The higher inflation trajectory this year motivated the MPC to hike the policy rate by 50 bps in Feb – but it may now maintain a neutral stance into Dec whilst assessing the impact of that hike. The policy rate is now 6%. However, should inflation keep rising, rate hikes may speed up.

Urban inflation reached 15.9% y/y in Aug from15.6% y/y in Jul 22, after averaging 12.0% y/y in Q2:22 and 5.9% y/y in Q1:21. We see annual urban inflation averaging 12.6% in 2022 and 6.3% in 2023. Increases in the food, education and transport sub-indices pushed headline inflation higher.

Core inflation reached 14.6% y/y in Jul 22 and averaged 11.4% y/y in Q2:22, from 6.5% y/y in Q1:22. The pick- up in core inflation since Nov 21 reflects underlying demand pressures as consistent with the economic recovery. However, as economic momentum slowed in Q1:22, the MPC may ease the pace of further policy rate hikes.

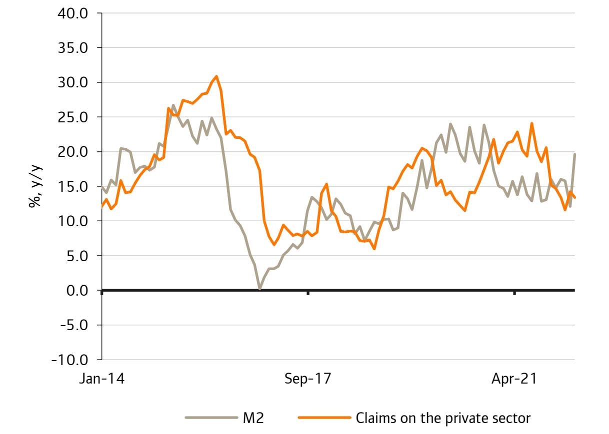
Credit to the private sector reached 16.2% y/y at end Q1:22, from 19.1% y/y at end Q1:21; tighter monetary policy could further slow the pace of credit extension. Still, asset quality in the banking sector seems sound given that the NPL ratio had improved to 4.8% at end 2021, from 6.7% at end 2020.

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: likely to rise

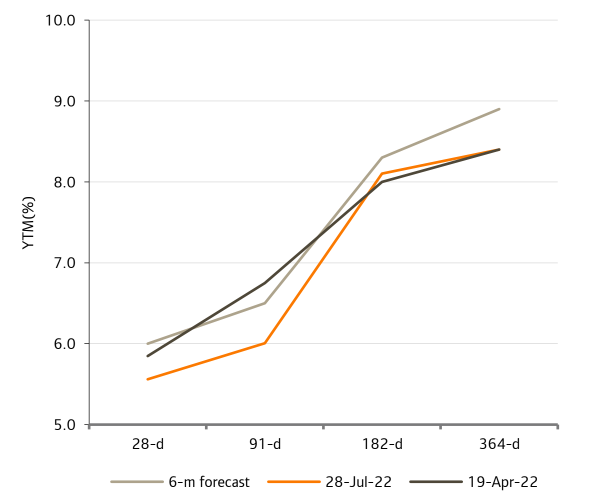
With the NBR's monetary policy stance tighter, yields are likely to rise over the next 6-m. Rising inflation expectations may also push up yields.

In the 7-m to Jul, yields at the shorter end of the curve decreased, while the longer end increased. The 28-d and 91-d decreased by 10 bps and 24 bps respectively.

Yields at the 182-d and 1-y T-bills rose 97 bps and 38 bps.

Yields may come under pressure in H2 FY2022/23 if grant revenue underperforms, which may see authorities increase the domestic borrowing target.

Yield curve changes



Source: National Bank of Rwanda; Standard Bank Research

Fiscal policy: now more expansionary

The FY2022/23 budget sees the fiscal deficit (including grants) reaching 8.2% of GDP, compared to an estimated outturn of around 7.0% of GDP in FY2021/22.

Compared to the interim budget, the FY2022/23 domestic revenue target was increased by 6.6%, with total revenue expected to reach 24.5% of GDP. However, as growth momentum has slowed, revenue may underperform targets. Grants are forecast to reach 6.8% of GDP, accounting for almost 30% of total revenue and grants. Typically, the disbursement of grant revenues lags targets.

Total expenditure was up 5%, compared to the revised FY2021/22 budget. Within expenditure, capital expenditure is set to increase to 13.7% of GDP, from 11% of GDP over the last two fiscal years. The capital budget is usually revised lower during a fiscal year due to tardy execution. The government has allocated funds to projects from its SDR allocation in Aug, which should continue into the current fiscal year.

Subsidies and social transfers are set to reach 3.31% of GDP. These fuel, fertiliser, and public transport subsidies and social protection interventions were meant to reduce the impact of rising commodity prices. The wage and interest bill dominates the recurrent expenditure category. Interest expenses increased over the last 2-y, capturing debt service costs related to both of Rwanda's Eurobonds. Other than that, Rwanda's debt stock emanates largely from bilateral and multilateral lenders.

However, the debt-to-GDP has risen materially over the past 10-y, reaching 69% of GDP at end 2021.

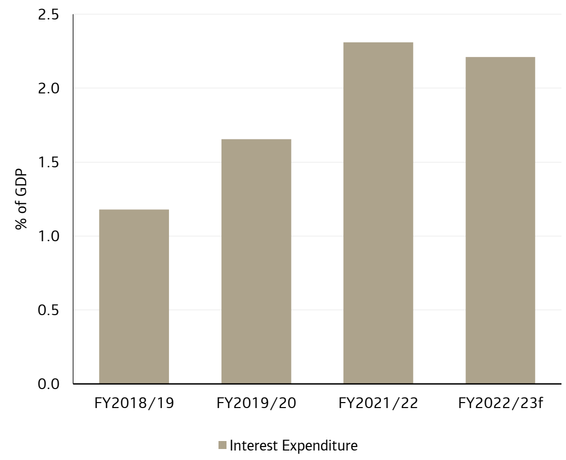
Central government budget

% of GDP	FY2020/21	FY2021/22e*	FY2022/23f
Total revenue & grants	24.0	24.2	26.57
Total expenditure	30.4	34.3	34.75
- Wages	3.0	3.2	5.66
- Interest	1.9	2.3	2.21
- Capital expenditure	11.1	10.8	13.74
Overall fiscal deficit	-6.4	-7.0	-8.18
Net domestic borrowing	-0.3	3.5	n.a
Net foreign borrowing	6.7	5.0	n.a
Donor support (grants)	5.8	5.5	6.77

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

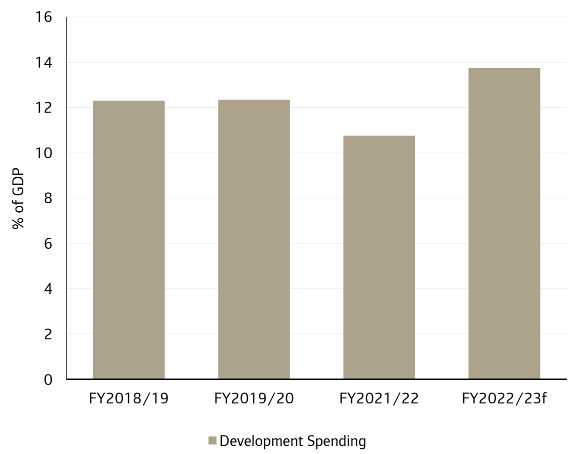
*original budget forecasts

Interest expenditure



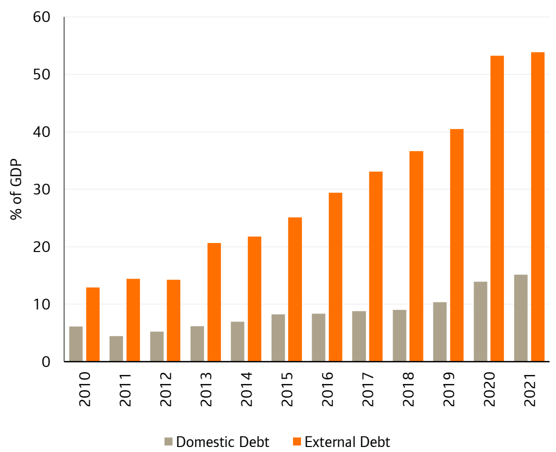
Source: Ministry of Finance and Economic Planning, Standard Bank Research

Developmental spending



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

Public debt



Source: National Bank of Rwanda, Standard Bank Research

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	12.3	12.6	12.8	12.7	12.5	12.6	12.7
Nominal GDP (RWF bn)	7 694.0	8 302.0	9 315.0	9 612.0	10 744.5	12 828.0	14 492.5
Nominal GDP (USD bn)	9.2	9.6	10.3	10.1	10.8	12.4	13.1
GDP / capita (USD)	747.7	759.1	803.0	796.3	867.8	989.0	1 028.2
Real GDP growth (%)	4.0	7.8	10.0	-3.4	10.9	6.8	6.7
Coffee production ('000 tons)	19.1	21.3	23.4	16.0	20.8	21.8	22.9
Central Government Operations							
Budget balance (incl. Grants) / GDP (%)	-4.6	-4.6	-6.3	-7.4	-6.4	-7.0	-8.2
Budget balance (excl. Grants) / GDP (%)	-9.1	-9.1	-10.8	-11.6	-11.1	-11.7	-14.9
Domestic debt / GDP (%)	8.8	9.0	10.4	13.9	15.1	17.1	18.0
External debt / GDP (%)	33.1	36.7	40.5	53.2	53.8	64.5	67.7
Balance of payments							
Exports of goods and services (USD m)	1 903.9	2 043.3	2 246.8	1 407.5	1 414.7	1 400.5	1 470.5
Imports of goods and services (USD m)	-3 070.6	-3 342.4	-3 737.0	-3 057.8	-3 052.0	-3 296.2	-3 263.2
Trade balance (USD m)	-1 166.7	-1 299.2	-1 490.3	-1 650.3	-1 658.5	-1 895.6	-1 792.7
Current account (USD m)	-861.5	-979.5	-1 253.7	-1 234.9	-1 107.8	-1 597.6	-1 522.7
- % of GDP	-9.3	-10.3	-12.2	-12.2	-10.3	-12.8	-11.7
Financial account (USD m)	516.7	735.0	993.5	958.0	864.0	950.0	951.0
- FDI (USD m)	258.3	348.2	384.5	240.0	378.0	390.0	410.0
Basic balance / GDP (%)	-6.5	-6.6	-8.4	-9.8	-6.8	-9.7	-8.5
FX reserves (USD m) pe	1 072.0	1 252.0	1 363.0	1 700.0	1 577.0	1 635.0	1 500.0
- Import cover (months) pe	4.2	4.5	4.4	6.7	6.2	6.0	5.5
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Urban consumer inflation (%) pa	4.9	1.4	2.4	7.8	0.9	12.6	6.3
Urban consumer inflation (%) pe	0.7	1.1	6.7	3.7	1.9	16.7	3.4
M3 money supply (% y/y) pa	12.9	13.2	13.6	18.7	17.9	21.7	10.9
M3 money supply (% y/y) pe	12.4	15.6	15.4	18.0	17.8	22.5	16.6
Policy interest rate (%) pa	6.1	5.5	5.2	4.6	4.5	5.5	6.0
Policy interest rate (%) pe	6.0	5.5	5.0	4.5	4.5	6.0	6.0
3-m rate (%) pe	6.8	5.8	6.0	6.8	6.9	7.2	7.2
1-y rate (%) pe	7.9	4.6	8.0	9.1	9.2	9.5	8.9
USD/RWF pa	834.3	869.2	903.7	949.8	994.1	1 031.2	1 085.5
USD/RWF pe	845.0	894.2	935.0	978.0	1 014.5	1 057.6	1 109.5

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: external and security risks restraining growth

Medium-term outlook: downside risks

We now trim our 2022 GDP growth forecast to 4.8% y/y, from 5.2% y/y; our forecast is 7.0% y/y for 2023. The IMF forecasts growth of 5.0% y/y for 2022 and 8.3% y/y for 2023. Weaker external demand conditions, combined with poorer domestic conditions due to higher inflation, as well as regional security risks, present downside risks to growth in the near term. In the medium term, however, growth should be bolstered by hydrocarbon production likely commencing in 2023.

Growth was 5.1% y/y in Q1:22, from 7.1% y/y in Q4:21. On an annual basis, favourable base effects are still benefiting headline growth. However, growth momentum slowed to a contraction of 2.2% q/q in Q1:22, from growth of 2.1% q/q in Q4:21, with price shocks compounding the ongoing challenges of the pandemic.

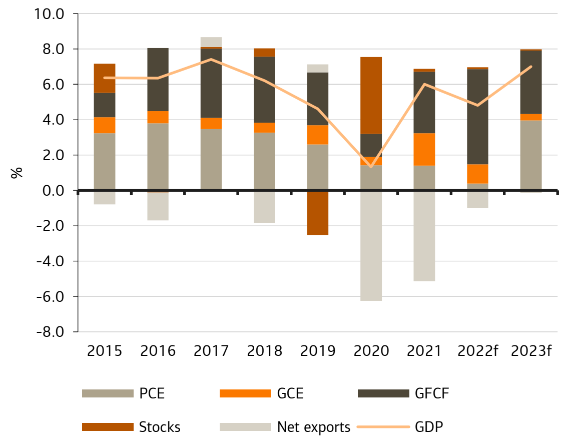
Moreover, rising fuel and energy costs and onshore shortages of basic goods increase the risk of further episodes of social unrest.

The government took additional measures to stabilise basic food prices, subsidise fuel prices and continue with spending on social equality programmes; household consumption managed to gain 0.5% q/q in Q1:22 and 1.7% q/q in Q4:22. Policy interventions should further support household consumption. The government has also increased spending on security but tensions related to the election results may cause further unrest, which too would present downside risk to the growth outlook.

Oil and gas production will likely commence in late 2023, with net exports contributing more robustly to GDP from 2024, coinciding with increased oil and gas production. Though Senegal's hydrocarbon projects have spurred wider investment in its economy, GFCF contracted 2.6% q/q in Q1:22, from 2.9% q/q in Q4:21. Increases in public GFCF have failed to offset the decline in privately led GFCF (which contributes over 70% to overall GFCF).

Our bear case factors in prolonged pandemic disruptions and delays in hydrocarbon production beyond 2023. With less than 10% of Senegal's population fully vaccinated, Covid-19 resurgence remains a risk, which would disrupt the tourism sector again; however, our base case still sees a more meaningful recovery in 2023 as travel restrictions are relaxed further.

Composition of GDP by demand



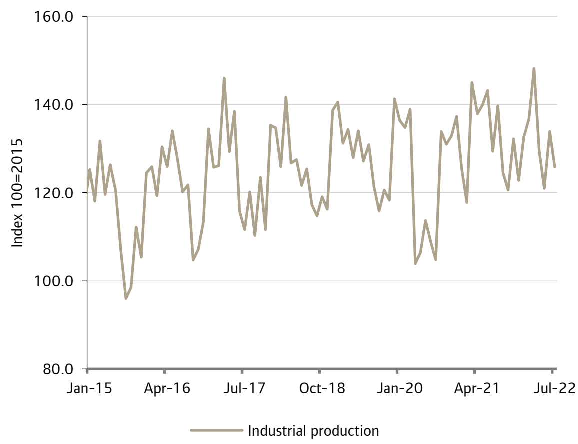
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

GDP by sector (%) contribution

	2019	2020	2021
Agriculture	17.5	10.6	9.7
Livestock and hunting	3.6	3.5	3.6
Forestry	0.4	0.4	0.4
Fishing	1.5	1.7	1.1
Mining	3.5	3.6	4.6
Energy/oil products	0.7	0.6	0.0
Utilities	1.9	1.1	2.1
Construction	2.8	3.1	2.6
Manufacturing	7.4	7.0	15.0
Commerce	13.3	13.0	5.9
Transport and communications	7.9	7.0	6.9
Other services	19.2	25.5	27.3
Public administration, education, health	11.4	12.9	10.6
GDP	100.0	100.0	100.0

Source: Agence Nationale de la Statistique et de la Demographie

Harmonised index of industrial production



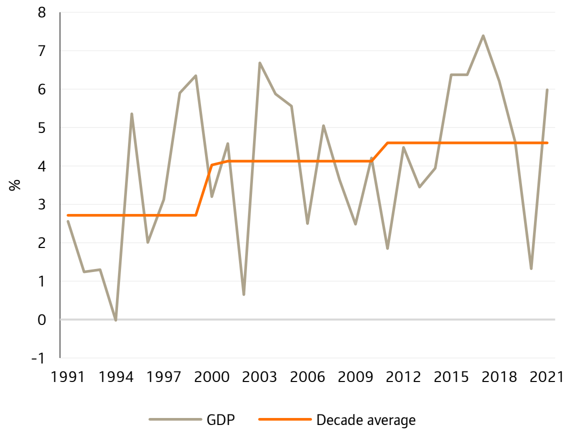
Source: Agence Nationale de la Statistique et de la Demographie

Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	5.10	3.58	4.80	5.56	3.00	5.02	8.29	11.66	6.00	8.40	8.81	6.00	5.85	5.45	4.86	6.00
CPI (% y/y) pe	6.17	8.89	7.95	7.91	5.95	1.61	1.40	1.42	1.85	2.85	2.98	2.75	2.73	2.35	2.57	2.55
Marginal lending facility (%) pe	4.00	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
USD/XOF pe	595.3	620.8	656	676.2	624.7	585.7	596.3	570.4	551.2	546.6	546.6	524.8	512.5	504.6	496.9	485.9
Bull scenario																
GDP (% y/y) pa	5.10	3.79	5.09	5.89	3.18	5.32	8.79	12.36	6.36	8.90	9.34	6.36	6.20	5.78	5.15	6.36
CPI (% y/y) pe	6.17	8.89	7.95	6.32	4.76	1.29	1.12	1.14	1.48	2.28	2.38	2.20	2.19	1.88	2.06	2.04
Marginal lending facility (%) pe	4	4.3	4.5	4.8	5	5	5	5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
USD/XOF pe	595.3	620.8	596.3	613	570.4	537.7	546.6	524.8	508.5	504.6	504.6	485.9	475.3	468.5	461.9	452.4
Bear scenario																
GDP (% y/y) pa	5.10	3.15	4.22	4.89	2.64	4.42	4.15	5.83	3.00	4.20	7.05	4.80	4.68	4.36	3.89	4.80
CPI (% y/y) pe	6.17	8.89	9.77	9.72	7.31	2.49	2.18	2.21	1.64	2.53	2.65	2.45	2.43	2.09	2.29	2.27
Marginal lending facility (%) pe	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
USD/XOF pe	595.3	620.8	728.8	754	690.5	643.1	656	624.7	601.8	596.3	596.3	570.4	555.9	546.6	537.7	524.8

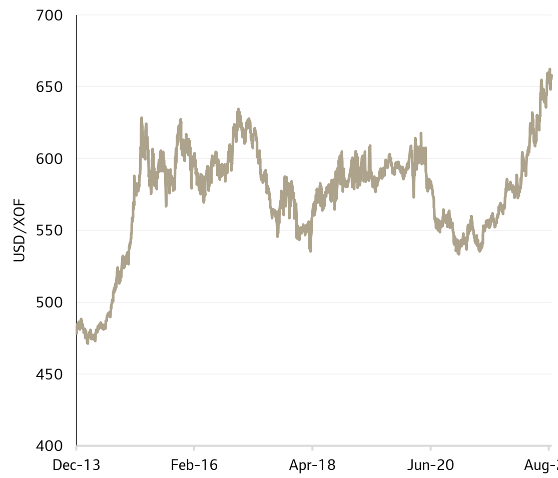
Source: International Monetary Fund; Ministère de l'Economie et des Finances; Agence Nationale de la Statistique et de la Demographie; Banque Centrale des Etats deNotes: pa - period average; pe - period end

Long-term GDP performance



Source: Bloomberg; Standard Bank Research

Historical USD/XOF



Source: Bloomberg

Balance of payments: C/A deficit to deepen further

Senegal's terms of trade only changed marginally in H1:22, compared to H1:21. Still, the C/A deficit could deepen to 17.8% of GDP in 2022 but then soften to 9.9% of GDP in 2023. According to the National Agency for Statistics and Demography, import prices rose by 19.5% y/y, while export prices rose by 19.4% y/y. However, Senegal is dependent on imports, and 2022 is still a year away from hydrocarbon production (due in 2023), so import bills will be very high.

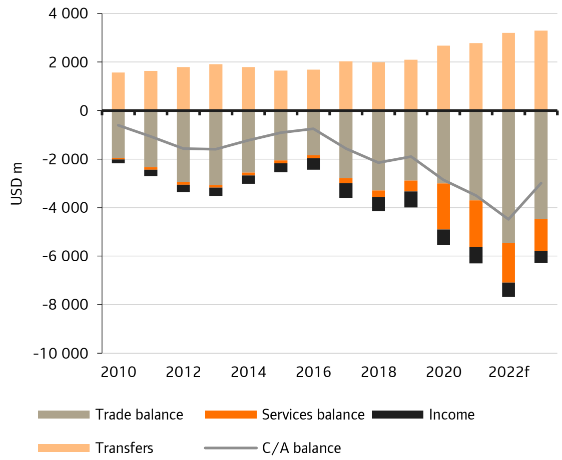
In the first 7-m of the year, exports accelerated by 26.6% y/y, to USD3.3bn, due to growth in gold and oil exports. Export growth remains strong, and it would gain further momentum in 2023 when hydrocarbon production begins.

However, import growth in H1:22 was most robust, up 39.6% y/y, to USD6.5bn. Thus, the trade balance deficit has increased to USD3.2bn, compared to USD2.3bn in H1:21. Import bills may remain high in 2022 due to large oil and hydrocarbon investments.

Therefore, despite a recovery in exports, a sharp deterioration in the trade and services deficit, amid high imports linked to oil and hydrocarbon projects, could lead to another major C/A deficit this year. However, remittances should remain a very important source of funding, accounting for 10% of GDP, and still seemingly resilient.

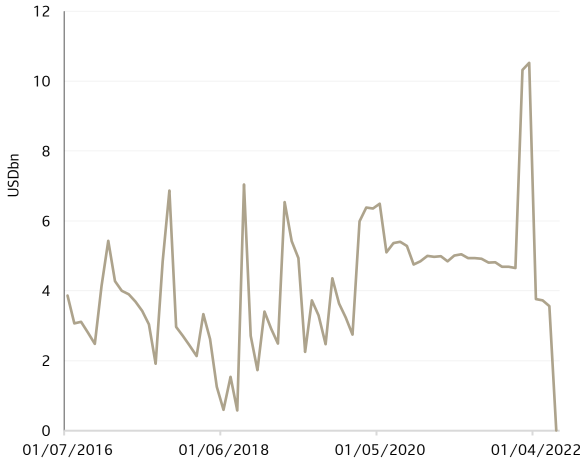
An increase in the C/A deficit is likely to be financed by FDI, as an increase in imports, associated with oil and hydrocarbon projects, is being financed by corresponding FDI. In addition, support from the IMF may revive FX reserves. Senegal has completed its fifth review under its Policy Coordination Instrument (PCI) and its second review under its 18-month Stand-By Agreement (SBA) and Stand-By Credit Facility (SCF). Notably, the size of the program was increased to approximately USD776.7m, from USD650m at the time of approval.

Current acount developments



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

FX reserves



Source:

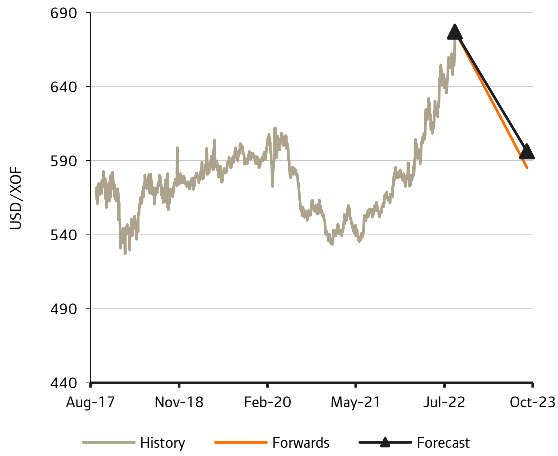
FX outlook: XOF still tracking EUR

The XOF will likely remain pegged at 655.96 to the EUR over our forecast period. We had previously targeted the parity level for euro/dollar, but that has been met, and dollar strength seems relentless. Indeed, our G10 strategist sees a likelihood that the EUR/USD pair may range at 0.95-1.20 for the next 2-y, from current levels of 1.01.

Though the euro may have been bolstered by the ECB's Sep rate hike (75 bps), our houseview sees conditions for a sustained recovery in the euro as only in place when gas price tensions ease, economic recovery starts, and the Fed stops hiking.

Therefore, the bias is for USD/XOF to reach a peak of 676 by Dec before declining to 570 by end-2023. Due to the economic fallout from the pandemic, plans to adopt a new currency, the eco, have been postponed to 2027.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: hiking cycle commences

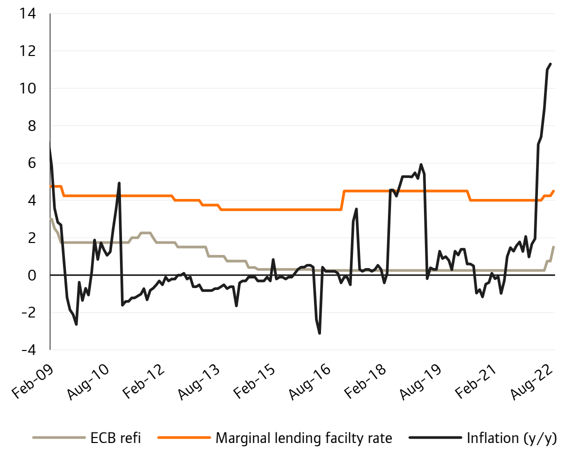
After hiking by 25 bps in Jun, the BCEAO's Monetary Policy Committee raised the minimum bid rate and marginal window rate by a further 25 bps in Sep, to 2.50% and 4.50% respectively. The reserve coefficient applied to banks will however remain unchanged at 3%, it been the case since Q1:17. This hiking cycle comes after the BCEAO had kept policy rates unchanged since mid-2020. We expect a further 25 bps hike at the Dec meeting as supply-side prices pressures are likely to have persisted.

Since regional inflation, which reached 7.0% y/y in Aug, from 7.4% y/y in Jul, remains well above the BCEAO annual inflation target of 3.0%, hiking rates is meant to anchor inflation expectations. The BCEAO foresees softer freight costs, combined with improved food supply after the harvest, as helping to contain inflation. Higher inflation, particularly in Senegal, is largely on account of supply-side factors pushing up food and fuel prices higher. Fuel subsidies have provided some buffer – but higher food prices have nevertheless had a more pronounced impact.

The currency peg between the XOF and the EUR too helps to anchor prices. We see Senegal's headline inflation averaging 7.5% y/y in 2022 and 3.0% y/y in 2023. Favourable base effects too should contain inflation in 2023. In the first 6-m of 2022, inflation kept rising, reaching 8.9% y/y in Jun and 6.2% y/y in Mar.

M2 money growth was 18.7% y/y in May 22, from 15.0% y/y in Jan 22, with the monthly pace of increase picking up to 5.8% m/m in Apr, then contracting by 1.5% in May. Despite the BCEAO's tighter monetary policy stance, the central bank's policy interventions should monitor the impact on regional banking system liquidity as well as favour any structural interventions that would improve access to both credit and credit extension.

Inflation and interest rates

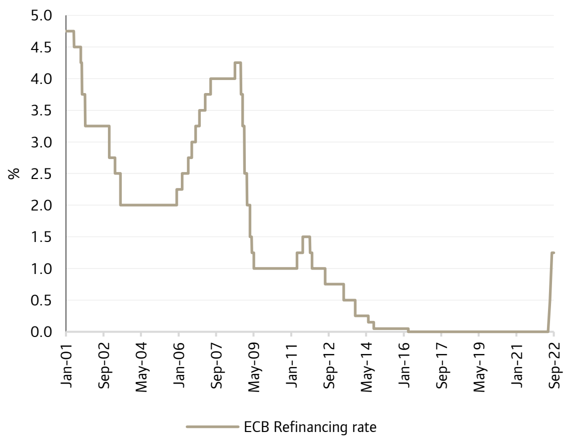


Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

Money supply growth

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

Historical ECB refinancing rate



Source: Bloomberg

Capital market

Source: Bloomberg

Fiscal policy: revenue-driven fiscal consolidation

The government's revised budget forecasts a wider fiscal deficit for 2022 of 6.2%, from 4.8% of GDP in the original budget. Revenue and expenditure are now expected to be larger by 1% and 7% from the initial budget, predominately driven by a 95% increase in grants and a 7% increase in the subsidy budget.

Indeed, the impact of the war in Ukraine on global energy and food prices impelled the government to increase allocation for energy subsidy to 0.9% of GDP. Total subsidy (food and energy) is now estimated at 2.4% of GDP, from 2.3% of GDP in the initial budget.

The fiscal deficit will likely touch higher than planned, especially as the authorities are likely spend more on an energy subsidy than planned. Already, the 2022 budget estimates average oil price of USD75/bbl and currently oil price have averaged USD103/bbl so far this year. The budget outturn for Q1:22 already shows a higher than budgeted fiscal deficit for the pro-rated period given the additional spending efforts to contain the challenges from oil and food price shocks. In Q1:22, the fiscal deficit (including grants) was XOF738bn (5.5% of GDP), against the pro-rated budgeted level of XOF263.75bn (1.9 % of GDP).

The larger-than-budgeted deficit was driven by the twin effects of government prorated budget revenue shortfall of 20% and expenditure overshooting target by 27%, driven partly by increased spending in subsidies, grants, and interest payments.

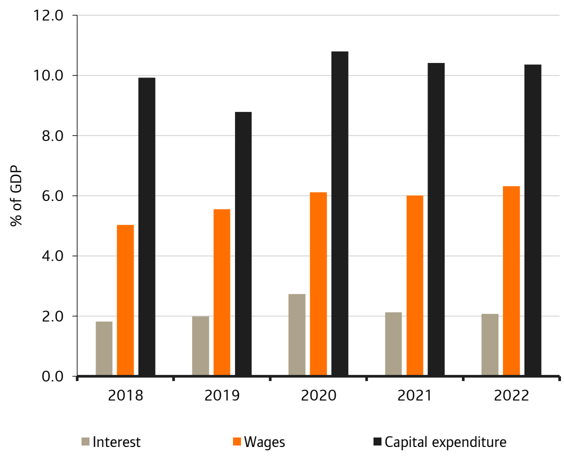
Over the medium term, efforts may improve revenue mobilisation from widening the tax net and digitisation of the tax collection process. External borrowing appears to be the primary source of financing for the budget deficit this year, accounting for about 54% of the total financing plan, of which most will likely come from concessional sources such as the World Bank, the African Development Bank, and bilateral sources. Furthermore, there are no plans to issue Eurobond this year.

Central government budget

% of GDP	2019	2020	2021	2022f
Revenue	20.4	20.0	20.4	19.1
Grants	1.6	2.3	1.5	1.6
Expenditure	24.3	26.4	26.7	26.9
- Salaries	5.4	5.7	6.6	6.3
- Interest	1.9	2.0	2.1	2.1
- Capital	8.5	9.3	10.4	10.4
Fiscal deficit (excl. grants)	-5.5	-8.7	-7.9	-7.8
Fiscal deficit (incl. grants)	-3.9	-6.4	-6.3	-6.2

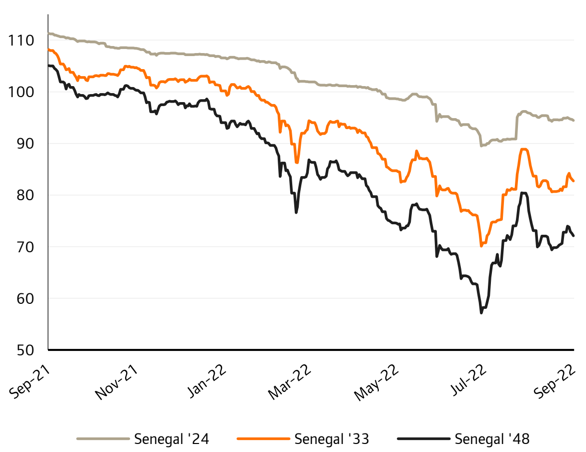
Source: Ministre de l'Economie et des Finances et du Plan

Components of expenditure



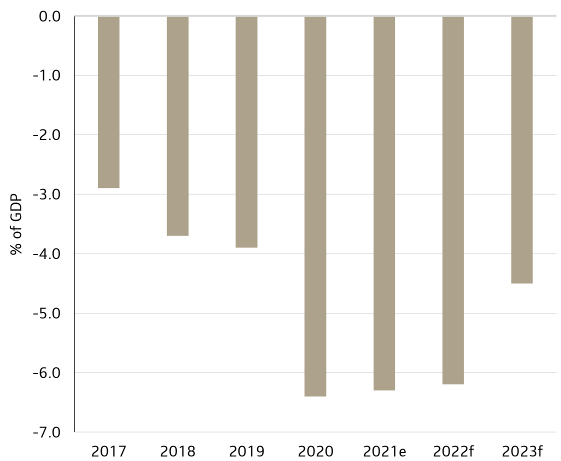
Source: Ministre de l'Economie et des Finances et du Plan

Eurobond prices – mid



Source: Bloomberg

Fiscal deficit (incl grants)



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

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	15.3	15.5	15.8	16.3	16.7	17.0	17.4
Nominal GDP (XOF bn)	11 878	12 615	13 197	13 372	14 127	15 451	16 794
Nominal GDP (USD bn)	20.5	22.0	22.3	23.5	25.1	25.2	30.1
GDP / capita (USD)	1 340	1 426	1 415	1 444	1 500	1 479	1 734
Real GDP growth (%)	7.4	6.2	4.6	1.3	6.0	4.8	7.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-5.0	-5.8	-5.5	-8.7	-7.9	-7.8	-6.1
Budget balance (incl. grants) / GDP (%)	-2.9	-3.7	-3.9	-6.4	-6.3	-6.2	-4.5
Domestic debt / GDP (%)	18.5	18.5	18.6	19.2	20.0	21.0	14.3
External debt / GDP (%)	40.0	39.0	39.1	48.9	49.5	51.8	53.4
Balance of Payments							
Exports of goods (USD bn)	3.4	3.7	4.4	4.5	5.6	6.7	8.6
Imports of goods (USD bn)	-6.2	-7.0	-7.3	-7.5	-9.1	-11.9	-11.9
Trade balances	-2.8	-3.3	-2.9	-3.0	-3.5	-5.2	-3.3
Current account (USD bn)	-1.6	-2.1	-1.9	-2.9	-3.5	-4.5	-3.0
- % of GDP	-7.7	-9.8	-8.5	-12.2	-14.0	-17.8	-9.9
Capital & Financial account (USD bn)	1.8	3.1	2.1	2.7	3.7	4.2	4.9
- FDI (USD bn)	0.5	0.8	1.0	1.9	2.1	2.5	3.4
Basic balance / GDP (%)	-5.1	-6.3	-4.1	-4.2	-5.4	-8.1	1.3
FX reserves (USD bn) pe	2.2	3.1	3.4	3.2	3.4	3.2	5.1
- Import cover (months) pe	4.3	5.3	5.5	5.1	4.5	3.2	5.1
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	1.3	0.5	0.4	1.5	2.2	7.5	3.0
Consumer inflation (%) pe	-0.7	1.3	-1.7	2.5	3.8	7.9	1.4
M2 money supply (% y/y) pa	10.8	12.0	9.7	9.7	18.3	14.3	11.9
M2 money supply (% y/y) pe	9.3	14.1	8.2	12.3	12.3	15.8	10.3
Marginal lending facility (%) pe	4.5	4.5	4.5	4.0	4.0	4.75	5.00
USD/XOF pa	579.3	572.7	591.7	568.3	564.0	637.0	594.2
USD/XOF pe	558.2	580.3	585.7	535.3	576.8	676.2	570.4

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: infrastructure investment to spur growth

Medium-term outlook: relatively robust

We now trim our 2022 GDP growth forecast to 5.0% y/y, from 6.0% y/y, and 2023 to 5.6% y/y, from 6.3% y/y.

Q1:22 GDP growth reached 5.4% y/y, below our 5.9% y/y forecast. Still, despite a regional drought in H1:22, the agrarian sub-sector was relatively resilient, posting growth of 4.0% y/y in Q1:22, from 5.4% in Q4:21.

Favourable base effects should have boosted growth in Q2:22, to 6.7% y/y, before easing to an average 3.9% y/y in H2:22. The spill-over effects from the war in Ukraine will probably further drain real disposable incomes in 2022.

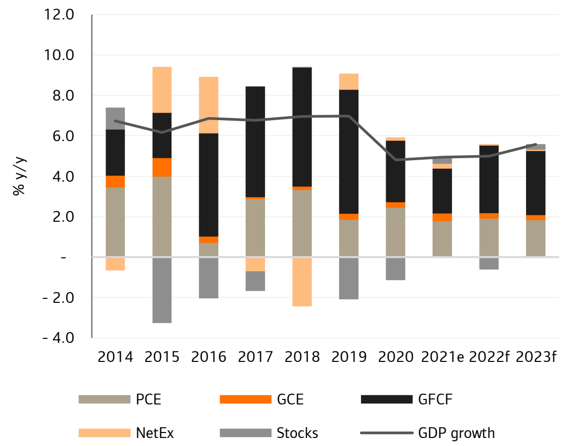
However, the government plans to boost investment in infrastructure over the medium term. Plans are underway to continue constructing the Standard Gauge Railway (SGR), hydropower projects, and more road infrastructure.

This should flatter medium-term economic growth prospects – but concerns are mounting about whether the government will secure external funding to complete projects. Still, funding for the 367km SGR line connecting to Burundi has been set aside for FY2022/23.

Furthermore, the construction of the crude oil pipeline from Uganda should underpin economic activity over the medium term, but the project faces hurdles due to ESG (Environment, Social and Governance) concerns. Further delays in the construction of this pipeline may therefore restrain investment.

Encouragingly, the government has made progress on talks with international energy firms to begin developing the lucrative LNG sector of over 50tr cubic feet. The Host Government Agreements (HGA) are expected to have been signed with international companies by Dec 22, a rather ambitious deadline – but it is important to note the government's concerted efforts to mend relations with energy firms and provide clarity on the regulatory framework in order to secure investments in the LNG sector.

Composition of GDP by demand



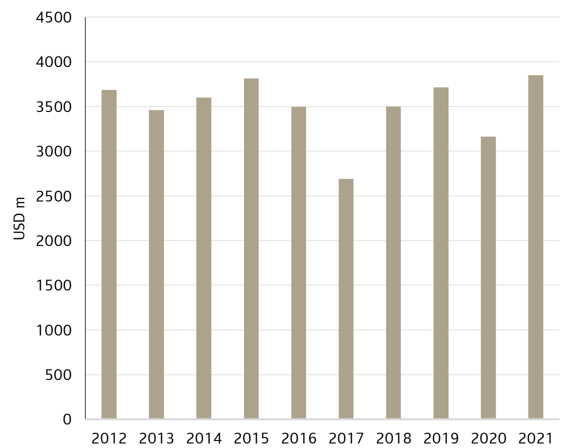
Source: National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2019	2020	2021
Agriculture	26.6	26.9	26.7
Mining & quarrying	5.2	6.7	7.3
Manufacturing	8.5	8.4	8.0
Electricity & gas	0.3	0.3	0.2
Construction	14.2	14.4	14.2
Wholesale & retail trade	8.8	8.7	9.0
Transport & storage	6.9	7.5	7.3
Hotels & restaurants	1.3	1.0	1.1
ICT	1.5	1.5	1.5
Finance & insurance	3.5	3.5	3.6
Real estate	2.7	2.9	2.9
Public administration	3.8	3.7	3.8
Education	2.4	2.3	2.1

Source: National Bureau of Statistics

Capital goods imports



Source: Bank of Tanzania

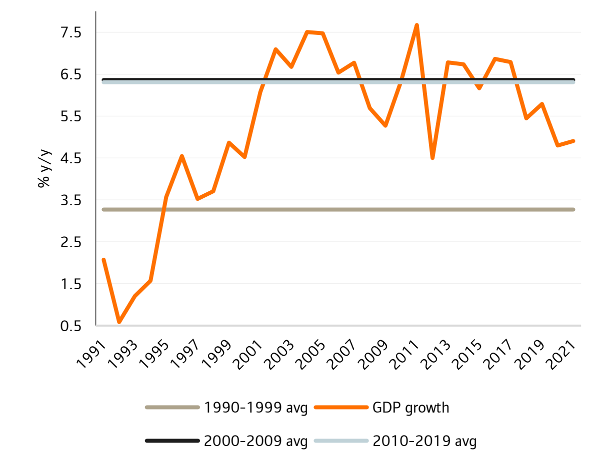
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	5.4	6.7	3.2	4.6	6.0	5.5	7.3	3.6	4.6	5.0	6.2	9.2	7.6	7.5	5.7	5.0
CPI (% y/y) pe	3.6	4.4	4.7	4.7	5.7	4.8	4.3	3.8	3.3	3.2	3.3	3.2	3.4	3.5	3.4	3.5
BoT policy rate	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
3-m rate (%) pe	2.6	2.4	3.0	3.3	3.7	4.0	3.4	3.3	3.5	3.2	3.2	3.3	2.9	2.4	2.1	2.2
6-m rate (%) pe	3.4	2.6	4.0	4.3	4.4	4.8	5.0	5.0	4.9	4.2	4.1	4.0	3.8	3.1	3.0	3.0
USD/TZS	2320	2329	2329	2345	2368	2368	2368	2372	2391	2391	2391	2395	2416	2416	2416	2420
Bull scenario																
GDP (% y/y) pa	5.4	7.0	4.4	8.0	10.2	9.6	11.5	7.8	8.8	9.2	10.4	13.5	11.9	11.8	9.9	9.2
CPI (% y/y) pe	3.6	4.4	4.5	3.8	3.5	2.3	2.3	2.2	1.7	1.6	1.7	1.6	1.8	1.9	1.8	1.9
BoT policy rate	5.00	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
3-m rate (%) pe	2.6	2.4	2.7	2.5	2.8	3.2	3.2	2.8	2.1	2.0	1.6	1.7	1.6	1.5	1.2	1.3
6-m rate (%) pe	3.4	2.6	4.1	4.2	4.4	5.0	5.1	5.2	5.1	4.6	4.5	4.4	4.3	3.8	3.7	3.7
USD/TZS	2320	2329	2326	2334	2315	2315	2315	2311	2289	2289	2289	2284	2264	2264	2264	2260
Bear scenario																
GDP (% y/y) pa	5.4	6.4	2.0	1.3	1.9	1.4	3.1	-0.5	0.5	0.9	2.0	5.0	0.5	0.9	2.0	5.0
CPI (% y/y) pe	3.6	4.4	5.0	6.1	8.4	7.8	6.7	5.4	4.9	4.8	4.9	4.8	5.0	5.1	5.0	5.1
BoT policy rate	5.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
3-m rate (%) pe	2.6	2.4	3.5	4.0	4.6	4.8	5.1	4.9	4.4	4.1	3.3	3.7	3.2	2.9	2.1	2.5
6-m rate (%) pe	3.4	2.6	4.6	4.8	5.0	5.6	5.7	5.8	6.0	5.7	5.6	5.9	5.7	4.8	4.7	4.6
USD/TZS	2320	2329	2335	2371	2462	2480	2475	2487	2576	2593	2589	2601	2697	2716	2711	2724

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

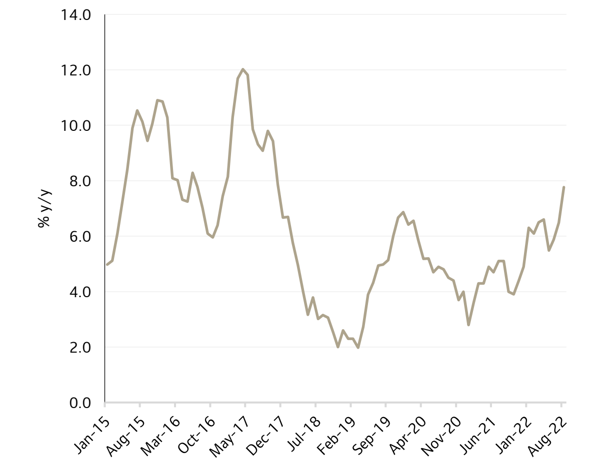
Notes: pe – period end; pa –a period average

Long-term GDP growth



Source: World Bank

Food inflation



Source: National Bureau of Statistics

Balance of payments: imports rising

We still see the C/A deficit widening to 4.8% of GDP in 2022 before narrowing to 4.2% in 2023.

Gold exports edged down in H1:22, to USD2.71bn in the year ending Jul 22, compared to USD2.99bn in Jul 21. As at Jul 22, gold exports accounted for nearly 40% of goods and services exports.

However, as global travel recovers, tourism receipts too should increase. Service export inflows increased to USD487.5m in Jul 22, from USD308.1m in Mar 22 and USD240.4m in Mar 21.

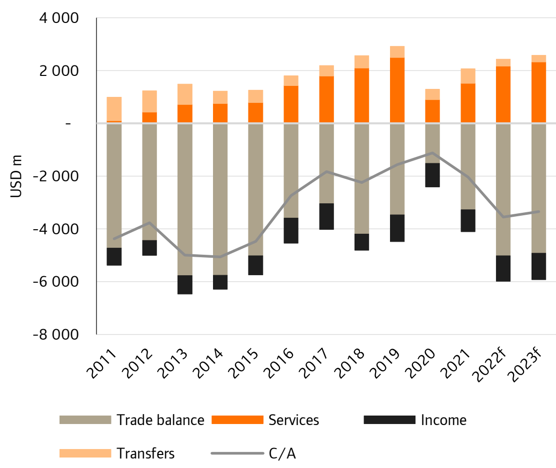
A wider C/A deficit this year is predicated mainly on the trade balance widening due to higher international oil prices. Conversely, with oil prices expected to decline in 2023 relative to 2022, the C/A deficit should narrow.

However, given that underlying economic activity remains subdued, consumer import demand may also rise more moderately than we currently anticipate. Additionally, if the government struggles to source external funding, capital spending may also wane and restrain goods imports.

FX reserves declined to USD5.1bn in May 22, from USD5.6bn in Mar 22, as the BOT increased USD sales to commercial banks, while the government's external debt obligations rose in that time.

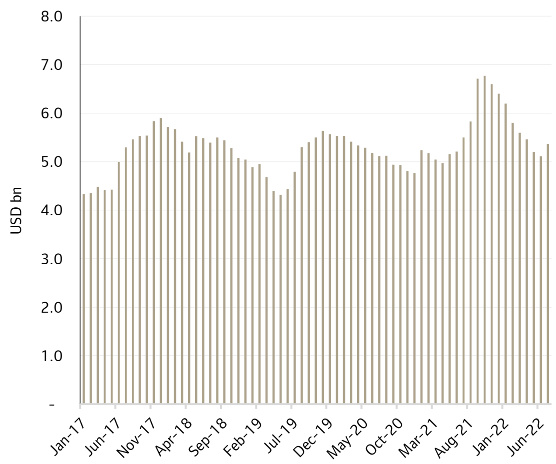
Reserves then recovered to USD5.4bn in Jul 22 largely due to the USD151m disbursement under the IMF programme. The programme may help unlock other multilateral financing over the coming year. This, and a commercial syndicated loan issuance, may underpin FX reserves over that time.

Current account developments



Source: Bank of Tanzania; Standard Bank Research

FX reserves



Source: Bank of Tanzania

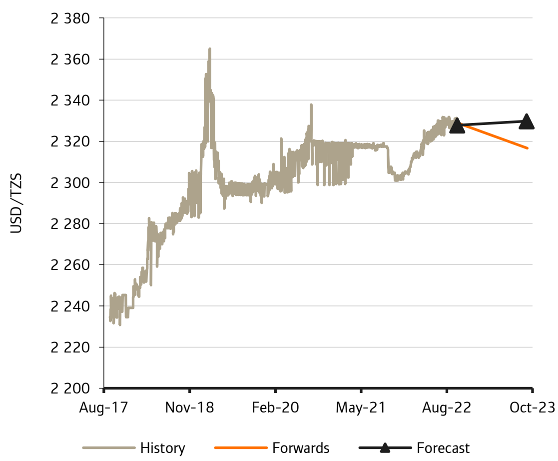
FX outlook: USD/TZS face near-term upside risks

We still see the USD/TZS pair trading around 2320-2345 by end Dec 22. The capital account is only partially liberalised but the BOT has had to intervene in the FX market by selling USD for the better part of this year.

Between May and Jul 22, the BOT sold an average of USD19.3m to the market on a net basis. Onshore FX liquidity remains patchy as negative real T-bill yields may be emboldening investors to switch to USD assets.

Refreshingly, the capital account was finally opened to SADC based investors this year, which should bode well for foreign portfolio inflows into the TZS bond market over the coming year as well as support TZS stability. However, appetite for government bonds and T-bills has remained restrained despite the further opening up of the capital account.

USD/TZS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still neutral

The MPC will likely maintain a neutral policy stance over the coming year.

Since the BOT still targets money supply rather than an interest rate, the preference is to alter TZS liquidity conditions in the market through open market operations and FX intervention, in order to anchor inflation expectations.

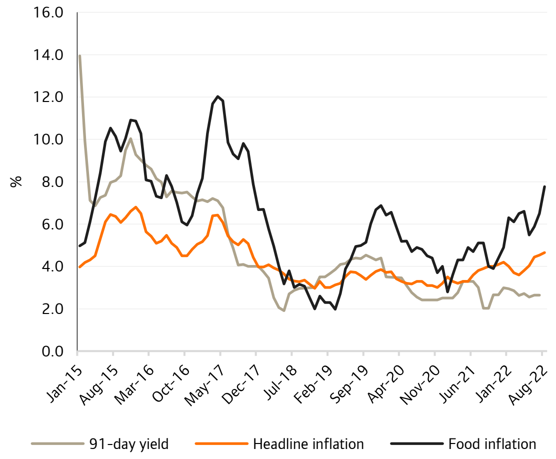
But, under the current IMF programme, which the government secured in Jul 22, the modernisation of the monetary policy framework may be expedited. Indeed, the BOT could transition towards targeting an interest rate corridor over the next few years.

Most African central banks tightening monetary policy in 2022 but the Bank of Tanzania's MPC kept the discount rate unchanged at the Jun 22 meeting as inflation was within the target range of 3.0-5.0% y/y.

Headline inflation rose to 4.6% y/y in Aug 22, from 4.0% y/y in May 22 and 3.6% y/y in Mar 22, largely due to higher food and fuel prices. The food and non-alcoholic beverages sub-index reached 7.8% y/y in Aug 22, from 6.5% y/y in Mar 22, while the transport sub-index increased to 8.1% y/y, from 2.9% y/y.

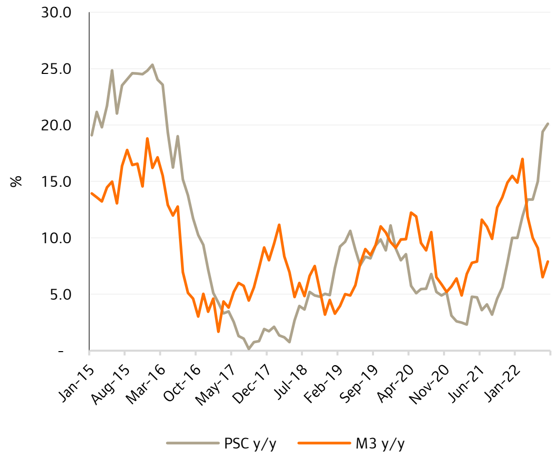
We expect headline inflation below 5.0% y/y between Sep and Dec 22, thereafter averaging 5.2% y/y in H1:23.

Inflation and interest rates



Source: Bank of Tanzania; National Bureau of Statistics

Money supply



Source: Bank of Tanzania

Yield curve outlook: T-bill yields could rise further

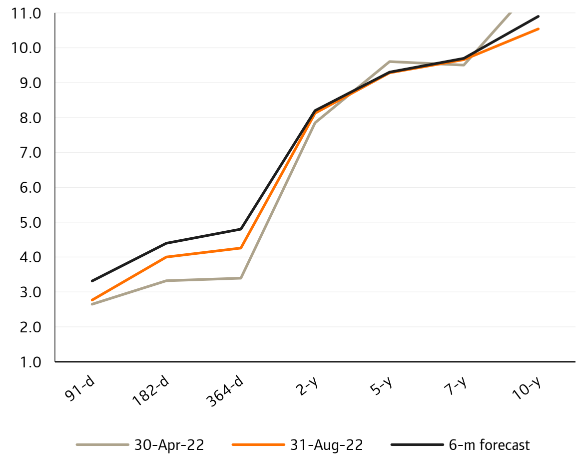
The yield curve has bull-flattened over the past 4-m or so. While T-bill yields have edged higher since Apr 22, bond yields on average gradually eased.

Headline inflation will likely edge higher in H1:23 but the BOT will probably keep TZS liquidity conditions tight, thereby placing further moderate upward pressure on T-bill yields.

The government's external debt obligations are expected to increase into Dec, so the TZS could face some pressure, which would further embolden the BOT to keep domestic liquidity conditions tight.

Should external funding for infrastructure development be out of reach, domestic borrowing may increase, thereby increasing bond yields.

Changes in the yield curve



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: expansionary

The government is targeting expansionary fiscal policy in FY2022/23. The planned budget deficit, excluding grants, is expected to increase to 4.6% of GDP, from 3.8% in FY2021/22.

Development expenditure is likely to rise to TZS15.0tr (7.8% of GDP), from 6.8% in the previous fiscal year. Notably, TZS1.1tr will be allocated to the Standard Gauge Railway (SGR) and TZS1.4trn to the Julius Nyerere hydropower project.

Furthermore, the government will spend TZS100.0bn on fuel subsidies for FY2022/23, in addition to both fertiliser and sunflower seeds subsidies.

This larger fiscal deficit for FY2022/23 will be primarily financed by a 34.9% y/y increase in net domestic borrowing and a 17.3% y/y increase in external concessional loans. Of course, issuing commercial debt, such as syndicated loans, may prove more expensive in FY2022/23.

Moreover, the government still hasn't finalised an official credit rating, but may secure this over the coming year. The authorities are keen to issue external commercial debt in the international capital markets such as Eurobonds once the rating has been secured.

Nevertheless, given the uncertain global risk environment, even if a credit rating were secured in 2023, the government may still be unable to issue a Eurobond until 2024.

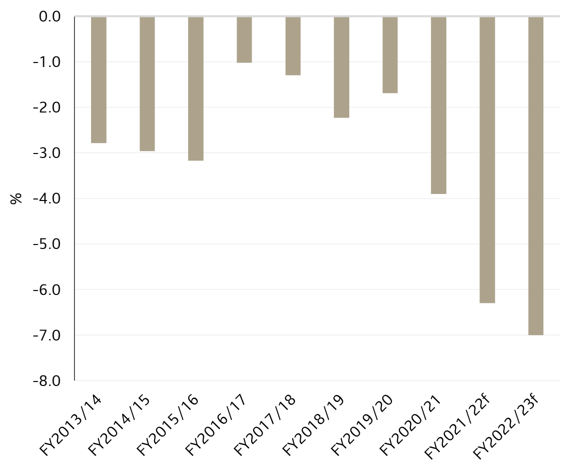
Domestic debt issuance may be relied on more over the coming year, amidst expensive commercial debt. While the opening up of the capital account to SADC investors hasn't yet yielded notable interest in the local debt market, it may still boost foreign portfolio investment over the next few years.

Central government budget (% of GDP)

	FY2021/22	FY2022/23
Total revenue	11.9	14.6
Total expenditure	15.4	21.6
Wages	4.2	5.1
Interest	1.5	1.5
Development	6.8	7.8
Overall balance (- grants)	-6.3	-7.0
Overall balance (+ grants)	-3.8	-4.6
Net domestic borrowing	1.9	3.0
Net external borrowing	1.5	1.6
Donor support (grants)	2.5	2.4

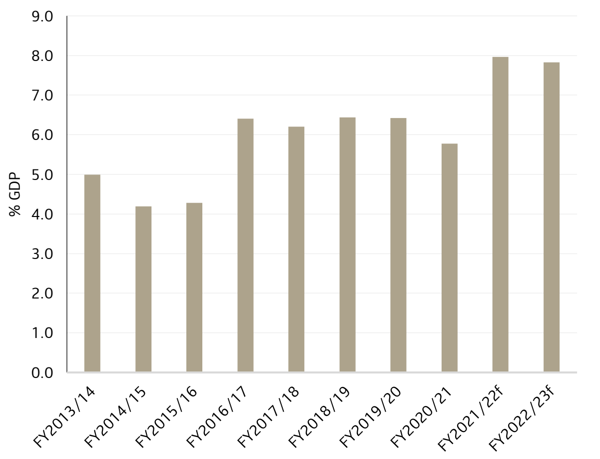
Source: Ministry of Finance

Fiscal deficit excluding grants



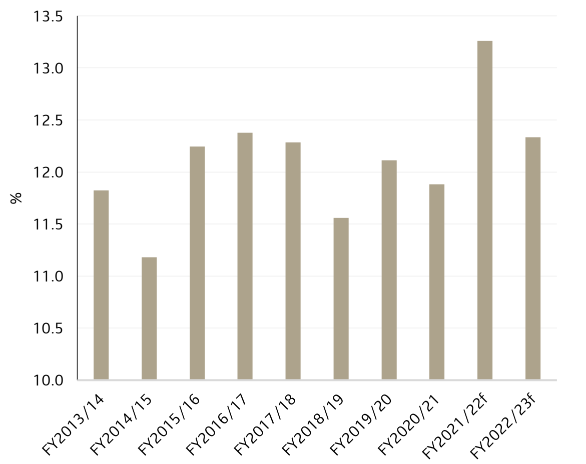
Source: Ministry of Finance

Development expenditure



Source: Ministry of Finance

Tax revenue



Source: Ministry of Finance

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	54.6	56.3	58.0	59.7	61.3	63.0	64.7
Nominal GDP (TZS bn)	118 744	129 043	139 894	148 522	157 655	172 717	190 805
Nominal GDP (USD bn)	53.1	56.6	60.5	64.2	68.4	74.1	80.5
GDP / capita (USD)	1 002	1 036	1 075	1 107	1 146	1 176	1 245
Real GDP growth (%)	6.8	7.0	7.0	4.8	4.9	5.0	5.6
Gold production ('000 Kg)	43.0	39.3	48.4	55.8	58.5	63.3	73.3
Tobacco production ('000 MT)	58.6	50.5	70.8	37.5	56.0	64.5	72.0
Coffee production ('000 MT)	48.3	45.2	68.1	60.7	70.6	76.5	85.1
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.0	-2.1	-2.9	-1.7	-3.9	-6.3	-7.0
Budget balance (incl. Grants) / GDP (%)	-1.4	-1.9	-3.2	-1.4	-3.5	-3.8	-4.6
Domestic debt / GDP (%)	11.7	11.9	11.1	10.7	12.2	12.8	12.8
External debt / GDP (%)	28.3	29.5	28.6	28.0	28.2	28.1	27.5
Balance of Payments							
Exports of goods and services (USD bn)	8.5	8.4	9.7	8.8	10.0	9.5	9.9
Imports of goods and services (USD bn)	8.9	10.4	10.9	8.9	11.7	12.3	12.5
Trade balance (USD bn)	-0.4	-1.7	-1.2	-0.1	-1.8	-2.9	-2.6
Current account (USD bn)	-0.6	-2.7	-1.6	-1.0	-2.5	-3.6	-3.3
- % of GDP	-1.0	-4.8	-2.6	-1.5	-3.7	-4.8	-4.2
Financial account (USD bn)	2.0	1.6	2.3	0.6	1.2	3.0	3.3
- FDI (USD bn)	0.9	1.0	1.2	0.7	0.9	1.5	1.6
Basic balance / GDP (%)	0.7	-3.0	-1.2	-1.1	-3.2	-4.4	-3.8
FX reserves (USD bn) pe	5.9	5.0	5.6	4.8	6.6	5.6	5.8
- Import cover (months) pe	7.5	6.3	6.5	5.6	6.8	5.0	5.3
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	nr	B2	B2	B2
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	5.3	3.5	3.5	3.3	3.7	4.3	4.6
Consumer inflation (%) pe	4.0	3.3	3.8	3.2	4.2	4.7	3.8
M3 money supply (% y/y) pa	5.5	6.7	9.2	8.8	10.3	13.3	11.3
M3 money supply (% y/y) pe	8.0	4.9	9.6	5.7	15.5	8.5	12.1
BoT discount rate (%) pa	11.50	8.00	7.00	5.50	5.00	5.00	5.00
BoT discount rate (%) pe	9.00	7.00	7.00	5.00	5.00	5.00	5.00
3-m rate (%) pe	4.0	3.5	4.5	2.5	3.0	3.3	3.3
1-y rate (%) pe	8.4	9.3	5.9	4.3	4.2	4.5	4.4
2-y rate (%) pe	11.1	10.5	11.1	7.1	7.7	8.2	7.9
5-y rate (%) pe	13.6	12.0	12.0	9.1	9.4	9.4	9.1
USD/TZS pa	2237	2281	2311	2314	2304	2331	2369
USD/TZS pe	2240	2310	2300	2319	2298	2345	2372

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

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

Uganda: a range of downside risks to growth

Medium-term outlook: pending oil investment still key

We now trim our FY2022/23 GDP growth forecast to 5.0%-5.3% y/y, from 5.5%-5.8% y/y. However, we increase our FY2021/22 growth forecast to 4.7%-5.0% y/y, from our previous forecast of 4.0%-4.3% y/y.

Per data from the Uganda Bureau of Statistics, Q4:21 GDP growth was revised higher to 7.6% y/y, from a prior reading of 5.2% y/y. GDP growth in Q1:22 reached 5.9% y/y, exceeding our 4.2% y/y forecast.

The government had reopened the economy and dropped most public health restrictions as of Jan 22, which might have underpinned growth despite the Omicron wave at end Q4:21.

Whereas the accommodation and food service sub-sector contracted by 48.3% y/y in Q1:22, from 27.9% y/y in Q4:21, the agricultural sector rebounded to 9.3% y/y, from a 0.4% y/y contraction. Weather conditions have not favoured this sector for most of this year, which may have restrained GDP growth as of Q2:22. However, the tourism sector will probably recover after having contracted in Q1:22, as have most other African economies, with public health restrictions now fully lifted.

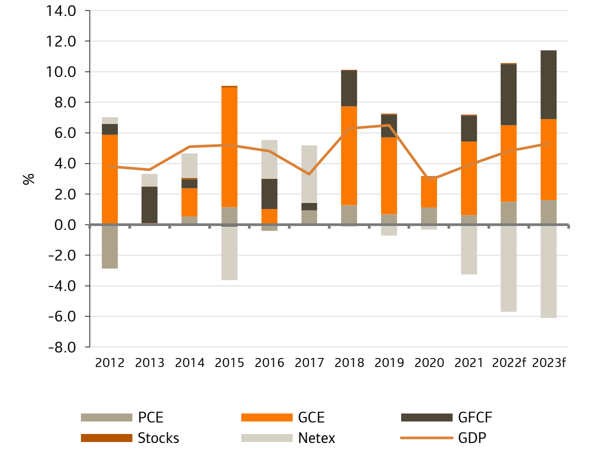
Adverse weather conditions may constrain net exports, with coffee sector productivity expected to decline this year. Furthermore, inflationary pressures prompted the Bank of Uganda's MPC to tighten policy; therefore, disposable incomes will likely remain under pressure until at least H2:23.

Over the medium term, increased oil-related investment should drive growth. First oil seems due around 2026, and investment in this sector should underpin multiplier expenditure benefits for other sectors such as construction and transport.

FDI too should increase over the next 3-y, supporting growth after the discovery of around 31m tonnes in gold ore deposits. This implies 320k tons of refined gold to be extracted.

However, first, mining firms would need to secure exploration and mining licences.

GDP by expenditure



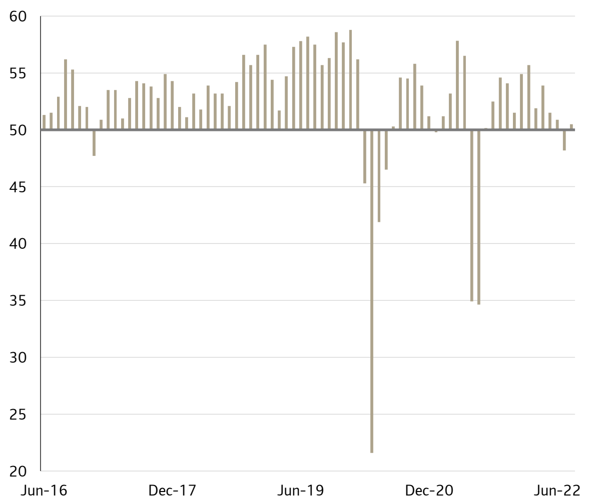
Source: Uganda Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2015	2021
Agriculture	27.1	23.2	23.3
Mining	1.2	1.0	1.4
Manufacturing	8.7	16.1	15.0
Construction	5.5	5.1	6.2
Trade & repairs	13.3	9.7	8.3
Transport	2.6	3.3	3.0
Accommodation & food	2.1	2.5	2.5
ICT	4.2	1.6	2.2
Financial & insurance	2.4	2.8	3.0
Real estate	5.5	6.0	6.7
Public administration	2.8	2.0	3.1
Education	5.3	5.2	4.0

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

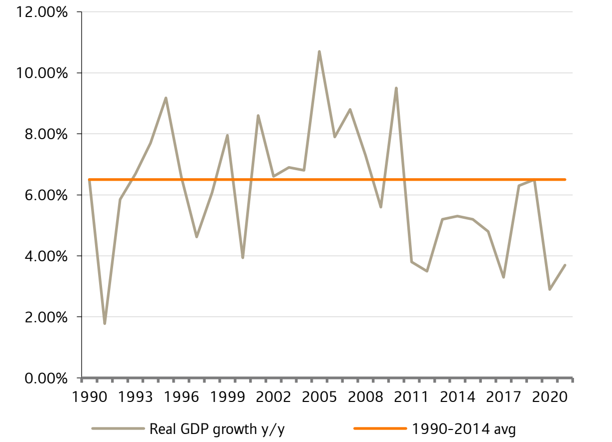
Medium-term economic growth forecasts

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	5.9	2.1	4.8	4.3	5.4	5.8	5.7	6.2	6.5	6.6	7.1	7.4	7.4	7.1	7.3	7
CPI (% y/y) pe	3.70	6.80	9.30	9.50	8.70	4.80	2.40	2.60	2.20	3.30	4.40	3.90	4.60	4.80	3.30	3.40
BOU policy rate (%) pe	6.50	8.50	9.00	10.50	11.00	11.00	10.00	9.00	9.00	8.50	8.50	8.00	8.00	8.00	8.00	8.00
3-m rate (%) pe	6.50	8.00	9.40	10.10	10.80	10.10	9.50	8.80	8.10	7.70	7.70	7.50	7.80	7.80	7.50	7.40
6-m rate (%) pe	8.10	8.80	11.90	12.30	13.20	12.80	12.50	11.60	10.40	10.10	9.80	8.80	8.30	8.30	8.10	8.20
USD/UGX	3585.0	3760.0	3880.0	3920.0	3900.0	3870.0	3830.0	3800.0	3750.0	3780.0	3800.0	3850.0	3770.0	3740.0	3715.0	3700.0
Bull scenario																
GDP (% y/y) pa	5.9	4.9	5.9	5.8	6.3	6.7	7.1	7.2	7	7.7	7.8	7.9	7.8	8	7.8	8.1
CPI (% y/y) pe	3.70	6.80	8.20	7.80	6.70	3.10	1.90	2.10	1.90	2.50	3.10	3.40	3.60	3.50	2.80	3.00
BOU policy rate (%) pe	6.50	8.50	9.00	9.00	9.00	8.00	7.50	7.00	7.00	7.00	6.50	6.50	6.50	6.50	6.50	6.50
3-m rate (%) pe	6.50	8.00	8.50	8.30	8.10	8.10	7.70	7.50	7.20	7.20	7.00	6.80	6.80	6.70	6.60	6.60
6-m rate (%) pe	8.10	8.80	11.50	11.20	10.80	10.50	10.40	10.10	9.80	9.60	9.10	8.80	8.80	8.50	7.90	7.50
USD/UGX	3585.0	3760.0	3760.0	3730.0	3750.0	3760.0	3715.0	3700.0	3670.0	3670.0	3620.0	3600.0	3600.0	3560.0	3550.0	3515.0
Bear scenario																
GDP (% y/y) pa	5.9	0.8	2.5	3.1	3.9	4.4	4.6	4.1	3.9	4.8	5.1	4.9	5.2	5.1	4.8	5.4
CPI (% y/y) pe	3.70	6.80	11.10	13.40	12.20	9.90	6.50	5.70	6.10	6.30	6.50	6.40	6.10	5.80	5.50	5.50
BOU policy rate (%) pe	6.50	8.50	9.00	11.50	13.00	13.00	13.00	12.00	11.00	10.00	9.00	9.00	9.00	9.00	9.00	9.00
3-m rate (%) pe	6.50	8.00	12.40	13.10	13.70	13.50	13.10	12.50	11.70	11.50	11.20	10.50	10.40	10.10	9.80	9.50
6-m rate (%) pe	8.10	8.80	13.10	14.20	14.60	14.40	13.70	13.10	13.00	12.80	12.70	12.50	12.50	11.70	11.70	11.50
USD/UGX	3585.0	3760.0	3870.0	3980.0	3950.0	3980.0	3930.0	3900.0	3870.0	3915.0	3930.0	3980.0	4000.0	4050.0	4050.0	4030.0

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

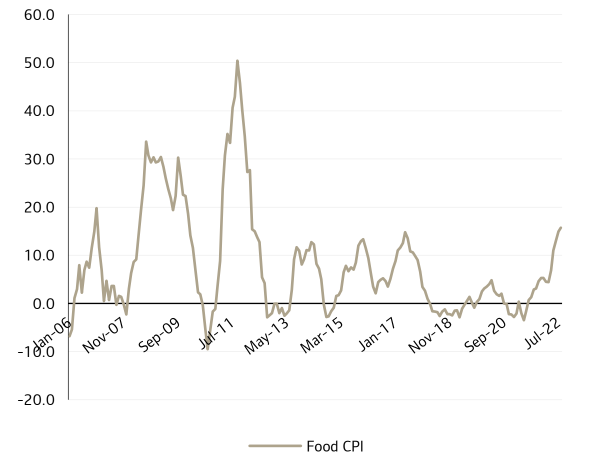
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: World Bank; Uganda Bureau of Statistics

Food inflation (%)



Source: Uganda Bureau of Statistics

Balance of payments: no gold exports

We expect the C/A deficit to widen to 10.7% of GDP in 2022, from 8.6% in 2021. It may then reach 11.8% of GDP in 2023 as import demand might swell due to likely increased oil investment.

Gross FX reserves declined to USD3.88bn (equivalent to 3.8 months of import cover) in Jul 22, from USD4.53bn (4.4 months) in Mar. This was attributable largely to increased foreign portfolio investment outflows as well as sell-side intervention by the BOU in the FX market.

Into Dec, foreign portfolio inflows will likely remain poor amidst a volatile global risk environment. However, once domestic inflation subsides from H1:23, perhaps also coinciding with improved global risk sentiment, portfolio inflows may gradually recover in H2:23, particularly as UGX bond yields have already adjusted higher.

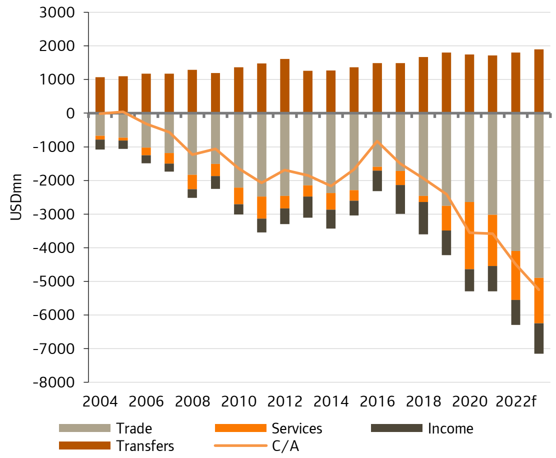
Still, the oil sector should see increased FDI, which should sour financing for the C/A deficit over the next few years.

Coffee export earnings have been defying poor weather conditions and expensive fertiliser by rising to USD442.8m in H1:22, from USD419.4m in H2:21. The authorities having withdrawn from the International Coffee Organisation (ICO) earlier this year too may further spur coffee export earnings given the removal of hurdles such as certain tariffs and other barriers.

Goods imports have increased more gradually than expected, but no gold has been exported since Jul 21, even after altering the government's tax policy for gold exports.

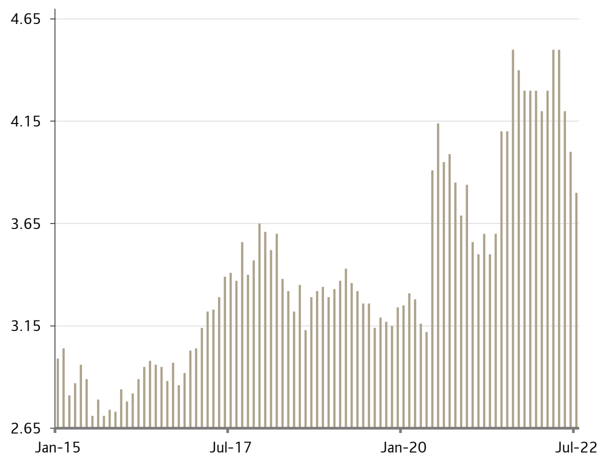
However, the authorities may be abolishing gold tax, which should see gold exports recover from 2023.

Current account developments



Source: Standard Bank Research; Bank of Uganda

FX reserves (USD bn)



Source: Bank of Uganda

FX outlook: risks from weak portfolio investment

We see USD/UGX at 3920-3950 by Dec. The UGX may remain on the defence, for now, as foreign portfolio investment is unlikely to pick up until at least H2:23.

Furthermore, should the government struggle to secure external budget funding over the next 6-m or so, the UGX may come under more pressure than our base case currently assumes.

The government's planned commercial syndicated loan has been pushed out due to pricing concerns. Towards Nov 22, the UGX may find some support from seasonal coffee sector USD inflows. However, a large share of such flows may have already been hedged, with exporters having sold forward. Interestingly, the BOU's plans to lower commercial banks FX Net Open Position (NOP) to 10%, from 25%, has now been put on hold indefinitely.

USD/UGX: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: further rate hikes loom

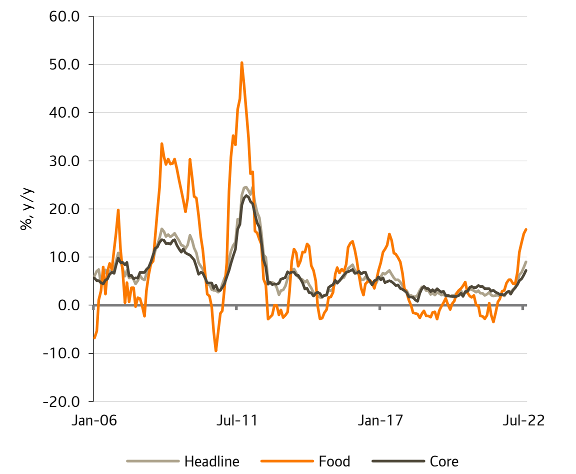
The MPC will likely hike the key policy rate by 100-200 bps between Oct 22 and Mar 23. After headline inflation breached the upper band target of 7.5% y/y, the MPC hiked the CBR by 50 bps in Aug.

Based on the Aug MPC communique, the committee flagged that further fiscal policy tightening, may help stabilise inflation. Nevertheless, inflationary pressures will likely persist over the next 12-m.

Indeed, headline inflation rose to 9.0% y/y in Aug 22, from 3.7% y/y in Mar 22 and 2.7% y/y in Jan 22. Headline inflation seems set to remain above the 7.5% y/y upper band target until Apr 23, then averaging 3.0% y/y in H2:23. Should the UGX however remain under pressure from a further delay in foreign portfolio inflows, inflationary pressures may run into H2:23.

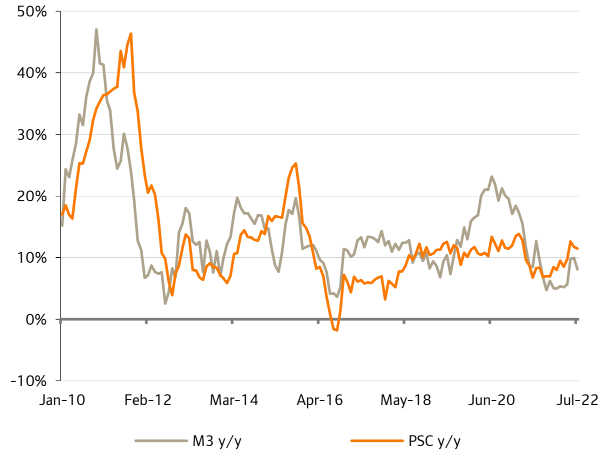
Should the MPC tighten monetary policy conditions into H1:23, they may well anchor inflation expectations. Moreover, should international oil prices soften further into 2023 as global growth moderates, domestic fuel pump prices should decline and thereby stabilise both fuel and food inflation.

Inflation and interest rates



Source: Bank of Uganda; Uganda Bureau of Statistics

Monetary aggregates



Source: Bank of Uganda

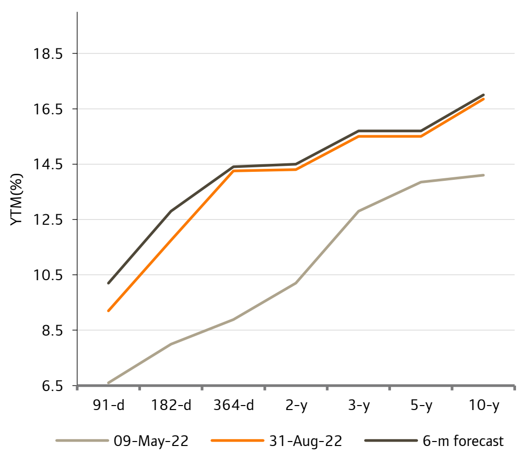
Yield curve outlook: bear-flattening

We see limited upside for UGX bond yields, although any abrupt move lower in bond yields too would be unlikely in the next 4-m or so given subdued foreign portfolio investment.

10-y government bond yields have risen by nearly 300 bps since May 22. This makes for a tempting level to re-enter the duration trade – but we would rather wait until H1:23 to reassess.

First, there may be more rate hikes. Second, foreign portfolio investment may be a long way off. Still, domestic investors may invest in UGX bonds at these attractive yields but, in the absence of offshore investment, any such appetite may also be subdued.

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: consolidation to prove tricky

The government plans to lower the fiscal deficit, excluding grants, to 6.6% of GDP in FY2022/23, from 8.4% in FY2021/22, a rather ambitious target, considering likely increased expenditure in the oil sector. Initially, the authorities had targeted a 7.3% of GDP fiscal deficit in the FY2021/22 budget.

Additionally, matching the expected decline in the planned budget deficit for FY2022/23, the net domestic funding target is seen as decreasing to UGX5.0tr, from UGX6.4tr. However, the government has consistently overshot domestic borrowing targets in the past 5-y. Therefore, they may again have to borrow more from domestic sources than planned. In fact, the lack of external financing in the next 3-m or so may well impel that.

The government has delayed plans to issue the USD425m commercial syndicated loan, presumably due to pricing concerns. However, as global risk conditions improve into H1:23, they may have another go. They may also look to the World Bank for concessional budget support but that may prove challenging given that the World Bank had previously withheld lending to Uganda due to under-absorption of the development budget.

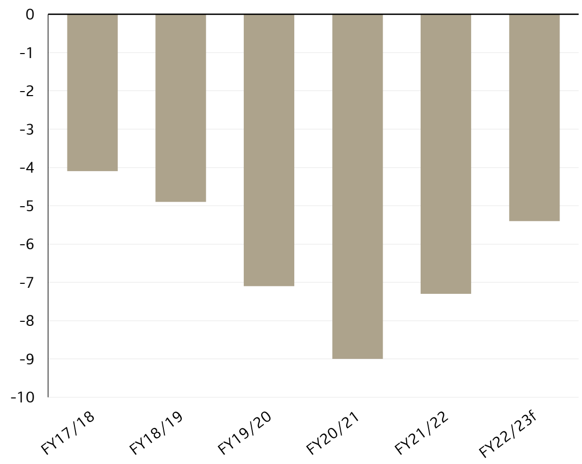
Tax revenue collections too may remain subdued in H1:FY2022/23 because of subdued economic activity.

Central government operations

% of GDP	FY2021/22	FY2022/23
Total revenue	14.3	16.1
Total expenditure	21.6	21.5
Wages	3.7	3.7
Interest	3.1	2.7
Development expenditure	8.7	8.1
Overall balance (- grants)	-8.4	-6.6
Overall balance (+ grants)	-7.3	-5.4
Net domestic borrowing	4.0	2.9
Net external borrowing	3.3	2.5

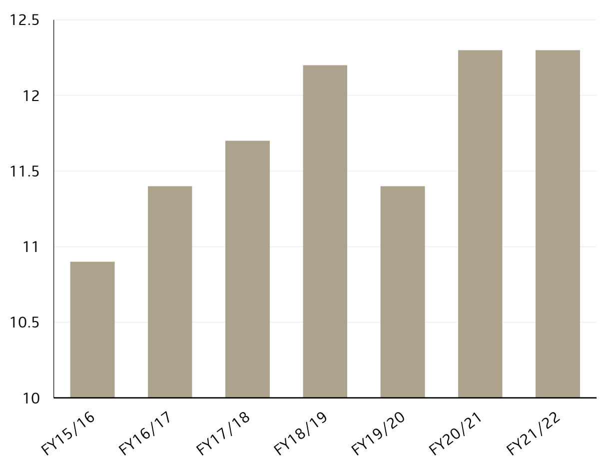
Source: Ministry of Finance

Fiscal deficit inclusive of grants (% of GDP)



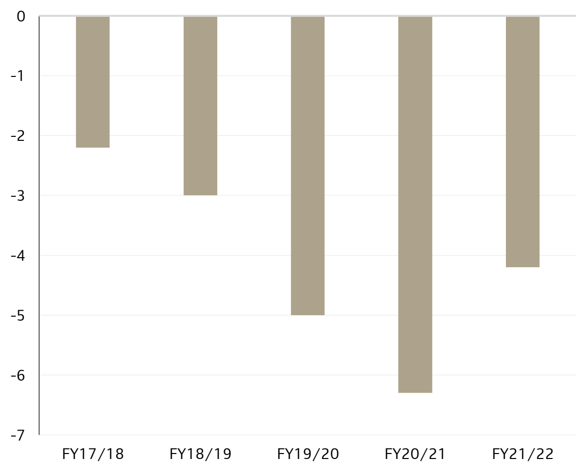
Source: Ministry of Finance

Tax revenue (% of GDP)



Source: Ministry of Finance

Primary budget (% GDO)



Source: Ministry of Finance

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	37.7	38.8	39.8	41.2	42.5	43.7	45.0
Nominal GDP (UGX bn)	108 518	120 485	132 090	139 689	148 310	157 781	171 460
Nominal GDP (USD bn)	30.0	31.9	35.8	37.5	41.4	42.1	44.8
GDP / capita (USD)	797	823	899	911	976	963	995
Real GDP growth (%)	3.3	6.3	6.5	2.9	3.9	4.8	5.3
Coffee production ('000 Tonnes)	229.7	225.5	221	229	228	219	225
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.6	-4.7	-5.8	-8.0	-10.4	-8.4	-6.6
Budget balance (incl. Grants) / GDP (%)	-3.5	-4.1	-4.9	-7.1	-9.0	-7.3	-5.4
Domestic debt / GDP (%)	13.5	13.9	14.2	16.0	16.2	18.1	19.0
External debt / GDP (%)	19.7	23.5	23.8	31.2	33.1	34.5	36.1
Balance of Payments							
Exports of goods and services (USDbn)	5.0	6.0	6.3	5.6	6.2	6.4	6.7
Imports of goods and services (USDbn)	7.2	8.7	9.8	10.2	10.6	11.8	12.6
Trade balance (USD bn)	-2.2	-2.7	-3.5	-4.6	-4.4	-5.4	-5.9
Current account (USD bn)	-1.5	-1.9	-2.4	-3.6	-3.6	-4.5	-5.3
- % of GDP	-5.0	-6.1	-6.8	-9.6	-8.6	-10.7	-11.8
Financial account (USD bn)	1.09	1.41	1.8	1.9	2.2	2.4	2.8
- FDI (USD bn)	0.80	1.00	1.3	0.8	1.0	1.3	1.9
Basic balance / GDP (%)	-2.3	-2.9	-3.2	-7.4	-6.2	-7.6	-7.6
FX reserves (USD bn) pe	3.65	3.40	3.2	3.8	4.3	4.0	4.3
- Import cover (months) pe	5.1	4.5	4.1	4.0	4.2	3.9	3.7
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	5.4	2.5	2.2	2.8	2.2	6.9	5.2
Consumer inflation (%) pe	3.3	2.2	2.4	2.5	2.9	9.5	2.6
M3 money supply (% y/y) pa	12.9	10.8	11.0	19.8	10.4	8.3	9.1
M3 money supply (% y/y) pe	12.8	8.2	16.0	17.1	5.0	7.1	7.9
BOU policy rate (%) pa	10.5	9.2	9.8	7.5	6.6	8.0	10.0
BOU policy rate (%) pe	9.5	10.0	9.0	7.0	6.5	10.5	9.0
3-m rate (%) pe	8.4	10.4	9.2	8.5	6.5	10.1	8.8
1-y rate (%) pe	9.0	13.2	12.9	14.0	10.4	14.5	12.7
2-y rate (%) pe	11.2	14.9	14.5	16.0	10.7	14.7	13.3
5-y rate (%) pe	12.7	16.5	16.0	16.5	13.9	15.7	14.8
USD/UGX pa	3615	3773	3690	3721	3580	3786	3850
USD/UGX pe	3643	3705	3665	3 650	3560	3920	3800

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

Notes: pa - period average; pe - period end

Zambia: IMF funding finally secured

Medium-term outlook: still slow

We retain our GDP growth forecasts of 1.9% y/y for 2022 and 2.8% y/y for 2023. Though robust copper exports should still support net exports, rising inflation will likely constrain the economic outlook. After 2021 GDP growth was revised up to 4.6% y/y, from 3.6% y/y, 2022 base effects turned unfavourable. Indeed, the BOZ forecasts medium-term growth of 3.1% -4.1% y/y.

Q1:22 GDP reached 2.4% y/y; our forecast was 2.3% y/y. The public administration, arts, entertainment and recreation and education sectors recorded the highest growth rates in Q1:22, but the construction and mining sector remained in contraction.

We expect copper production to remain stable at around 900k MT, as in both 2021 and 2020. However, in 2022 copper production will likely underperform the official target of 1.3m MT. Key mines still face operational challenges, so copper production is unlikely to increase materially above current levels. International copper prices are now down from their highs in H2:21 but prices are nevertheless still above average production breakeven, which should support activity in this sector.

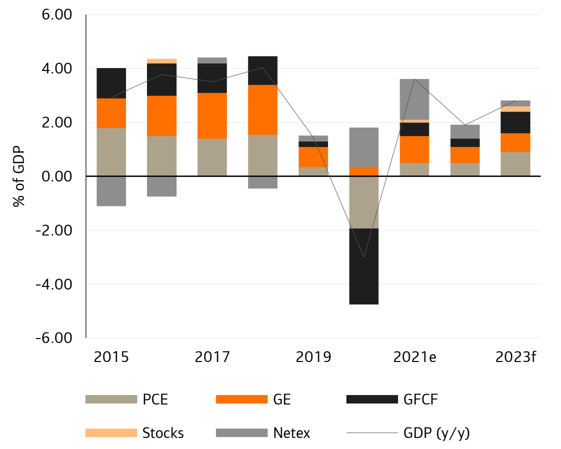
Reportedly, maize production may fall by 25% y/y in the 2022/23 season, to 2.7m MT, from 3.6m MT. Unfavourable rainfall had disrupted cereal crop production after the bumper harvest last year. Still, current production levels should satisfy domestic demand.

Payment arrears to the private sector, and sporadic onshore FX liquidity, combined with rising cost pressures, continue to weigh on the private sector. Moreover, ongoing supply chain disruptions, for instance fertiliser, too may disrupt domestic production.

Our bear case models a prolonged pandemic shock and extended public health restrictions. With less than 30% of the population fully vaccinated, Covid-19 resurging remains a risk. Here, we consider delays with IMF financing, which would limit fiscal spending and multilateral-led projects in the near term. It could also further delay the government in clearing private sector arrears. Here, GDP growth averages 0.7% y/y over the next 2-y, reaching 2.6% y/y in 2025.

However, our bull case models a swifter recovery, with growth mostly above 4.0% y/y. Here, the government progresses on the IMF programme, spurring further investment from development partners, thereby supporting growth in the medium term.

Composition of GDP growth by demand



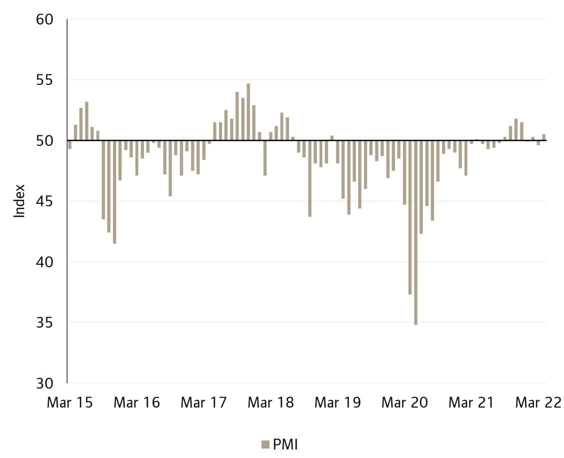
Source: Zambia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

	Q3:21	Q4:21	Q1:22
Agriculture, forestry and fishing	2.6	3.6	3.4
Mining and quarrying	15.8	14.3	17.4
Manufacturing	8.5	8.5	9.0
Construction	18.3	17.3	2.5
Wholesale and retail trade	18.2	18.4	18.8
Financial and insurance activities	6.5	6.9	8.3
Real estate activities	2.8	3.0	3.2
Public administration and defence	3.9	4.4	5.1
Education	3.1	3.1	4.1
Electricity	8.5	1.7	2.5
Information and communication	2.4	2.6	2.9

Source: Zambia Statistics Agency

Purchasing Managers Index



Source: IHS Markit, Bloomberg

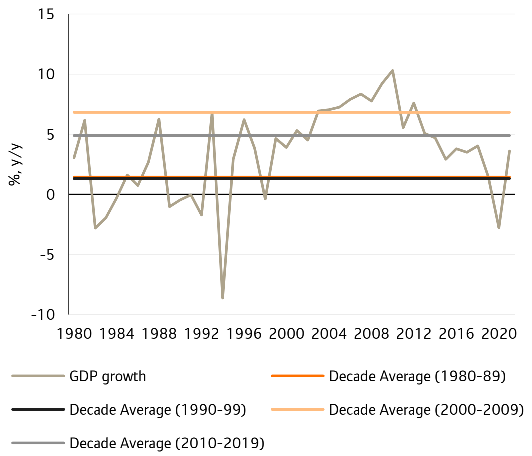
Medium-term economic growth scenarios

	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Base scenario																
GDP (% y/y) pa	2.40	0.68	2.43	2.30	2.71	3.53	2.60	2.40	3.28	2.48	3.51	4.33	2.80	3.20	3.70	2.00
CPI (% y/y) pe	11.46	9.74	11.71	14.50	13.01	15.39	12.17	12.74	13.16	13.13	13.07	11.81	11.04	11.04	10.73	10.24
Policy interest rate (%) pe	9.00	9.00	9.00	9.50	9.50	10.00	10.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
3-m rate (%) pe	9.35	9.30	9.68	10.34	10.86	10.60	10.68	10.80	10.50	10.45	10.45	10.11	9.60	9.20	9.00	8.93
6-m rate (%) pe	11.30	11.50	11.16	11.82	11.73	12.08	12.16	12.28	11.98	11.93	11.93	11.59	11.08	10.68	10.48	10.41
USD/ZMW pe	18.09	16.83	15.78	16.60	16.75	16.71	16.40	16.54	16.59	17.00	16.73	16.87	16.68	16.64	16.70	16.70
Bull scenario																
GDP (% y/y) pa	2.40	2.44	4.19	4.06	4.47	5.29	3.71	3.51	4.39	3.59	4.62	5.44	3.91	4.31	4.81	3.11
CPI (% y/y) pe	11.46	9.74	11.07	13.75	11.21	3.59	10.37	10.94	11.36	11.33	11.27	10.01	9.24	9.24	8.93	8.44
Policy interest rate (%) pe	9.00	9.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
3-m rate (%) pe	9.35	9.30	7.35	8.01	8.53	8.27	8.35	8.47	8.17	8.12	8.12	7.78	7.27	6.87	6.67	6.60
6-m rate (%) pe	11.30	11.50	9.06	9.72	9.63	9.98	10.06	10.18	9.88	9.83	9.83	9.49	8.98	8.58	8.38	8.31
USD/ZMW pe	18.09	16.83	15.53	14.77	14.79	15.32	15.05	15.17	15.21	15.60	15.35	15.40	15.20	15.15	15.22	15.22
Bear scenario																
GDP (% y/y) pa	2.40	0.35	0.43	-2.88	0.35	1.88	1.17	1.90	2.75	1.06	1.97	2.76	2.33	3.08	2.73	2.33
CPI (% y/y) pe	11.46	9.74	15.81	18.60	17.11	9.49	16.27	16.84	16.26	16.23	16.17	14.91	14.14	14.14	13.83	13.34
Policy interest rate (%) pe	9.35	9.30	13.01	13.67	14.19	13.93	14.01	14.13	13.83	13.78	13.78	13.44	12.93	12.53	12.33	12.26
3-m rate (%) pe	11.30	11.50	15.36	16.02	15.93	16.28	16.36	16.48	16.18	16.13	16.13	15.79	15.28	14.88	14.68	14.61
6-m rate (%) pe	11.30	11.50	15.83	15.93	16.25	16.75	16.83	16.95	16.65	16.60	16.60	16.26	15.75	15.35	15.15	15.08
USD/ZMW pe	18.09	16.83	16.55	21.43	24.75	24.18	22.91	22.44	22.51	23.10	22.78	22.87	22.08	22.03	22.10	22.10

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

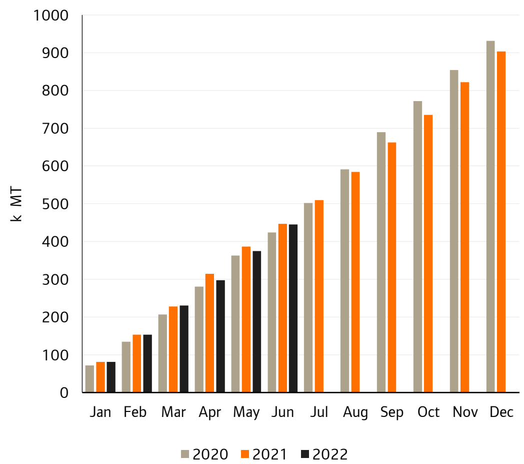
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: World Bank; Zambia Statistics Agency

Cumulative export volumes of refined copper



Source: Zambia Statistics Agency

Balance of payments: FPI outflows pick up

We see Zambia's C/A surplus at 7.4% of GDP by end 2022 and 7.7% by end 2023. The C/A surplus has narrowed as the terms of trade deteriorated. Though copper prices are now down from their multi-year highs, the more stable price trajectory, combined with international oil prices likely stabilising in 2023, should buffer the terms of trade.

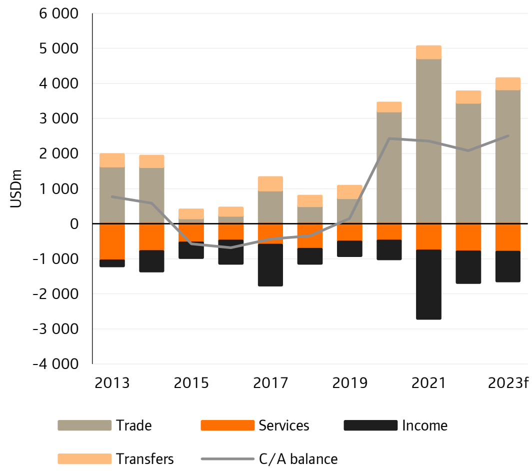
In Q1:22, imports were up 48% y/y, probably due to higher import prices rather than rising import volumes, as food and fuel import prices remain elevated. Still, the trade balance benefited from strong exports, buoyed by copper exports which were up 36% y/y in Q1:22.

As travel and transport outflows recover, the services balance deficit will likely narrow further. Travel flows may well return to pre-pandemic levels in 2023 as travel restrictions ease further. Transport outflows had moderated 6% q/q in Q1:22, likely due to supply chain and trade disruptions from China's lockdowns then.

Foreign portfolio investment outflows from the local debt market picked up in Q1:22, after strong inflows in H2:21. FPI interest in this market has probably waned due to the reduction in the relative interest rate differential as well as rising global risk aversion from the Ukraine invasion.

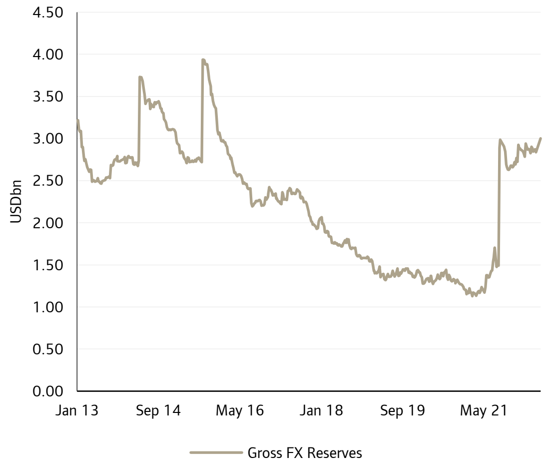
Zambia's access to external financing should improve, after the government secured IMF financing in Sep 22. Disbursement from the IMF should support further accretion of FX reserves, which had risen to USD3.0bn at end Jun 22 (3.7-m of import cover), from USD1.16bn at end Jan 21.

Current account developments



Source: Bank of Zambia; Standard Bank Research

FX reserves



Source: Bank of Zambia

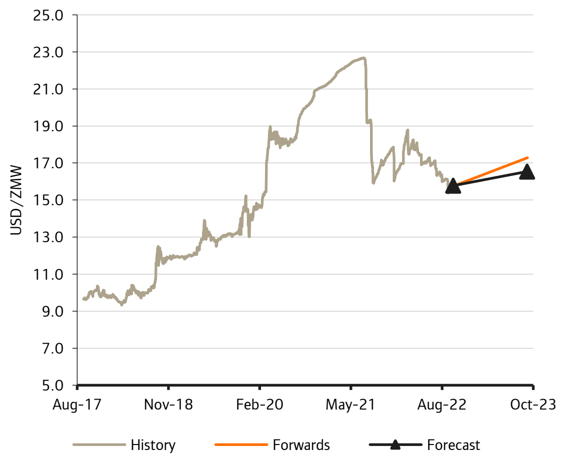
FX outlook: ZMW still prone to sharp swings

USD/ZMW may reach 16.60 at end Q4:22 and 16.71 at end Q2:23. Though we expect a more gradual downward correction for this currency pair the medium term, the ZMW remains prone to bouts of volatility. Indeed, market inefficiencies predispose the ZMW to sharp swings.

Though onshore FX liquidity conditions have improved, BOZ intervention tends to be irregular. With copper prices drifting down, the BOZ will receive less tax from the mining sector, which would reduce the BOZ's FX supply to the market. Therefore, sporadic FX liquidity conditions seem set to remain.

Our bear case sees more aggressive currency depreciation and more persistent FX liquidity challenges, which could see the USD/ZMW pair at 21.43 by end 2022 and 22.44 by end 2023.

USD/ZMW: forecast versus forward,



Source: Bank of Zambia; Standard Bank Research

Monetary policy: hiking cycle imminent

We expect the BOZ's MPC to increase the policy rate by at least 100 bps over the next 18-m, taking it to 10.5% by end 2023. Though the BOZ maintains that average inflation should have retreated into its 6%-8% target range by Q1:24, elevated food and fuel prices and unfavourable base effects present upside risks to inflation.

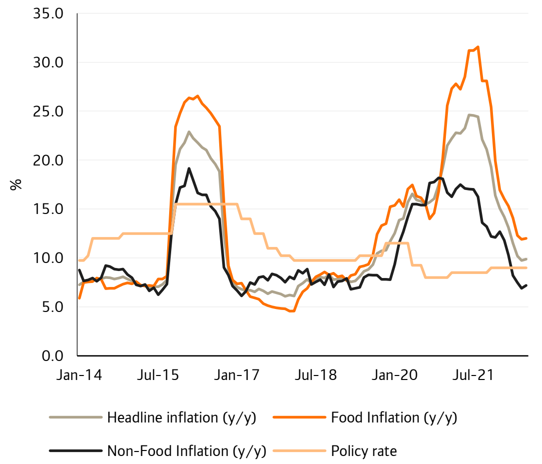
We expect the MPC to start hiking rates as soon as Q4:22, with the downward trajectory of inflation having reversed in Jul, to 9.9% y/y, from 9.3% y/y in Jun. For most of this year, unwinding base effects have kept headline inflation contained; however, we expect inflation to trend higher in H2:22, to 14.5% y/y by Dec.

Though inflation will largely be driven by the supply side, a tighter monetary policy stance should contain inflation expectations. That said, imported food prices should moderate somewhat given the agreement between Russia and Ukraine which should enable wheat shipments.

However, Zambia's inflation should incorporate the second-round impact of the fuel price increases from earlier this year, notwithstanding the most recent price cut. Moreover, the upward revision of electricity tariffs too presents upside risk to inflation in the near term. While the stronger currency has benefited inflation, sharp unexpected upward moves in the USD/ZMW pair pose on ongoing upward risk to inflation.

Domestic credit growth slowed to 6.8% y/y in Jun, from 11.5% y/y in Mar, largely a function of a moderation in lending to the government and a contraction in private sector credit extension of 2.1% y/y, from 1.3% y/y in Mar. Further fiscal stabilisation, after progress on an IMF programme, may further contain the sovereign's borrowing needs, impelling private sector lending.

Inflation and interest rates



Source: Bank of Zambia; Zambia Statistics Agency

Money supply growth

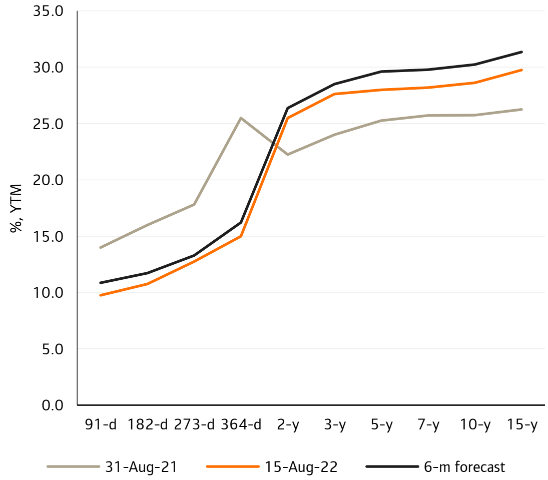
Source: Bank of Zambia

Yield curve outlook: set to rise

We still expect bond yields to rise over the next 6-m, since the sovereign lags the pro-rated local financing target, considering that some auctions have been undersubscribed. Moreover, the BOZ has been selective in rejecting higher bids at auctions, thereby managing to keep yields stable. Bar the 10-y bond yield, which increased 50 bps, bond yields at primary auctions have remained stable since May. However, in the secondary market, yields are trading higher than at primary auctions, which may push auction yields higher.

Without an upward adjustment in yields, offshore participation in local bond auction is unlikely to pick up, which would keep upward pressure on yields, particularly at the longer end. Still, ample onshore liquidity should support some temporary stability at the short end of the curve. However, that would fade as monetary policy conditions tighten over the next 12-m.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: an IMF programme

The government revised the budget deficit for FY2022 higher to 9.9% of GDP, from 6.6% of GDP. This incorporates anticipated fiscal overruns in H2 stemming from purchases to alleviate domestic shortages of medical supplies, pharmaceuticals, and grain.

However, the budget still provides for external debt service payments; with debt restructuring still progressing, there is still uncertainty about the actual payments being disbursed during this financial year; therefore, the overall budget deficit may undershoot the revised target. External debt service arrears were USD2.53bn at end Mar. For Eurobonds only, missed coupon payments now stand at USD546m; and, in Sep a Eurobond (which has a principal of USD1.0bn) will mature.

The government may fund the higher deficit predominately through external sources, after they secured IMF funding in Sep. Now that the sovereign has reached an agreement with official creditors, negotiations with private creditors should resume. We expect a resolution by H1:23.

Our bear case captures the uncertainty around the haircut creditors would face and incorporates a longer negotiation period with private creditors. Still, an IMF programme would mitigate the risk of persistent fiscal slippage after debt restructuring has been concluded. The programme will likely focus on fiscal adjustment. Zambia plans to tighten fiscal policy in the medium term, which should see the fiscal deficit narrow to 5.2% of GDP in FY2024.

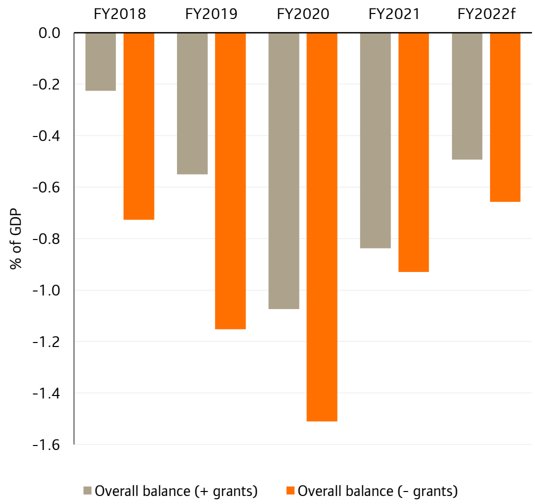
Fiscal authorities also plan to clear arrears to the private sector. The audited and verified stock of central government domestic arrears reached ZMW76.6bn (USD4.65bn or 16.6% of GDP) in Sep 21, from ZMW32.5bn (USD1.97bn) in Q4:20. This includes arrears on fuel subsidies, capital expenditure in health and education, pensions, compensation and awards as well as other goods and services.

Central government budget

% of GDP	FY2020	FY2021	FY2022f
Total revenue and grants	19.0	22.9	21.0
Total expenditure (-amortisation)	34.1	32.2	27.6
- Interest	5.6	6.3	7.9
- Salaries	7.6	7.5	7.9
Overall balance (+ grants)	-15.1	-9.3	-6.6
Overall balance (- grants)	-10.7	-8.4	-5.1
Net domestic financing	8.7	8.2	5.1
Net external financing	4.4	0.9	1.5
Donor support (grants)	0.5	0.1	0.4
Statistical discrepancy	0.3	0.0	0.0

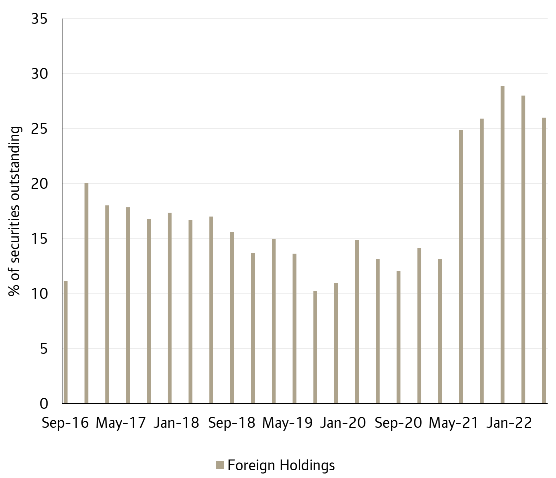
Source: Ministry of Finance and National Planning

Fiscal balance



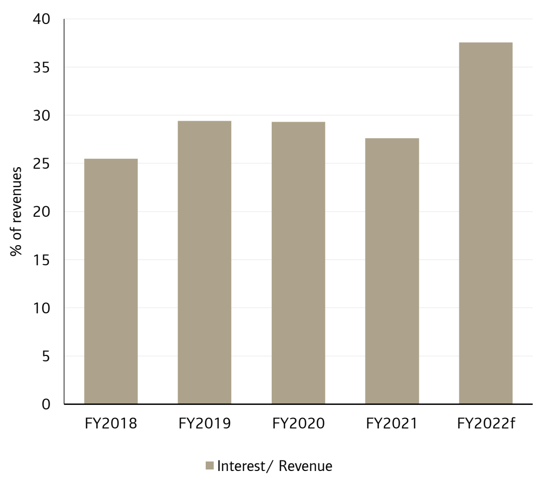
Source: Ministry of Finance and National Planning

Foreign holdings of domestic debt



Source: Bank of Zambia

Interest payments



Source: Ministry of Finance and National Planning

Annual indicators

	2017	2018	2019	2020	2021e	2022f	2023f
Output							
Population (million)	16.90	17.40	17.90	18.40	18.90	19.50	20.00
Nominal GDP (ZMW m)	246251.80	279441.20	306082.70	355668.10	426460.77	478552.95	552982.36
Nominal GDP (USD bn)	25.84	26.64	23.67	19.37	21.81	28.05	32.56
GDP / capita (USD m)	1528.97	1530.97	1322.47	1052.82	1154.17	1438.52	1627.86
Real GDP growth (%)	3.50	4.00	1.40	-3.00	3.55	1.9	2.8
Copper production ('000 tons)	755.00	894.00	797.00	931.00	903.00	920.00	970.00
Central Government Operations							
Budget balance (+ grants) / GDP (%)	-6.69	-7.26	-11.53	-15.11	-9.29	-6.57	n.a
Domestic debt / GDP (%)	19.60	21.10	26.70	36.70	45.10	32.30	n.a
External debt / GDP (%)	33.70	38.30	50.20	66.00	60.00	69.70	n.a
Balance of Payments							
Goods exports (USD bn)	8.22	9.03	7.25	8.00	10.39	10.50	44.50
Goods imports (USD bn)	7.26	8.52	6.50	4.79	6.00	7.30	44.53
Trade balance (USD bn)	0.96	0.51	0.74	3.22	4.73	3.46	3.85
Current account (USD bn)	-0.40	-0.30	0.10	2.30	2.35	2.08	2.50
- % of GDP	-1.55	-1.13	0.42	11.87	10.78	7.42	7.69
Capital and Financial account (USD bn)	0.40	0.00	-0.10	-2.60	0.56	0.70	0.66
- Net FDI (USD bn)	1.20	0.40	-0.10	0.10	-0.90	-0.20	0.40
Basic balance / GDP (%)	3.10	0.38	0.00	12.39	6.65	6.71	8.92
FX reserves (USD bn) pe	2.10	1.60	1.40	1.20	2.90	2.40	2.00
- Import cover (months) pe	3.47	2.25	2.58	3.01	5.80	3.95	0.54
Sovereign Credit Rating							
S&P	B	B	B	D	D	CC	CC
Moody's	B3	B3	B3	C	C	Ca	Ca
Fitch	B	B-	B-	D	D	CC	CC
Monetary & Financial Indicators							
Consumer inflation (%) pa	6.60	7.50	9.10	15.70	22.08	11.67	12.58
Consumer inflation (%) pe	6.10	7.90	11.70	19.20	16.35	14.50	12.74
M3 money supply (% y/y) pa	7.80	16.40	15.00	34.90	28.62	6.56	17.92
M3 money supply (% y/y) pe	21.40	16.50	12.60	46.40	3.66	20.37	16.44
Policy interest rate (%) pa	12.61	9.82	10.20	9.66	9.25	9.25	9.88
Policy interest rate (%) pe	10.25	9.75	11.50	8.00	9.00	9.50	10.50
3-m rate (%) pe	9.80	15.00	16.50	14.00	9.50	10.00	8.66
1-y rate (%) pe	16.50	23.00	27.50	25.80	9.50	11.00	10.88
3-y rate (%) pe	18.00	20.00	29.80	32.70	20.00	19.20	18.40
5-y rate (%) pe	18.00	20.40	33.00	33.00	21.75	23.10	20.08
USD/ZMW pa	9.53	10.49	12.93	18.36	19.55	17.06	16.99
USD/ZMW pe	9.98	11.93	14.15	21.18	16.67	16.60	16.54

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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