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AFRICAN MARKETS REVEALED

JUNE 2023

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Did you know that the Mara River in Kenya's Masai Mara is home to one of the most incredible natural phenomena on earth: the great wildebeest migration. The river is 395km long and feeds into Lake Victoria. The river runs across the migration path of many African animals and as such, is a vital part of their habitats and migration patterns. The wildebeest migration is one of the biggest tourist attractions in Kenya, drawing visitors to view hundreds of wildebeest crossing the Mara River in search of cooler climates and greater volumes of food.

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Contents

6 African markets: A hybrid of endogenous resilience amid exogenous challenges
30 Angola: persistent FX pressures, and likely softer GDP growth
36 Botswana: disinflation, and growth normalizing in 2023
42 Côte d'Ivoire: IMF deal should support 2021-2025 NDP
48 DRC: robust extractive sector still supporting resilient growth
54 Egypt: privatisation pace still too patchy
60 Ethiopia: a telecom and mobile money licence windfall
66 Ghana: timely external debt restructuring pivotal
72 Kenya: debt restructuring unlikely
78 Malawi: external debt restructuring making some progress
84 Mauritius: likely narrower twin deficits
90 Mozambique: LNG to support growth
96 Namibia: buoyed by mining and green hydrogen prospects
102 Nigeria: oil sector should see growth soon
108 Rwanda: currency depreciation pace quicker than before
114 Senegal: hydrocarbon production should spur growth
120 Tanzania: pro-business reforms projected to back growth
126 Uganda: much still hinges on oil investment
132 Zambia: the tide has finally turned
138 Glossary

A hybrid of endogenous resilience amid exogenous challenges

Global growth is still expected to decline in 2023 relative to 2022, even though growth estimates have been revised higher from Jan 23. We foresee African economic growth, still expected to be resilient, as likely to be driven primarily by private consumption expenditure amidst the expected slowdown in global growth.

Private consumption expenditure broadly accounts for around 60% - 70% of GDP in most of the markets in our coverage, implying a bigger reliance on domestic demand than external demand. Hence, the upcoming El Niño event, predicted to start during Q4:23, which may bring about excessive rainfall in East Africa and drier weather conditions in parts of southern Africa, may alter the growth outlook over the coming year.

Indeed, while torrential El Niño rains may be detrimental for growth in East Africa, if the rains aren't excessive and doesn't damage infrastructure, growth may even benefit as food inflation could moderate providing tailwinds for private consumption expenditure. Be that as it may, during the previous bout of El Niño weather conditions between Oct 14 – Apr 16 and Sep 18 – Jun 19, agriculture sector growth did suffer in East Africa, dragging GDP growth lower too. However, admittedly, owing to the advancements in technology in the agriculture sector in addition to infrastructure improvements over the years, using history as a guide to predict the impact of El Niño may not be the most accurate measure, although it is still a useful reference point.

Even though, parts of southern African economies will likely experience drier weather conditions during the El Niño, the impact on growth may be less severe compared to East Africa. Unlike East Africa, the agricultural sector contribution to GDP is much smaller in most of the economies in southern Africa, which may subdue the overall negative impact on growth. The agricultural sector accounts for 3.6%, 1.8% and 8.6% of GDP in Zambia, Botswana and Namibia respectively. In comparison, in nominal terms, the sector accounts for 32.5%, 26.1%, 24.0% and 21.2% of GDP in Ethiopia, Tanzania, Uganda and Kenya. However, in Malawi and Mozambique, the agriculture sector contributes around 23.0% to GDP. Hence, downside risks in these economies may arise particularly as both these economies are already reeling from the consequences of climate change earlier this year in the wake of cyclone Freddy.

Zambia's external debt restructuring, under the G20 common framework, demonstrates debt restructuring progress being made across the continent. Kwacha-denominated bonds will not be restructured, which should cheer resident and non-resident local bondholders. We foresee bull-flattening of the Zambian treasury curve, pointing to value across 2-y, 3-y, and 5-y tenors. However, Zambia's new limitation (5% of planned issuance, on non-resident participation in local bond auctions) may deter new entrants into the trade. However, the secondary market will remain open.

Following the progress on Zambia's external debt restructuring talks, we are more optimistic of Ghana making progress now in H2:23. The broader market has always foreseen a smoother external debt restructuring process than that of Zambia, given the relative smaller exposure to China. However, a swift deal with Eurobond holders will be crucial for Ghana. Eurobond debt comprises c.45% of the overall external debt stock. Progress on a deal will need to be expedited ahead of the next IMF programme review in Nov 23, which will then unlock a further USD600m in funding.

FX liquidity concerns persist – despite recent improvements in FX interbank trading in Kenya. We still expect short-term interest rates to rise further in Kenya with the MPC also likely to increase their key policy rate again by 100 bps in H2:23. Higher short-term rates should help bring back FX liquidity to this market. Moreover, the recent increase in external funding from the World Bank, IMF and commercial syndicated loans, should underpin liability management endeavours for the upcoming USD2.0bn Eurobond maturity in Jun 24.

Nigeria's newly appointed administration has cheered the investment community with the pace of reform. Petrol subsidies, long a drain on public finances, were scrapped, while the various exchange-rate segments were unified on the Investors and Exporters (I&E) window, to trade on a 'willing buyer willing seller' model. At the time of writing, the USD/NGN pair had moved to around 750, from 461 in Jan 23, much welcomed by the market – but it remains uncertain whether the Nigerian naira will be market-determined, or have its peg merely moved weaker. Moreover, negative real NGN yields are unattractive to for foreign portfolio investors. This makes the future source of USD supply uncertain.

Ugandan local bonds offer value despite the government's much larger BOU overdraft posing potential disruptions for the IMF funded programme. We now open a new 15-y government bond position in our shadow portfolio, as inflation will likely edge lower in H2:23, which may embolden the MPC to begin easing their policy stance.

Our long 6-m USD/AOA NDF position, initiated on 27 Apr, has since returned 32.2% in our shadow portfolio. However, further kwanza weakening is still likely in H2:23 as the largest supplier of FX to the market (The Treasury) has reduced sales owing to rising external debt service costs.

The EGP will also likely be devalued further towards the 38-40 level by end-year. Slow progress on currency flexibility and privatisation has delayed the first IMF programme review. Recall that the IMF programme was expected to catalyse other new financing in 2023 and 2024.

We remain bearish on the ETB. Potential devaluation here is linked to IMF negotiations (still ongoing). The 24-month USD/ETB NDF in our shadow portfolio has lost 3.1% but is nevertheless still recommended as there might be a devaluation in either H2:23 or next year as IMF negotiations advance, which will likely be a prerequisite for an external debt restructuring deal.

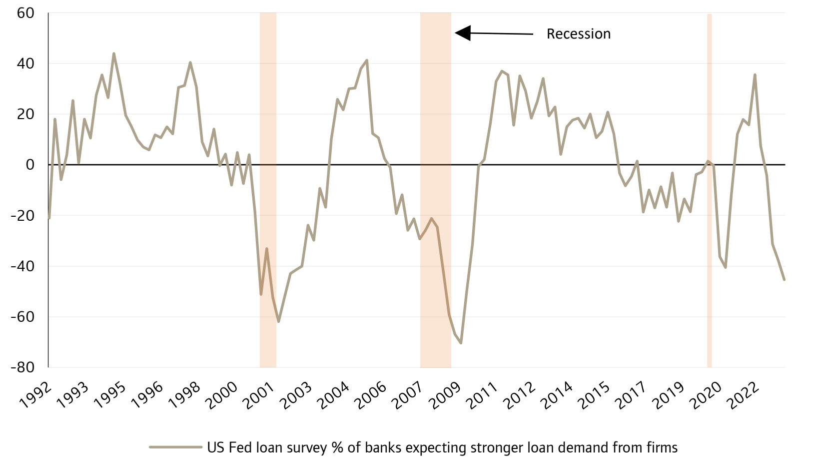
A soft landing seems unlikely

After a long period of global growth projections being trimmed, recently the likes of the IMF and OECD have started nudging global growth forecasts up a little. However, this seems premature. Recessions still seem likely in the US, much of Europe, and many other developed nations. Asia is likely to be the growth engine but even this is spluttering, with China's post-lockdown rebound undershooting expectations. But even with help from Asia, global growth is unlikely to be much more than 2.5% this year and next.

The prospect of very weak growth, and recessions, stems largely from the aggressive monetary tightening undertaken by central banks now starting to be felt more clearly in areas such as loan demand (Figure 1). Most major central banks have not been lifting policy rates for much more than a year and, as we know, it can take around two years for tighter policy to play out fully in an economy. A second, and important, point is that the global economy, and policymakers, are trying to cope with shocks to supply, not to demand. The surge in inflation, particularly in developed nations, has been a function of adverse shocks that have restricted supply; the problem has not been rampant demand.

These two supply shocks are the pandemic, which is still having a bearing on labour supply, on top of the earlier disturbances to global supply chains, and now Russia's invasion of Ukraine which has hit food and energy supply. One should recognise that these supply shocks are the origin of today's weak growth and high inflation because central bank tightening can only work to reduce demand in an economy; it cannot increase supply. Moreover, if the supply of goods and labour continues to be compromised in this way, it is likely to require a much bigger fall in demand to reduce inflation to target than if the world were facing a problem of excess demand. Policymakers hope that a so-called soft landing can be achieved, whereby inflation is eliminated without recession, but we view that as unlikely.

Figure 1: Loan demand seen collapsing



Source: Federal Reserve

While the stifling of demand being reflected in weak growth and recessions will help ease price pressure, labour market tightness is clearly contributing to faster wage growth and persistent inflation in services sectors. Labour supply has been adversely impacted by the pandemic and, while some easing of labour market tightness has occurred, many major countries still face a situation of job vacancies matching, or even exceeding, the number of jobless. In other words, labour markets may yet take some time to return to a more balanced position, while, simultaneously, there is imbalance via excess demand for labour, wage rates will stay elevated, as will inflation in services sectors.

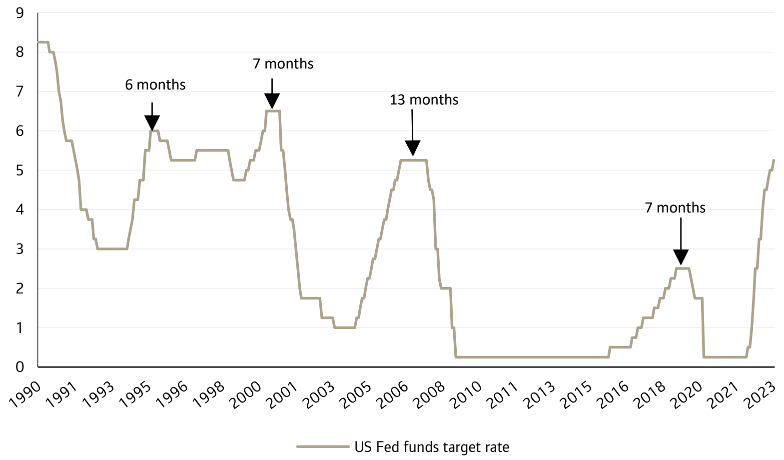
Still pushing

In this context, the question for central banks is whether to keep pushing with rate hikes – or stop and wait for the effects of prior rate hikes to work their way through the economy to, hopefully, return inflation to target. The Federal Reserve has pushed the Fed funds target range up to a level that the market believes could be the peak for this cycle, although that may prove premature. But, even if not premature, it still seems likely that the market preference, for pricing in at least one rate cut before the end of this year, will be proved wrong.

We do not anticipate that the Fed will be able to start lowering rates until Q2:24 despite a technical recession being more likely than not between now and then. It seems that many in the market, looking for a quick turnaround from the Fed, are basing their views on prior tightening cycles over recent decades not having seen the rate peak persist for very long (Figure 2).

However, the source of current inflation is different to what we've seen in recent decades because it is supply-driven, and this has not just made inflation rise much more but made it far more persistent. Hence, in our view, it will probably be at least a year between the last Fed rate hike and the first cut – unless the Fed decides that the rate peak needs to be substantially higher than current levels, which we doubt. In a similar vein, other major central banks, such as the ECB, too may persist with peak rates for longer than generally anticipated.

Figure 2: Average 'pause' just over 8 months



Source: Federal Reserve

Still, a protracted period of peak rates does not necessarily mean that subsequent rate cuts will be modest. The Fed, for instance, is expected to trim the fed funds target by over 200 bps in 2024 and, right now, we envisage that the base of the next easing cycle will be in the region of 2%. That's clearly not back to the lows of near-zero seen during much of the time following the Global Financial Crisis (GFC). We do not believe that rates will return to these sorts of levels in the US, or elsewhere, because the current bout of inflation has stirred long-term structural inflation risks from factors such as demographics (declining labour supply) and deglobalisation (shifting supply chains).

However, one should remember that, even if policy rates don't return to near-zero levels in major developed countries, the general thrust of monetary policy will still prove to be somewhat looser than the level of policy rates may imply – because central banks will still be sitting with large amounts of bonds that were bought during the period of quantitative easing. Now, many of these banks have started to trim these holdings and more will do so in the future, but even when that ends, central banks will be sitting with significantly larger balance sheets than the pre-QE period and, in our book, that implies a degree of permanence to the monetary largesse that became so commonplace in the time after GFC.

Bond yields to fall

While yields at the front end of G10 sovereign bond markets will likely stay very elevated as central banks persist with high policy rates and, in many cases increase them further, the looming recession risk and the prospect of lower inflation ahead should serve to lower yields at the longer end of the curve. And clearly, as central banks start to move to an easing cycle, we may see all yields fall noticeably, particularly at the front end of the curve.

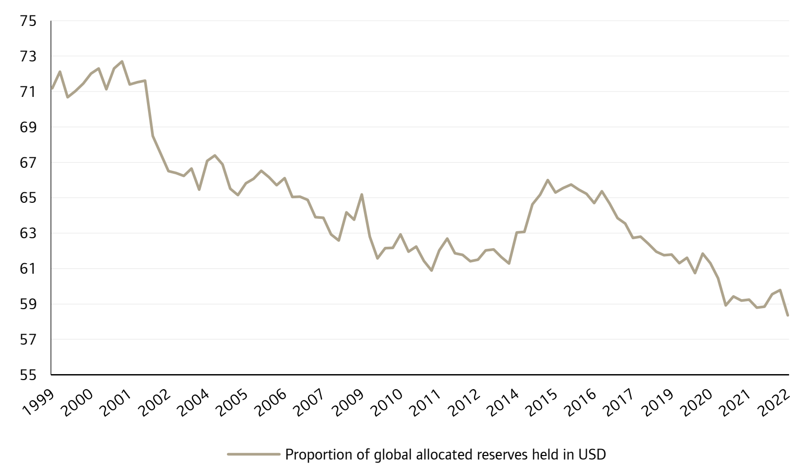
However, this prospect of significant bull-steepening in G10 yield curves still seems to be some months away. In the US, we believe that more rapid falls in treasury yields and curve-steepening will occur from late 2023 and into the early months of 2024. We think that 10-year treasury yields will be around 3% by end 2023 and close to 2% by end 2024. Other G10 nations should see similar declines, although we'd feel a bit more confident about the prospects for a fall in US yields than those in Europe given that the European winter could see some renewing of price pressures as energy demands increase.

Dollar bears need patience

While we remain longer-term bears when it comes to the dollar, it seems that there is no clear path yet to significant, and sustained, dollar weakness. In our view, the environment for dollar weakness will require a significant upturn in global growth prospects, better signs of disinflationary pressure, the very real prospect of rate cuts from the Fed, and a stronger performance from risk assets. These things seem unlikely to fall into place this year.

In 2024, however, we'd expect the global macro, policy and asset-price setting to turn more conducive for dollar weakness; we anticipate that the dollar will be around 10-15% lower against a basket of other G10 currencies by Dec 24. For what remains of 2023, the prospect of weak growth, persistent inflation, steady Fed rates and asset-price vulnerability seems set to make FX markets quite choppy as sentiment ebbs and flows with respect to the abovementioned factors. We still believe that the broad trend will be towards a weaker dollar – but it is likely to be modest this year and be in fits and starts. Another factor that could weigh on the value of the dollar over the long haul is so-called de-dollarisation as the world slowly weans itself off excessive reliance on the dollar as a trade-invoicing currency, international lending currency, reserve currency, and more. Currently, the only significant evidence for this seems to be in terms of reserve allocations (Figure 3). Elsewhere, the dollar retains strong dominance. In time, we expect a challenge from the renminbi but this seems more likely to be limited to trade-invoicing as China forges closer ties with many countries rather than a broader challenge that's likely to extend to debt finance or reserve holding.

Figure 3: Dollar proportion falling



Source: IMF

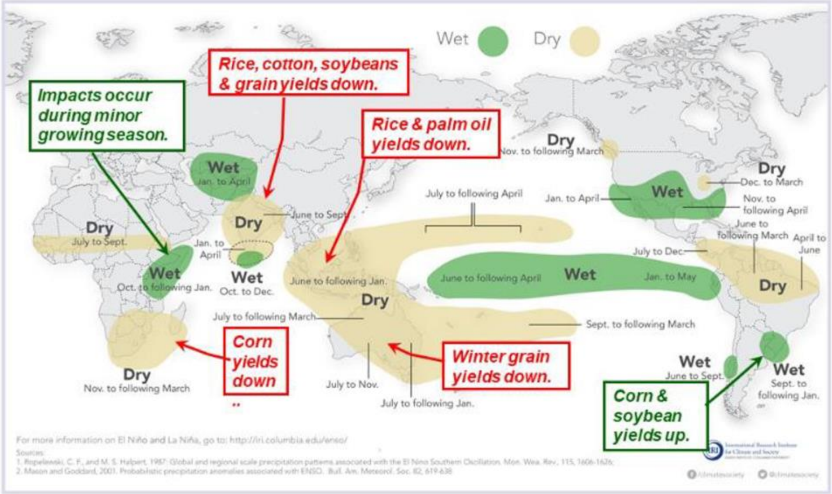
El Niño weather conditions could impact growth

To reiterate, as we highlighted in our Jan AMR edition, growth in Africa would likely be more resilient in 2023 despite downside risks to global economic growth, broadly due to the notable contribution of private consumption expenditure (PCE) to GDP growth. PCE accounts for 60%-70% of GDP in most of the economies in our coverage, implying a bigger reliance on domestic demand than external demand.

Of course, we are not suggesting that African economies will be completely immune to a slowdown in global growth. Notably, economies such as Angola and Nigeria may see weaker growth if commodities prices are dragged down further, while net exports of diamonds from Botswana may subside if luxury spending eases in advanced economies.

But we still reckon that domestic demand will largely be the key driver of growth over the coming year. Thus, recent warnings that El Niño weather conditions will likely commence in H2:23 may have a more pronounced impact on growth over the coming year than risks of fading global demand. El Niño weather conditions tend to increase rainfall in parts of East Africa and have drier spells in parts of southern and West Africa.

Figure 4: El Niño impacts on rainfall globally and the typical impact on growing



Source: NOAA; FEWS NET; Standard Bank Research

According to the Kenya Meteorological Department (KDM), there is a 70%-80% probability for El Niño rainfall to commence between Jul and Oct 23. Similarly, the Uganda National Meteorological Authority (UNMA) sees a 50% probability for El Niño weather conditions in H2:23 while Tanzania's Meteorological Authority (TMA) expects rains to begin in Q4:23.

Admittedly, using history as a guide to predict how these rains will likely affect economic growth in East Africa, may perhaps not be the most accurate measure due to the advancements in technology in the agricultural sector over the years as well as improvements in infrastructure in those economies. Nevertheless, it may be a useful reference point.

The previous El Niño rainfall over the last decade was between Oct 14 – Apr 16 and Sep 18 – Jun 19. In 2016 in Kenya, GDP growth eased to 4.2% y/y in 2016, from an average of 5.0% y/y between 2014 and 2015. Growth in Kenya's agriculture sub-sector fell to 4.7% y/y in 2016, from 5.3% y/y in 2015, perhaps reflecting the impact of El Niño rains.

However, during 2014-15, growth across the continent was also dampened by the sharp decline in commodity prices. Needless to say, economic activity declined in Nigeria and Angola due to the impact of lower oil prices on investment, FX liquidity, net exports, and fiscal revenue.

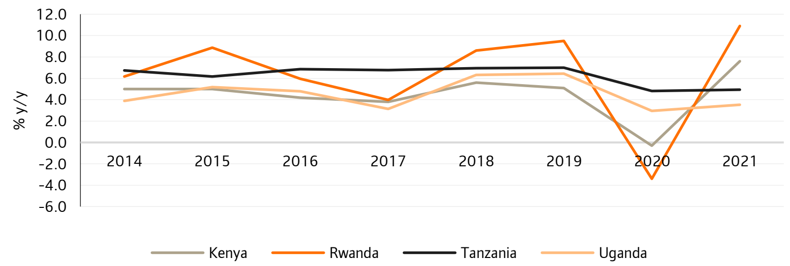
But, in the net-oil-importing countries of East Africa, even as lower oil prices provided windfalls for current accounts, the drag on growth emanated mainly from the stronger USD globally, as the Federal Reserve was tightening monetary policy conditions after nearly a decade. This strong USD environment, which triggered portfolio outflows, placed abrupt pressure on exchange rates, prompting central banks across East Africa to tighten monetary policy, which then shrank private sector credit growth. Indeed, the lagged impact of higher domestic interest rates may have also exacerbated slower growth in 2016 across the region.

GDP growth in Uganda declined to 4.8% y/y in FY2015/16, from 5.2% y/y in FY2014/15. Growth in the agrarian sub-sector was more resilient, declining to 3.3% y/y, from 3.6% y/y in FY2014/15.

Similarly, GDP growth in Rwanda declined to 6.0% y/y in 2016, from an average of 7.5% y/y during 2014-15. The impact of the El Niño rains may have had an earlier impact in Tanzania where GDP growth eased to 6.2% y/y in 2015, from an average of 6.8% y/y during 2013-14.

During the 2018-19 El Niño rains, growth in Kenya decreased to 5.1% y/y in 2019, from 5.6% y/y in 2018 as agricultural sector growth eased to 3.6% y/y, from 6.0% y/y. Interestingly, while growth in Tanzania's agricultural sector eased to 4.4% y/y, from 5.3% y/y in that time, GDP growth was unchanged, at 7.0% y/y in 2019, from the year before. GDP growth in Uganda rose to 6.5% y/y in FY2018/19, from 6.3% y/y in FY2017/18.

Figure 5: GDP growth



Source: Various statistical agencies; Standard Bank Research

Crucially, based on the historical trend of GDP growth, the expected El Niño rains will likely have a divergent impact on the economies within East Africa. Notably, past data seems to indicate that the 2014-16 rains had a worse impact on growth than the 2018-19 rains. But then again, the timing of these rains will also be paramount. Given the broad expectation by the various meteorological departments that the El Niño season will begin in Q4:23, the more pronounced impact on growth may perhaps reflected only by H1:24.

Moreover, while torrential El Niño rains would initially typically negatively impact food prices, such as maize, which may be compounded due to higher transport prices as flooding will also likely be rampant, vegetable prices tend to decline as the rains begin, which may underpin real income and spur private consumption expenditure. But also, since the expectation is for these rains to begin in Q4:23, coinciding with the short rains season across eastern African economies, the impact on overall agricultural productivity and growth perhaps may be less aggravated than if the torrential rains transpired between Mar and May (which is the long rains season and thus considered to be more pivotal for crop yields).

We retain our GDP growth forecast for Kenya at 5.5% y/y – 5.8% y/y for 2023 and 5.2% y/y -5.4% y/y for 2024, acknowledging the potential downside risks from the El Niño rains, either in Q4:23 or H1:24. The increase in VAT on fuel by 8% coming into effect on 1 Jul, will probably stunt private consumption expenditure growth in H2:23. The opposition party has warned of protests resuming due to the elevated cost of living, which may also weigh down private sector economic activity. Ongoing FX liquidity constraints may also keep growth in the industrial sector subdued, while delays in sourcing external funding amidst rising refinancing risks too may curtail public investment in infrastructure.

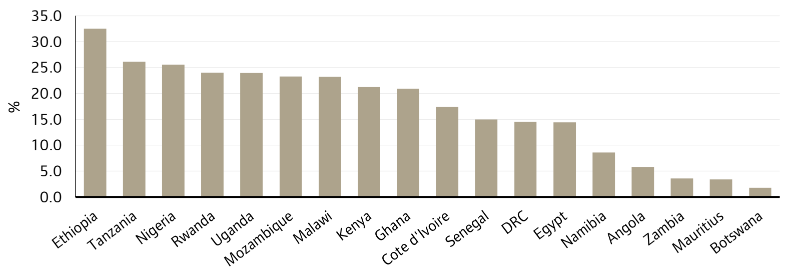
For Uganda, we now trim our FY2023/24 GDP growth forecast to 5.9% y/y – 6.1% y/y, from 6.5% y/y -6.8% y/y. The timing and severity of the expected El Niño rains may alter this outlook, although investment spending in the oil sector should still underpin growth. However, the government will probably need to secure funding for the crude oil pipeline before year-end if they want to meet the 2025 first-oil target. The authorities are confident that funding from China for the pipeline will transpire, after other commercial lenders reportedly walked away due to environmental and social concerns around the pipeline project. The government has reportedly already secured 60% of the required financing for the pipeline, although funding for the proposed oil refinery still hangs in the balance.

We have also revised downwards our 2023 GDP growth for Tanzania, to 4.8% y/y – 5.1% y/y, from our previous forecast of 5.9% y/y. Aside from unfavourable weather risks, FX liquidity shortfalls may constrain growth in the manufacturing sector. Additionally, limited external funding sources may delay investment in infrastructure.

Weather experts have warned of El Niño weather conditions affecting parts of southern Africa and a small belt across West Africa. While El Niño weather conditions tend to increase rainfall in East Africa, the expectation is for drier weather conditions in southern Africa and West Africa. Per reports, there is a risk that Namibia, Botswana, Zambia, Malawi and Mozambique may face drier weather conditions during the El Niño event.

However, per figure 6, unlike East Africa, the agricultural sector contribution to GDP is much smaller in most of the economies in southern Africa, which may subdue the overall negative impact on growth. The agricultural sector accounts for 3.6%, 1.8% and 8.6% of GDP in Zambia, Botswana and Namibia respectively. In comparison, in nominal terms, the sector accounts for 32.5%, 26.1%, 24.0% and 21.2% of GDP in Ethiopia, Tanzania, Uganda and Kenya. Arguably, due to this skewed growth structure towards the agrarian sector in East Africa, the impact of adverse weather conditions may be more draining for growth and the auxiliary sectors that rely on it, compared to the southern African economies.

Figure 6: Agriculture contribution to GDP (%)



Source: Various statistical agencies; Standard Bank Research

That said, Malawi and Mozambique, where the agricultural sector accounts for around 23.0% of GDP, are at risk of drier weather conditions too from Q4:23. These two economies are already reeling from the consequences of climate change earlier this year in the wake of cyclone Freddy.

We now revise our GDP growth forecast for Malawi to 2.0% y/y in 2023, from 3.0% y/y previously, due to the impact of the cyclone on the agrarian sector, inadequate FX liquidity, and the expected impact of El Niño conditions later this year which may reduce agricultural productivity.

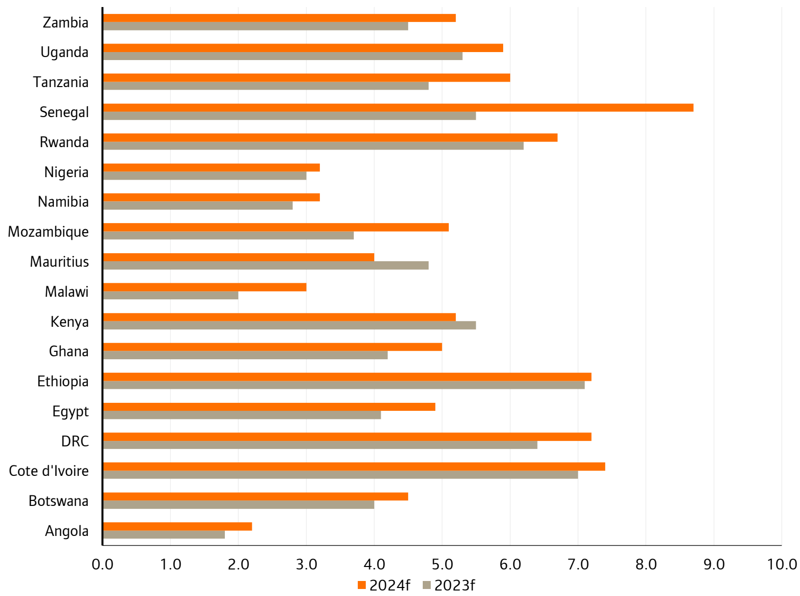
For Mozambique, we now also revise our GDP forecast lower, to 3.7% y/y, from 4.2% y/y. Again, in addition to the weaker outlook for the agricultural sector due to the detrimental impact of cyclone Freddy in Q1:23, tighter monetary policy conditions in place, to restrain rising inflation expectations, too may weigh down growth. That said, we still expect TotalEnergies to resume construction in H2:23, which may underpin growth. Additionally, a final investment decision (FID) for the large Exxonmobil project is still expected in 2024, with ENI's second LNG project too expected to secure an FID next year. Thus, we now revise our 2024 growth forecast higher, to 5.1% y/y, from 4.7% y/y.

We retain our GDP growth forecast in Angola at 1.8% y/y in 2023 and 2.2% y/y 2024. Growth in 2023 may decline from 3.0% y/y in 2022 as investment in the oil sector remains lacklustre due to maturing oil fields; this has constrained production. Thus, there may be a larger reliance on the non-oil sector to drive growth over the coming year. However, with worsening FX liquidity conditions amidst rising external debt service, growth in the non-oil sector may be curtailed.

We also retain our growth outlook for Nigeria at 3.0% y/y and 3.2% y/y for 2023 and 2024 respectively. Oil production has started to slip again after a recovery to 1.51mbpd in Q1:23, from 1.49mpbd in Q4:22. Production averaged 1.34mbpd between Mar and May 23, disrupted by a recent pipeline explosion. Flooding in parts of the country earlier in the year may also weigh down growth in the agricultural sector, while the cash crunch caused by the demonetization exercise too will add downside pressure to growth. Unsurprisingly, Q1:23 GDP growth declined to 2.3% y/y, from 3.5% y/y in Q4:22. However, the new government has swiftly kicked off its reform agenda with the devaluation of the NGN by around 39% and a further commitment to transition to a 'willing buy willing seller' model in the FX market. Furthermore, with operations at the Dangote refinery expected to commence around Q4:23, economic activity may be underpinned through multiplier expenditure benefits for other sectors. Also, if the ongoing FX reforms prove durable, both direct and portfolio investment will likely pick up, which should bode well for both macroeconomic stability and growth.

We upgrade our GDP growth forecast for Ghana to 4.2% y/y in 2023, from 3.8% y/y in our Jan AMR edition. The mining sector, spearheaded by gold production, helped GDP growth reach 3.1% y/y in 2022, exceeding our 2.4% y/y forecast. Improving gold production at the Obuasi and Bibiani mines has supported production. Furthermore, the government is commissioning three new gold mines this year (Cardinal Resources, Azumah Resources, and Newmont's Ahafo North project), which should further spur gold production and support growth. That said, a timely resolution to external debt restructuring will prove pivotal in fully restoring macroeconomic stability.

Figure 7: SBR growth projections



Source: Standard Bank Research

Finally, some progress on external debt restructuring

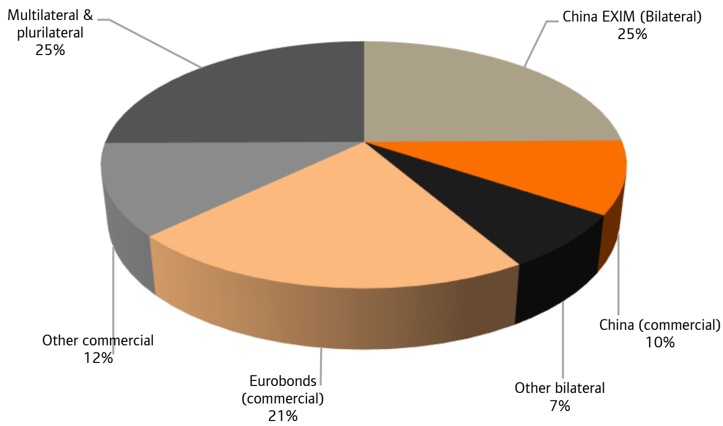
Understandably, there has been growing criticism due to the delays in resolving debt restructuring under the G20 common market framework. However, these delays were likely inevitable given the broadly diverse creditors mix, compared to 20-y ago, with non-Paris and commercial creditors now comprising a more dominant share of overall external debt stocks. Still, the delays in external debt restructuring negotiations may have been exacerbating the debt sustainability challenges for these economies, with assumptions in the proposed Debt Sustainability Analysis (DSA) proving to be dynamic. However, refreshingly, recent developments particularly with Zambia broadly indicates a changing tide, with a renewed sense of urgency to now resolve these debt negotiations quicker.

Zambia's debt restructuring deal with its official creditors announced on 22 Jun posed as many questions as it answered. While it was correctly received as good news by the markets (Zambia's Eurobonds rallied 5.5% w/w at end of 23 Jun), there is still some uncertainty about whether the deal will eventually restore debt sustainability. The granular details of the upcoming restructuring deal may make this clearer.

The first announcement of the deal at the Paris Summit was a restructure of USD6.3bn of official loans, with China's Exim bank making up USD4.1bn of that amount, which includes within it the USD1.0bn loan, guaranteed by the government, to the Kafue Gorge Lower hydroelectric project.

Per Ministry of Finance data, USD6.3bn comprises 40% of Zambia's outstanding USD15.5bn (USD16.6bn including arrears) total external debt stock as at Dec 22. China Exim Bank is also Zambia's single largest creditor which, as at Dec 22, comprises 19% of all external loans, 77% of bilateral loans, and 73% of all Chinese loans (bilateral and commercial). We expect that private sector Chinese lenders will adopt similar terms to those of China Exim Bank.

Figure 8: Zambia composition of debt (%)



Source: Ministry of Finance; Standard Bank Research

At the time of writing, the restructuring terms, as understood, include low interest rates of 1% until 2037. Principal repayments will start in 2026 with yearly payments of USD30.0m for a decade. Interest rates will potentially rise to a maximum of 2.5% after 14-y. However, if Zambia's economic growth expands above a certain level, then interest rates could rise – to a maximum of 4.0%.

Maturities have also been deferred on this USD6.3bn debt extended to 2043, marking a 40% reduction in present value. Chinese lenders opted for extended repayment terms over loan write-downs. The 40% present value reduction results from extended maturity on restructured debt, calculated at a 5% discount rate. The deal was secured with several bilateral partners, including China, under the G20 Common Market Framework.

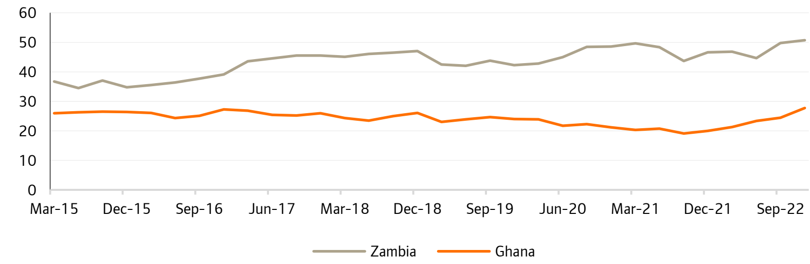
So, with the largest creditor, China Exim Bank, 'done', negotiations with the second largest group of creditors, Eurobond holders are now crucial. It is not yet clear whether the restructuring of commercial or private sector debt worth USD6.8bn (Eurobonds accounting for 53% of that) are next in line to be negotiated or announced. Either way, this restructuring is more critical for restoring debt sustainability because it is more expensive for the government to service. Per Ministry of Finance data, commercial loans made up 92% of debt service expenses of guaranteed debt as of Mar 23.

One of the most significant takeaways from the Summit was the affirmation that local debt will remain unrestructured. Uncertainty surrounding this has made it difficult for the government to fund itself through local issuance as market participants feared a local debt treatment (such as for Ghana).

Our base case was always that Zambia was different in meaningful ways to Ghana. Zambia's tax-to-GDP ratio exceeds that of Ghana, indicating greater fiscal capacity. In fact, Zambia could comfortably service all its 2023 local debt maturities using tax revenue, unlike Ghana where most of the restructured bonds were due in 2023. Of course, no government, desires to liquidate these bonds. The preferred strategy is to refinance them through the issuance of new bonds. This approach, however, necessitates a buyer possessing sufficient solvency and liquidity to invest in these new obligations. Primary sources of such liquidity are pension funds and the banking system.

Comparatively, Zambia's banking system is more liquid and its national savings rate higher than Ghana's. Ghana however was compelled to resort to central bank monetization until it had become untenable. Consequently, the system was unable to manage the refinancing of impending maturities, leading to restructuring.

Figure 9: Banking system liquid assets / total assets (%)



Source: Bank of Zambia; Standard Bank Research

The real challenge in Zambia, despite ample liquidity for government refinancing, is that before the deal was announced, banks were holding onto their liquidity. The issue is not illiquidity or insolvency of potential buyers (banks), but rather their reluctance borne of fear of local debt restructuring. This very fear could potentially materialize into the problem about which they were apprehensive.

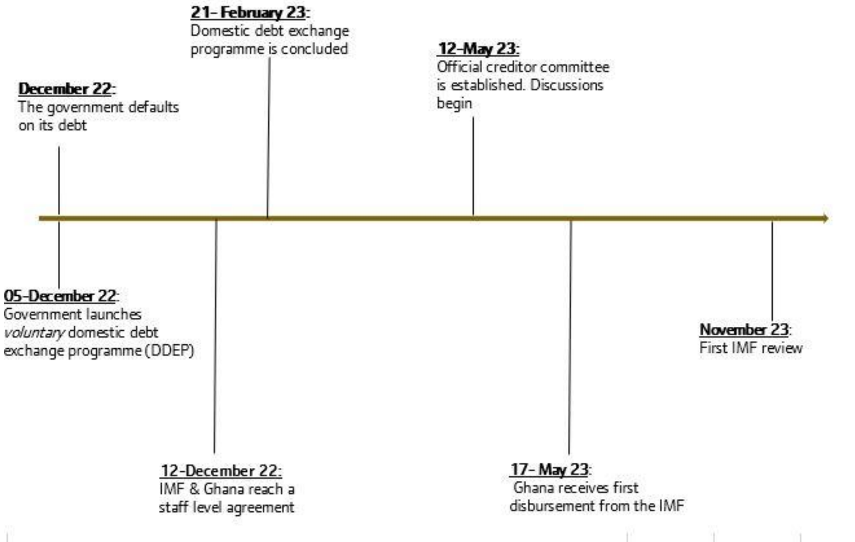
The recent external debt-restructuring deal between Zambia and its official creditors provides some sense optimism that Ghana’s pending external debt restructuring may be concluded in H2:23. The timing of Zambia’s deal with private bondholders may foretell of how this evolves in Ghana too.

The IMF executive board approved Ghana’s 36-m USD3.0bn ECF programme in May 23, which triggered an immediate disbursement of USD600m. This swift approval was probably due to the formation of the official creditors committee in May 23 and finalization of the domestic debt exchange programme (DDEP) in Feb 23.

Interestingly, from the outset of Ghana’s official default in Dec 22, the market had broadly been more bullish that external debt restructuring negotiations may be less protracted than what was the case for Zambia.

When the IMF and Zambia reached a Staff-Level-Agreement (SLA) back in Dec 21 for the USD1.3bn 38-m ECF programme, the official and bilateral creditor committee was only formed nearly 6-m later (in May/Jun 22). Even in Ghana, the official creditors committee was established about 6-m after the SLA with the IMF. However, the gap between when Zambia officially defaulted on external debt in Q4:20 and the first disbursement under the IMF programme was nearly 20-m later. It was about 6-m in Ghana’s case.

Figure 10: Ghana-IMF deal timeline



Source: Standard Bank Research

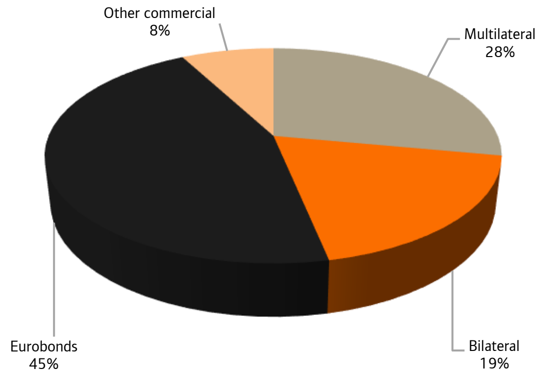
Although, in Zambia's case, the duration between the formation of the creditors committee and securing an MoU for financial assurances (assuming this has been concluded with the recent deal with official creditors) was nearly 1-y. However, the optimism that Ghana will 'move quicker' has largely always been due to the smaller debt stock accounted for by China, and also as local debt restructuring had already taken place (given the back-and-forth negotiations about whether local debt should be restructured or not by certain creditors that had dragged out the restructuring process in Zambia).

In Ghana, as at end 2022, external debt owed to China, as a function of the overall bilateral debt stock, accounted for 34.9%. But in Zambia, it is significantly higher, at 75.6% of bilateral debt stock.

That said, even if debt restructuring negotiations for Ghana progress smoothly with bilateral creditors, it seems that negotiations with private bondholders will be conducted separately, as in Zambia.

Between 2023 and 2026, Ghana's external debt service owed to China accounts for an average of 15% as a share of total external debt service. However, during that period, external debt service owed to Eurobond holders comprised an average of 54% of the overall external debt stock. Thus, it is critical too for Ghana that negotiations with private bondholders are expedited to aid in restoring debt sustainability, particularly given the dominance of Eurobonds as a share of external debt service costs.

Figure 11: External debt composition, end-2022



Source: International Monetary Fund

However, we suspect some further progress will be made ahead of the next IMF programme review in Nov 23, even if it is just with official creditors, which will then likely release a further disbursement of USD600m. But recent credible media reports quoting the Ministry of Finance indicate that they want to exempt the Africa Export Import Bank (AFREXIM) from external debt restructuring. This may perhaps complicate negotiations with other creditors, as the Paris Club classifies this creditor as a commercial creditor, while the Ministry of Finance lists it as a multilateral.

Focus will now also shift to other markets such as Malawi and Ethiopia where debt restructuring negotiations have been stalling.

Malawi requested for a 4-y IMF funded programme in 2022, which remains outstanding, with debt restructuring playing an important role. As at end 2022, Malawi's total public debt stock was USD6.0bn, of which USD2.61bn was from external sources. Notably, 47.61% of the external debt stock was attributed to the IDA, followed by 16.1% from AfDB (and 8.34% from the Export-Import Bank of China. Per recent media reports, the Africa Export Import Bank (AFREXIM) are contemplating the restructuring of USD850m in debt. This may pave the way to an IMF-funded programme.

While AFREXIM’s debt makes up only 5.5% of the entire debt stock, its debt service, along with that of the Trade and Development Bank (TDB), accounted for 65% of the total debt service in 2022. In 2023, debt service due to AFREXIM was USD201m, while debt service to TDB was USD5.8m. The IMF expects a restructuring plan with these two creditors to restore debt sustainability to moderate risk in the medium term.

In Ethiopia, debt restructuring too has been sluggish. Recall that the 2019 IMF programme requirement included reprofiling to restore debt sustainability and aid Ethiopia in achieving moderate risk of external debt distress prior to the programme's expiration. The Ethiopian government was one of the first to take up debt restructuring under the G20 common framework (in Feb 21) as it continues its debt restructuring. However, the conflict between the federal government and the TPLF greatly slowed the process down. The government had an IMF-funded project at the time of the common framework request, but it had been put on hold so that the process of debt reprofiling could be completed first.

However, Ethiopia will need a new IMF programme to make it eligible for debt restructuring under the common framework (the existing one expired at end 2022). In fact, the IMF staff mission visited Ethiopia between 27 Mar and 7 Apr, and it is widely reported that the government is seeking USD2.0bn (c.500% of its SDR quota) in funding from the IMF. Notably, a USD 6.0bn financing gap was estimated by the IMF through to 2026. Per media reports, the restructuring will aim to cut external debt service by USD 4.0bn (World Bank funding can reduce this) during the programme period to help bridge the external funding gap and put public debt on to a more sustainable path.

FX and fixed income strategy

As expected, most markets Monetary Policy Committee’s (MPC) in our coverage adopted a hawkish bias in H1:23. In a still uncertain global risk environment, FX liquidity pressures continued to dislocate inflation expectations in most markets. Barring Uganda, where we see a dovish bias for monetary policy in H2:23, MPC’s in Kenya, Nigeria, Egypt, Zambia, and Angola should tighten further in H2:23.

Investors have largely been concerned about Kenya’s ability to refinance its USD2.0bn Eurobond maturity in Jun 24. However, we have consistently maintained that Kenya will muddle through and refinance this Eurobond, avoiding a debt restructuring. Gross FX reserves have now been bolstered by the recent World Bank USD1.0bn budget support loan, while an additional USD540m (which includes an augmentation) will be disbursed in Jul 23,subject to IMF executive board approval under the ECF/EFF facilities. Furthermore, the government will also be receiving another USD540m under a 20-m resilience and sustainability facility (RSF) from the IMF. However, this funding cannot be frontloaded and would instead be disbursed semi-annually (subject to reviews) beginning from Q4:23. Positively, the current IMF-funded programme was also extended to Apr 25.

The government also recently secured USD500m in funding via a commercial syndicated loan and plans to secure a further USD100m. Also, of the USD3.0bn project support loan that the government got from AFREXIM in H1:23, USD300m can be used for budget support. In addition, the government has an option to option to borrow another budget support loan of around USD750m from the World Bank for FY2023/24. The authorities are hoping this disbursement can be made in Apr 24, rather than towards end FY2023/24.

However, external debt service costs remaining elevated in H2:23 may still further weigh down FX reserves. The government still plans to partially buy back the USD2.0bn Eurobond in the open market before maturity. President William Ruto noted that this buyback could be as much as USD1.0bn. The authorities will likely look to conduct liability management for this upcoming maturity once they have appointed transaction advisors in H2:23.

In any case, FX reserves will need to be preserved to prepare for the upcoming Eurobond maturity, especially in case the Eurobond markets remains closed in H2:23 and H1:24 for refinancing. Interestingly, under the assumptions of the current IMF programme, there is an expectation that the government will be able to tap the Eurobond market ahead of the Jun 24 maturity.

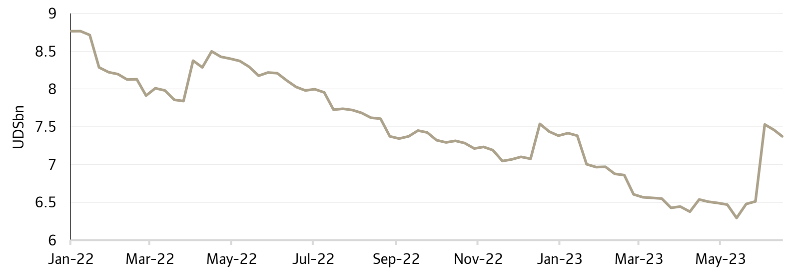
Foreign portfolio investment has remained curtailed, largely due to persisting concerns on FX liquidity. Despite the recent moderate improvement in FX interbank trading, this has only narrowed USD/KES bid offer spreads, although there hasn't been an improvement in FX liquidity since.

Indeed, in addition to the importance of reviving FX interbank trading, there still needs to be significant left-hand-side inflow to clear the backlog of USD in the market and thereby boost confidence in the KES. Thus, we reiterate that short-term KES interest rates would need to rise further. The MPC under new CBK Governor Dr Kamau Thuuge hiked the CBR in an unscheduled meeting on 26 June. We expect the policy rate will be hiked further in H2:23. However, the tighter monetary policy stance would need to translate into significantly higher short-end yields for FX liquidity to improve. That said, the authorities are optimistic that the deferred LC payments for oil imports, may prove to be the panacea for FX liquidity. Hence, they may initially be reticent to allow KES yields at the front-end to rise as sharply.

Indeed, this delay, in allowing KES yields to rise, created the FY2022/23 domestic funding crunch which also resulted in civil servant salary delays, before the government had a bumper Infrastructure Bond issuance (KENIB) in Jun 23, where they accepted c.KES216bn in bids for a 7-y paper at a weighted average yield of 15.8%.

While there may be some investors tempted to buy the KENIBS at yields of 15.8%, we would rather wait until there is a marked improved in both FX interbank trading as well as USD liquidity. Still, short-end rates would need to rise further, which may make the carry trade more attractive than re-entering the duration trade.

Figure 12: Kenya FX reserves



Source: Bloomberg

We have been waiting on the side-lines for Uganda's duration trade to turn attractive again. As always, an increase in expenditure and domestic borrowing presents upside risks for UGX bond yields on approach of the end of the fiscal year. Unlike Jun 22, the government didn't have unscheduled bond auctions like the private placement in Jun 23. However, the government did overborrow from the T-bill and bond auctions in Jun 23, taking advantage of the excess UGX liquidity in the domestic market.

Concerningly, the governments overdraft with the BOU has nearly doubled rising to UGX5.9tr in Jun 23. In agreement with the IMF under their current programme, the government will be looking to clear UGX2.2tr of this overdraft before the end of FY2022/23, with further progress on clearing these arrears expected ahead of the IMF programme review in Sep 23. A disbursement of USD125m is expected after the Sep 23 IMF programme review. However, failure to clear the BOU overdraft arrears may disrupt funding from this avenue and thereby force the government to increase issuance from the domestic market. In fact, any further delays in issuing external debt such as commercial syndicated loans in FY2023/24, may place upside pressure on UGX bond yields.

Per media reports, the government was expecting to secure a EUR500m syndicated loan from a commercial lender before end Jun 23. This loan is probably why there wasn't an unscheduled bond auction in Jun. Part of the proceeds from this syndicated loan, in addition to the additional IMF SDR allocation from Aug 21, will be used towards clearing the BOU overdraft.

We are tempted to go long duration via the 10-y or 15-y government bond. However, the recent decline in the USD/UGX pair below 3700 has made us reconsider. Upside risks to the pair persist, following the passing of what is being considered as one of the harshest anti-gay laws in the world. While we haven't seen portfolio outflows as a result, new inflows seem unlikely in the near-term. The authorities are concerned that NGO and donor FX flows, amounting USD1.7bn annually, may be disrupted due to the passing of this law.

But with inflation expected to fall further over the coming months, the Bank of Uganda's MPC may begin cutting the key policy rate in H2:23. This should proffer windfalls for duration gains. Thus, we will now open a new 15-y government bond position in our shadow portfolio at entry yield of 15.6%. The coupon of 16.0% for this paper will likely sufficiently cover us over the next 2-y, ensuring that our carry is not eroded.

The new government in Nigeria has pleasantly surprised the investment community with the pace of their reform agenda. Petrol subsidies which have been a drain on public finances were fully withdrawn while the various exchange rate segments were unified on the Investors and Exporters (I&E) window, to trade on a 'willing buyer willing seller' model. At the time of writing, the USD/NGN pair had moved to around 750 levels from 461 in Jan 23.

While the recent upward adjustment in the USD/NGN has been welcomed by the market, there is still a sense of broad scepticism if you like, on whether the NGN will now truly float and be market determined or whether the previous USD/NGN peg, has simply moved higher.

Furthermore, as investors try and assess whether the NGN is fully flexible, the next question really becomes what do you buy now in Nigeria as a fixed income investor? Recall that back in 2016-17, the NGN was underpinned by inflows into the OMO bills, that only commercial banks and foreign portfolio investors could invest in. The yields at the time for these OMO bills were in the high teens.

However, with negative NGN real yields currently, it is difficult to see a rise in fixed income portfolio inflows. At the time of writing, the 1-y nominal T-bill yield was at 6.8% and 14.3% for the 30-y government bond.

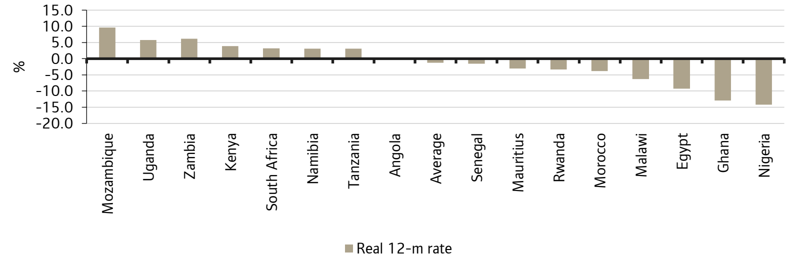
NGN yields will probably need to rise meaningfully in H2:23, in order to embolden foreign portfolio investors to return to the market. With inflation currently at 22.4% y/y as of May 23 and expected to rise further largely due to the removal of petrol subsidies, real NGN yields will probably remain negative.

However, we would argue that perhaps while the current spread of negative real yields needs to be narrowed in H2:23, you probably don't need a broad spectrum of positive NGN real yields for investors to return to the market. Instead, confidence that the USD/NGN market is functioning, and investors can source FX liquidity, may perhaps be more crucial. Be that as it may, we still think short end yields would need to rise to high teen levels at least, in order to reignite interest in Nigeria's fixed income market again.

Indeed, the case study from Egypt 2016-18 also implies that investors may initially sacrifice positive real yields if there is an expectation that FX liquidity will improve. In fact, the EGP appreciated courtesy of these inflows. We expect the USD/NGN to trade between 650-750 by year end 2023, with a bias for the pair to trade closer to the higher end of this forecast range. Prior to the recent upward adjustment in USD/NGN, the NGN was about 25% overvalued according to our Real Effective Exchange Rate (REER) estimates. Hence, with the NGN now around 39% weaker, this has already overshot the REER overvaluation estimate. But then again, short-end yields will need to rise further, monetary policy conditions will need to be tightened, and investors will need to be convinced that the FX liquidity will now return to the market, rather than the USD/NGN simply being pegged at a higher level. We will prefer to stay on the side-lines for now, before some of these key actions are implemented.

We expect the MPC to hike the policy rate by at least a further 100 bps in H2:23, as inflation expectations may spike owing to the petrol subsidy removal. Expenditure on the petrol subsidy rose to NGN3.35tr in 2022 from NGN1.43tr in 2021 and NGN0.45tr in 2020. Domestic fuel prices have already been adjusted higher by 175% since the removal of the subsidy. The recent devaluation of the NGN may not have a massive impact on inflation, as most trade transactions were already taking place at the higher (740-750) USD/NGN parallel market level. However, the authorities would also have to begin to move away from deficit monetisation over the coming years to durably lower inflation expectations. The Ways and Means advances rose to NGN23.7trn in 2022 from NGN17.4trn in 2021 and NGN13.1trn in 2020.

Figure 13: Real 12-m rates



Source: Bloomberg; Various central banks

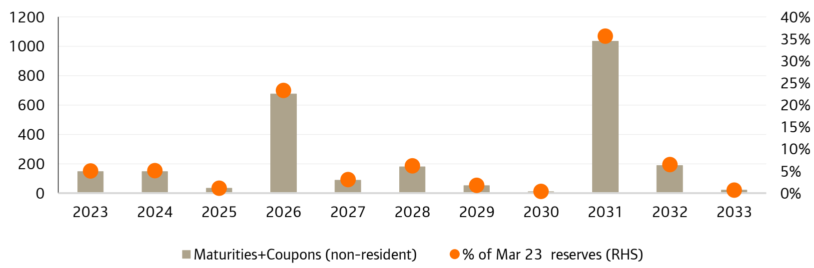
In Angola, our trade recommendation to buy 6-m USD/AOA NDF's on 27 Apr has since returned 32.2% in our shadow portfolio. Due to elevated external debt service costs, FX sales from the Treasury to the market have declined. In 2022, the Treasury sold an average of USD442m per month to the market, which was the biggest source of FX supply, followed by oil exporters and the BNA. FX sales from the Treasury declined to nearly zilch in Q2:23. At the time of writing, the AOA had already weakened by around 37.2% YTD, with further weakness still expected in H2:23. We see the USD/AOA pair rising further to 874.7 by end-2023.

In Zambia, earlier in the year, going long duration via the 2-5-y bonds was tempting us. However, the growing uncertainty amongst foreign investors on whether Zambia would restructure local debt, was constraining appetite. In fact, local debt restructuring concerns also curtailed the propensity of domestic investors too.

To be clear, as we had communicated following our recent investor roadshow in Lusaka, authorities in Zambia were never keen to restructure local debt, due to their concerns about the impact this would have on the banking sector.

However, per a circular from the BOZ, non-resident investors can now not invest directly in primary local debt auctions from 1 Jul. Instead, you'd have to invest via a local primary dealer who will then submit this bid to the BOZ, who will then decide whether this bid will be accepted, The BOZ circular notes that foreign participation will be capped at 5.0% of planned domestic issuance. The FY2023 net domestic issuance target is ZMW5.5bn. But it still not clear, how the BOZ will administer this operation. Would it be pro-rated every month? Or would it be more discretionary on how much they accept from foreign portfolio investors at these primary auctions?

Figure 14: non-resident maturities and coupons vs FX reserves



Source: Ministry of Finance; Standard Bank Research

But non-resident investors can still invest in local bonds via the secondary market. Although, we doubt that this would be an attractive avenue for offshore investors, given the typically wider bid/offer spreads for secondary market bond quotes. However, it appears that the rational for the government to opt for this cap for offshore investors at primary local debt auctions may be due to certain creditors during debt restructuring negotiations pushing for this, due to the expectation that USD demand will continue rising locally when portfolio investors want to repatriate their dividends. Foreign investors account for 28% of local bonds outstanding as of Mar 23.

We still expect the EGP to be devalued further in H2:23 towards the 38-40 level. The USD/EGP NDFs are broadly already pricing in this devaluation with an expectation for the pair to rise towards 36-40 over the next 6 to 12-m. Indeed, concerns around the flexibility of the EGP and delays in privatisation progress may have stalled the IMF programme review earlier this year, which could also disrupt other external funding that was expected from multilateral sources. In addition to further adjusting the USD/EGP higher, the CBE would also need to improve the functionality of the FX interbank market, in order to revive investor confidence and support inflows into the market. The carry trade recommendation we made back in Jan 23 is down 0.8% in our shadow portfolio.

The return in our shadow portfolio for the Ethiopia NDF trade where we recommended buying the 24-m USD/ETB NDF, is down 3.1% since inception. However, we are still confident that as the government approaches a deal with the IMF for a funded programme, they may be forced to devalue the ETB again. This could transpire in H2:23 or even 2024, which is why we opted to recommend buying the 24-m USD/ETB NDF. Inflation will likely remain elevated as deficit monetisation will likely continue over the coming year, exacerbating the overvaluation of the ETB, which we estimate at 46% on a REER basis. The only way we can see an ETB devaluation being avoided over the coming year, is if an IMF programme is not agreed. But with external debt restructuring talks now likely to progress, an IMF programme will be needed for these talks to advance.

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	17.92	30.8985	109.44
Ethiopia: buy USD/ETB 24-m NDF	23-Jan-23	19.92	53.73	20.53	54.9865	3.12
Egypt: buy Egypt '364-d T-bill	24-Jan-23	21.95	29.83	23.46	30.8985	0.80
Angola: buy USD/AOA 6-m NDF	27-Apr-23	13.29	512.9	10.15	802.35	32.21
Uganda: buy Uganda '15	27-Jun-23	15.6	3675	15.6	3674.53	0.24

Source: Bloomberg, Standard Bank Research

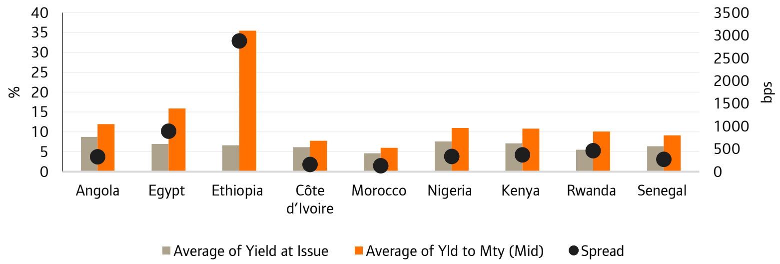
African Eurobond: new issuance unlikely until Sep-Dec 23

Below is an analysis of the current state and outlook for African Eurobonds within the context of rising US Treasury yields. We explore several African countries' capacity to return to the Eurobond market, and we consider the wider global economic influences shaping the asset class outlook.

Despite the unfavourable backdrop of rising US Treasury yields, we anticipate a resurgence in African Eurobond issuance from certain issuers by late 2023, early 2024. Our forecast hinges on the disparity between the spreads between average yield at issue and the average yield to maturity as of Jun 23, which signals the potential for certain issuers to return.

Based on those spreads, and in the absence of changes to the idiosyncratic risks, Morocco, Côte d'Ivoire, Senegal, Angola, Nigeria, Kenya, Rwanda, Egypt and Ethiopia are listed as best to worst with respect their ability in returning to the market. Zambia and Ghana are not included because they have either completed, or are in the process of completing, debt restructuring.

Figure 15: Average yield at issue VS average yield to maturity



Source: Bloomberg, Standard Bank Research

Morocco is one of the few countries able to issue Eurobonds successfully so far this year, demonstrating resilience amid a global financial environment of rising borrowing costs. Morocco issued two bonds worth USD1.25bn each in Mar.

Last year, the Ivorian authorities had to shelve Eurobond issuance plans because of higher borrowing costs in international capital markets. But, as global financial markets turn more stable, Côte d'Ivoire plans to issue a cumulative XOF850bn (approximately USD1.5bn) over 2024-2026.

Senegal could potentially be able to return to market this year, particularly if political risks subside. Senegal's budget deficit financing may primarily come from external sources, mainly concessionary funding, with project and programme loans accounting for a significant portion. Senegal should receive a combined USD 1.8bn over 36-m following IMF board approval of the ECF and RSF facility.

Angola will also likely be looking at tapping the Eurobond market next year when risk conditions may have turned more favourable.

Nigeria rallied after the much-awaited reforms of the petrol subsidy and foreign exchange market. Since unifying the exchange rate on 14 Jun, liquid foreign currency reserves have fallen by USD348m. The president's commitment, that investors may repatriate dividends, may clear the demand backlog and deplete reserves even further. Local treasury yields remain negative in real terms, deterring foreign portfolio investors. As such, despite the double-digit average yields on existing Eurobonds, Nigeria may be forced to come to market again in late 2023, or 2024, to boost its FX reserves.

Rwanda successfully repaid its UDS400m (had already repaid 85% of this in 2021) Eurobond despite various financial pressures due to ongoing global shocks like the Covid-19 pandemic, the war in Ukraine, and USD appreciation. The country's fiscal and BOP metrics have been resilient; thus, these bonds should recover further. In line with other African Eurobonds, the Rwanda '31s rallied over the past 2-m. Most of Rwanda's external funding is anticipated by way of concessional terms, accounting for a sizable portion of total external debt. However, a key risk for Rwanda is instability flowing from eastern DRC.

It is probably premature to consider Ghana, Zambia or Ethiopia re-entering the market. Per the IMF programme assumptions, the Ghanaian government will not regain international capital market access until 2027. According to the IMF, front-loaded fiscal consolidation will be supported by ambitious structural reforms in tax policy, revenue administration, and public financial management, and addressing weaknesses in the energy and cocoa sectors. Indeed, Ghana's parliament has amended five tax laws effective as of 3 Apr. Not only is the government attempting to reduce the fiscal deficit by boosting tax revenue in a difficult macroeconomic climate, but it is also attempting to limit spending increases. However, given that next year is an election year, spending may still exceed the government's target.

Overall, prices of African Eurobonds have been rising recently. While the EMBI global index returned about 1.88% in the past 4 weeks, our index of African Eurobonds returned 5.5%.

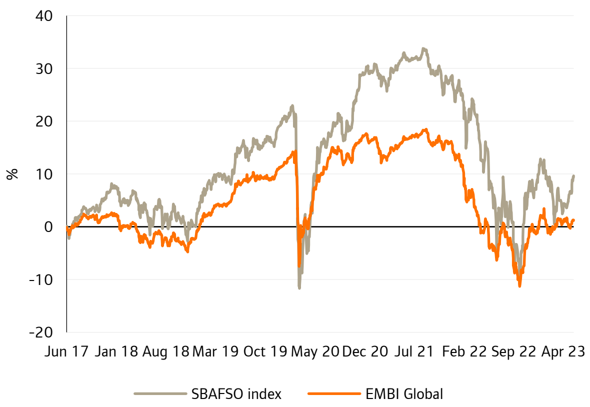
The outlook for African sovereign credits still hinges on the Federal Reserve's monetary policy stance and the subsequent impact on the global business cycle. Should the Federal Reserve hold its policy rate steady throughout this year, the recently positive performance may be sustained.

Another factor underpinning the outlook for African credits is the continued support from the International Monetary Fund (IMF) and World Bank, which have, for instance, aided countries such as Kenya in fending off restructuring or default bets against its Eurobonds maturing in 2024.

However, these potentially positive trends may be tempered by further rate hikes by the Federal Reserve. Moreover, should a recession materialize over the next 12-m, risk appetite may be restrained, thereby influencing the trajectory of Eurobond prices.

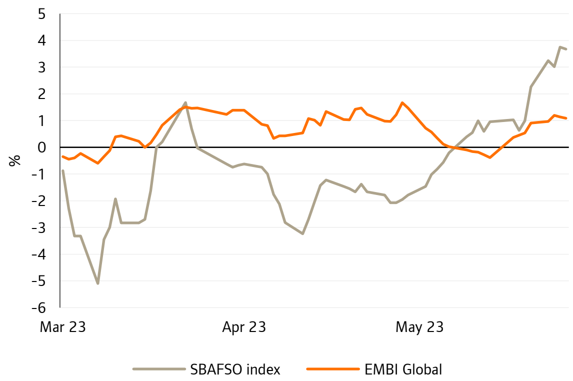
Within the portfolio, we remain overweight Angola, we are now overweight Nigeria too. These markets remain susceptible to oil price volatility, though the OPEC+ production cut for 2024 may pose an upside risk. We retain our long-term overweight on Egypt ('59) and are still overweight Morocco, Cote d'Ivoire, Senegal, Kenya, Ghana, and Mozambique. We remain underweight on Ethiopia, Namibia, Republic of Congo and Tunisia.

Figure 16: Cumulative returns -SBAFSO index vs EMBI



Source: Bloomberg, Standard Bank Research

Figure 17: Cumulative returns -SBAFSO index vs EMBI returns since YTD



Source: Bloomberg, Standard Bank Research

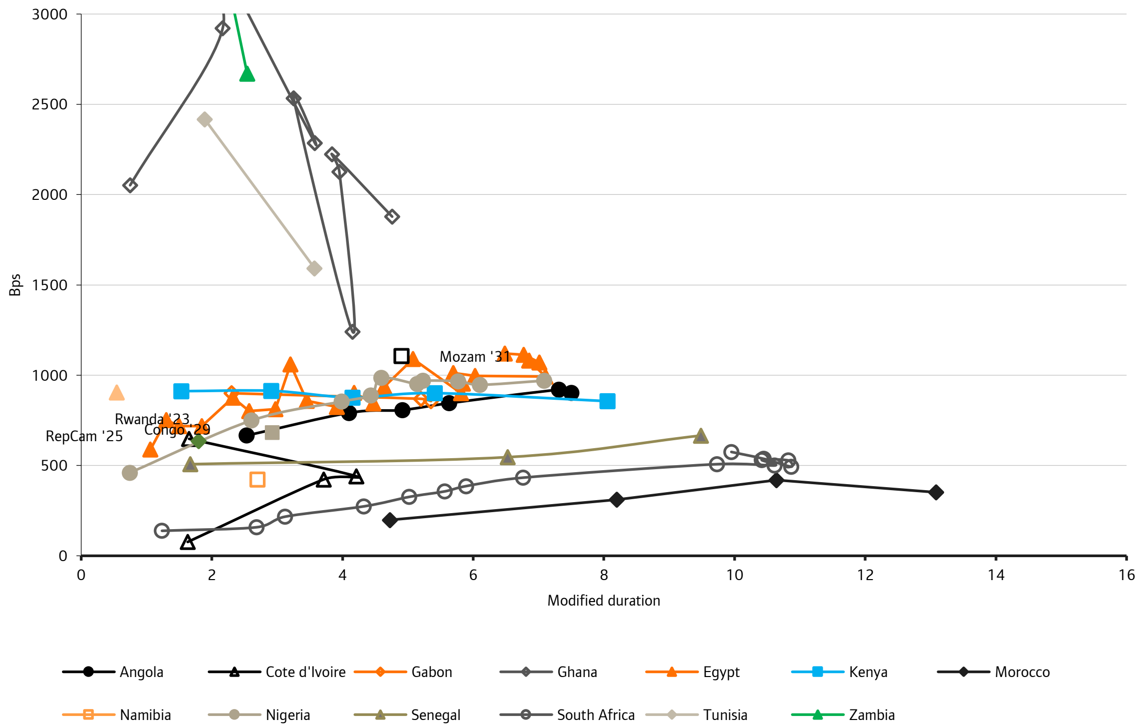
Table 2: African Eurobonds

					Spread, bps		Spread change, bps			Total Return, %		
Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Over UST	Z-Spread	1 wk	YTD	12mths	1 wk	YTD	12mths
ANGOL 9.5% 12-NOV-2025	B3/B-	97.509	2.0	9.64	667	680	112.4	215	-38	-1.9	-1.0	8.0
ANGOL 8.25% 09-MAY-2028	B3/B-	87.774	3.8	10.90	780	808	82.2	114	-34	-2.7	0.4	9.1
ANGOL 8% 26-NOV-2029	B3/B-	83.853	4.7	10.90	779	811	80.2	114	-16	-3.4	-0.3	8.2
ANGOL 8.75% 14-APR-2032	B3/B-	82.982	5.5	11.26	838	870	74.2	94	12	-3.5	0.5	6.8
ANGOL 9.375% 08-MAY-2048	B3/B-	77.730	7.8	11.79	870	899	54.8	34	-29	-3.7	3.5	9.2
ANGOL 9.125% 26-NOV-2049	B3/B-	75.736	7.9	11.78	860	890	50.2	53	-16	-3.4	2.1	8.1
REPCAM 9.5% 19-NOV-2025	/B	96.355	1.2	11.25	818	860	9.3	47	157	0.3	4.4	5.4
REPCON 3% 30-JUN-2029	/CCC+	84.977	2.4	9.20	901	940	10.4	64	36	0.1	7.1	7.7
EGYPT 5.875% 11-JUN-2025	B3 *-/B	81.063	1.7	17.94	1 310	1 327	44.4	790	535	-0.4	-9.4	-1.0
EGYPT 5.25% 06-OCT-2025	/B	77.205	1.9	18.37	1 397	1 412	-16.5	822	579	0.7	-11.3	-2.6
EGYPT 3.875% 16-FEB-2026	B3 *-/B	71.562	2.2	17.98	1 419	1 437	42.6	729	487	-0.6	-11.0	-1.5
EGYSK 10.875% 28-FEB-2026	B3 *-/	93.204	2.1	15.1	1116.9	1139.0	-77.1			2.1		
EGYPT 7.5% 31-JAN-2027	B3 *-/B	73.812	2.7	17.93	1 474	1 501	-4.0	722	439	0.6	-13.3	-1.1
EGYPT 5.8% 30-SEP-2027	B3 *-/B	67.677	3.4	16.83	1 311	1 338	11.3	629	360	0.1	-14.7	-2.2
EGYPT 6.588% 21-FEB-2028	B3u *-/B	66.861	3.5	17.37	1 401	1 432	9.5	593	433	0.2	-13.8	-4.7
EGYPT 7.6003% 01-MAR-2029	B3u *-/B	65.940	3.9	17.36	1 405	1 438	18.8	548	428	-0.2	-14.1	-6.0
EGYPT 5.875% 16-FEB-2031	B3 *-/B	56.327	5.0	15.87	1 271	1 308	41.3	440	339	-1.5	-14.7	-7.2
EGYPT 7.0529% 15-JAN-2032	B3u *-/B	57.861	5.0	16.44	1 345	1 382	33.1	470	343	-1.0	-15.5	-6.5
EGYPT 7.625% 29-MAY-2032	B3u *-/B	59.494	5.3	16.55	1 267	1 301	15.2	417	290	-0.2	-14.8	-5.5
EGYPT 7.3% 30-SEP-2033	B3 *-/B	56.573	5.6	16.21	1 270	1 303	16.5	399	304	-0.3	-15.1	-7.2
EGYPT 6.875% 30-APR-2040	B3 *-/B	55.544	7.2	13.86	1 025	1 046	16.3	224	109	-0.4	-9.1	0.6
EGYPT 8.5% 31-JAN-2047	B3 *-/B	54.454	5.7	16.13	1 312	1 345	20.1	324	224	-0.4	-11.4	-2.8
EGYPT 7.903% 21-FEB-2048	B3u *-/B	52.772	6.1	15.51	1 229	1 262	7.5	276	200	0.2	-10.1	-3.0
EGYPT 8.7002% 01-MAR-2049	B3u *-/B	55.231	5.8	16.14	1 294	1 328	10.4	302	205	0.0	-10.6	-2.0
EGYPT 8.875% 29-MAY-2050	B3u *-/B	55.184	6.1	16.44	1 262	1 294	3.9	303	217	0.4	-12.2	-3.9
EGYPT 8.75% 30-SEP-2051	B3 *-/B	55.260	5.9	16.20	1 278	1 307	9.0	308	220	0.2	-11.4	-3.3
EGYPT 8.15% 20-NOV-2059	B3u *-/B	53.231	6.4	15.72	1 176	1 210	-6.7	293	187	1.1	-12.8	-3.4
EGYPT 7.5% 16-FEB-2061	B3 *-/B	51.521	6.2	15.04	1 157	1 192	-17.2	261	188	1.6	-10.3	-3.3
ETHOPI 6.625% 11-DEC-2024	Caa2/CCC-	69.127	1.2	35.68	3 075	3 096	5.5	-20	128	0.7	16.1	29.9
GABON 6.95% 16-JUN-2025	Caa1/B-	94.374	1.8	9.77	550	564	47.6	40	-175	-0.6	2.8	10.7
GABON 6.625% 06-FEB-2031	Caa1/B-	78.972	4.8	10.31	790	823	52.5	107	-33	-2.1	0.1	9.0
GABON 7% 24-NOV-2031	Caa1/B-	79.150	5.3	10.42	553	3 470						
GHANA 0% 07-APR-2025	Ca/WD	37.500	1.3	74.56	5 843	5 878	-118.1	742	4029	2.6	13.3	-34.3
GHANA 8.125% 18-JAN-2026	Ca/WD	43.939	0.7	49.66	9 344	9 385	-266.6	1976	7037	3.3	20.5	-25.9
GHANA 6.375% 11-FEB-2027	Ca/WD	41.452	1.6	37.03	4 881	4 927	-90.8	347	2591	2.4	16.7	-16.8
GHANA 7.875% 26-MAR-2027	Ca/WD	42.842	1.7	35.85	4 422	4 462	-90.6	87	2173	2.4	20.3	-13.3
GHANA 7.75% 07-APR-2029	Ca/WD	41.217	3.4	27.84	2 653	2 691	-43.9	-152	703	2.0	20.5	-2.8
GHANA 7.625% 16-MAY-2029	Ca/WD	41.219	3.0	28.76	2 914	2 951	-53.3	-130	787	2.2	20.4	-1.2
GHANA 10.75% 14-OCT-2030	Caa3/CC	65.955	3.7	19.47	1 742	1 778	42.5	213	658	-1.2	1.1	-11.8
GHANA 8.125% 26-MAR-2032	Ca/WD	41.263	3.9	24.13	2 279	2 317	-54.8	-244	469	2.7	24.0	0.5
GHANA 8.625% 07-APR-2034	Ca/WD	41.302	3.9	23.49	2 371	2 411	-49.5	-281	467	2.5	25.9	1.9
GHANA 7.875% 11-FEB-2035	Ca/WD	41.520	4.3	22.02	2 017	2 055	-44.3	-322	314	2.4	27.6	3.7
GHANA 8.875% 07-MAY-2042	Ca/WD	39.584	4.4	22.06	2 008	2 045	-57.0	-249	397	2.9	23.7	-0.9
GHANA 8.627% 16-JUN-2049	Ca/WD	39.224	4.6	20.66	1 828	1 865	-42.5	-290	341	2.3	25.4	-0.7
GHANA 8.95% 26-MAR-2051	Ca/WD	39.671	4.0	22.19	1 989	2 028	-74.2	-276	382	3.6	23.9	0.9
GHANA 8.75% 11-MAR-2061	Ca/WD	39.536	4.0	21.92	1 954	1 995	-81.3	-341	376	3.7	26.4	0.8
IVYCST 5.375% 23-JUL-2024	Ba3/BB-	97.632	1.0	7.40	481	486	39.5	-14	-179	-0.1	3.9	9.1
IVYCST 5.75% 31-DEC-2032	/BB-	93.166	3.8	7.23	413	448	6.8	124	-180	0.0	0.9	11.7
IVYCST 6.125% 15-JUN-2033	Ba3/BB-	102.146	0.9	7.61	383	428	18.1	62	-57	-0.1	2.4	5.8
IVYCST 6.375% 03-MAR-2028	Ba3/BB-	96.299	3.1	7.92	396	417	12.3	26	-217	-0.2	2.4	12.6
KENINT 6.875% 24-JUN-2024	/B	95.283	0.9	11.54	684	687	-402.9	-135	-532	0.4	6.7	18.7
KENINT 7% 22-MAY-2027	B3u *-/B	90.011	2.5	9.88	704	721	20.0	31	-482	-0.2	3.8	24.8
KENINT 7.25% 28-FEB-2028	B3u *-/B	86.786	3.7	10.67	752	780	22.7	55	-365	-0.4	2.6	24.6
KENINT 8% 22-MAY-2032	B3u *-/B	84.507	5.4	10.60	722	754	11.9	38	-274	-0.2	3.1	24.8
KENINT 6.3% 23-JAN-2034	B3u *-/B	75.673	6.5	9.94	691	723	13.2	50	-246	-0.4	1.7	23.9
KENINT 8.25% 28-FEB-2048	B3u *-/B	76.809	8.3	10.81	767	797	16.9	28	-258	-0.8	3.8	28.9
MOROC 2.375% 15-DEC-2027	Ba1u/BB+	87.883	4.1	5.50	143	164	-5.8	7	-162	0.4	2.1	9.4
MOROC 5.95% 08-MAR-2028	Ba1u/	101.653	4.0	5.61	193	214	-193.0			0.5		
MOROC 3% 15-DEC-2032	Ba1u/BB+	80.146	7.9	5.83	201	228	-9.5	15	-143	1.2	2.4	12.9
MOROC 5.5% 11-DEC-2042	/BB+	87.522	11.2	6.07	290	326	-14.9	0	-162	2.3	4.8	18.4
MOROC 5.5% 11-DEC-2042	/BB+	87.522	11.2	6.82	290	326	-14.9	0	-162	2.3	4.8	18.4
MOROC 4% 15-DEC-2050	Ba1u/BB+	68.182	14.0	6.62	249	324	-10.7	21	-105	2.0	2.3	13.6
MOZAM 5% 15-SEP-2031	Caa2u/	75.489	4.3	14.22	1 124	1 157	-32.8	119	102	1.8	1.2	5.2
REPNAM 5.25% 29-OCT-2025	B1/BB-	95.259	2.1	7.48	331	342	3.4	-49	-216	0.1	4.1	10.2
NGERIA 7.625% 21-NOV-2025	Caa1/B-	95.472	2.1	9.40	556	568	51.3	-128	-360	-0.8	7.1	17.2
NGERIA 6.5% 28-NOV-2027	Caa1/B-	86.913	3.7	9.92	627	652	35.3	-159	-327	-0.9	11.3	21.9
NGERIA 8.375% 24-MAR-2029	Caa1/B-	89.925	4.2	10.06	727	757	31.7	-166	-368	-0.9	12.7	26.5
NGERIA 6.125% 28-SEP-2028	Caa1/B-	83.193	4.2	10.51	674	700	37.1	-129	-318	-1.1	10.8	23.5
NGERIA 7.143% 23-FEB-2030	Caa1/B-	83.399	4.8	10.50	728	762	25.1	-143	-323	-0.8	12.7	25.7
NGERIA 8.747% 21-JAN-2031	Caa1/B-	89.143	5.0	10.74	772	808	19.3	-152	-376	-0.5	13.5	29.4
NGERIA 7.875% 16-FEB-2032	Caa1/B-	83.453	5.6	10.71	756	788	20.5	-154	-344	-0.7	15.1	29.8
NGERIA 7.375% 28-SEP-2033	Caa1/B-	78.486	6.4	10.71	741	772	24.0	-133	-301	-1.1	14.4	28.9
NGERIA 7.696% 23-FEB-2038	Caa1/B-	74.650	7.3	11.09	799	822	24.5	-104	-299	-1.2	14.3	31.1
NGERIA 7.625% 28-NOV-2047	Caa1/B-	70.796	8.7	11.23	752	778	20.7	-94	-237	-1.2	15.2	28.7
NGERIA 9.248% 21-JAN-2049	Caa1/B-	82.514	7.8	10.95	819	850	21.0	-115	-303	-1.0	15.2	31.7
NGERIA 8.25% 28-SEP-2051	Caa1/B-	74.516	8.4	11.12	784	815	19.1	-131	-256	-1.0	16.9	29.3

African Eurobonds (continued)

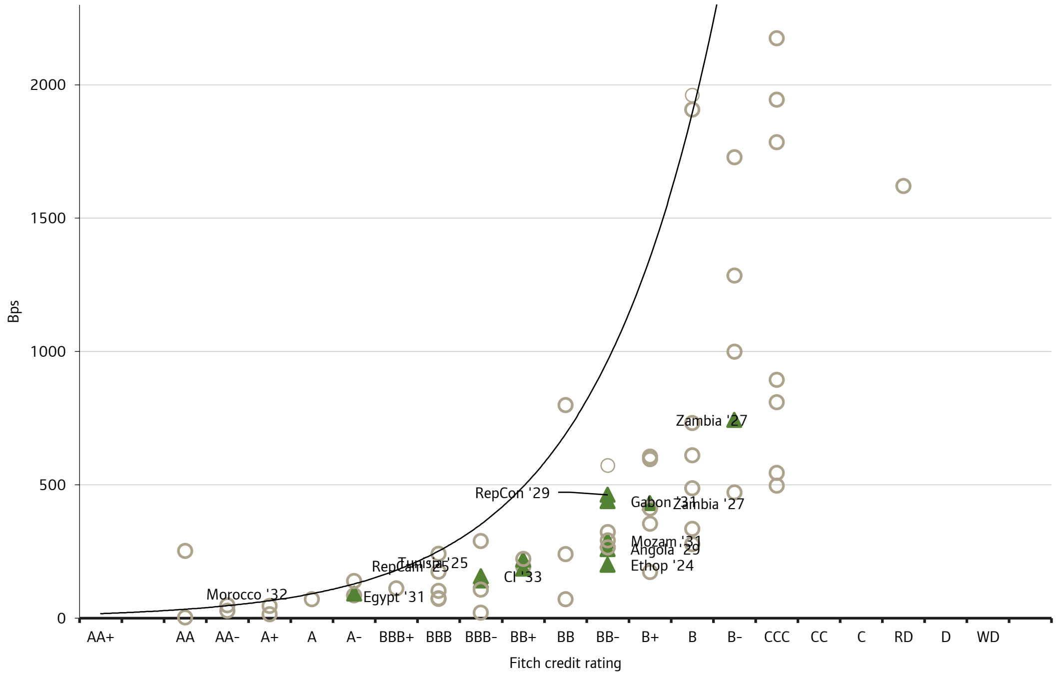
					Spread, bps	Spread change, bps	Total Return, %					
Name	**Moody's/Fitch**	**Mid Price**	**Mod Dur**	**Yield, %**	**Over UST**	**Z-Spread**	**1 wk**	**YTD**	**12mths**	**1 wk**	**YTD**	**12mths**
RWANDA 5.5% 09-AUG-2031	B2u/B+	74.955	5.9	10.28	668	699	-8.6	54	74	0.9	1.5	0.6
SENEGL 6.25% 30-JUL-2024	Ba3/	98.010	1.0	8.17	550	556	17.8	-72	-204	0.1	5.0	10.3
SENEGL 6.25% 23-MAY-2033	Ba3/	82.390	6.3	8.99	549	579	-1.9	21	-87	0.5	3.1	10.4
SENEGL 6.75% 13-MAR-2048	Ba3/	69.830	9.1	10.13	676	701	-1.4	33	-76	0.8	3.1	12.0
SOAF 5.875% 16-SEP-2025	Ba2/BB-	99.144	2.0	6.34	246	257	6.9	28	-62	0.0	1.6	4.4
SOAF 4.875% 14-APR-2026	Ba2/BB-	95.916	2.5	6.42	249	260	17.8	42	-52	-0.3	1.3	4.3
SOAF 4.85% 27-SEP-2027	Ba2/BB-	93.819	3.7	6.48	273	297	13.9	41	-63	-0.3	1.1	5.2
SOAF 4.3% 12-OCT-2028	Ba2/BB-	88.454	4.5	6.90	312	341	11.9	39	-44	-0.3	1.3	4.8
SOAF 4.85% 30-SEP-2029	Ba2/BB-	88.176	5.1	7.18	352	383	14.2	45	-37	-0.5	1.2	5.1
SOAF 5.875% 22-JUN-2030	Ba2/BB-	91.464	5.6	7.37	356	386	-37.2	48	-18	-0.6	1.0	3.8
SOAF 5.875% 20-APR-2032	Ba2/BB-	88.594	6.5	7.60	402	432	14.9	44	-47	-0.6	0.9	5.8
SOAF 6.25% 08-MAR-2041	Ba2/BB-	81.558	9.4	8.15	486	505	19.2	69	-41	-1.3	-1.0	6.4
SOAF 5.375% 24-JUL-2044	Ba2/BB-	71.379	10.3	8.15	487	515	24.0	78	-37	-1.6	-2.1	5.2
SOAF 6.3% 22-JUN-2048	Ba2/BB-	77.057	10.8	8.39	481	517	-18.6	55	-29	-1.7	-0.3	4.6
SOAF 5.65% 27-SEP-2047	Ba2/BB-	71.145	10.7	8.33	493	528	26.8	54	-26	-1.9	0.1	4.3
SOAF 5% 12-OCT-2046	Ba2/BB-	67.045	11.1	8.12	456	495	18.4	63	-26	-1.2	-1.3	3.7
SOAF 5.75% 30-SEP-2049	Ba2/BB-	71.104	10.8	8.39	498	536	24.4	56	-26	-1.7	0.0	4.4
SOAF 7.3% 20-APR-2052	Ba2/BB-	84.202	10.4	8.69	526	562	23.2	42	-51	-1.6	1.6	7.0
BTUN 5.75% 30-JAN-2025	Caa2/CCC-	67.682	1.3	32.95	3 110	3 137	89.1	769	-122	-0.3	2.1	35.3
BTUN 8.25% 19-SEP-2027	Caa2/WD	59.858	2.9	23.35	2 075	2 107	71.4	677	258	-1.4	-10.7	10.7
ZAMBIN 8.5% 14-APR-2024	/WD	55.706	0.5	102.33	10 258	10 000	-668.5	1640	6548	5.0	30.5	2.9
ZAMBIN 8.97% 30-JUL-2027	/WD	55.157	2.0	29.47	3 256	3 294	-262.6	-633	954	5.6	30.9	4.8
SB Africa Eurobond (incl. SA)	B+		6.9	12.48	846	879	6	89.7	-22	-0.04	3.5	2.2
SB Africa Eurobond (excl. SA)	B+		6.7	13.35	933	963	6	78	-42	0.10	-0.3	4.0

Figure 18: African Eurobonds (spread over UST vs modified duration)



Source: Bloomberg; Standard Bank Research

Figure 19: African and broader EM bonds (spread over UST vs credit rating)



Source: Bloomberg; Standard Bank Research

Figure 20: Spread over UST: SB African Eurobond index vs EMBI Global

Source: Standard Bank Research

Figure 16: 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	17.92	30.8985	109.44
Ethiopia: buy USD/ETB 24-m NDF	23-Jan-23	19.92	53.73	20.53	54.9865	3.12
Egypt: buy Egypt '364	24-Jan-23	21.95	29.83	23.46	30.8985	0.80
Angola: buy USD/AOA 6-m NDF	27-Apr-23	13.29	512.9	10.15	802.35	32.21
Uganda: buy Uganda '15	27-Jun-23	15.6	3675	15.6	3674.53	0.24

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

Source: Bloomberg, Standard Bank Research

Angola: persistent FX pressures, and likely softer GDP growth

Medium-term outlook: growth softening due to subdued investment and further FX pressures

We retain our Jan AMR edition growth forecast of 1.8% y/y for 2023, a deceleration from 3% y/y in 2022, as we foresee subdued investment and maturing oil fields reducing oil and gas (O&G) output by 3.1% y/y, to 1.183 m bpd.

Non-oil growth slows to 3.6% y/y this year, from 4% y/y last year, as softer oil prices and higher external debt service mean reduced FX liquidity, which likely constrains non-oil growth.

However, in 2024, some oil price recovery, as well as 0.9% y/y increase in O&G output, to 1.194 m bpd, combined with 2.6% y/y non-oil growth, should lift GDP growth to 2.2% y/y.

Subdued O&G output has meant that GDP growth has been more reliant on the non-oil economy. Indeed, over the past decade, the non-oil sector contribution rose to 74% of GDP, from 63%. However, there is still a heavy reliance on the oil sector (which accounts for 95% of exports and 50% of fiscal revenue).

O&G provides most of the FX liquidity required for Angola's economy to function; it remains heavily reliant on imports.

Oil prices, trading at near the Angola 2023 budget assumption of USD75/bbl at the time of writing, are down by 26%, from an average of USD102/bbl in 2022. This, combined with softer oil output, diminishes exports as well as FX liquidity. Still, oil prices at near budget levels might have remained supportive for growth, were it not for higher external debt service this year.

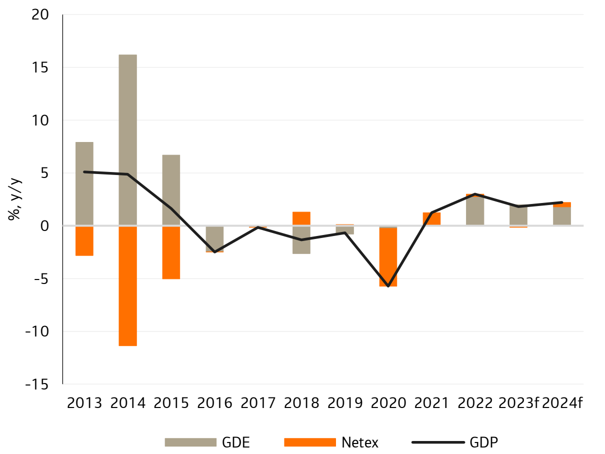
Angola faces higher interest rates globally as well as the resumption of principal debt repayment on some Chinese loans (which had benefited from a moratorium since the pandemic).

External debt principal repayment is up by 78% y/y this year, to AOA3.8trn (USD7.5bn at budget time USD/AOA pair of 504), with interest up by 31% y/y, to USD2.6bn. This saw FX sales from the Treasury down to near zero in Q2:23, from USD442m per month in 2022, further crimping FX liquidity.

The BNA had allowed the kwanza to depreciate by over 40% y/y at the time of writing, when it was trading at 727.7 to the US dollar; further weakness is expected.

This year, a weaker kwanza and the fuel subsidy reform will fuel inflation. Therefore, monetary policy tightening is now expected, which should lower domestic expenditure (GDE) and growth. Next year, net exports should turn positive as exports likely grow faster than imports, supporting some growth recovery. However, due to subdued investment, growth remains below 3% y/y population growth for most our forecast period.

Composition of GDP by demand

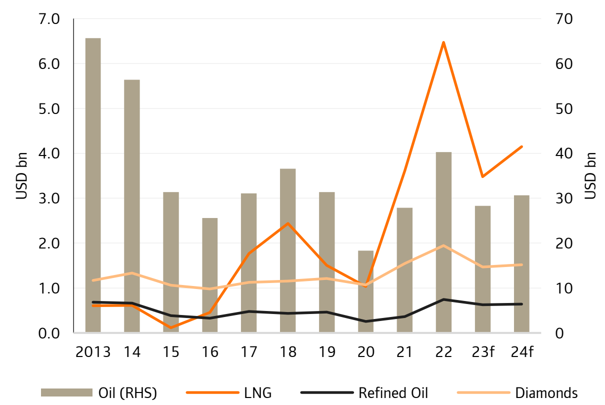


Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution of GDP by sector (% of total)

	2013	2020	2021	2022
Agriculture and forestry	3.8	5.5	5.8	5.8
Fishing	1.8	2.3	3.3	3.3
Oil	37.2	30.8	27.0	26.3
Other extractive	1.8	1.8	2.0	1.9
Manuf. (incl. oil refin.)	3.6	4.2	4.2	4.2
Electricity and water	0.6	0.9	0.9	0.9
Construction	10.2	8.9	8.2	8.4
Trade	11.4	14.7	16.5	16.2
Transport and storage	2.0	1.7	2.2	2.9
Courier and comm.	1.8	1.7	1.7	1.6
Financial and insurance	1.5	1.6	1.3	1.2
Real estate	5.1	5.4	5.5	5.5
Public administration	9.0	8.1	8.2	8.6
Other services	6.9	6.8	6.5	6.5
Indirectly measured intermediary financial services	-0.6	-0.4	-0.3	-0.3
Taxation minus subsid.	0.8	-0.9	-5.8	-0.7
Statistical discrepancies	3.0	6.7	12.8	7.7
GDP	100.0	100.0	100.0	100.0

Principal exports



Source: Banco Nacional de Angola; Standard Bank Research

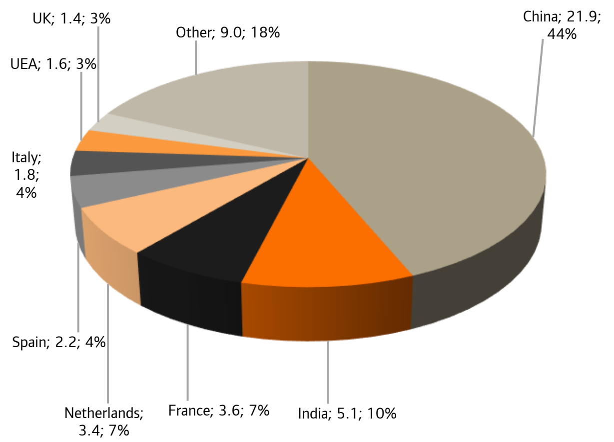
Medium-term economic growth scenario

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	2.3	2.0	1.2	1.8	2.1	1.9	2.6	2.2	2.8	2.6	2.4	2.7	3.3	3.1	3.0	3.2
CPI (% y/y) pe	10.8	11.6	15.3	19.2	23.3	26.3	24.1	21.7	20.1	18.5	18.2	18.2	17.5	16.8	16.9	16.8
Policy rate (%) pe	17.00	17.00	18.50	20.00	20.00	20.00	20.00	20.00	20.00	20.00	18.50	18.50	18.50	18.50	18.50	18.50
3-m rate (%) pe	7.3	10.5	11.9	13.3	14.0	14.5	14.1	13.7	13.4	13.1	12.3	12.3	12.8	12.8	12.8	12.8
6-m rate (%) pe	9.2	10.8	12.3	13.8	14.7	15.3	14.8	14.3	14.0	13.7	12.9	12.9	14.6	14.5	14.5	14.5
USD/AOA pe	504.9	776.7	824.3	874.7	848.7	823.5	799.1	775.3	798.8	823.0	848.0	873.7	886.8	900.2	913.8	927.6

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

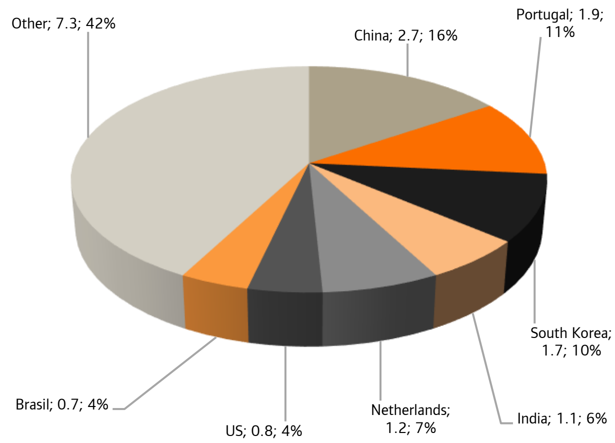
Notes: pa - period average; pe - period end

Exports destination



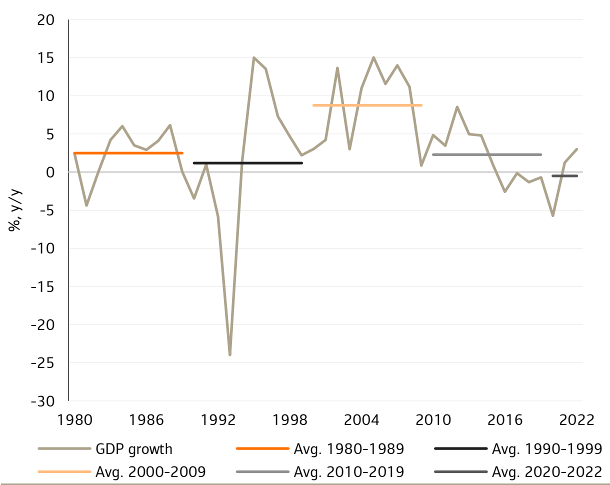
Source: Instituto Nacional de Estatística; Standard Bank Research

Imports origin



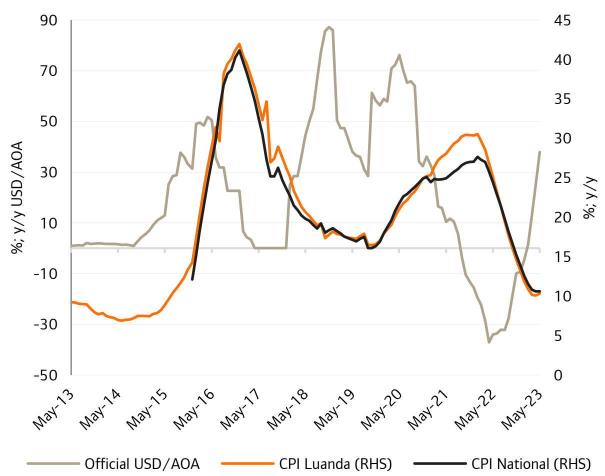
Source: Banco Nacional de Angola; Standard Bank Research

Long-term GDP performance



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

Annualized FX rate change versus inflation



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

Balance of payments: imports need to decline

This year, softer oil prices and output may reduce the current account (C/A) surplus to USD6bn, or 6.8% of GDP, after an USD11.8bn surplus in 2022, or 10.1% of GDP. As oil prices recover in 2024, the C/A surplus may return to USD7.2bn, or 7.8% of GDP.

Historically, Angola's C/A has been volatile, matching oil price volatility. Still, reform progress has seen a more flexible kwanza preventing C/A deficits since 2018 (deficits were persistent from 2014 to 2017).

We still see an import bill (goods & services) of USD6.3bn in Q1:23, down by 17.5% q/q, but still up by 9.2% y/y, after USD28.6bn for 2022, as too demanding given softer oil prices and exports, declining FX reserves, and limited FX supply. Exports fell by 16.1% q/q, or 32%, y/y in Q1:23, to USD8.7bn, with the C/A surplus at USD507m, or 2.3% of GDP, up 42% q/q (but still down 90% y/y).

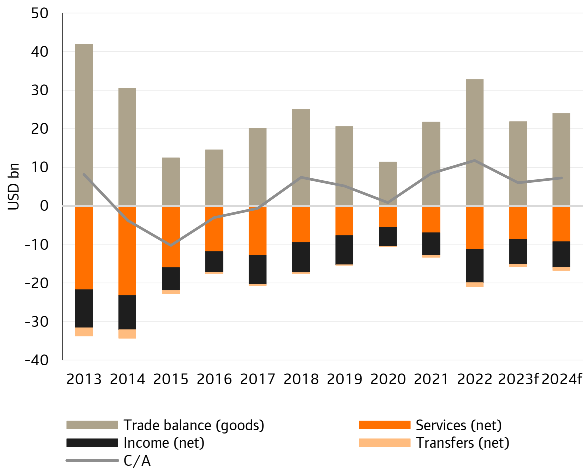
Further kwanza depreciation, alongside expected monetary policy tightening and reform progress, should soften import demand, critical in stabilizing FX reserves and ensuring a C/A remaining in surplus.

We see overall imports down by 25.8% y/y this year, to USD21.2bn, but with exports declining faster, at 31.3% y/y, to USD34.4bn. Further kwanza depreciation and an expected oil price recovery should see exports up by 9% y/y in 2024, growing faster than imports that will likely rise 7.9% y/y.

Net foreign direct investment (FDI) will likely remain negative because oil sector outflows, related to previous investment, still exceed inward investment.

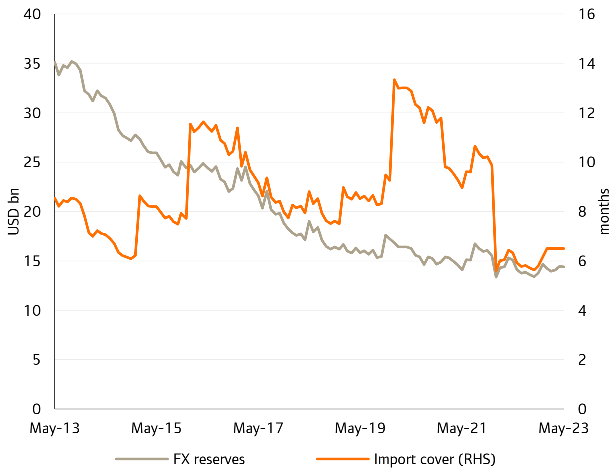
FX reserves, last reported at USD13.2bn at mid-Jun (6.5-m of import cover), fell by 9% m/m, or 8.2% y/y, due to the BNA's recent FX sales to help ease the FX backlog.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves and import cover



Source: Banco Nacional de Angola; Standard Bank Research

FX outlook: kwanza still depreciating

The BNA is unlikely to substantially increase FX sales to the market to a degree compensating for fewer FX sales from the Treasury (because that would deplete FX reserves).

In 2022, the FX market operated, on average, with USD442m per month (pm) sold by the Treasury, USD392m pm sold by oil exporters, USD100m pm sold by the BNA and USD92m sold by the diamond sector, totalling USD12.2bn for 2022, up 51% y/y, from 2021. This saw the kwanza appreciating further, by 10.2% y/y to the USD in 2022, after gaining 18.2% y/y in 2021.

This year, the kwanza seems set to depreciate further due to far less FX sales from the Treasury. Trading at USD/AOA of 727.7 at the time of writing, this pair is up by 79% y/y. Our year-end forecast for the USD/AOA, now at 874.7, implies an overshooting, then some recovery in 2024.

USD/AOA: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: turning tight

As we foresee a weaker kwanza, we now also expect monetary policy turning tight this year to help stabilize the kwanza.

We see inflation rising to 19.2% y/y by Dec; it was 10.6% y/y in May, down from 13.9% y/y at end 2022 and 27% y/y at end 2021.

In a short monetary policy easing cycle, permitted by kwanza stability and inflation easing, the BNA rate was cut by 300 bps, to its current 17% (during Sep 22 to Mar 23).

There was also a 500 bps cut in the local currency (LCY) cash reserves ratio (CRR), to 17%, from 22% during May 22 to Jul 22, but the foreign currency (FCY) CRR was kept at 22%.

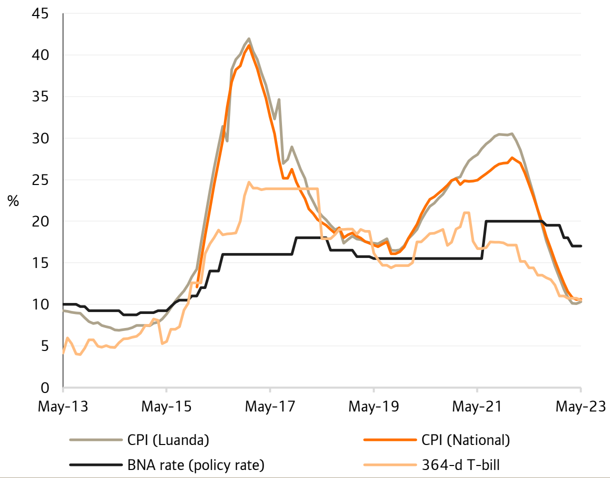
We now see the BNA rate being hiked by a cumulative 300 bps, to 20% this year, then kept stable at that level next year, even should inflation exceed 20% y/y. This would imply turning to negative real interest rates again.

Recent kwanza weakness reflects the BNA's view that FX reforms, which began in 2018, should be maintained. This would entail a flexible kwanza to buffer balance-of-payment (BOP) shocks and protect FX reserves. FX rate flexibility is consistent with the BNA's goal to implement an inflation-targeting regime.

Kwanza weakness, unwinding favourable base effects, and rising fuel prices may fuel inflation as of Jun. Ongoing fuel subsidy reform looks at replacing the generic price subsidy with targeted subsidies for those most vulnerable.

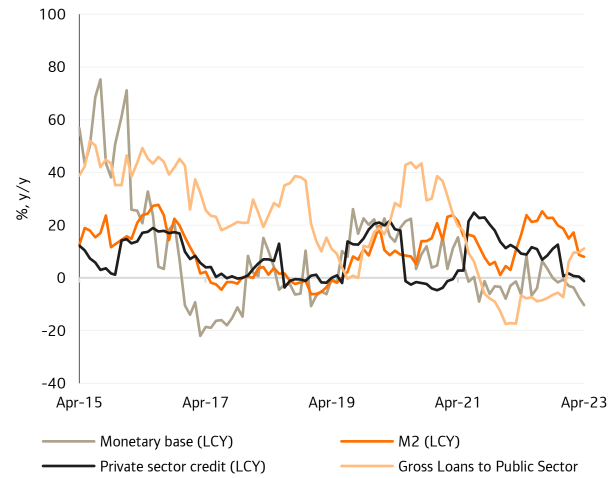
The price of petrol was up by 87.5% at beginning Jun, to AOA300/l, after having been kept at AOA160/l since 2016. The price of diesel, unchanged at AOA135/l since 2016, may be increased at some point.

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: upward shift

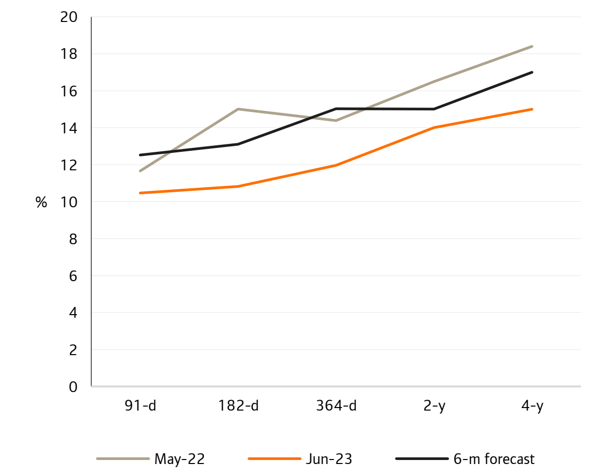
We expect yields to rise in the next 6-m as kwanza weakness tends to bump up imported inflation. The latest 365-day T-bill issuance (in Jun) is already up by 100 bps m/m, to 12%, with the 6-y and 10-y government bonds still steady, at 16% and 17%.

We also see the Ministry of Finance (MOF) increasing domestic borrowing due to softer oil tax revenue. This would imply an upward shift in the yield curve.

Indeed, the May data shows the combined T-bill and government bond stock up by 4.1% m/m, or 8.3% y/y, to AOA10,245.7bn, or 16.8% of GDP.

A strong oil sector contribution to fiscal revenue in 2022 allowed the MOF to reduce domestic debt by 9.5% y/y in that year, to AOA9,703.0bn, or 18.2% of GDP, which impelled yields to plummet.

Yield curve changes



Source: Banco Nacional de Angola; Standard Bank Research

Fiscal policy: large surpluses required as buffers

Oil price volatility and no hedging, which would be too costly, exposes Angola to undesirable oil price swings.

Therefore, this economy requires both large current account and fiscal surpluses as a buffer against oil price volatility.

Currency volatility also tends to create large swings in the budget. The governmental budget for FY2023 (12-m ending Dec23) targets a 0.9% of GDP surplus, or AOA559.8bn, from an estimated surplus of 2.8% of GDP in 2022.

Creating larger fiscal surpluses would require faster progress on reforms. To demonstrate: the fuel subsidy reform may more than double the targeted fiscal surplus for 2023.

Last year's fuel import bill of USD4bn, up by 110% y/y, from USD1.9bn in 2021 due to higher fuel prices, illustrates the pressure on the fiscus. Sonangol privatization may not progress in full until fuel subsidies are fully removed from their accounts.

The government budget assumes an average oil price of USD75/bbl for 2023, after a conservative USD59/bbl in 2022.

Revenue grows by 0.7% y/y, to AOA13,462.0bn, or 22.1% of GDP, with expenditure growth (excluding loan repayments and other financial transactions) up by 8.4% y/y, to AOA12,902.2bn, or 21.1% of GDP, likely enabling a FY2023 surplus.

An overall interest bill of AOA2,440.8bn is planned for 2023, up by 14.3% y/y, which would increase the interest to revenue ratio to 18.1%, from 16%. External debt principal repayment increases by 70.1% y/y, to AOA3,774.4bn, or 28% of overall revenue. Adding to the 21.2% of revenue domestic debt principal repayment, the overall principal repayment to revenue rises to 49.2% in 2023, from 39.2% in 2022.

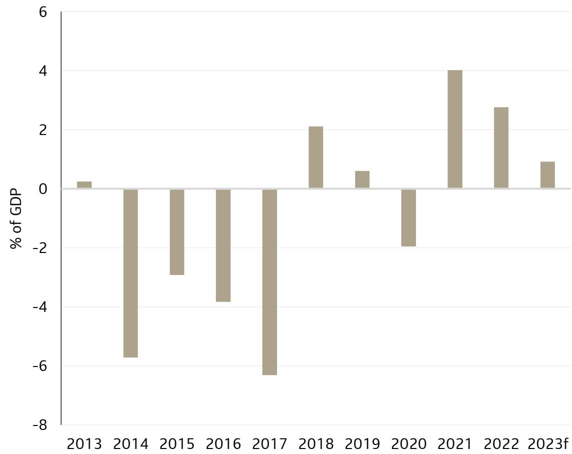
Angola will likely be looking at tapping the Eurobond market only next year when risk conditions may have turned more favourable.

Central government finances

% of GDP	2020	2021	2022	2023f
Total revenue	22.3	24.7	25.1	22.1
- Oil	11.4	14.9	14.9	11.8
Total expenditure	24.2	20.7	22.3	21.1
- Recurrent	18.6	15.1	16.4	16.1
- Interest	7.2	5.5	4.0	4.0
- Of which domestic	3.2	2.7	2.1	1.9
- Of which external	4.0	2.8	1.9	2.1
- Wages	6.5	4.7	4.5	4.6
- Development	5.6	5.6	5.9	5.1
Overall balance (commitment)	-2.0	4.0	2.8	0.9
Net domestic borrowing (-saving)	-2.2	1.0	-2.5	-0.5
Net external borrowing (-saving)	-2.3	-1.2	2.1	-0.4
Statistical discrepancy	6.4	-3.8	-2.4	0.0

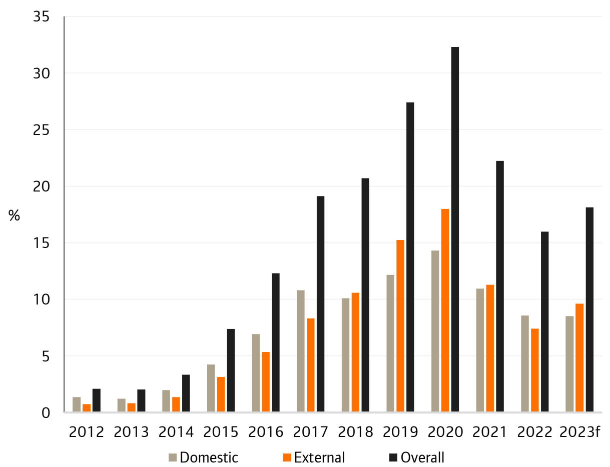
Source: Ministério das Finanças; Standard Bank Research

Fiscal balance



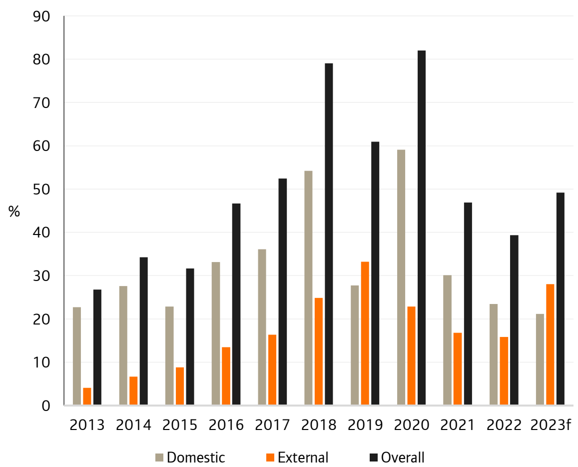
Source: Ministério das Finanças; Standard Bank Research

Interest expenditure to revenue



Source: Ministério das Finanças; Standard Bank Research

Principal repayment to revenue



Source: Ministério das Finanças; Standard Bank Research

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	29.3	30.2	31.4	32.1	33.1	34.1	35.2
Nominal GDP (AOA bn)	25 627.7	30 330.4	31 700.8	44 535.9	53 376.6	61 012.4	75 895.5
Nominal GDP (USD bn)	101.4	83.2	54.8	71.4	116.0	87.4	92.6
GDP / capita (USD)	3 466.3	2 756.7	1 743.1	2 223.1	3 505.1	2 561.8	2 632.0
Real GDP growth (%)	-1.3	-0.7	-5.7	1.2	3.0	1.8	2.2
Oil output ('000 bpd)	1,478	1,383	1,271	1,124	1,137	1,069	1,058
LNG output ('000 BOE/d)	115	141	146	121	84	114	135
Central Government Operations							
Budget balance / GDP (%)	2.1	0.6	-2.0	4.0	2.8	0.9	2.0
Domestic debt / GDP (%)	32.8	36.5	38.1	24.8	18.7	20.2	17.5
External debt / GDP (%)	46.3	59.5	91.4	71.8	44.9	61.5	58.3
Balance of Payments							
Goods and services exports (USD bn)	41.4	35.2	21.0	33.7	50.1	34.4	37.6
Goods and services imports (USD bn)	-25.9	-22.3	-15.1	-18.8	-28.6	-21.2	-22.9
Trade balance (USD bn)	15.5	12.9	5.9	14.8	21.6	13.3	14.7
Current account (USD bn)	7.4	5.1	0.9	8.4	11.8	6.0	7.2
- % of GDP	7.3	6.2	1.6	11.8	10.1	6.8	7.8
Capital and financial account (USD bn)	-7.4	-3.5	-2.9	-6.2	-7.8	-6.1	-7.2
- FDI (USD bn)	-6.5	-1.7	-2.0	-3.3	-6.2	-4.7	-5.8
Basic balance / GDP (%)	0.0	2.0	-3.7	3.1	3.4	-0.2	0.0
FX reserves (USD bn) pe	16.2	17.2	14.9	15.5	14.6	13.1	13.2
- Import cover (months) pe	7.5	9.3	11.8	9.9	6.1	7.4	6.9
Sovereign Credit Rating							
S&P	B-	B-	CCC+	CCC+	B-	B-	B-
Moody's	B3	B3	Caa1	B3	B3	B3	B3
Fitch	B	B	CCC	CCC	B-	B-	B-
Monetary & Financial Indicators							
Headline inflation (%) pa	19.6	17.1	22.3	25.8	21.4	13.7	23.8
Headline inflation (%) pe	18.6	16.9	25.1	27.0	13.9	19.2	21.7
M2 LCY money supply (% y/y) pa	0.3	2.7	11.9	13.4	17.5	12.5	16.5
M2 LCY money supply (% y/y) pe	-6.2	14.1	20.7	1.0	18.6	16.2	15.3
Policy interest rate (%) pa	17.25	15.58	15.50	17.75	19.83	17.92	20.00
Policy interest rate (%) pe	16.50	15.50	15.50	20.00	19.50	20.00	20.00
3-m rate (%) pe	13.6	9.5	19.0	19.4	7.3	13.3	13.7
1-y rate (%) pe	19.0	14.7	20.8	17.1	11.0	15.8	16.5
USD/AOA pa	252.8	364.6	578.4	624.1	460.3	698.2	819.9
USD/AOA pe	308.6	482.2	656.2	555.0	503.7	874.7	775.3

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

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

Botswana: disinflation, and growth normalizing in 2023

Medium-term outlook: growth moderation not as severe as expected

We still expect Botswana's real GDP growth in 2023 to moderate but have nevertheless increased our growth estimate to 4.0% y/y, from 2.3% y/y previously, as we now foresee an improved growth outlook for household consumption, construction as well as election spending.

Growth moderating will be driven primarily by a high base effect for diamond production as well as prices having an impact on export earnings, relative to 2022. Lower electricity production from South Africa and Zambia also poses downside risks to growth.

That’s not to say that in absolute terms the diamond industry will not grow. Despite the early dip in Jan, De Beers is optimistic about a positive recovery in the medium term, and in 1Q:23 posted a 12% y/y increase, to 6.9 million carats production, in Botswana.

Pula earnings from rough and polished diamond exports in Jan 23 were down 32% y/y but picked up significantly in Mar and Apr. Year to Apr 23, rough diamond export earnings were 7% y/y, compared to the same period in 2022.

In the medium term, higher copper prices from 2024 are expected to boost mining activity and reduce Botswana's dependence on diamonds.

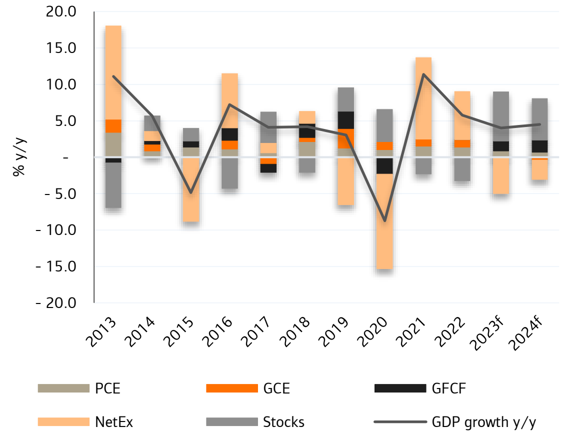
The Motheo copper mine, owned by Sandfire Resources, commenced operations in May and is targeting an initial production capacity of 3.2 million tons per year (Mt/y). Additionally, Khoemacau, which may have reached full capacity by end 2022, is expected to further stimulate GDP growth.

Sluggish government spending, amidst efforts to rein in public sector expenditure (the Workforce Planning Strategy) and strengthen oversight of state-owned enterprises, may impel softer growth in the medium term but, in the short term, election spending in the fiscal year 2023/24 should boost growth.

Private consumption may also support overall growth, underpinned by subdued inflation and stable unemployment rates. Gross fixed capital formation (GFCF) is also anticipated to pick up, driven by construction, and a return to normal investment conditions as high inflation eases.

Overall GDP growth during NDP 11 fell short of projections, mainly due to the Covid-19-induced recession in 2020 and the impact of the Russia-Ukraine conflict. Actual growth averaged 2.7% per year, below the projected 4.2% average. The unemployment rate increased from 17.5% in 2015, to 26.0% in 2021, partly due to the pandemic. Still, there was a slight decline in the unemployment rate, to 25.4% in Q4:22.

Composition of GDP by demand



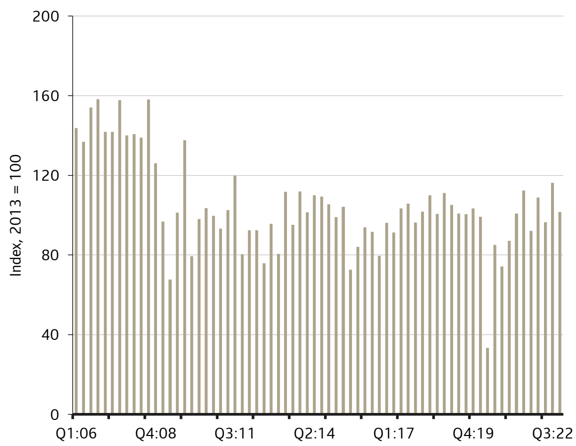
Source: Bank of Botswana, Standard Bank Research

Contribution to GDP by sector

% of GDP	2006	2017	2022
Agriculture	1.7	1.8	1.6
Mining	30.9	18.8	21.5
Manufacturing	7.1	6.2	5.4
Water & Electricity	1.4	1.7	1.3
Construction	7.2	10.5	8.8
Wholesale & Retail	6.3	9.2	10.2
Diamond Traders	2.1	2	3.2
Transport	1.4	1.9	1.7
Accommodation & Food	2.7	2.7	1.7
ICT	1.6	2.5	2.5
Finance	3.6	4.7	4.6
Real Estate	4.3	4.7	4.6
Administrative Activities	1.3	1.7	1.5
Public Admin	14.6	15.6	16.8
Education	4.4	5.1	4.3

Source: Statistics Botswana; Standard Bank Research

Diamond Production



Source: Statistics Botswana

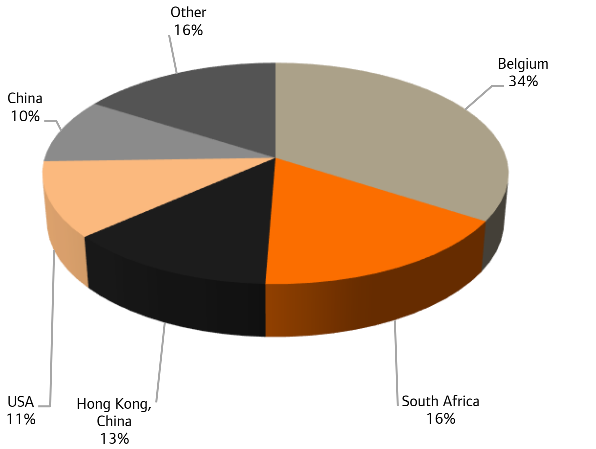
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	4.8	4.8	4.8	4.8	4.0	4.0	4.0	4.0
CPI (% y/y) pe	9.4	6.0	4.0	4.0	5.0	5.0	5.0	5.0	4.5	4.5	4.3	4.0	3.7	3.5	3.5	3.5
MoPR (%) pe	2.65	2.65	2.65	2.65	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
6-m rate (%) pe	6.2	7.0	6.5	5.5	5.0	4.5	4.5	4.5	4.3	4.3	4.3	4.3	4.5	4.2	4.2	4.2
USD/BWP pe	13.20	13.01	12.89	12.50	12.25	12.25	12.25	12.25	12.75	12.75	12.75	12.75	12.90	12.90	12.90	12.90

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

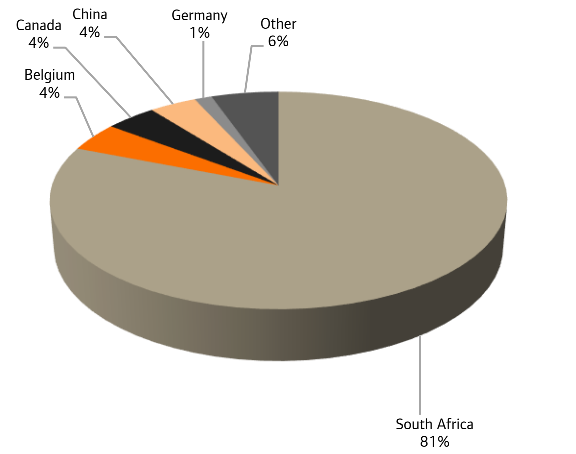
Notes: pa - period average; pe - period end

Share in Botswana's exports (%)



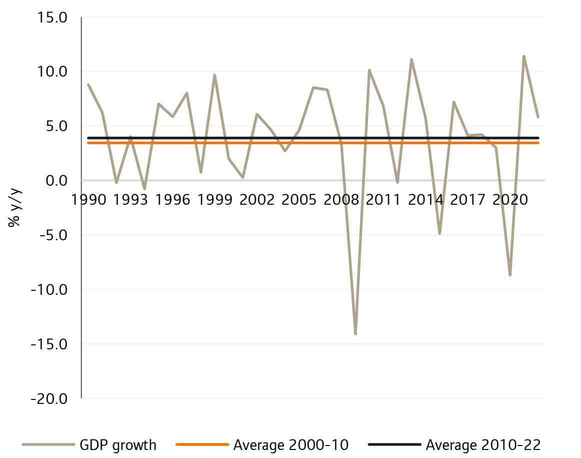
Source: ITC

Share in Botswana's imports (%)



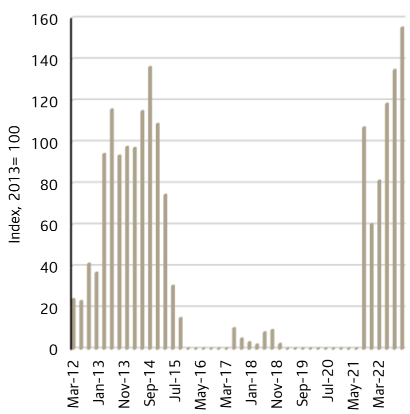
Source: ITC

Long-term GDP performance



Source: Statistics Botswana

Copper production



Source: Statistics Botswana

Balance of payments: external position resilient

We expect a C/A surplus in 2023 of 3.9% of GDP. The moderation in diamond export earnings offset by resilience in Southern African Customs Union (SACU) receipts, an improvement in tourism earnings in the services trade account, and copper exports.

Q4:22 posted a current account deficit of P0.6bn, and diamond exports made up 82.4% of total exports of goods. This deficit was cushioned by net income inflows from the secondary income account from (SACU) receipts and the upswing in several non-diamond exports, including hides, machinery, live cattle, textiles, plastic products, salt, soda ash, and copper.

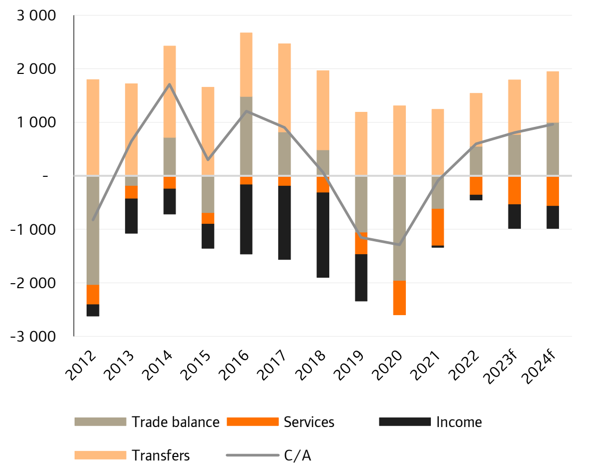
Overall, the 2022 C/A recorded the first surplus since 2018, at P597m.

Botswana's external position remains robust. In Jan 23, foreign reserves increased to P60.5bn, or 8.5-m of import cover. The increase of reserves in Pula terms was largely driven by SACU receipts. However, foreign exchange reserves experienced a decline in USD terms, falling 6%, from USD5bn in Jan 22 to USD4.7bn in Jan 23, and 2.8%, from SDR 3.6bn to SDR 3.5bn.

We still expect the current transfers from the SACU to bode well for the C/A. Specifically, SACU revenue is expected to increase in FY2023/24 (as of Mar). Based on the SA budget review, compared to the 2021 MTBPS estimate, payments to SACU are up by ZAR1.9bn for FY2023/24 and ZAR2.1bn for 2024/25. However, the slow rate of economic growth in South Africa may affect the distribution of SACUs in Botswana in the outer years.

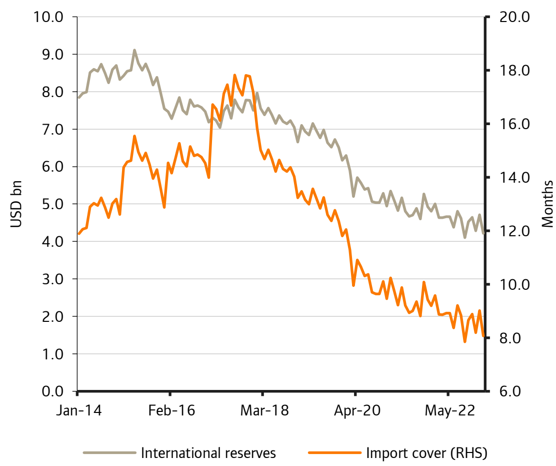
Botswana’s external debt remains sustainable, compared to regional peers, and is projected to decrease in the short- and medium term, in accordance with the government’s fiscal plans to pay down debt.

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: rand dragging pula weaker to USD

In the 12-m leading up to Mar 2023, the pula appreciated by 7.6% y/y against the South African rand, but depreciated against the SDR by 10.1% y/y. Its depreciation against the SDR constituent currencies reflects the performance of the South African rand against those currencies. The rand depreciated by 16.5% y/y against the SDR due to idiosyncratic economic factors.

The lower (1.51%) downward crawl for 2023 is likely the result of better growth and lower projected inflation differentials, compared to trading partners, especially South Africa. As the economy stabilises and inflation moderates further, the downward crawl should be further reduced as of 2024. We see the pula appreciating to USD/BWP 12.5 by Dec.

USD/BWP forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: mission accomplished

May 23 inflation was 5.7% y/y within the central bank (Bank of Botswana) targeted range ahead of schedule and, also for the first time in over two years. Disinflation is being driven by the base effect in the transportation sub-category of the CPI as well as imported disinflation as the pula strengthens against the rand. The lack of higher administered prices, subdued demand, and the zero-rating of certain goods from VAT have also dampened inflation.

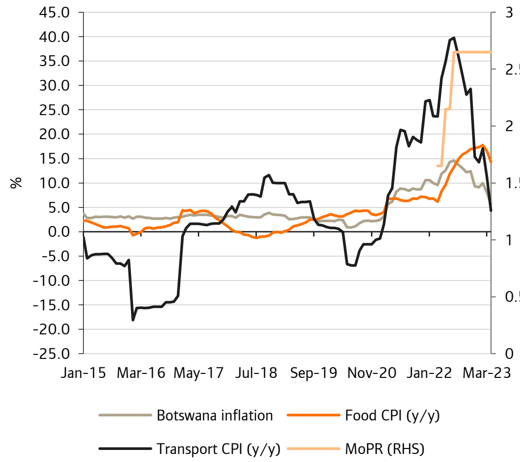
The central bank has always maintained that it cannot influence supply-side inflation such as that caused by the spike in oil prices in 2022. However, to keep inflation expectations anchored, the Bank of Botswana has increased rates and orchestrated a draining of liquidity out of the banking system and has also kept money supply growth lower than nominal GDP growth.

In Q1: 23, the average 7-day nominal BoBC yield rose to 2.65%, from 1.12% in Q1:22, in alignment with the policy rate hike. Consequently, the real interest rate on the 7-day paper improved, from -8.41%, to -6.20%, and will improve further as disinflation continues into 3Q23. Introduced in June 22 to mop up liquidity and raise rates at the short end of the yield curve, the yield on the 1-month BoBC averaged 2.94% in Q1:23.

The authorities estimate that the economy will operate below full capacity in the short term and that inflation will remain within the targeted range in the medium term. However, the MPC maintained the MoPR at 2.65% at its June meeting.

In anticipation of lower inflation, we forecast a downward rate bias and easing of liquidity-draining operations in 2H:23, rendering the high nominal yield curve positive in real terms. The primary risk involves maintaining the current restrictive monetary stance to pre-emptively manage expected liquidity influx from 2024, due to new NBFIRA regulations necessitating retirement funds to, in a staggered manner by 2027, equally balance their onshore/offshore holdings. This change could potentially inject over P10bn of liquidity into the system from the repatriation of offshore assets.

Inflation and interest rates



Source: Bank of Botswana; Standard Bank Research

Money Supply

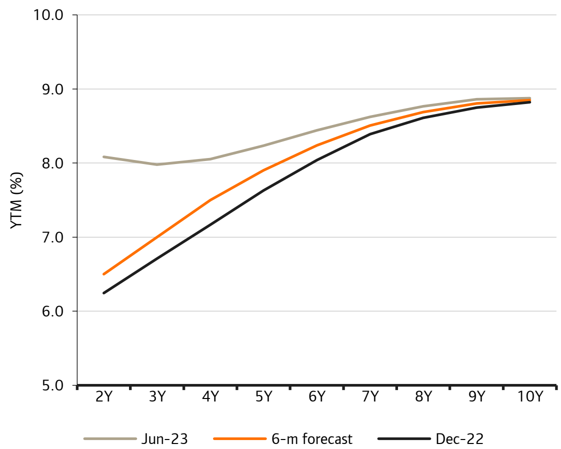
Source: Bank of Botswana

Yield curve outlook: bull-steepening in 2H23

The Bank of Botswana has successfully constructed higher yields at the short end of the Treasury curve. This was necessary when real yields were at historical lows and inflation appeared out of control.

We expect rates across the curve to decline, with a greater decline at the short end (a bull-steepening) over the next 12 to 18-m as monetary operations at the front-end ease, the government returns to a fiscal balance, or small fiscal deficits, and liquidity from pension fund assets abroad returns to onshore.

Changes in the yield curve



Source: Bank of Botswana; Standard Bank Research

Fiscal policy: broadly balanced

The Ministry of Finance has projected a domestic gross financing requirement of BWP7.59bn for FY2023-24. This requirement, along with the maturity of BOTSGB0623 in Jun 2023, will be financed by selling bonds amounting to BWP5bn, net Treasury Bill issuance of approximately BWP879m, and competitively priced foreign borrowing.

Bond sales will be achieved through a combination of short-dated conventional bonds and longer-dated conventional bonds. The short-dated bonds, worth BWP2bn, will be auctioned 8x, while the longer-dated bonds, worth BWP3bn, will be auctioned 10x. Treasury Bill issuance will result in a stock of Treasury Bills of BWP6bn by end FY2023-24.

The Ministry of Finance plans to adjust the split of Treasury Bills and bond issuance by maturity throughout the year, based on market feedback. The benchmark bonds are expected to rotate during the second half of the fiscal year. The existing 5-year, 10-year, and 20-year benchmarks will be replaced with new bonds.

Future changes to this plan will be announced in the quarterly issuance update or, alternatively, at any future fiscal events. The securities auction program will also be managed on a case-by-case basis, considering the type and maturity of securities and current market conditions. Switch auctions will be introduced soon to help manage the upcoming maturity in June 2023.

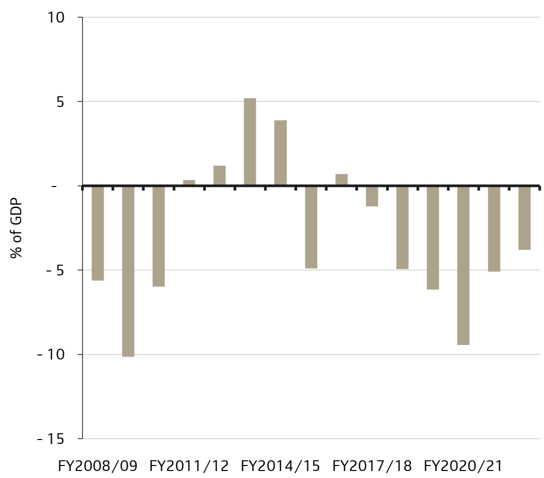
The government expects a small deficit in fiscal year 23/24 as softer diamond prices weigh on revenues. Revenue from SACU should provide some support, though sluggish growth in the region's largest economy, South Africa, may create upside risk.

Central government budget

% of GDP	FY2021/22	FY2022/23e	FY2023/24f
Total revenue	31.3	34.6	31.8
Total expenditure	39.2	34.6	33.9
Recurrent	31.0	28.2	27.1
- wages	16.1	14.9	14.3
-interest	0.9	0.9	0.8
- development	8.1	0.0	0.0
Overall balance (+ grants)	-3.8	-0.1	0.1
Overall balance (- grants)	-3.9	-0.1	0.1
Net external borrowing	1.5	0.0	0.5
Net domestic borrowing	-0.9	-0.8	-0.8

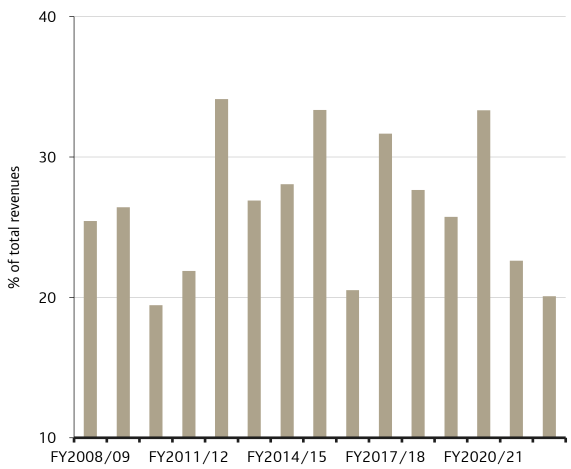
Source: Ministry of Finance; Statistics Botswana; Bank of Botswana; Standard Bank Research

Fiscal Deficit



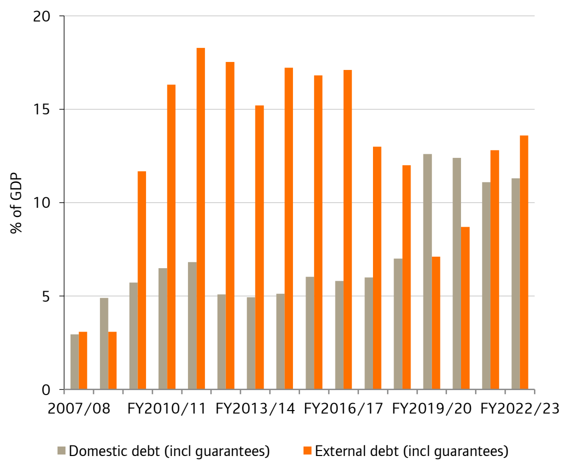
Source: Ministry of Finance; Standard Bank Research

SACU revenue



Source: Ministry of Finance; Standard Bank Research

Domestic and external debt



Source: Ministry of Finance, Standard Bank Research

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	2.3	2.4	2.4	2.4	2.4	2.5	2.6
Nominal GDP (BWP bn)	173.7	179.9	171.4	207.7	251.7	275.6	301.8
Nominal GDP (USD bn)	17.00	16.72	14.93	18.63	20.26	20.80	24.93
GDP / capita (USD)	7 286	7 038	6 285	7 766	8 357	8 318	9 749
Real GDP growth (%)	4.2	3.0	-8.7	11.9	5.8	4.0	4.5
Diamond ('000 carats)	24 496	23 686	16 868	22 696	24 009	24 970	26 093
Coal (thousand tons)	2 482	2 110	1 924	2 021	2 138	2 223	2 324
Central Government Operations							
Budget balance / GDP (%)	-1.1	-4.9	-6.1	-9.4	-5.1	-3.8	-0.1
Domestic debt / GDP (%)	6.0	7.0	12.6	12.4	11.1	11.3	10.5
External / GDP (%)	13.0	12.0	7.1	8.7	12.8	13.6	10.0
Balance of Payments							
Exports of goods and services (USD bn)	7.5	6.2	4.8	7.8	8.8	6.0	7.2
Imports of goods and services (USD bn)	6.0	6.3	6.3	7.9	8.2	8.3	8.3
Trade balance (USD bn)	1.5	-0.1	-1.5	0.0	0.7	-2.3	-1.1
Current account (USD bn)	0.07	-1.15	-1.29	-0.09	0.60	0.81	0.96
- % of GDP	0.4	-6.9	-8.6	-0.5	3.0	3.9	3.9
Capital & Financial account (USD bn)	-0.36	0.43	0.66	0.49	-0.43	0.47	0.35
- FDI (USD bn)	0.22	0.07	-0.04	-1.25	-0.1	1.1	-0.1
Basic balance / GDP (%)	1.7	-6.5	-8.9	-7.2	2.5	9.3	3.6
FX reserves (USD bn) pe	6.7	6.2	4.94	4.81	4.28	5.38	5.41
- Import cover (months) pe	13.2	11.7	9.5	7.3	6.3	7.8	7.8
Sovereign Credit Rating							
S&P	A-	A-	BBB+	BBB+	BBB+	BBB+	BBB+
Moody's	A2	A2	A2	A3	A3	A3	A3
Fitch	NR	NR	NR	NR	NR	NR	NR
Monetary & Financial Indicators							nr
Consumer inflation (%) pa	3.2	2.8	1.9	6.7	12.1	5.5	5.0
Consumer inflation (%) pe	3.5	2.2	2.2	8.7	12.4	4.0	4.7
M3 money supply (% y/y) pa	4.3	11.1	6.0	4.9	6.8	4.5	5.4
M3 money supply (% y/y) pe	8.3	8.0	5.9	5.0	7.3	4.0	5.5
BOB policy rate (%) pa	5.0	4.88	4.17	3.75	2.80	2.65	2.50
BOB policy rate (%) pe	5.0	4.75	3.75	3.75	3.15	2.65	2.50
6-mnth rate (%) pe	1.6	1.8	1.3	1.5	5.5	5.5	1.3
5-yr rate (%) pe	4.4	4.2	5.1	6.6	7.0	6.7	6.5
USD/BWP pa	10.2	10.8	11.5	11.1	12.4	12.90	12.25
USD/BWP pe	10.7	10.6	10.8	11.7	12.8	12.50	12.25

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

Notes: pa – period average; pe – period end

Côte d'Ivoire: IMF deal should support 2021-2025 NDP

Medium-term outlook: broad-based growth

We retain our 2023 GDP growth forecast at 7.0% y/y, and 7.4% y/y for 2024.

2022 GDP growth of 6.8% y/y broadly matched our 6.9% y/y estimate in the AMR Jan edition. Though growth was broad-based, the secondary industries boosted economic activity by posting growth of 10.2% y/y, in particular the construction sub-sector (which was up 27.7% y/y, from an average of 9.8% from 2017 to 2021). This reflects ongoing major infrastructure projects and the rehabilitation of the coastal linkages between San Pédro and Abidjan. The services sector too grew meaningfully (8.9% y/y) due to robust activity in hotels and restaurants, as we had anticipated, though the primary sector managed merely 1.9% y/y growth.

The construction sector should recover further this year. For Q1:23, the construction leading indicator was up 22.1% y/y on average. Moreover, the African Cup of Nations (AFCON), to be hosted in Côte d'Ivoire in 2024, will boost construction as well as the tourism sector and related ancillary sectors.

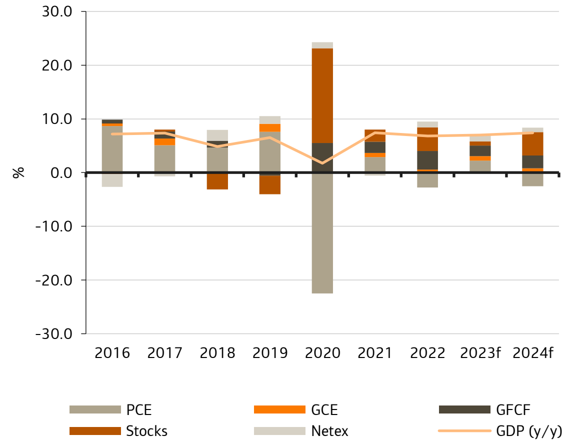
In addition, the USD3.5bn 40-m IMF ECF/EFF programmes, approved in May 23, releasing an immediate disbursement of USD495.4m, should assist macroeconomic stability, complemented by pro-growth reforms under the government's 2021-2025 National Development Plan (NDP).

The floating production storage and offloading (FPSO) system is en route for deployment at the Baleine oilfields, the largest hydrocarbon discovery in Côte d'Ivoire; this vessel should increase oil production. First-oil production from this oilfield, by Eni, is expected in H2:23. Production is estimated at 12,000 bbl/d of crude oil and 17.5m cubic feet/d of natural gas. Prospects of full-field development may transpire by 2026 and could produce 75,000 bbl/d -100,000 bbl/d of crude oil and 140m cubic feet/d of natural gas.

The agrarian sector however faces unfavourable weather conditions. The ongoing above-average rains in most cocoa-growing regions may damage the Apr-Sep crops and diminish cocoa bean quality. In addition, the measures, implemented to cap cocoa-bean production at two million tonnes to prevent further deforestation, is also a factor. Notwithstanding, plans are underway to increase domestic cocoa-grinding capacity by a further 120,000 tonnes when new processing plants are commissioned in Q4:23.

Poor capacity in the domestic electricity sector still presents a risk to industry and the broader economy. That said, the authorities have signed an agreement with a company based in the UAE to explore the development of a 50-70MW solar plant.

Composition of GDP by demand



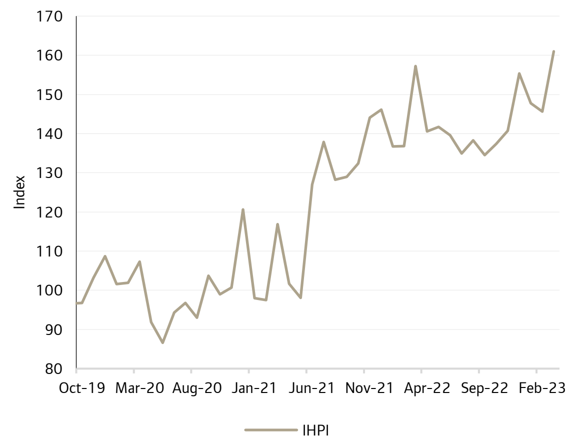
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; International Monetary Fund; Standard Bank Research

Composition of GDP by sector

% of GDP	2015	2018	2022
Food crops	4.6	8.8	8.8
Export crops	10.3	9.2	10.0
Extractive industries	3.3	2.8	2.6
Agroprocessing	5.8	4.3	4.4
Water and Electricity	0.9	2.6	2.1
Construction	4.5	3.7	3.8
Transport and Storage	10.1	5.9	7.8
Information and Communication	2.7	3.9	4.3
Trade and Repair	14.0	17.3	18.0
Financial and Insurance Activities	1.9	1.3	1.4

Source: Institut National de la Statistique

Harmonised index of industrial production



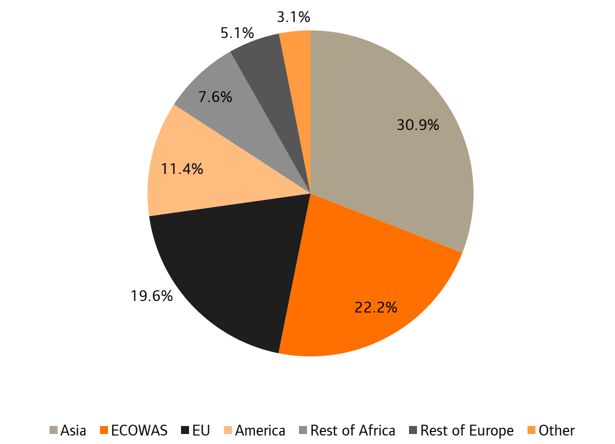
Source: Institut National de la Statistique

Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	6.7	9.5	5.3	6.5	6.5	7.6	7.6	7.6	7.5	7.0	5.3	6.6	6.2	6.1	8.3	6.3
CPI (% y/y) pe	5.17	3.27	2.15	2.41	2.14	2.21	2.27	1.51	1.43	1.41	1.30	1.28	1.24	1.32	1.27	1.25
Policy interest rate (%) pe	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
3-m rate (%) pe	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
6-m rate (%) pe	6.1	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
USD/XOF pe	605.16	613.0	596.3	555.9	551.2	546.6	516.5	500.7	504.6	504.6	496.9	512.5	510.5	508.5	506.5	504.6

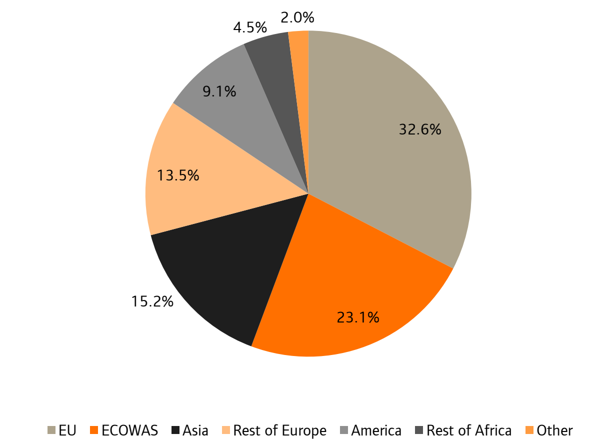
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; Bloomberg; Standard Bank Research

Imports origin (% of total)



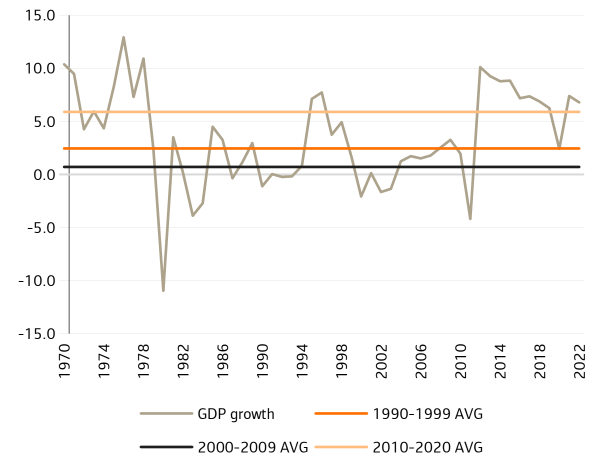
Source: Ministère de l'Economie et des Finances

Exports destination (% of total)



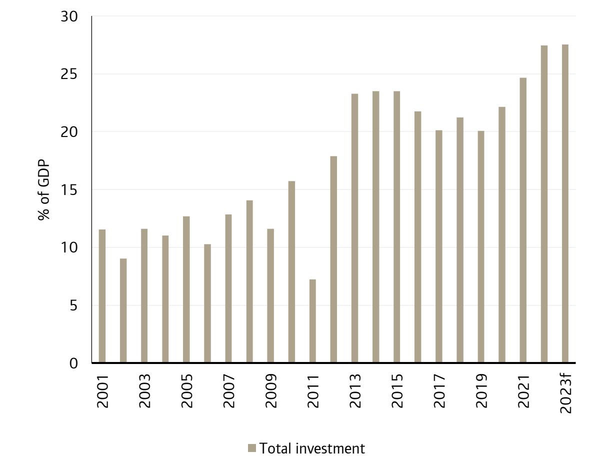
Source: Ministère de l'Economie et des Finances

Long-term growth performance



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

Investment spending



Source: International Monetary Fund

Balance of payments: trade balance in recovery

We now expect the C/A deficit to narrow to 4.3% of GDP in 2023, then narrow further to 3.4% of GDP in 2024. Geopolitical tensions during 2022 saw the Ivorian C/A deficit widening to 6.1% of GDP as the trade balance deteriorated, thereby overshooting our 3.4% of GDP forecast in the Jan AMR.

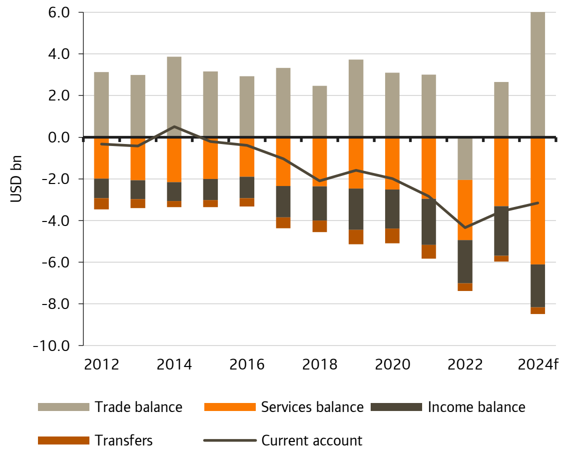
For this year, the trade balance should benefit from increased oil exports when Eni commences Phase 1 production at the Baleine oilfields (Phase 1), with first oil expected in H2:23. Relatively lower international oil prices however present downside risks to oil earnings. Oil exports had recovered in 2022 (61.8% y/y) but that was offset by a much larger fuel import bill (112.2% y/y).

In Q1:23, exports growth outpaced that of imports, led by cocoa beans (30.8% of total exports), rubber and oil products (excl. crude oil), with respective increases of 20.2% y/y, 22.2% y/y and 32.1% y/y. Planned new cocoa-processing plants, to be commissioned in Oct, with additional grinding capacity of 120,000 tonnes, too should boost exports of cocoa processed products (currently accounting for 9.9% of total exports). However, the above-average rain being experienced in most of cocoa-growing regions presents downside risk to the 2022/23 harvest. Notwithstanding, cocoa beans have benefited from higher prices which have held up since Sep 22 due to lower international supply (largely due to dwindling production by Côte d'Ivoire, the main producer).

With the ongoing hydrocarbon projects and planned cocoa-processing plants, services receipts may widen meaningfully.

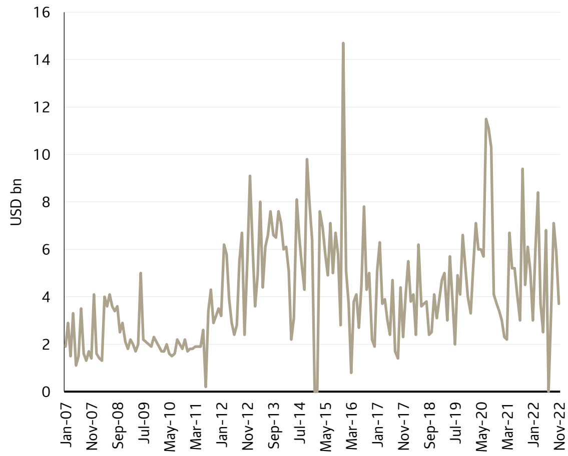
With external borrowing in international capital markets now postponed, the C/A deficit is likely to be financed by both purchases of domestic debt securities by offshore investors and planned disbursements from the recently approved USD3.5bn deal with the IMF (an initial USD495m in May). We thus see FX reserves covering over the coming 9-m.

Current account developments



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

FX reserves



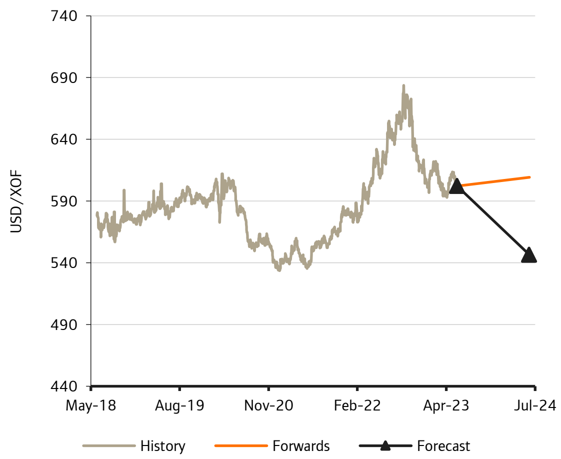
Source: Bloomberg, International Monetary Fund

FX outlook: XOF still taking its cue from EUR

We still expect the XOF to remain pegged at 655.957 to the EUR throughout our forecast period given that plans for the adoption of the common currency "eco" have been postponed to 2027. The euro has recouped most losses to the USD in the aftermath of the energy crisis ignited by Russia's Ukraine invasion; the EUR/USD is at around 1.09, from lows of 0.98 in Sep 22. This was partly due to improved sentiment in the eurozone as well as slower interest rate hikes by the Fed. In Jun, the ECB hiked by 25bps, to 4%, and flagged further rate hikes; the Fed however paused its rate hiking cycle. It seems likely that the ECB will lift rates further despite a cooler pace by the Fed. This should assist the euro.

We forecast the EUR/USD to range at 1.10-1.18 in H2:23, reaching 1.20 by H1:24. Typically, EUR/USD weakness coincides with USD/XOF gains. Thus, we forecast USD/XOF at 555.9 by this Dec and 500.7 by Dec 2024.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: bias neutral

We expect the BCEAO to maintain the policy rate at 3% and 5% for the liquidity calls and marginal lending window respectively for the remainder of 2023 due to softer headline inflation and the likelihood of reaching the targeted range of 1%-3%.

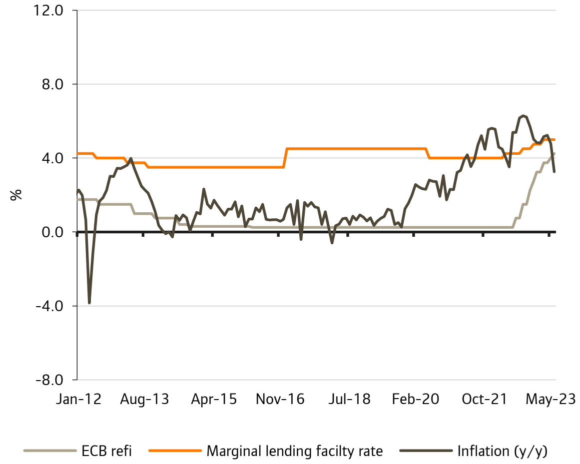
In H1:23, a further 25 bps interest rate hike was implemented, taking the cumulative interest rate hike to 100 bps since Jun 22. Regional inflation had already moderated to 4.6% y/y in Apr 23, from 8.4% y/y in Sep 22, due to increased cereal production and softer imported energy and food products prices. Inflation averaged 5.8% y/y in Q1:23, down from 7.8 % y/y in Q4:22.

Preliminary estimates from the Permanent Interstate Committee for the Fight Against Drought in the Sahel (CILSS) indicate a projected 15.9% increase in cereal production in the WAEMU zone for the 2022/2023 crop year. This should ease the price of local cereals in the coming months and tame regional food inflation.

Still, regional inflation may remain above the BCEAO's targeted 3% in the near term. The BCEAO predicts that inflation in the bloc may only return to the targeted range by 2024, with an average of 2.9% y/y, compared to an expected average of 5.6%y/y in 2023.

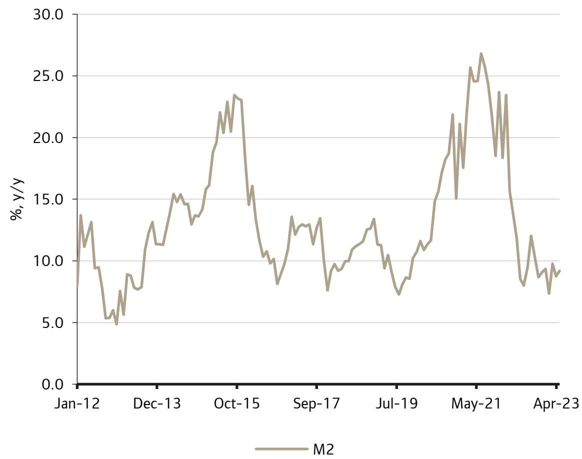
However, any deceleration in inflation may be constrained by insecurity disrupting food-distribution channels. Furthermore, further increases in fuel prices and electricity tariffs would also prove a hindrance. For Côte d'Ivoire, the 10% increase in energy prices, effective as of Jul, may bump up input costs of production and thus derail the favourable effects we anticipate this year. The housing, water, gas, and electricity subcategory accounts for 13.7% of the overall inflation basket. As at Apr, headline inflation stood at 4.8% y/y.

Inflation and interest rates



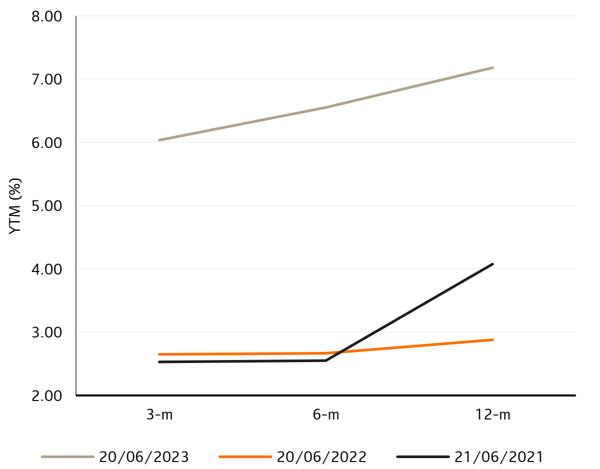
Source: Banque Centrale des Etats de l'Afrique de l'Ouest; Institut National de la Statistique; European Central Bank

Money supply



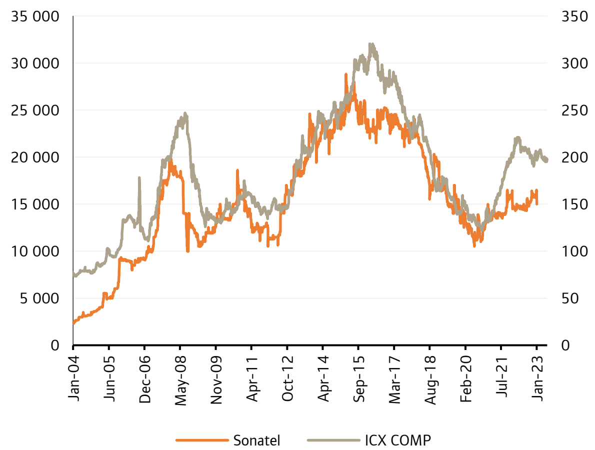
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Yield curve changes



Source: Bloomberg

Capital market outlook



Source: BRVM; Bloomberg

Fiscal policy: frontloaded fiscal consolidation under the IMF deal

Due to faster inflation in 2022, authorities introduced measures, albeit temporary, such as subsidies for retail oil prices, controls on the prices of main staples food, as well as incentives to prop up domestic supply. These measures, including an increase of civil servants' salaries, bumped up government spending, with the fiscal deficit widening to 6.8% of GDP, from 4.9% of GDP the previous year.

For 2023, the Ivorian government plans to implement new revenue administration measures to increase domestic revenue (to the tune of 1.1% of GDP), which should slash the fiscal deficit (incl. grants) to 5.3% of GDP.

Côte d'Ivoire received executive board approval in May for a 40-m USD3.5bn ECF/EFF arrangement; USD495.4m was made available immediately for budget support. Under this programme, a key reform aim is to preserve fiscal and debt sustainability by way of domestic revenue collection, supported by, among others, the reinstating of the automatic petroleum-pricing mechanism as well as a comprehensive medium-term revenue strategy (MTRS) to address poor revenue collection. For revenue, reform measures, to broaden the tax base, include reducing a range of tax exemptions, particularly VAT, and wasteful tax expenditure, and improving the collection of tax arrears. The MTRS, to be designed through IMF assistance and adopted by May 2024, is forecast to increase tax revenue to 15.7% of GDP by 2026, from 12.1% of GDP currently. Prudent spending too will be crucial.

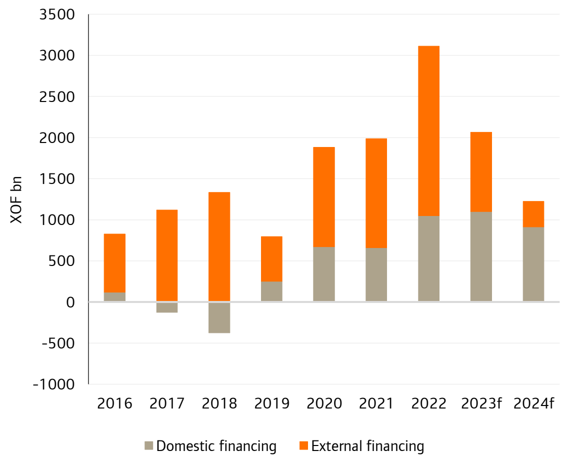
To fund the 2023 fiscal deficit, authorities will seek to raise XOF2.1tr from the domestic and regional markets to complement IMF disbursements. Last year, the Ivorian authorities had to shelve Eurobond issuance plans because of higher borrowing costs in international capital markets. But, as global financial markets turn more stable, Côte d'Ivoire plans to issue a cumulative XOF850bn over 2024-2026.

Central government budget

(%of GDP)	2021	2022e	2023f
Tax revenue	13.2	12.9	13.9
Non-tax revenue	2.2	1.9	1.8
Grants	0.5	0.5	0.7
Total expenditure	20.7	22.1	21.7
Recurrent expenditure	14.9	14.9	14.3
- Of which: interest due	2.0	2.2	2.3
- Of which: wages	4.7	4.6	4.7
Capital expenditure	5.8	7.2	7.5
Budget deficit (incl. grants)	-4.9	-6.8	-5.3
Budget deficit (excl. grants)	-5.4	-7.4	-6.0
Domestic financing	1.7	2.4	2.3
External financing	3.3	4.7	2.0

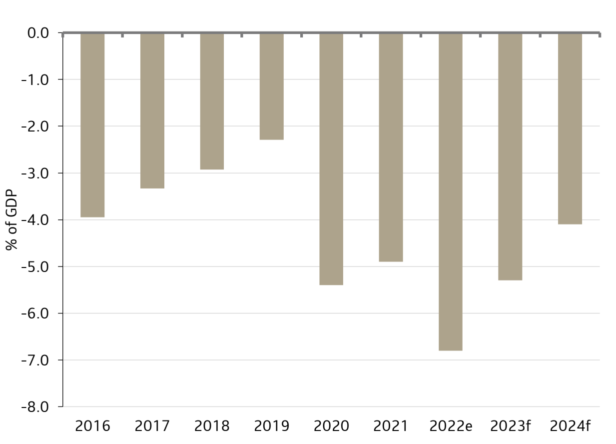
Source: Ministère de l'Economie et des Finances

Financing the fiscal deficit



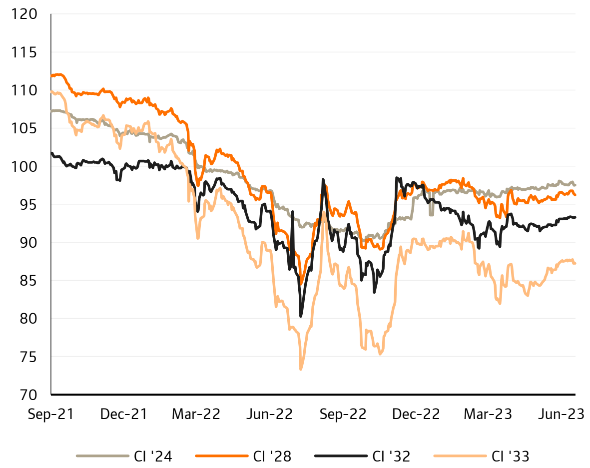
Source: International Monetary Fund, Ministère de l'Economie et des Finances

Budget deficit (incl. grants)



Source: Ministère de l'Economie et des Finances

Capital market overview



Source: BRVM; Bloomberg

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	25.0	26.0	26.2	26.4	26.8	26.9	26.9
Nominal GDP (XOF bn)	32222.3	34298.9	35722.6	39852.6	44632.9	49328.3	54085.9
Nominal GDP (USD bn)	58.3	69.2	62.7	70.7	71.4	83.2	102.3
GDP / capita (USD)	2332.7	2660.2	2394.0	2677.1	2664.2	3096.8	3805.4
Real GDP growth (%)	4.8	6.5	1.7	7.4	6.8	7.0	7.4
Oil production (m bbl)	11.0	13.0	15.0	15.5	15.7	16.2	16.4
Cocoa production (m tonnes)	2.0	2.2	2.1	2.2	2.3	2.0	2.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-3.7	-3.1	-6.0	-5.4	-7.4	-6.0	-4.7
Budget balance (incl. grants) / GDP (%)	-2.9	-2.3	-5.4	-4.9	-6.8	-5.3	-4.1
Domestic debt / GDP (%)	12.5	12.3	13.5	13.6	22.2	24.0	22.7
External debt / GDP (%)	23.3	26.7	29.7	30.9	34.5	35.6	34.7
Balance of Payments							
Exports of goods (USD bn)	12.0	14.9	12.6	15.1	16.3	18.9	19.3
Imports of goods (USD bn)	-9.5	-11.2	-9.5	-12.1	-15.3	-16.2	-16.6
Trade balance	2.5	3.7	3.1	3.0	-1.0	2.7	2.7
Current account (USD bn)	-2.1	-1.6	-2.0	-2.8	-4.3	-3.6	-3.6
- % of GDP	-3.6	-2.3	-3.2	-4.0	-6.1	-2.8	2.1
Capital & Financial account (USD bn)	2.6	2.6	3.1	4.7	3.8	4.5	4.6
- FDI (USD bn)	0.5	0.9	0.7	1.1	1.1	1.5	1.5
Basic balance / GDP (%)	-2.8	-1.0	-2.0	-2.5	-4.5	-2.5	-2.4
FX reserves (USD bn) pe	3.1	4.0	3.4	5.3	4.8	5.7	5.9
- Import cover (months) pe	3.9	4.3	4.3	5.3	3.7	4.2	4.3
Sovereign Credit Rating							
S&P	nr	nr	nr	BB-	BB-	BB-	BB-
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	Ba3
Fitch	B+	B+	B+	BB-	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	0.6	0.8	2.4	4.2	5.2	3.5	2.2
Consumer inflation (%) pe	0.6	1.6	2.3	5.6	5.0	2.4	1.5
M2 money supply (% y/y) pa	11.0	9.4	15.7	22.8	11.7	8.7	11.8
M2 money supply (% y/y) pe	13.4	10.8	21.1	18.3	9.4	6.8	12.5
Marginal lending facility (%) pe	4.50	4.50	4.00	4.00	4.75	5.00	5.00
USD/XOF pa	552.5	495.9	569.5	563.9	625.1	592.6	528.77
USD/XOF pe	546.6	468.5	537.6	576.8	612.8	555.9	500.7

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: robust extractive sector still supporting resilient growth

Medium-term outlook: extractive sector and structural reforms both growth-supportive

Though we see GDP growth slowing to 6.4% y/y this year due to rising inflation and monetary policy tightening, there should be a recovery in 2024, to 7.2% y/y, as inflation may ease.

Intermittently poor FX liquidity has seen the Congolese franc depreciate, which increases imported inflation. Inflation also still faces the general elections (Dec this year).

Insecurity in DRC has inflated domestic food prices and caused a humanitarian crisis. Inflation being stubbornly high also reflects second round spill-over effects from the war in Ukraine causing global food and fuel prices to increase.

President Tshisekedi, inaugurated in Sep 19, will run for a second term. DRC had recorded its first ever peaceful power transition after the 2018 general elections.

Nevertheless, despite armed conflict in eastern parts of DRC, the economy has proven robust thanks to a strong performance from the resources sector. GDP growth rose to 8.9% y/y in 2022, from 6.2% y/y in 2021, and exceeding by 2.5 percentages points our estimates in the Jan AMR edition. Copper and cobalt output was strong, accounting for 70% and 20% respectively of exports.

Copper output rose by 32.8% y/y in 2022, to 2.4 mtpa, from 1.8 mtpa in 2021, mainly due to the production ramp-up at the Kamoa copper mine complex, set to become the second-largest copper mine in the world. Cobalt grew at 23.9% y/y in 2022, to 115.4 k tons.

Foreign direct investment into the resources sector, which lifts output and supports exports, should continue apace – considering the role of copper, and other DRC minerals, in the global energy transition.

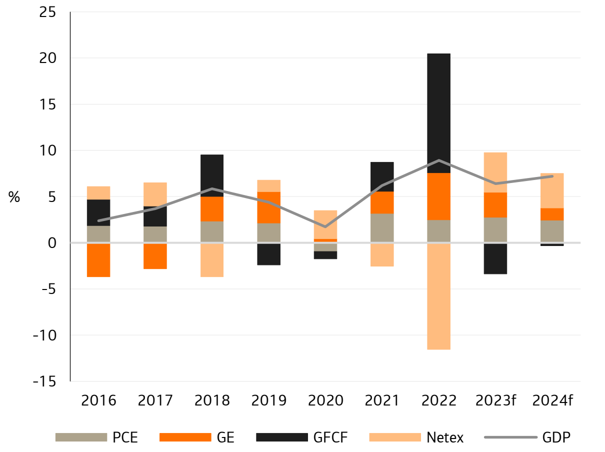
However, despite DRC having vast natural resources, over 77% of the population lives below the poverty line of purchasing power parity (PPP) of USD1.9/day. This is largely due to domestic conflicts.

To deal with climate risks, the government has requested access to the IMF's Resilience and Stability Facility (RSF); there should be some progress during H2:23.

Progress on reforms, supported by the current IMF 3-y ECF, which also helps to unlock multilateral funding, should alleviate FX liquidity pressures and support growth.

The growth outlook remains positive but is subject to the downside risks embodied by commodity price volatility and domestic insecurity.

Composition of GDP by demand



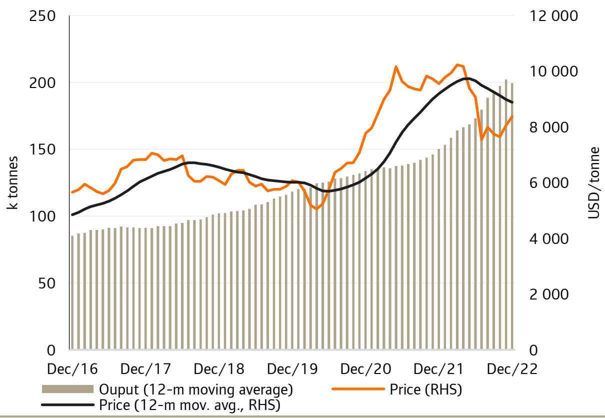
Source: Banque Centrale du Congo; Standard Bank Research

Contribution of GDP by sector (% of total)

	2016	2020	2021	2022
Agriculture, forestry, fishing & hunting	16.6	15.6	15.0	14.2
Mining and quarrying	25.0	30.0	31.1	36.0
Manufacturing	12.2	10.4	10.2	8.4
Electricity, gas and water	0.6	0.6	0.6	0.6
Construction	2.7	4.5	4.3	3.8
Wholesale and retail trade, hotels and restaurants	15.1	13.9	13.6	12.8
Transport, storage and communication	12.5	12.5	13.0	13.0
Finance, real estate and business services	9.3	8.8	8.6	7.7
General government services	3.7	3.2	3.1	2.9
Other	2.1	0.3	0.4	0.5
GDP	100.0	100.0	100.0	100.0

Source: Banque Centrale du Congo; Standard Bank Research

Copper output and prices



Source: Banque Centrale du Congo; Standard Bank Research

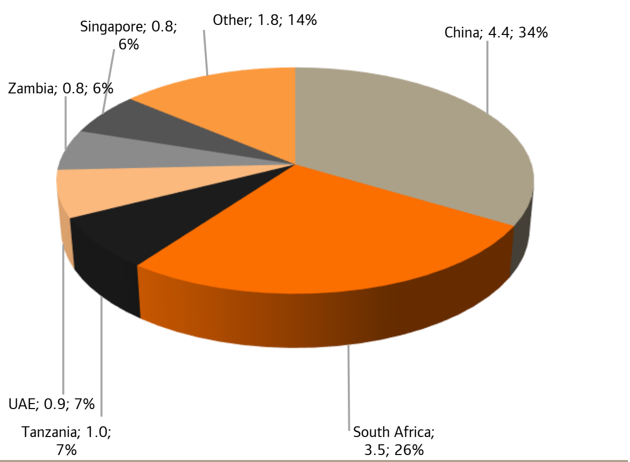
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	6.4	6.4	6.4	6.4	7.2	7.2	7.2	7.2	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
CPI (% y/y) pe	24.9	17.9	15.3	20.8	18.5	14.3	12.6	10.9	7.0	7.8	8.6	8.2	7.1	6.4	6.0	6.6
Policy rate (%) pe	9.50	11.00	12.50	14.50	14.50	14.50	12.75	12.75	9.50	9.50	9.50	9.50	7.00	7.00	7.00	7.00
USD/CDF pe	2,044.7	2,366.1	2,401.8	2,511.3	2,556.8	2,603.1	2,650.2	2,698.2	2,730.7	2,763.6	2,796.9	2,830.6	2,873.3	2,916.6	2,960.6	3,005.2

Source: Banque Centrale du Congo; Institut National de la Statistique; Ministère des Finances; Standard Bank Research

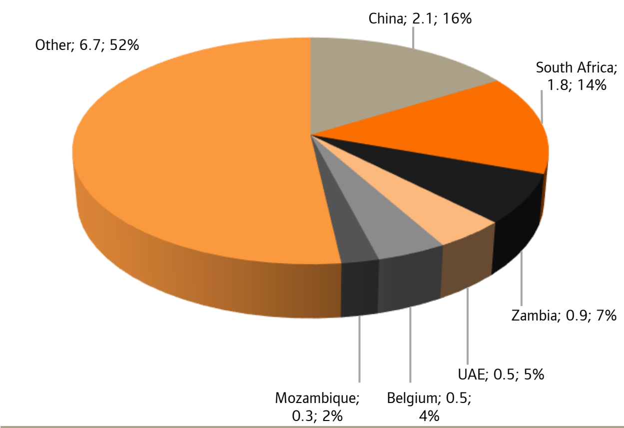
Notes: pa - period average; pe - period end

Export destinations



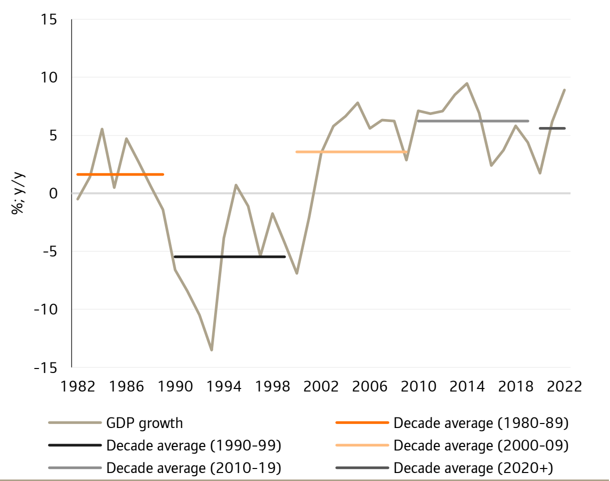
Source: Banque Centrale du Congo; Standard Bank Research

Import origins



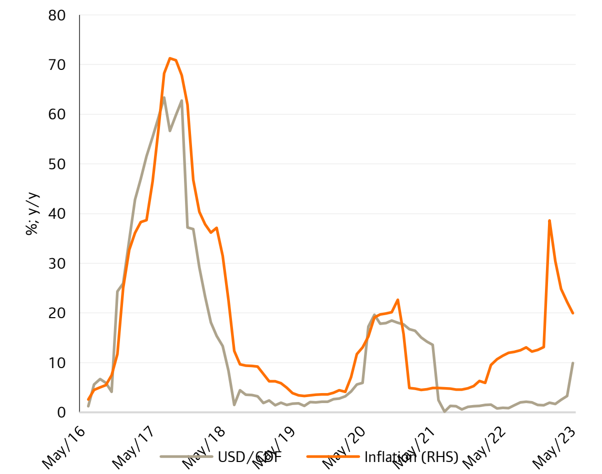
Source: Banque Centrale du Congo; Standard Bank Research

Long-term GDP performance



Source: Banque Centrale du Congo; Standard Bank Research

Annualised FX rate change versus inflation



Source: Banco Centrale du Congo; Standard Bank Research

Balance of payments: exports likely softer in 2023

We see the current account (C/A) deficit narrowing to 2.1% of GDP this year; it had widened to 5.7% of GDP in 2022.

This year, despite robust copper output, and likely further fuelled by recent investments, exports may nevertheless contract by 16.7% y/y, to USD26bn, due to softer commodity prices.

Considering this year's general elections (Dec), imports may decline at a softer pace than exports, by 11.8% y/y, to USD23.4bn. This may restrain the trade surplus and prevent the C/A from turning positive.

Next year, though, as commodity prices climb, alongside higher copper output, exports may rise faster than imports, turning the C/A into a surplus of 1.3% of GDP.

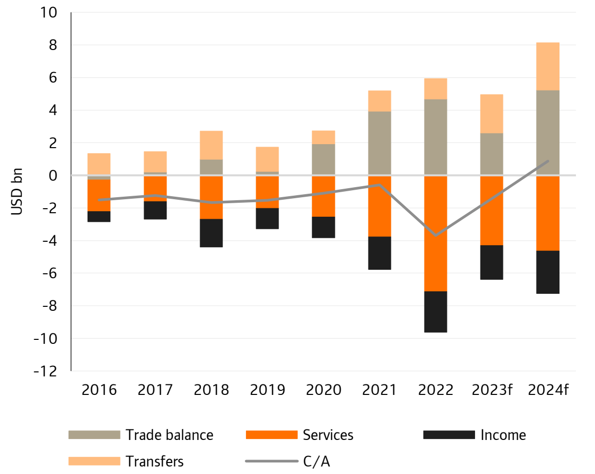
FDI, still mostly targeted at the resources sector, will likely increase further. Indeed, we see net FDI inflows at USD2.1bn this year and USD2.3bn in 2024.

We still expect a decline in FX reserves in 2023, to USD3.8bn, or 1.9-m of import cover, due to declining export revenue. There may then be a rebound in 2024 as exports will likely recover. During 2022, strong financial inflows swelled FX reserves by 59.3% y/y, to USD4.4bn, or 2-m of import cover.

A satisfactory performance under IMF's 3-y USD1.5bn ECF since Jul 21, to support macroeconomic stability, due to increased fiscal space and improved governance, has impelled total disbursements of USD812m.

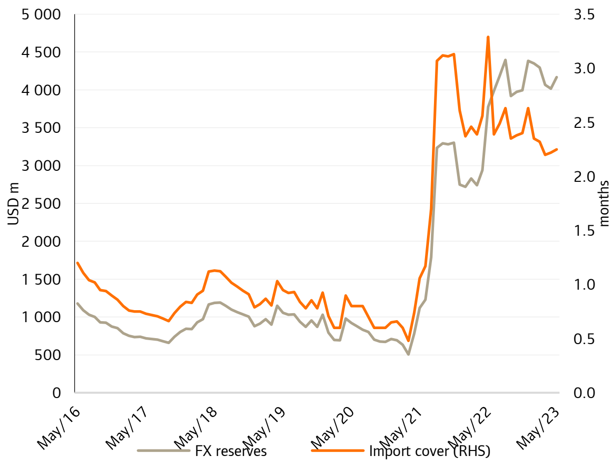
A further disbursement of SRD152.3m (USD204.1m) for BOP support is now expected imminently after the 3 May IMF staff-level agreement at the conclusion of the program's fourth review. This too should support FX reserves.

Current account developments



Source: Banque Centrale du Congo; Standard Bank Research

FX reserves versus import cover



Source: Banque Centrale du Congo; Standard Bank Research

FX outlook: depreciating bias for CDF

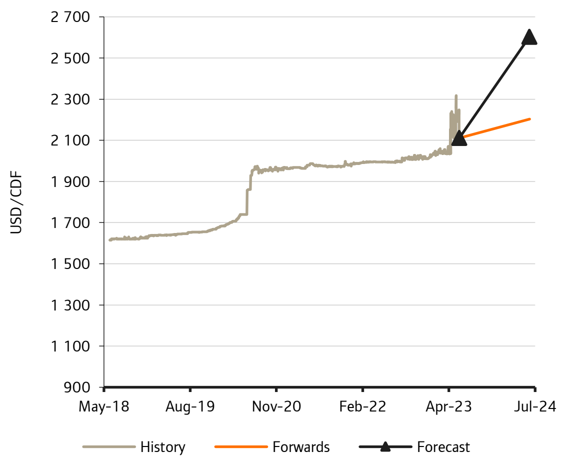
Softer exports, and elections-related import demand, may cause intermittently poor FX liquidity, which may see the CDF depreciate. End of 2022 government expenditure overruns had caused excess local currency liquidity as well as FX rate pressures.

We forecast the USD/CDF pair at 2,511.3 by end 2023 and 2,698.2 by end 2024. This would represent depreciation of 19.7% and 6.9% respectively.

In 2022, the CDF depreciated by 1.4% to the USD, compared with 1.2% in 2021 and 15% in 2020.

CDF depreciation would accompany inflation remaining in double-digits this year and next.

USD/CDF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: tighter, as inflation rises

We expect monetary policy to be tightened further because inflationary pressures have increased.

Between Nov 22 and Jun 23, the central bank (BCC) MPC already hiked the policy rate by 350 bps, to 11%, from 7.5%, with the cash required reserves (CRR) for local currency deposits set at 10% at the Jun MPC, from 0%. Foreign currency (FCY) CRR was kept at 12%.

Considering our Dec inflation forecast of 20.8% y/y, we would foresee further policy rate hikes of a cumulative 350 bps for this year, lifting the policy rate to 14.5%. Nevertheless, we see the BCC allowing real policy rates remaining negative until inflation has eased into single digits.

Since the interest rate transmission mechanism is weak, due to the lack of financial and capital markets development as well as due to a high level of dollarization (85% of deposits are held in foreign currency), the MPC may have to move policy rates by larger increments to increase the efficacy of policy.

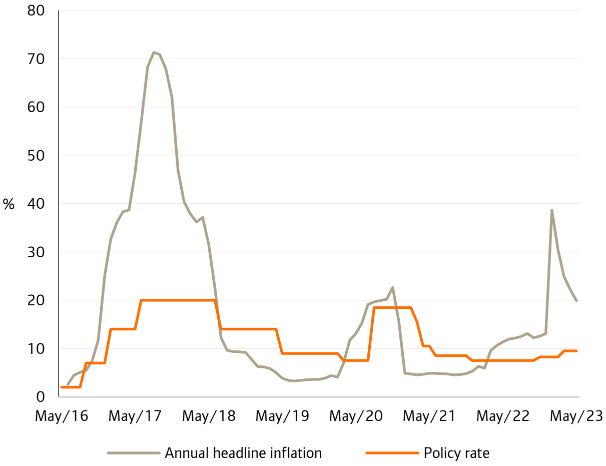
Inflation, last reported at 20% y/y in May, remains well above the BCC's medium-term target of 7.0%; it has been rising since Dec 21. For most of 2022, inflation was driven largely by higher food and transport costs.

End of 2022 government expenditure overruns, and this year's CDF depreciation, have exacerbated inflation pressures due to the FX rate impact on imported inflation.

Higher government expenditure has seen an acceleration in monetary base growth, to almost 50% y/y in Apr, from 24% y/y Dec 22 and 18% y/y in Apr 22. As a result, money supply growth has been rising.

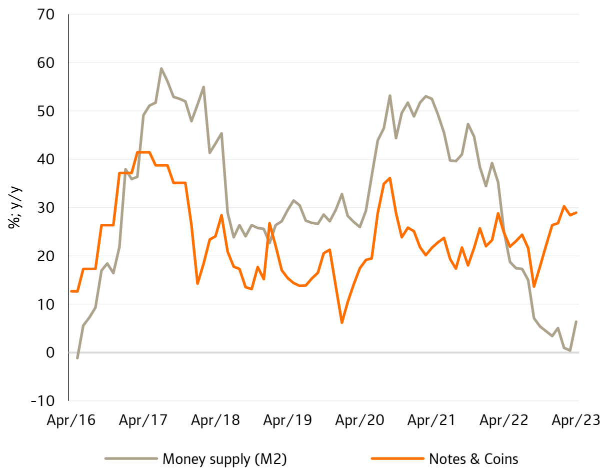
Due to dollarization and expanded external funding options for the government, a local currency yield curve has not been developed. Most government borrowings are still in FCY.

Inflation and interest rates



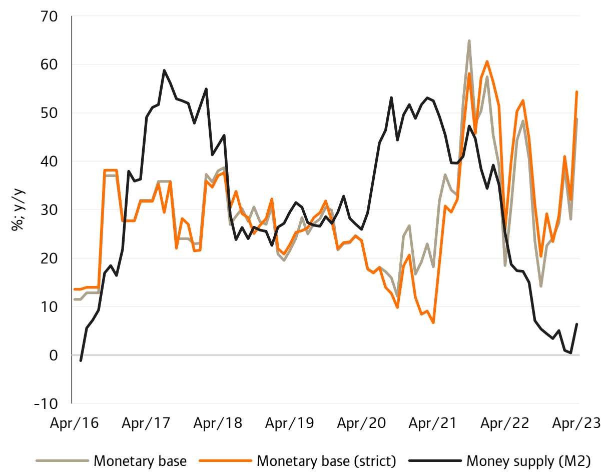
Source: Banque Centrale du Congo; Standard Bank Research

Broad money supply growth



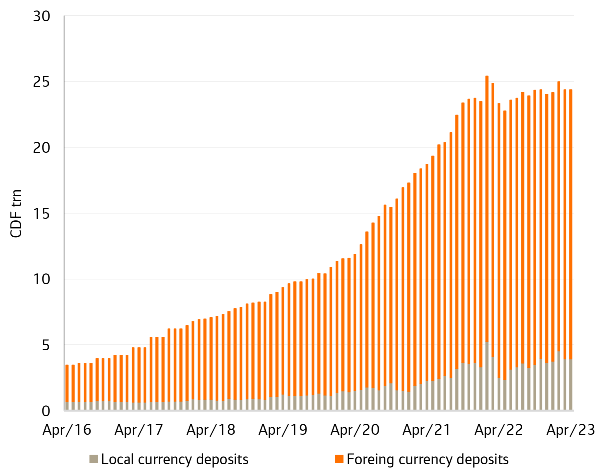
Source: Banque Centrale du Congo; Standard Bank Research

Monetary base versus broad money supply



Source: Banque Centrale du Congo; Standard Bank Research

Deposits



Source: Banque Centrale du Congo; Standard Bank Research

Fiscal policy: reform progress in the firing line

The FY2023 budget for the 12-m ending Dec 23 foresees the deficit (including grants) rising to 2.7% of GDP, or CDF4.230trn.

Higher revenue from the mineral sector may fail to offset the increase in expenditure from fuel subsidies, security, humanitarian response, development expenditure, and elections-related spending.

Satisfactory reviews under the IMF 3-y ECF would imply fiscal prudency and reform progress, which should smooth access to external funding.

The FY2023 central government budget targets gross domestic borrowing of CDF300bn, or 0.2% of GDP, with amortization of CDF318.5bn. Access to external finance is still improving, with the FY2023 budget flagging CDF3.422trn, or 2.3% of GDP, in project financing, with programme loans at CDF1.105trn, or 0.7% of GDP.

The budget flags no material changes in overall government debt (which should remain below 30% of GDP).

Improved fiscal policy and performance is a critical part of the programme with the IMF, with ongoing reforms including (i) the improvement in tax administration and streamlining of parafiscal charges; (ii) strengthening spending control procedures and cash management; (iii) establishing the Treasury's single account; (iv) strengthening public procurement system; (v) enhancing public investment management; (vi) enhancing budget execution reporting; and (vii) improving transparency (all mining contracts published).

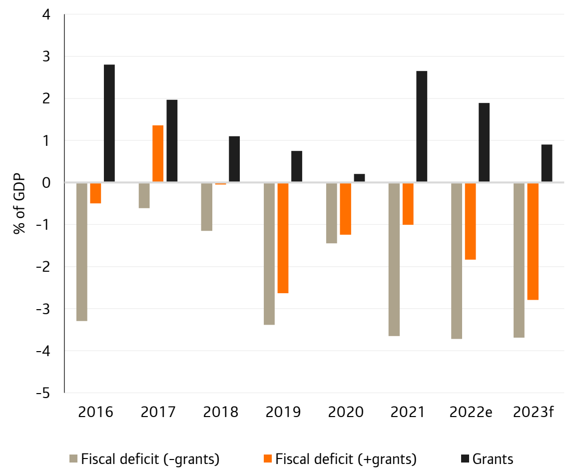
These reforms should help in fighting corruption. Aligned to this is the implementation of a new commercial banking law, approved in Dec 22, and reforms to operationalize the law on Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) that was adopted in Dec 22, key in exiting the Financial Action Task Force (FATF) grey-listing.

Central government finances

% of GDP	2020	2021	2022e	2023f
Total central govt. revenue	8.6	11.5	12.8	14.7
Total central govt. expenditure	10.1	15.1	16.5	18.3
- Recurrent	9.6	9.8	9.8	10.7
- Interest	0.2	0.2	0.2	0.4
- Wages	5.3	5.0	4.9	5.2
- Development	0.3	5.0	5.6	6.8
Central govt. bal. (ex. grants)	-1.4	-3.7	-3.6	-3.6
Central govt. bal. (incl. grants)	-1.2	-1.0	-1.8	-2.7
Net domestic borrowing (saving)	0.2	-0.8	-0.2	0.0
Net external borrowing (saving)	0.5	2.6	2.0	2.7
Grants	0.2	2.6	1.8	0.9
Balancing figures	0.5	-0.8	0.0	0.0

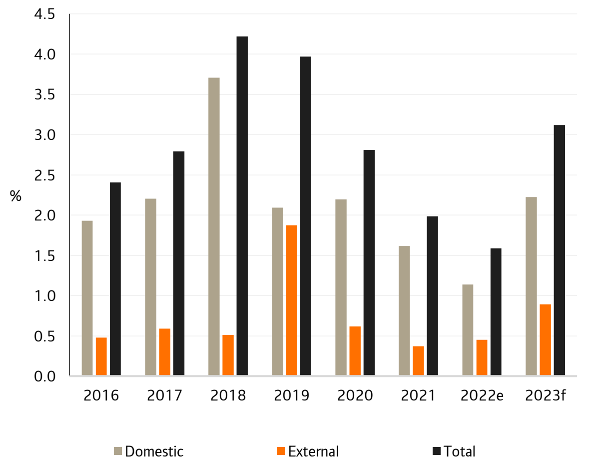
Source: Banque Centrale du Congo; Ministère du budget; Standard Bank Research

Fiscal deficit



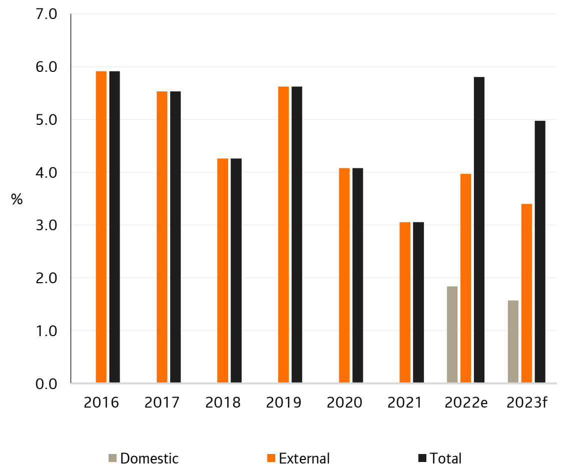
Source: Ministère du Budget; Standard Bank Research

Interest payment to revenue



Source: Banque Centrale du Congo; Ministère du Budget; Standard Bank Research

Principal repayment to revenue



Source: Banque Centrale du Congo; Ministère du Budget; Standard Bank Research

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	84.1	86.8	89.6	92.2	95.0	98.0	101.1
Nominal GDP (CDF bn)	77,180.5	85,314.1	90,181.0	110,126.6	129,273.7	156,030.0	175,951.3
Nominal GDP (USD bn)	47.7	51.7	47.8	55.7	64.6	68.6	67.4
GDP / capita (USD)	567.6	595.3	533.5	604.3	679.4	700.3	666.6
Real GDP growth (%)	5.8	4.4	1.7	6.2	8.9	6.4	7.2
Diamond production (m carats)	15.1	18.9	16.6	12.2	11.7	11.3	11.6
Crude oil ('000 barrels)	10,071.2	8,161.7	8,736.5	8,577.7	7,485.3	7,208.3	7,345.3
Copper ('000 tonnes)	1,225.3	1,420.4	1,603.2	1,802.9	2,394.6	2,904.7	3,604.7
Cobalt ('000 tonnes)	109.4	77.4	86.6	93.1	115.4	122.4	127.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-1.2	-3.4	-1.4	-3.7	-3.6	-3.6	-3.2
Budget balance (incl. Grants) / GDP (%)	0.0	-2.6	-1.2	-1.0	-1.8	-2.7	-2.3
Domestic debt / GDP (%)	7.0	6.3	7.9	9.3	9.8	9.1	9.2
External debt / GDP (%)	13.5	13.9	15.5	15.6	15.8	17.4	20.3
Balance of Payments							
Exports (USD bn)	16.0	13.2	13.8	22.2	31.3	26.0	29.0
Imports (USD bn)	-15.0	-12.9	-11.9	-18.2	-26.6	-23.4	-23.8
Trade balance (USD bn)	1.0	0.2	1.9	3.9	4.7	2.6	5.2
Current account (USD bn)	-1.7	-1.5	-1.1	-0.6	-3.7	-1.4	0.9
- % of GDP	-3.5	-3.0	-2.3	-1.0	-5.7	-2.1	1.3
Financial account (USD bn)	-1.0	-1.1	0.4	-0.6	-1.3	-1.4	-1.0
- FDI (USD bn)	-1.4	-1.4	-1.5	-1.7	-1.9	-2.1	-2.3
Basic balance / GDP (%)	-5.6	-5.1	-1.5	-2.2	-7.7	-4.2	-0.1
FX reserves (USD bn) pe	0.9	1.0	0.7	2.8	4.4	3.8	4.4
- Import cover (months) pe	0.8	0.9	0.7	2.6	2.0	1.9	2.2
Sovereign Credit Rating							
S&P	B-	B-	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	B3	B3	Caa1	Caa1	B3	B3	B3
Fitch	CC	CCC	CCC	CCC	CCC+	CCC+	CCC+
Monetary & Financial Indicators							
Headline inflation (%) pa	20.4	4.3	14.5	4.8	11.1	20.4	14.0
Headline inflation (%) pe	7.7	3.9	15.8	5.3	13.1	20.8	10.9
M2 money supply (% y/y) pa	34.8	27.8	39.1	46.0	18.6	19.0	21.2
Policy bank rate (%) pa	17.00	10.67	12.33	11.00	7.63	11.29	13.92
Policy bank rate (%) pe	14.00	9.00	18.50	7.50	8.25	14.50	12.75
USD/CDF pa	1,617.4	1,651.3	1,887.4	1,975.7	2,002.6	2,273.3	2,611.4
USD/CDF pe	1,625.0	1,667.6	1,963.0	1,987.8	2,016.0	2,511.3	2,698.2

Source: Banque Centrale du Congo; Bloomberg; International Monetary Fund; Institut National de la Statistique; Ministère du Budget; Ministère des Finances; Standard Bank Research

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

Egypt: privatisation pace still too patchy

Medium-term outlook: downside risks to growth

We now reduce our FY2022/23 GDP growth forecast to 4.1% y/y - 4.4% y/y, from 4.8% - 5.2% y/y. Our FY2023/24 growth forecast too is lower, at 4.9% y/y - 5.3% y/y, from 5.7% y/y - 6.0% y/y.

Economic activity subsided in H1:23, per most leading economic indicators – such as the PMI which averaged 46.8 in the 5-m to May 23, from 47.1 in the 5-m to Dec 22.

Growth has been hampered by instability in macroeconomic conditions; mainly, rising inflation and little USD liquidity. This has also hindered both private consumption and investment.

Since the rise in geopolitical tensions in Q1:22, food prices, specifically wheat, are up sharply, adding to the strain of declining private consumption. The Egyptian authorities in response increased wheat prices by 20% for the 2023 harvest season, aiming to incentivise farmers to boost local production. Meantime, however, real income may decline further and thereby weigh on growth.

The further devaluation of the EGP in Q1:23 may have subdued growth across many sectors, with the manufacturing sector bearing the brunt despite the re-opening of the Chinese economy in Q4:22 restoring supply chains.

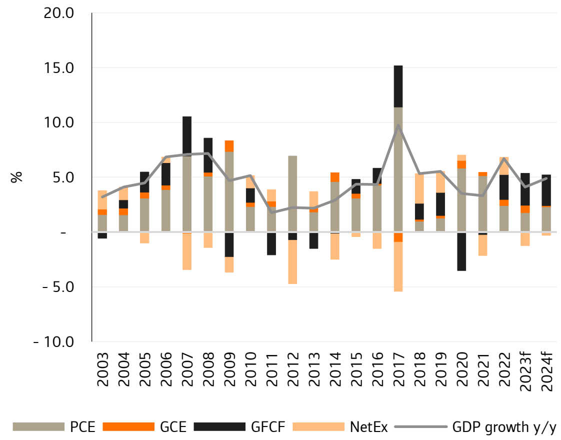
Growth in the manufacturing sub-sector contracted by 1.8% y/y in Q4:22, from growth of 1.3% y/y and 5.8% y/y in Q3:22 and Q2:22 respectively.

A further devaluation in the EGP is already being priced in by the market; this would undoubtedly increase manufacturing input costs. Amidst weaker domestic demand, passing on higher input costs as output costs to consumers would be tricky.

Even without further EGP devaluation, poor FX liquidity may still subdue growth for many sectors.

Furthermore, relatively lower oil prices, and Egypt's constrained macroeconomy, may subdue investment in the mining and petroleum sectors over the coming year.

GDP by expenditure



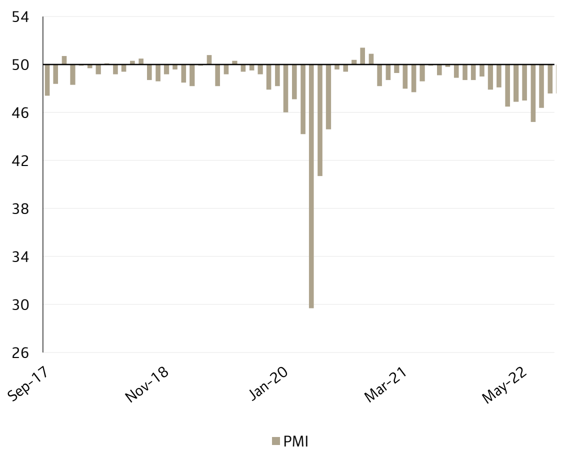
Source: Ministry of Planning; Standard Bank Research

Contribution to GDP by sector

% of GDP	FY2008/09	FY2010/11	FY2021/22
Agriculture	13.6	14.5	11.5
Petroleum	6.2	6.2	3.4
Natural gas	8.3	8.3	2.8
Manufacturing	16.6	16.5	16.8
- Petroleum refinement	1.0	1.1	3.5
Construction	4.4	4.6	7.6
Transport	4.1	4.1	5.2
Wholesale and retail trade	11.4	11.5	14.0
Financial intermediation	3.6	3.4	3.4
Real estate	2.7	2.6	10.9
General government	9.9	10.2	6.6

Source: Ministry of Planning

Egypt PMI



Source: Bloomberg

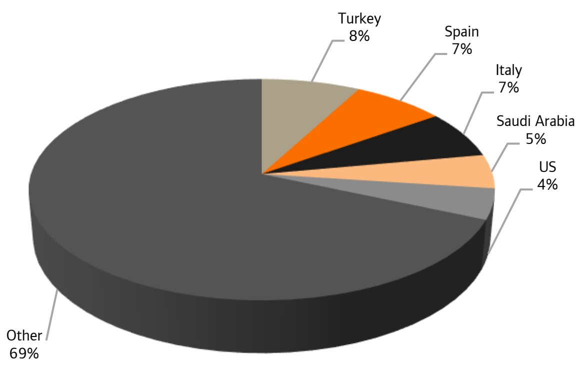
Medium-term economic scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	3.2	2.8	5.4	5.7	5.9	5.8	6.2	6.2	6.0	6.0	5.8	6.0	6.1	5.9	6.2	6.3
CPI (% y/y) pe	32.7	35.8	42.8	37.7	22.6	16.9	9.6	6.8	6.2	6.4	6.4	6.6	7.2	7.2	7.1	6.9
CBE prime lending rate (%) pe	18.25	18.25	20.25	20.25	20.25	20.25	20.25	17.25	15.25	13.25	12.25	12.25	12.25	12.25	12.25	12.25
3-m rate (%) pe	20.90	23.30	25.20	26.00	25.50	24.20	18.90	17.80	15.50	15.10	14.80	14.80	14.50	14.20	13.80	13.70
6-m rate (%) pe	22.60	24.20	25.90	26.40	26.00	24.80	19.40	18.60	15.90	15.40	15.20	15.00	14.70	14.40	14.10	13.90
USD/EGP pe	30.84	30.76	38.23	38.85	40.33	41.25	42.38	41.75	40.33	38.71	38.85	39.12	39.36	40.24	40.10	40.12

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

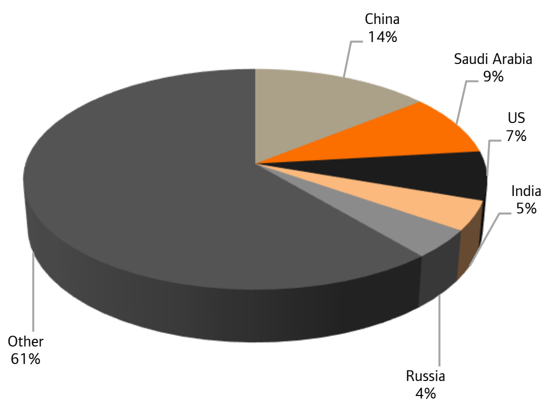
Notes: pa - period average; pe - period end

Share in Egypt's exports (%)



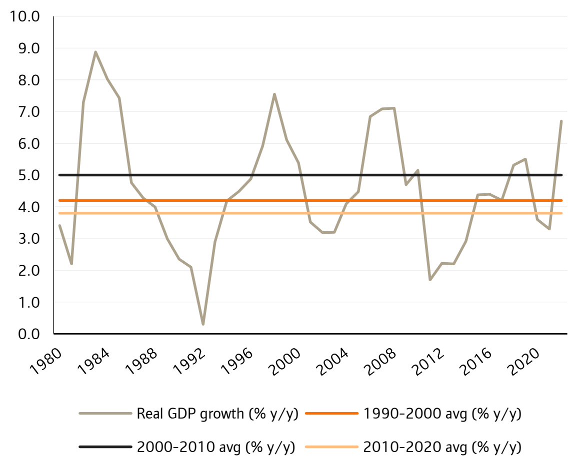
Source: ITC

Share in Egypt's imports (%)



Source: ITC

Long-term GDP performance (% y/y)



Source: World Bank

Unemployment rate

Source: Ministry of Finance

Balance of payments: financial account concerns

We now expect the C/A deficit to narrow to 2.6% of GDP in 2023, from our previous forecast of 3.8%. The C/A deficit narrowed to 2.7% of GDP in 2022, from 4.4% in 2021.

Imports of goods have been declining, a trend likely to continue over the coming year. Total imports of goods fell to USD18.0bn in Q4:22, from USD19.1bn in Q3:22 and USD23.6 in Q1:22. Both fuel imports and consumer goods imports declined in that time.

With oil prices expected to decline relative to 2022, oil imports may remain constrained. Furthermore, trouble in sourcing USD liquidity may further restrain consumer imports, while external funding delays may dampen governmental capital expenditure.

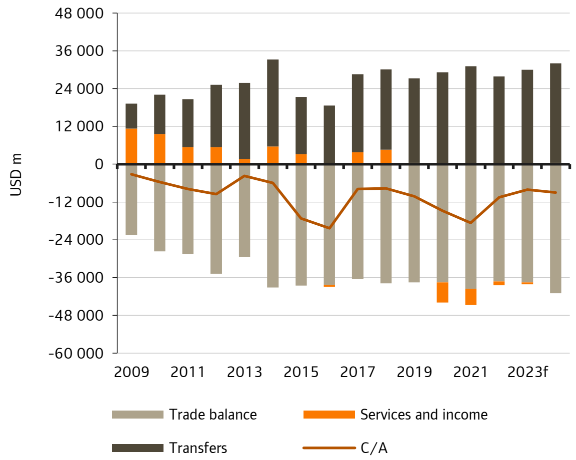
We still expect tourism receipts to recover during 2023/2024. Despite the dip in travel earnings to USD3.2bn in Q4:22, from USD4.1bn in Q3:22, services receipts should further recover in 2023 and 2024. Of course, even were tourist arrivals to decline due to weaker global growth, tourism earnings may well not decline commensurately because of higher costs related to travel and leisure.

The government recently introduced a new visa programme for foreign tourists that would be valid for 5-y, with visitors permitted to stay in Egypt for a maximum of ninety days. This should aid the recovery in travel receipts over the medium term.

Net FX reserves were stable at USD34.0bn in the 5-m to May 23. However, the first review under the USD3.0bn 46-m programme has been delayed because of concerns about EGP flexibility. After IMF board approval in Dec 22, an immediate disbursement of USD347m was released.

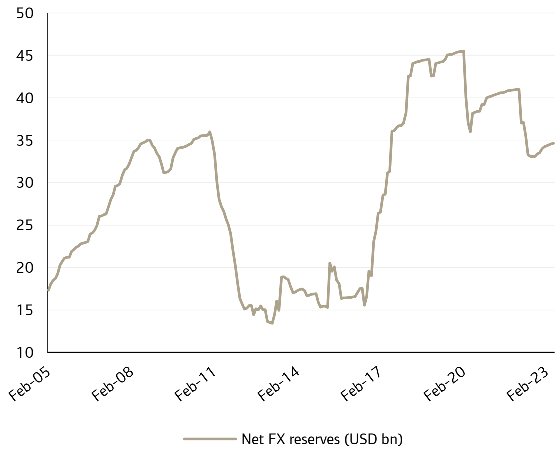
The delay in the first review is concerning as this programme was expected to impel further funding of USD14bn from other multilateral and bilateral partners.

Current account developments



Source: Central Bank of Egypt; Standard Bank Research

Net FX reserves (USD bn)



Source: Central Bank of Egypt

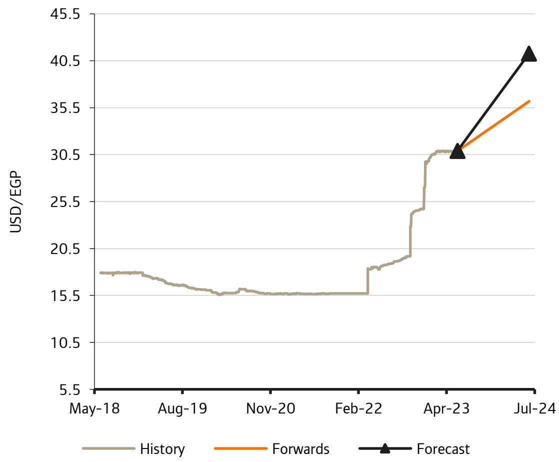
FX outlook: further devaluation likely

We foresee further EGP devaluation by Dec, taking the USD/EGP pair towards 38-40. Indeed, the market has been pricing in an EGP devaluation since the MPC meeting in Mar 23. This delay in devaluing the EGP again, and tardy privatisation progress, have been keeping the IMF from approving the first review under the current programme.

We had expected the raft of EGP devaluation during 2022, and rising EGP T-bill yields, to galvanise foreign portfolio investors back into t the market. However, the FX interbank market has not functioned appropriately after USD demand transitioned, from the interbank market to the trade finance market, last year.

Hence, even a further devaluation of the EGP would need to be accompanied with a revival in the FX interbank market for foreign portfolio inflows to return.

USD/EGP: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: bias still hawkish

Into Dec, we expect the MPC to hike the key benchmark rate by 100-200 bps. The MPC had hiked the policy rate by 200 bps in Mar.

Per our Jan AMR edition, the most notable upside inflation risks were cited as the second-round effects flowing from EGP devaluations in 2022 and early 2023. Furthermore, the increase in domestic fuel prices in Mar this year, by 7-10%, too may have a secondary impact on other prices.

Indeed, headline inflation rose to 32.7% y/y in Mar 23, from 25.8% y/y in Jan 23 and an average of 18.8% y/y in Q4:22. Core inflation rose to 40.3% y/y in May 23, from 31.2% y/y in Jan 23.

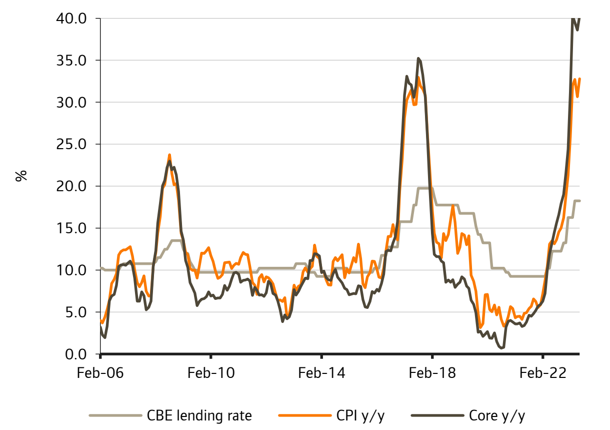
We now forecast headline inflation at 42.8% y/y by Sep, then 37.7% y/y by Dec 23. However, such a decline would depend on the EGP being devalued again (closer to 38-40).

In the absence of further EGP devaluation, inflation may not rise as sharply we currently forecast. However, a lack of further devaluation may impel further delays in IMF funding under the current programme, which may then curtail other financing that might have taken successful IMF funding as cue.

Even should the EGP not be devalued again, nor weakens further, inflation expectations may nevertheless remain dislocated – as the USD/EGP is already at around 39-40 in the parallel market.

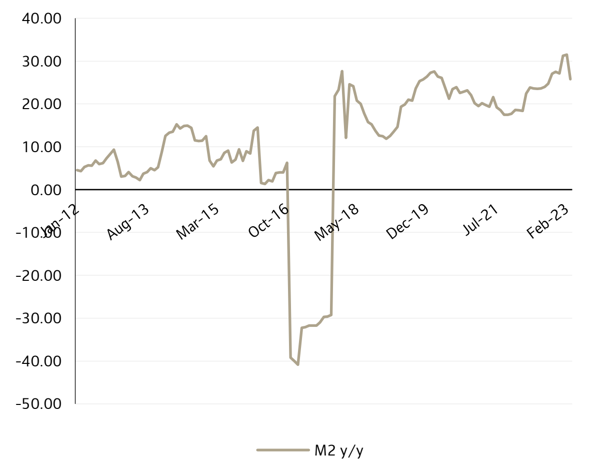
To curb inflationary pressures over the coming year, the government plans to increase food subsidies.

Inflation and interest rates



Source: Central Bank of Egypt

M2 money supply growth (%)



Source: Central Bank of Egypt

Yield curve outlook: upside risks

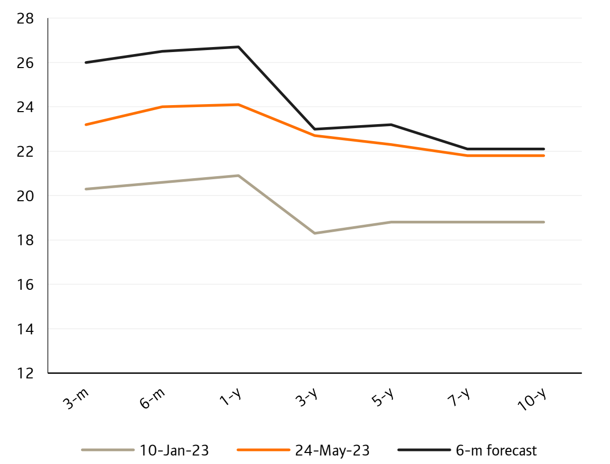
We still expect an inverted yield curve in H2:23. T-bill yields will likely rise faster than government bond yields.

Furthermore, foreign portfolio investment may remain limited in H2:23, particularly if the EGP isn't devalued further and if FX interbank inefficiencies don't improve.

Should the EGP devaluation transpire and if, more importantly, is complemented with reforms to enhance FX interbank trading, foreign portfolio inflows may rise and tame the upward pressure on T-bill yields.

However, domestic issuance could also rise, placing upside pressure on T-bills if the government fails to expedite reforms to pass the first review under the USD3.0bn IMF programme.

Changes in the yield curve (%)



Source: Central Bank of Egypt

Fiscal policy: privatisation to pick up the pace

The planned budget deficit is expected to rise to 6.9% of GDP in FY2023/24, from an expected 6.2% of GDP in FY2022/23.

The government has an ambitious plan to boost total revenue collections to EGP2.14tr in FY2023/24, while expenditure is expected to rise by 44.4%, to around EGP3.0trn.

Notably, the authorities are looking to prioritise existing projects that are more than 70% complete, continue to invest in healthcare and education projects, and exit projects to be financed by the private sector.

Expenditure on social programmes, grants and subsidies, is seen increasing by 28.2% y/y in FY2023/24. The government is looking to increase spending on both fuel and food subsidies, amidst the supply challenges that arose from Russia's invasion of Ukraine.

Indeed, should the government not pass the first review under the IMF programme, expenditure may decline given that this programme was expected to catalyse other sources of new financing.

The government had expected USD2.0bn in privatisation receipts by end FY2023/23 to help close the USD5.0bn financing gap. However, progress has been slow, with only USD122.4m coming through after a 9.5% stake sale in a state-owned telecommunications firm.

Crucially, talks are ongoing with private investors for the government to sell a large gas power plant in Beni Suef, which could bring in revenues of up to USD2.0bn for the government.

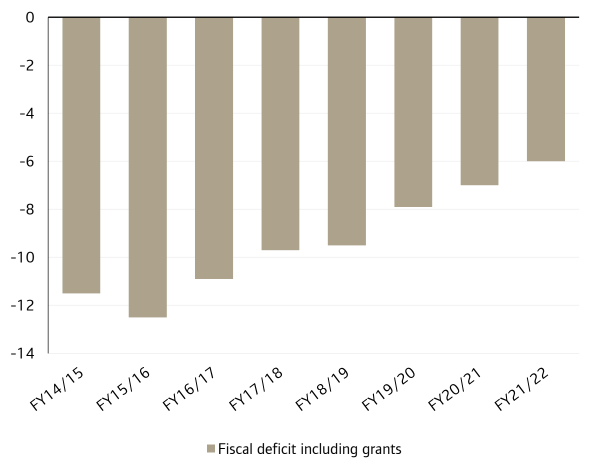
Receipts from the privatisation drive will also be key to meet reform criteria under the current IMF programme.

Central government budget

% of GDP	FY2020/21	FY2021/22	FY2022/23
Total Revenue	16.6	17.4	16.9
Total Expenditure	23.7	23.4	23.1
Wages and salaries	4.8	4.6	4.5
Interest payments	8.5	7.5	7.7
Subsidies	3.9	4.1	4.0
Overall balance (- grants)	-7.0	-6.0	-6.2

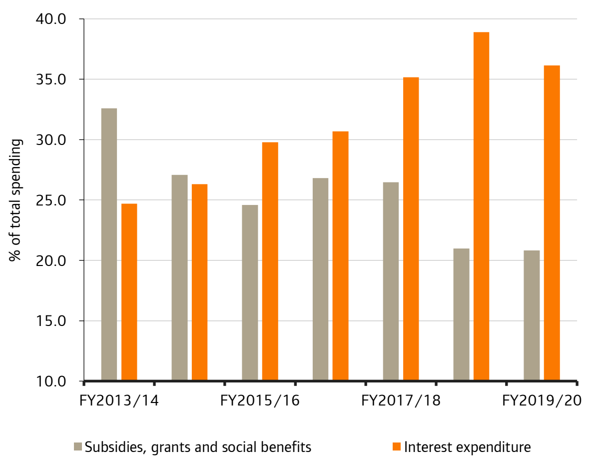
Source: Ministry of Finance

Fiscal deficit including grants (% of GDP)



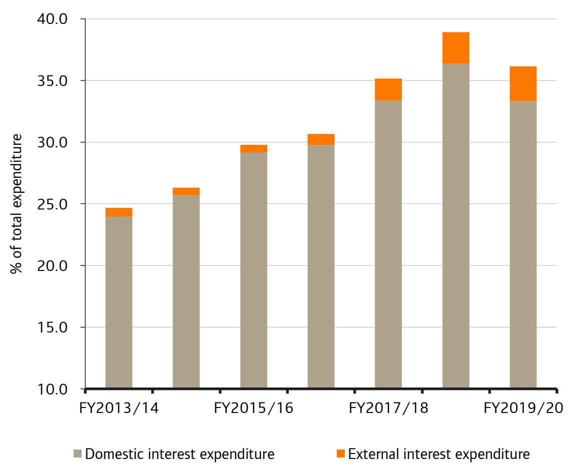
Source: Ministry of Finance

Components of expenditure



Source: Ministry of Finance

Composition of interest expenditure



Source: Ministry of Finance

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	97.1	98.9	100.9	102.1	1041	106.2	108.3
Nominal GDP (EGP bn)	4 666	5 596	6 152	6 663	7842	10767	12274
Nominal GDP (USD bn)	261.1	337.1	388.4	424.7	385.7	310.6	296.3
GDP / capita (USD)	2 689	3 409	3 850	4 159	371	2 924	2 736
Real GDP growth (%)	5.3	5.5	3.6	3.3	6.7	4.1	4.9
Oil Production ('000 b/d)	638.0	622.0	586.0	560.9	571.3	579.9	584.3
Central Government Operations							
Budget balance (incl grants) / GDP (%)	-9.70	-9.50	-7.90	-7.70	-6.0	-6.2	-6.9
Budget balance (excl grants) / GDP (%)	-9.80	-9.60	-7.90	-7.70	-6.0	-6.2	-6.9
Domestic debt / GDP (%)	91.25	85.71	83.93	79.64	80.45	83.22	82.14
External debt / GDP (%)	20.55	18.89	18.93	19.64	24.33	23.85	27.9
Balance Of Payments							
Exports of goods and services (USD bn)	51.62	53.52	40.10	58.33	76.30	77.89	84.35
Imports of goods and services (USD bn)	-76.33	-78.95	-73.00	-94.00	-97.14	-82.05	-86.6
Trade balance (USD bn)	-24.71	-25.43	-32.90	-35.67	-20.84	-4.16	-2.25
Current account (USD bn)	-7.7	-10.2	-14.8	-18.6	-10.5	-8.1	-9
- % of GDP	-2.94	-3.03	-3.80	-4.38	-2.72	-2.61	-3.04
Capital & Financial account (USD bn)	14.70	11.97	9.31	25.62	3.16	5.23	11.74
- FDI (USD bn)	7.8	9.0	5.9	5.1	11.4	12.3	12.5
Basic balance / GDP (%)	0.05	-0.36	-2.29	-3.17	0.23	1.35	1.18
FX reserves (USD bn) pe	42.55	45.42	40.00	40.93	34.0	36.2	39.1
- Import cover (mths) pe	6.69	6.90	6.58	5.51	4.20	5.29	5.42
Sovereign Credit Rating							
S&P	B	B	B+	B+	B	B	B
Moody's	B3	B2	B2	B2	B2	B3	B3
Fitch	B	B+	B+	B+	B+	B	B
Monetary & Financial Indicators							
Consumer inflation (%, y/y) pa	14.40	9.37	5.00	5.20	13.8	37.3	14.0
Consumer inflation (%, y/y) pe	11.98	7.07	5.40	5.40	21.3	37.7	6.8
M2 money supply (%, y/y) pa	17.9	11.3	16.8	19.1	23.7	20.5	16.7
M2 money supply (%, y/y) pe	13.3	11.5	20.2	18.3	27.1	18.8	12.5
CBE overnight lending rate (%) pa	18.00	15.63	10.00	9.25	12.75	19.25	19.50
CBE overnight lending rate (%) pe	17.75	13.25	9.25	9.25	16.25	20.25	17.25
3-m rate (%) pe	19.5	16.2	12.6	11.6	18.0	26.0	17.8
1-y rate (%) pe	19.8	16.3	12.7	13.2	18.8	26.7	19.2
5-y rate (%) pe	18.80	14.70	14.10	14.30	18.2	23.2	20.4
USD/EGP pa	17.87	16.60	15.84	15.69	20.33	34.67	41.43
USD/EGP pe	17.92	16.04	15.70	15.70	24.71	38.85	41.75

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: a telecom and mobile money licence windfall

Medium-term outlook: a mixed bag

We maintain our GDP growth forecasts of 7.1% y/y for FY2023 and 7.2% y/y for FY2024. Prolonged debt restructuring may constrain medium-term GDP growth. However, ongoing reforms, and the windfall from telecom and mobile money licences, should boost growth. Indeed, IFC and MIGA recently announced a USD157.4m equity investment, a USD100m loan, and a USD1.0bn 10-year guarantee to support the ongoing construction and operation of Safaricom Ethiopia's greenfield telecommunications network.

Besides the revenue generated by way of licence fees, other permanent benefits from telecom privatisation, such as new technology, innovation and competition for telecommunications providers, should mean competitive prices for businesses and consumers. Moreover, this should also mean longer-term commitments, as well as new skills, and job creation.

GDP growth in FY2022 was 6.4% y/y, exceeding market estimates considerably. This gain was ascribed to 7.6% y/y growth in the services sector, 6.1% y/y growth in agriculture, and 4.9% y/y growth in industry. As a result, the share of GDP accounted for by services increased to 40%, from 39.6% a year ago.

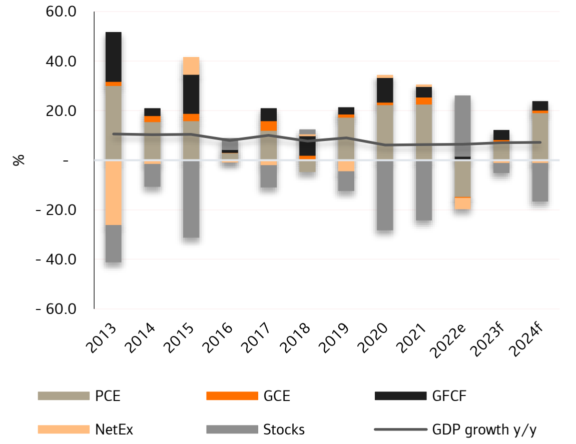
Despite several uncertainties, including the usual potential drought, the government's focus on growing industrial output is expected to remain the cornerstone of its medium-term economic strategy. Drought is a possibility given the El Niño event predicted as of H2:23. Although this weather pattern bodes well for East African rainfall, it can cause extensive drought in the eastern, southern and central parts of Ethiopia. In fact, during the 2015-16 El Niño episode, crop failure and food insecurity were caused by failing Belg and delayed/erratic Kiremt. However, by the time of this year’s expected El Niño, the main planting seasons in Belg (Feb to May) and Kiremt (Jun to Sept) should have been completed.

Despite a 16.8% y/y cut in the capital budget, public infrastructure investment may further promote GDP growth in the coming years. Although infrastructure-led growth has lost momentum, things may be different now that the government is focusing its resources on completing projects near completion and that are therefore likely to boost productivity.

Still, a significant constraint to medium-term economic growth is persistently poor FX liquidity.

The government will likely continue with economic reforms to make GDP growth more inclusive, with the private sector likely becoming a more dominant driver of growth.

Composition of GDP by demand



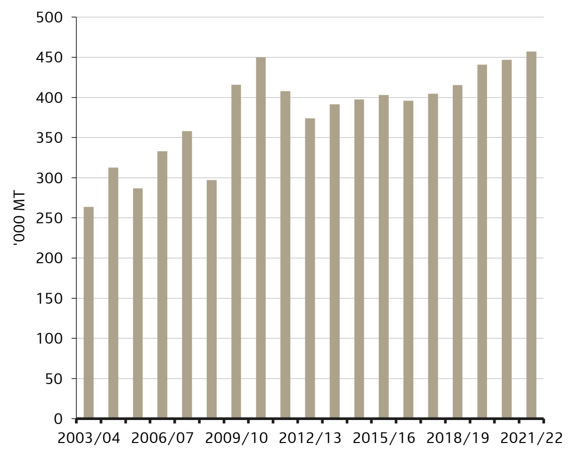
Source: National Bank of Ethiopia; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010/11	2016/17	2020/21	2021/22
Agriculture, hunting, fishing, and forestry	44.60	36.30	32.50	31.98
Mining and quarrying	1.40	0.20	0.50	0.51
Manufacturing	4.00	6.40	6.80	6.67
Electricity and Water	1.00	0.70	0.80	0.77
Construction	4.00	16.40	20.90	20.58
Wholesale and retail trade	14.50	13.80	14.30	14.38
Hotels and restaurants	3.60	2.70	2.40	2.41
Transport and communication	4.20	5.20	5.30	5.45
Real Estate, Renting and Business activities	9.30	4.50	4.50	4.54
Public admin and defence	5.40	4.50	4.20	4.11

Source: National Bank of Ethiopia

Coffee production



Source: National Bank of Ethiopia

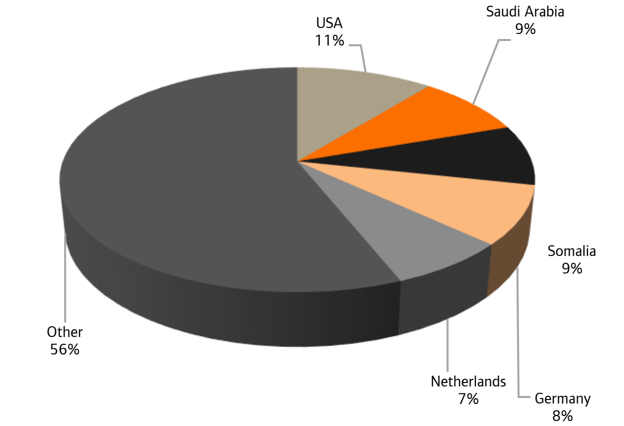
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	7.1	7.1	7.2	7.2	7.2	7.2	7.4	7.4	7.4	7.4	7.7	7.7	7.7	7.7	7.9	7.9
CPI (% y/y) pe	34.2	29.8	26.8	24.3	20.1	19.7	19.3	19.5	19.2	19.6	19.3	18.0	18.1	18.3	18.5	18.8
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	9.5	10.6	10.8	11.0	11.2	11.4	11.6	11.8	12.0	12.2	12.4	12.6	12.8	13.0	13.2	13.4
6-m rate (%) pe	9.8	11.1	10.2	11.5	10.6	11.9	11.0	12.3	11.4	12.7	11.8	13.1	12.2	13.5	12.6	13.9
USD/ETB pe	54.17	54.56	56.29	61.15	62.66	64.34	66.00	70.65	72.58	74.74	76.89	82.92	84.96	87.24	89.49	95.79

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

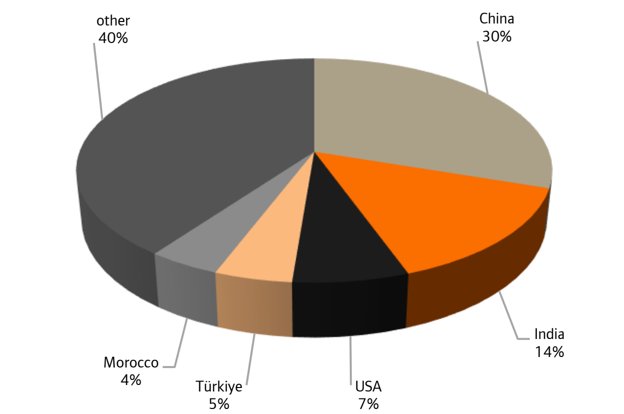
Notes: pa - period average; pe - period end

Share in Ethiopia's exports (%)



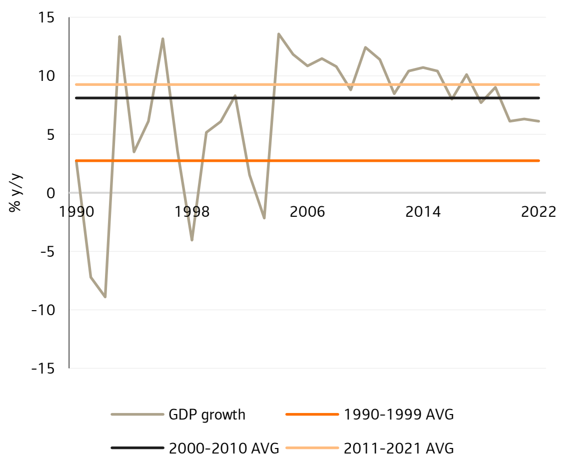
Source: ITC

Share in Ethiopia's imports (%)



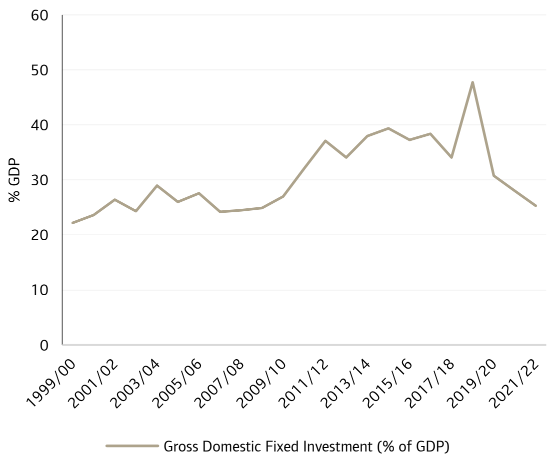
Source: ITC

Long-term GDP performance



Source: National Bank of Ethiopia

Domestic fixed investment



Source: National Bank of Ethiopia

Balance of payments: hampered by lack of FX liquidity

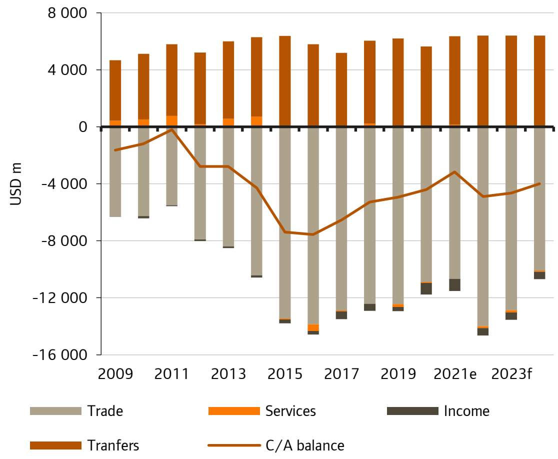
We still expect the C/A deficit to narrow, but at a slower pace, to 3.1% of GDP in FY2023, and then to 2.4% of GDP by end FY2024. However, the lack of FX liquidity may prove a constraint as FX regulations hardly favour private-sector participants. Still, extreme FX liquidity shortages have not prevented the Ethiopian government from servicing external debt. However, a lower import burden due to falling import costs (fuel and cereal), combined with a somewhat restrictive fiscal policy approach, may see fewer net imports in FY2023 as the government seeks to consolidate public spending. As a result, and despite exports slowing, the C/A should still narrow. Given that imports are four times the value of exports, imports have a much greater impact on the current account.

Since the pandemic, export earnings have been muted. Despite significant improvements in the industrial sector (e.g. electricity, mining), industrial exports are unlikely to rise much in the medium term because of poor FX liquidity. FX shortages would disrupt the supply chain, and thereby impede exports. Non-industry exports, such as coffee, have reportedly fallen to USD1.0bn in the last 11-m, compared to USD1.4bn in the same period in FY2022. Furthermore, if AGOA preferential trade is not reintroduced after the TPLF and Fed government's ceasefire, the lagged effect (of no AGOA incentive) may constrain export growth. However, the industrial parks' exports (AGOA beneficiaries) amount to 5% of overall exports.

Remittances, accounting for the largest share of the C/A inflows and total over USD7bn annually, may remain robust given the extension of the mobile money licence, which may draw in a significant portion of the remittances currently coming onshore by way of unofficial channels. However, currency devaluation expectations, and the growing gap between the official and parallel market rates, may prevent that.

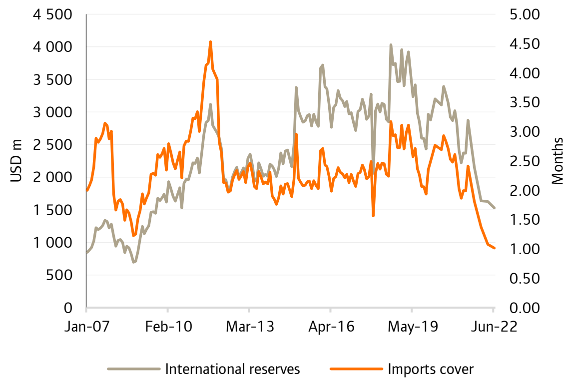
The government is likely to continue funding the C/A by way of FDI, which would also include privatization receipts.

Current account developments



Source: National Bank of Ethiopia; Standard Bank Research

FX reserves



Source: Bloomberg; National Bank of Ethiopia; Standard Bank Research

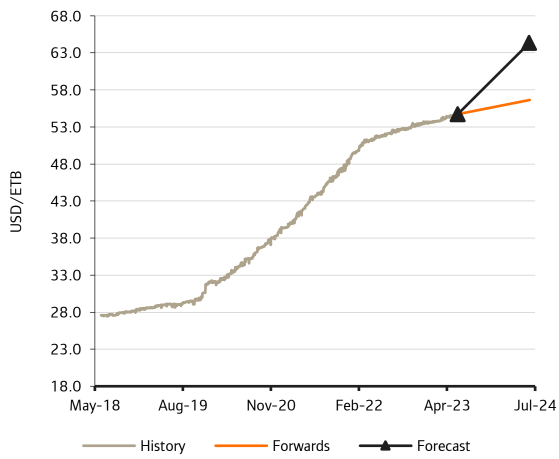
FX outlook: much delayed USD/ETB devaluation

By end 2023, the USD/ETB may be trading around 61.2. Following the substantial depreciation of the ETB between 2019 and 2021, the local currency has remained relatively steady. Interestingly, while that fast-paced depreciation was meant to boost export competitiveness and diversification, it seems unlikely given the current FX restrictions and capital controls.

The NBE will likely stick to its chosen policy of weakening the ETB by roughly 5.0% y/y until an agreement on the IMF program has been reached. This has proven much delayed – perhaps due to disagreements on prerequisites.

Indeed, there is some concern that sudden depreciation won't enhance export revenues. Instead, officials believe that exports may rise after reforms and flagship infrastructure projects reach optimal levels. We therefore expect the NBE to devalue only later this year, or early in 2024, matching the likely timeline of a funded IMF programme.

USD/ETB: forwards versus forecast



Source: Bloomberg; Standard Bank Research

Monetary policy: still unchanged

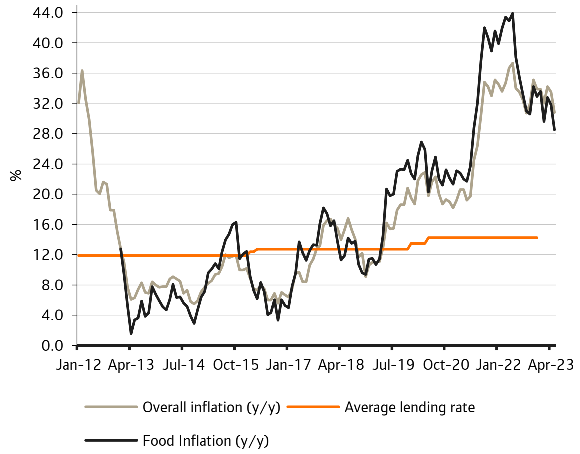
The NBE seems set to maintain its policy stance for the next 6-m. According to the NBE, excess reserves of commercial banks increased by 533.9% in one year due to a reduction in reserve requirements to 7% from 10% and an increase in saving deposits in the banking system. The NBE implements monetary policy through monetary targets to maintain price and exchange rate stability as well as encourage economic growth. We anticipate that monetary policy will remain neutral in the coming 6-m to 1-y.

Thus, headline inflation may remain double digits until the NBE can tighten monetary policy considerably and reduce fiscal deficit monetisation. Meanwhile, whereas unwinding base effects would usually ease headline inflation, money supply will pile on contemporaneous effects. Overall, the two key concerns keeping inflation expectations elevated and sticky are ongoing FX shortages and the government's monetization of the deficit. Furthermore, the government raised petroleum product prices by about 5% as of Apr.

Meanwhile, direct advances made to the government by the NBE fell by end Dec 22; it seems that the government has converted direct advances to bonds once again. With that said, gross claims of the NBE on the central government had reached ETB474bn at end Dec 22, up 52.2% y/y. This may keep making it hard for the NBE to anchor inflation expectations. M2 money supply grew by 33.4% y/y, compared to 23.9% y/y in the same period in 2021. Moreover, private sector credit growth increased to 31.5% y/y in Dec, compared to 27.6% y/y same period in 2021.

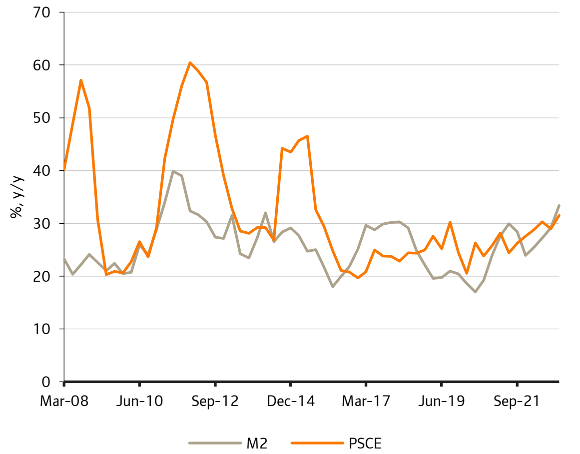
We therefore expect inflation to stay sticky, averaging 29.3% y/y in 2023 and ending Dec around 24.3% y/y, from 30.8% y/y in May.

Inflation and interest rates



Source: National Bank of Ethiopia; Central Statistics Agency

Money supply

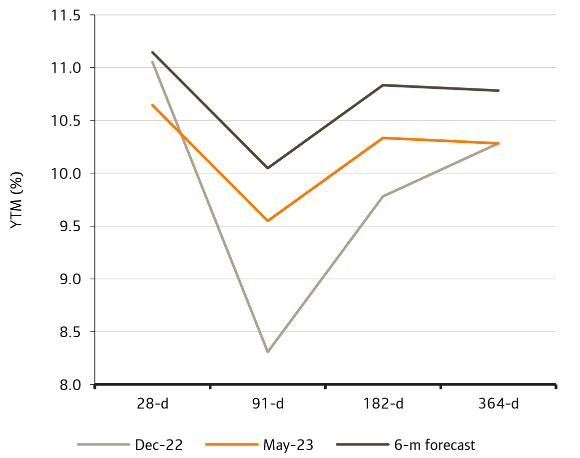


Source: National Bank of Ethiopia

Yield curve outlook: stable, bias to rise

Despite recent improvements, the domestic capital market remains small and thus unable to meet governmental funding needs. This is despite the NBE's determination to reintroduce regulation requiring private banks to purchase NBE bills equivalent to 27% of their deposits to mobilise domestic capital. The government may be attempting to boost domestic bond and secondary markets by issuing government bonds with varying maturities to reduce domestic debt roll-over risk and aid in the development of the capital market. Yields have changed significantly across all maturities during the last six months, with real yields being negative and demand remaining surprisingly constrained. Short-term government bond weighted average yields have increased to 10.2% in May 23 from 9.9% in Dec 22. Headline inflation is above the 30% handle, thus real interest rates on savings, lending, and T-bill yields remain extremely negative.

Change in the yield curve



Source: National Bank of Ethiopia; Standard Bank Research

Fiscal policy: contractionary

According to the draft FY2023/24 budget, the fiscal deficit excluding grants is forecast to fall to 2.1% of GDP, from 3.4% in FY2022/23. The government intends to borrow ETB242.0bn from the domestic market (we suspect the government will continue to monetise its fiscal deficit, considering that the domestic market is still very thin) and ETB39.0bn from external sources. The government intends to boost total spending by approximately 2.0% y/y. Most capital investment seems directed towards the completion of existing projects.

The government aims to collect more tax revenues by way of tax reforms and improved tax administration. However, FX shortages may continue to dampen private-sector economic activity, making meeting tax revenue collection targets unlikely.

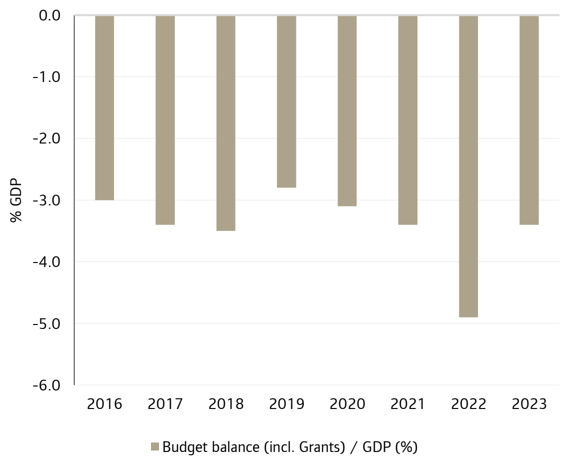
Even if creditors reached an agreement on debt restructuring, poor FX liquidity may persist because Ethiopia has a debt liquidity problem rather than a solvency problem. Indeed, the biggest issue, when the IMF announced Ethiopia's DSA in 2020, was the external debt service/exports ratio and the PV external debt/exports ratio. As a result, the financing gap, and thus debt restructuring, will likely only marginally reduce external debt service.

Central government budget

% of GDP	FY2021/22	FY2022/23
total revenue	12.44	10.31
tax revenue	11.01	8.84
current expenditure	11.91	8.55
capital expenditure	6.04	5.74
total expenditure	17.95	14.29
Deficit incl. grants	-4.89	-3.40

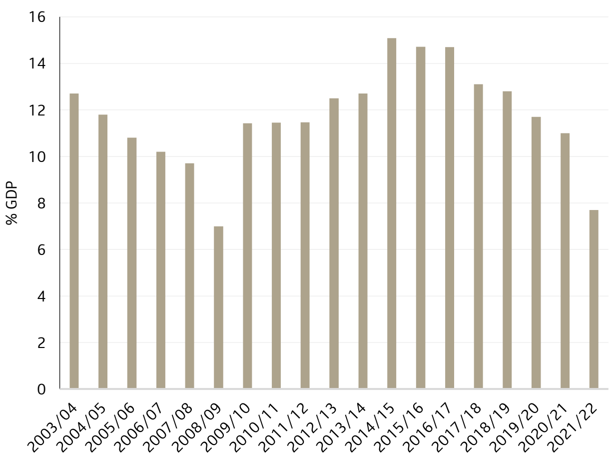
Source: Ministry of Finance

Fiscal deficit (incl. grants/GDP %)



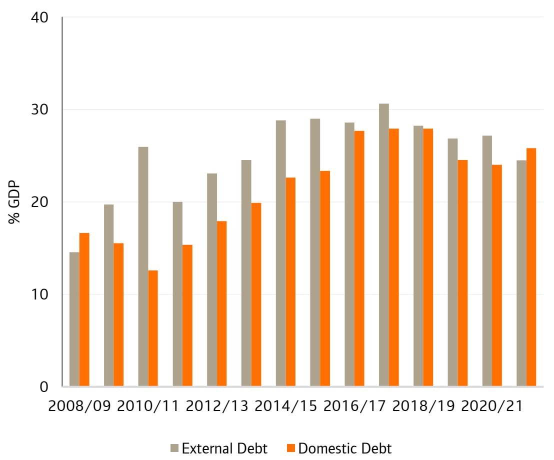
Source: Ministry of finance

Tax revenue



Source: Ministry of Finance

Domestic and external debt



Source: Ministry of Finance

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	95.5	97.6	99.8	102.1	104.5	106.9	109.4
Nominal GDP (ETB bn)	1834.1	1987.2	3374.3	4341.4	6096.7	8313.2	10619.9
Nominal GDP (USD bn)	84.4	96.1	107.7	120.6	135.0	151.3	169.4
GDP / capita (USD)	883.3	984.7	1078.3	1180.5	1292.4	1415.0	1549.2
Real GDP growth (%)	7.7	9.0	6.1	6.3	6.4	7.1	7.2
Coffee production ('000 MT)	404.7	415.5	441.0	457.3	474.2	491.8	510.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-3.0	-4.2	-4.6	-3.4	-4.7	-5.5	-3.98
Budget balance (incl. Grants) / GDP (%)	-2.8	-3.1	-3.4	-2.7	-3.9	-3.4	-2.1
Domestic debt / GDP (%)	27.9	27.9	24.5	24.0	21.8	20.8	24.5
External debt / GDP (%)	30.6	28.2	26.8	27.2	22.0	18.0	18.52
Balance of payments							
Exports (USD bn)	2.8	2.7	3.0	3.6	4.1	3.8	4.8
Imports (USD bn)	-15.3	-15.1	-13.9	-14.3	-18.1	-16.7	-14.8
Trade balance (USD bn)	-18.1	-17.8	-16.9	-17.9	-22.2	-20.5	-19.6
Current account (USD bn)	-2.8	-4.9	-4.4	-3.2	-4.9	-4.6	-4.0
- % of GDP	15.3	-5.1	-4.1	-2.6	-3.6	-3.1	-2.4
Financial and Capital account (USD bn)	18.1	4.8	4.3	3.8	2.8	3.6	4.4
- FDI (USD bn)	2.8	3.0	2.4	4.0	3.3	3.7	4.3
Basic balance / GDP (%)	-15.3	-2.0	-1.8	0.7	-1.2	-0.6	0.2
FX reserves (USD bn) pe	-18.1	3.7	3.0	3.2	1.5	0.3	0.6
- Import cover (months) pe	-2.8	3.0	2.6	2.7	1.0	0.2	0.5
Sovereign Credit Rating							
S&P	B	B	B	CCC	CCC	CCC	CCC
Moody's	B1	B1	B2	Caa2	Caa2	Caa2	Caa2
Fitch	B	B	B	CCC	CCC	CCC	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	13.9	15.7	20.4	26.5	34.0	29.3	20.5
Consumer inflation (%) pe	10.6	19.5	18.2	35.1	33.9	24.3	19.5
M2 money supply (% y/y) pa	26.6	20.2	24.5	26.4	26.3	34.3	35.4
M2 money supply (% y/y) pe	22.2	20.5	17.0	29.9	27.2	29.2	16.8
Policy rate (%) pa	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Policy rate (%) pe	8.0	8.0	8.0	8.0	8.0	8.0	8.0
USD/ETB pa	27.7	29.4	34.8	45.1	52.5	56.5	73.7
USD/ETB pe	28.3	32.0	38.7	49.1	53.6	61.2	70.6

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

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

Ghana: timely external debt restructuring pivotal

Medium-term outlook: underpinned by mining sector recovery

We now upgrade our 2023 GDP growth forecast to 4.2% y/y, from 3.8% y/y. However, our 2024 growth forecast now is 5.0% y/y, from 6.4% y/y previously.

GDP growth reached 3.6% y/y in 2022, exceeding our forecast of 2.4% y/y. Growth was buoyed by a notable recovery in the mining sector, as we had anticipated. The gold sub-sector expanded by 32.3% y/y, from a contraction of 31.2% y/y in 2021 and 12.2% y/y in 2020.

The recovery in gold production has been due primarily to a revival in activity at the Obuasi and Bibiani mines. Before 2022, the Bibiani mine hadn't produced gold for 7-y.

Robust gold production should continue over the coming year, underpinning both net exports and GDP growth. In addition to downwardly revising withholding tax rates for unrefined gold, which has supported small-scale mines, gold production should be spurred by the imminent completion of three new large mines (Cardinal Resources, Azumah Resources and Newmont's Ahafo North project).

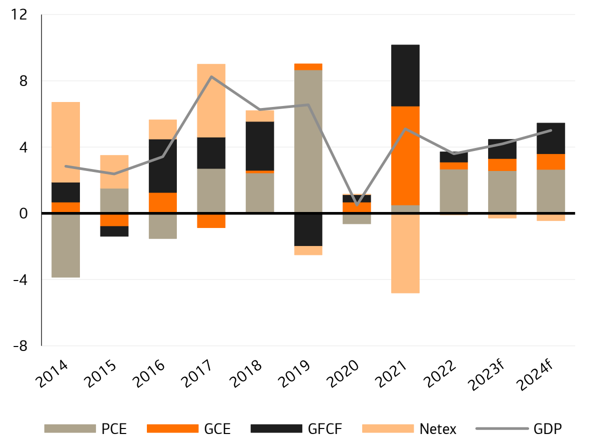
Furthermore, the first disbursement under the USD3.0bn IMF ECF programme was approved in May 23, triggering an immediate release of USD600m in funding. This may prove a crucial step in restoring macroeconomic stability and boosting economic activity.

Debt sustainability challenges, that were compounded by difficulties in obtaining external funding, have reduced development expenditure, weighing on growth over the past year. Thus, should the government make further progress on external debt restructuring in H2:23 as well as unlock other multilateral funding, capital expenditure may recover and thereby underpin growth.

However, should external debt-restructuring negotiations prove protracted, the next IMF disbursement of USD600m, expected after the Nov 23 review, may also be delayed. This could disrupt expected funding from other multilaterals, such as the World Bank, which would impinge on growth because inflation may then remain elevated and the GHS under pressure.

Delays in external debt restructuring also carry the risk of further deficit monetisation, which would further fuel inflation as well as drag private consumption expenditure lower.

Composition of GDP by demand



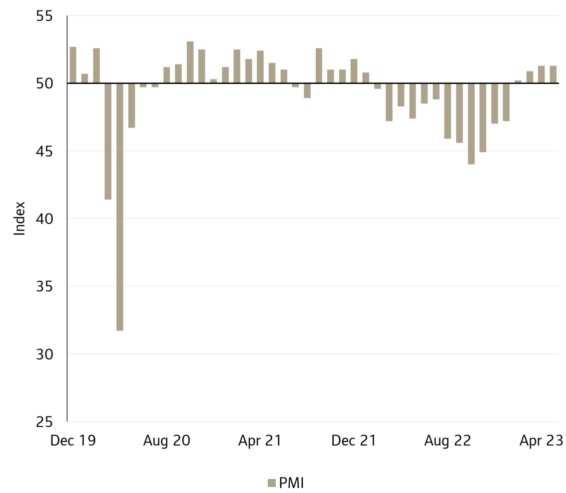
Source: Ghana Statistical Service; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2018	2021	2022
Crops	15.7	15.3	17.2	17.6
- Cocoa	15.7	15.3	17.2	17.6
Livestock	2.6	1.8	1.6	1.3
Mining and Quarrying	13.1	13.7	9.6	13.7
- Oil and gas	5.6	5.9	4.9	5.8
Manufacturing	12.2	10.9	11.7	12.4
Construction	8.8	6.7	6.9	6.2
Trade	11.7	15.6	17.1	17.5
Hotels and Restaurants	4.0	3.8	2.3	2.0
Transport and Storage	6.0	7.3	7.6	6.3
Financial services	5.0	4.0	3.7	3.0
Public administration	3.9	3.5	4.3	3.8
Education	4.5	3.5	2.5	2.3

Source: Ghana Statistical Service

Ghana PMI



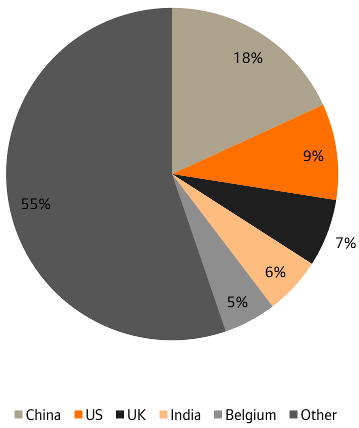
Source: Bloomberg

Medium term economic scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pe	4.2	3.8	4.5	4.3	6.1	5.4	5.1	3.4	3.9	5.8	6.6	6.7	6.9	6.4	7.1	6.0
CPI (% y/y) pe	45.1	40.0	32.1	19.2	22.4	19.5	16.0	11.8	11.4	10.4	10.6	10.7	10.5	9.7	10.0	10.8
BOG prime rate (%) pe	29.50	29.50	29.50	29.50	29.50	28.00	25.00	22.00	19.00	15.00	14.00	14.00	14.00	12.00	12.00	12.00
3-m rate (%) pe	19.4	22.2	20.3	19.0	19.6	18.7	17.2	16.2	15.6	15.5	14.9	14.7	14.3	13.8	13.6	13.3
6-m rate (%) pe	21.9	24.8	23.1	22.5	22.0	21.4	19.5	19.1	18.4	18.20	17.70	17.70	17.50	16.50	15.90	15.30
USD/GHC pe	11.55	11.37	12.26	10.95	9.54	8.77	8.14	8.35	8.44	8.67	8.75	8.85	9.13	9.29	9.42	9.47

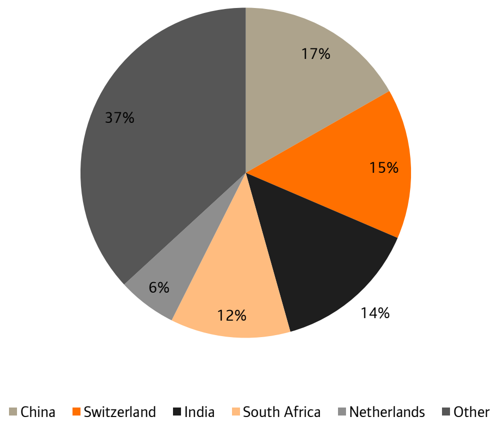
Source: Bank of Ghana; Ghana Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

Ghana's top 5 imports origin (% of total)



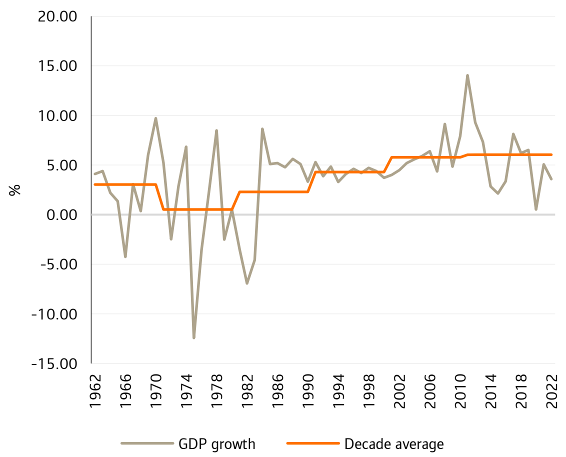
Source: International Trade Centre

Ghana's top 5 exports destination (% of total)



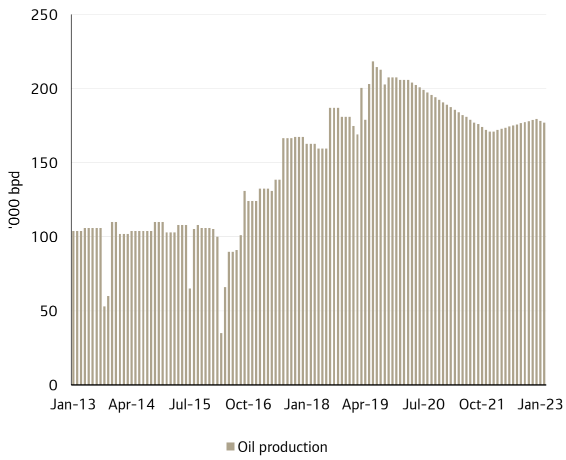
Source: International Trade Centre

Long-term GDP performance



Source: World Bank

Oil production



Source: Bloomberg

Balance of payments: gold and cocoa exports recovering

We now see the C/A deficit narrowing to 1.4% of GDP in 2023, from our previous expectation of 3.2%. The C/A deficit narrowed to 2.2% of GDP in 2022, from 3.2% in 2021.

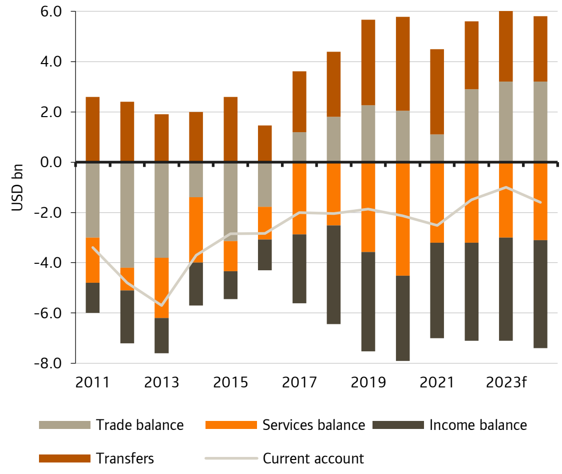
Gold and cocoa exports are likely to recover meaningfully in 2023. However, total exports of goods will likely be weighed down by softer oil exports, which account for around 30% of total exports of goods. In the 4-m to Apr 23, cumulative oil export earnings declined by 37% y/y, to USD1.17bn, with oil production lacklustre, exacerbated by lower international oil prices in H1:23. This trend will likely persist over the coming year, particularly should production at the TEN and SGN fields fail to improve.

Gold exports will likely continue to grow due to the three new mines expected to commence production over the next 2-y. Gold receipts have also been buoyed by higher prices, up 11.4% ytd in the 4-m to Apr 23. Similarly, cocoa exports were boosted by a 15.2% ytd increase in international prices.

Imports of goods declined to USD4.04bn in the 4-m to Apr 23, from USD4.70bn in the same period in 2022. This was in large part due to waning non-oil imports, implying that poor debt sustainability had subdued both consumer and capital imports. We expect import demand to remain relatively muted over the coming year, although government expenditure may rise ahead of the 2024 elections.

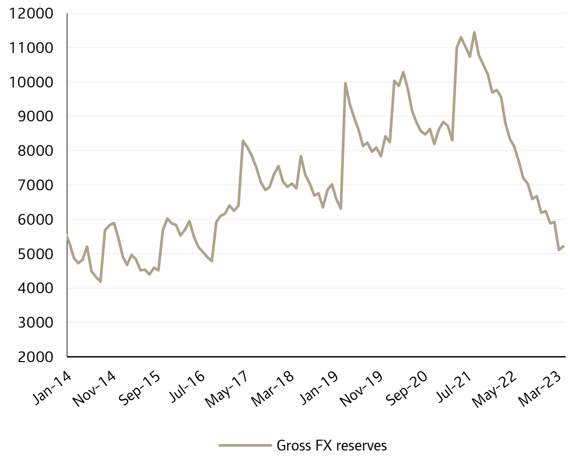
Such higher government expenditure would be contingent on the government's ability to access new external funding. This may depend on how external debt restructuring pans out. Gross FX reserves nevertheless will likely recover over the coming year as the government will probably still only be servicing bilateral debt in H2:23, thereby also supporting the C/A.

Current account developments



Source: Bank of Ghana; Standard Bank Research

Gross FX reserves (USD m)



Source: Bank of Ghana

FX outlook: USD/GHS volatility may persist

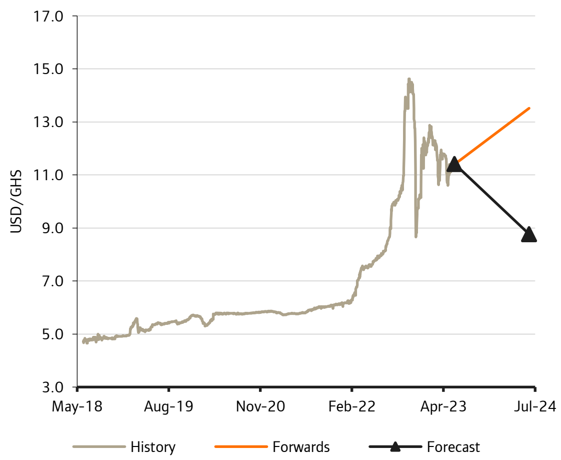
The USD/GHS will likely remain volatile in H2:23. The GHS has broadly benefited from positive sentiment ahead of the announcement of IMF funding in May 23.

In addition, weak import demand both from the government for capital goods, amidst external funding delays and consumer imports, will likely ease the upside pressure on the USD/GHS pair.

Furthermore, external debt service deferment, for Eurobonds and bilateral debt, has reduced USD demand.

The conclusion of ongoing external debt restructuring negotiations will prove vital to reviving investor sentiment. Should there be delays, the IMF programme's second disbursement will likely be delayed, thereby putting upside pressure on USD/GHS.

USD/GHS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: neutral, with a dovish bias

While we still expect a hawkish bias in H2:23, the MPC may maintain a neutral stance during that period, only cutting the key policy rate during 2024.

Headline inflation has been declining since Jan, largely because of the BOG's tighter monetary policy stance, improving global supply chains, and the GHS stabilising. Headline inflation eased to 42.2% y/y in May 23, from 52.8% y/y in Feb 23 and 54.1% y/y in Dec 22.

We still expect headline inflation to ease over the coming year, primarily due to base effects. Inflation will likely have declined to 32.1% y/y in Sep 23 and 19.2% y/y by Dec 23.

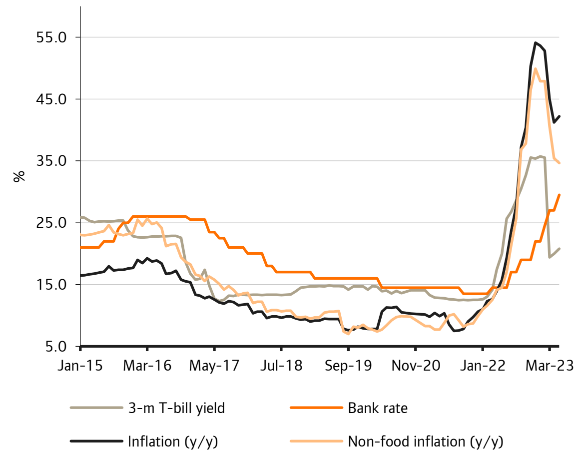
Notably, upside risks to our inflation outlook are largely linked to the government further monetising its deficit, which may dislocate inflation expectations. However, positively, the government and the BOG earlier this year signed a Memorandum of Understanding (MOU) to cease deficit funding.

Furthermore, should external debt negotiations become more protracted, the GHS may depreciate again, keeping inflation stickier and perhaps prompting the MPC to remain hawkish.

Nonetheless, even as inflation declines in H2:23, it will likely remain above the BOG's upper band target of 6-10% y/y. Thus, the MPC may be cautious on how quickly to transition to an accommodative policy stance.

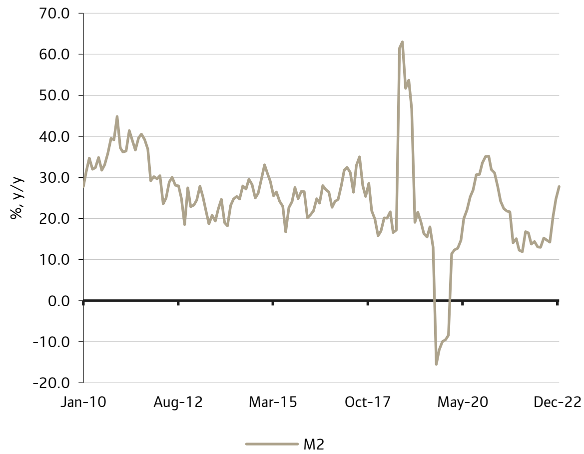
However, given the concerns around capital positions of the banking sector after the conclusion of the Domestic Debt Exchange Programe (DDEP), which has been compounded by higher impairment costs from 2022, the MPC may be reticent to hike rates aggressively, even should securing a debt restructuring deal with external creditors prove protracted.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

M2 money supply growth



Source: Bank of Ghana

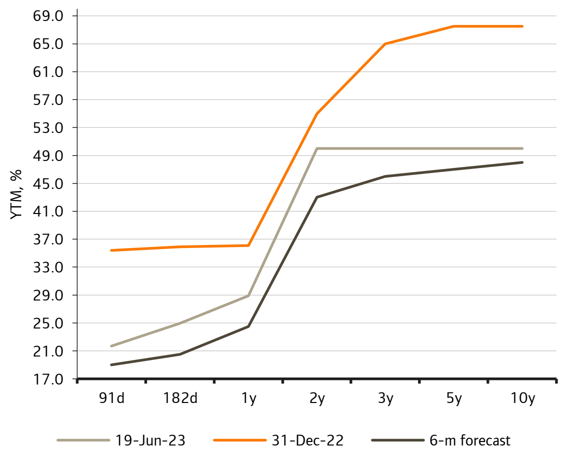
Yield curve outlook: steepening likely

The GHS yield curve may continue to steepen in H2:23, with appetite for investment in government bonds likely to remain cautious.

Following the conclusion of the DDEP, the newly restructured bonds were being marked at around 20% at the time of writing, while the bonds, that hadn't undergone restructuring, were trading at wide bid/offer spreads above 40%.

The new bonds haven't been actively trading in the secondary market due to operational challenges that still haven't been ironed out. However, the authorities have signed an MoU with bondholders to settle bond coupon arrears by end Jun 30, pay all coupons promptly due as of 1 Jun, and reprofile maturing bonds into T-bills.

Changes in the yield curve



Source: Bank of Ghana; Standard Bank Research

Fiscal policy: MoU financing assurances needed ahead of next IMF review

Amidst challenges in securing external funding, government expenditure will inevitably decline in H1:23. However, with external funding sources improving as of H2:23, expenditure should recover. Moreover, weak economic activity may restrain tax revenue in 2023.

Despite the ambitious target to grow tax revenue, including grants, to 18.0% of GDP in FY2023, from 15.9% in FY2022, the government is confident of new tax amendments (that came into effect in Apr 23) buoying revenue collection. These revisions included amendments to the Excise Duty Act, Ghana Revenue Authority Act, Growth and Sustainability Levy Act, Income Tax Act and Revenue Administration Act.

The external funding gap for 2023-2026 is estimated at USD15.1bn. During that period, the World Bank is expected to provide USD1.6bn in budget support, and a further USD3.0bn is expected from the IMF under the current programme. The remainder of the gap will be filled via a proposed USD10.5bn in external debt restructuring.

For 2023, in addition to the combined USD1.2bn expected under the IMF programme, USD530m budget funding is expected from the World Bank. This implies that USD2.5bn will need to be filled by external debt restructuring, with the funding gap for 2023 estimated at USD4.2bn.

Thus, the next IMF review in Nov 23 will be paramount as the government will need to have secured an MoU for financial assurances by then to unlock the additional USD600m under the programme and World Bank funding too.

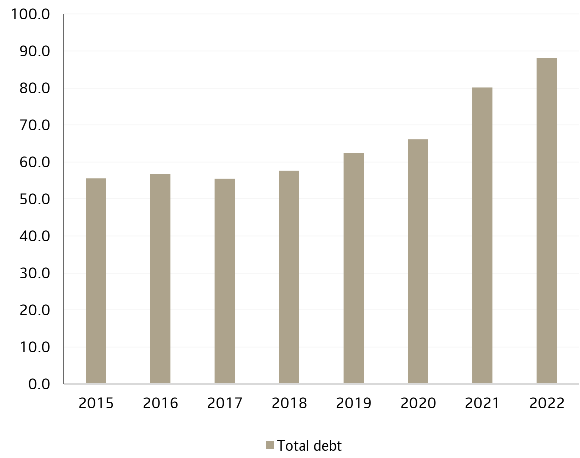
If not, it may alter certain assumptions in the current Debt Sustainability Analysis (DSA). Our base case now sees the government completing external debt restructuring during H2:23.

Central government budget

	FY2022	FY2023
Total revenue and grants	15.9%	18.0%
Total expenditure	22.2%	23.8%
Wages	6.3%	4.6%
Interest payments	7.2%	6.2%
Development expenditure	2.6%	3.3%
Overall Balance (Commitment) as % of GDP	-9.9%	-5.9%

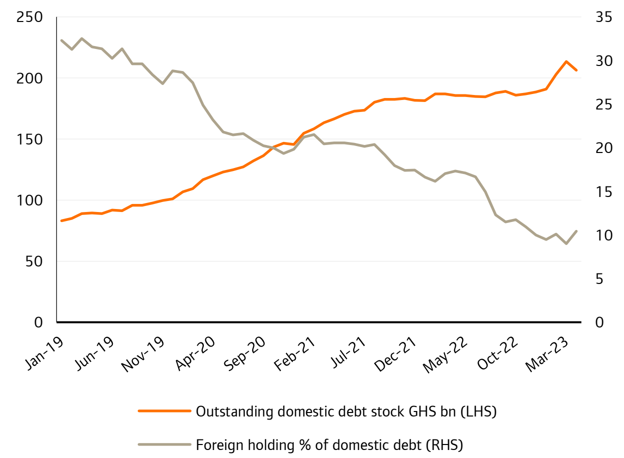
Source: Ministry of Finance

Total debt (% of GDP)



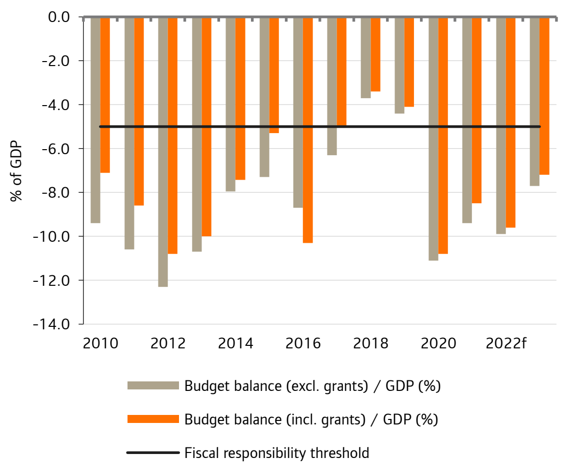
Source: Ministry of Finance

Foreign holdings of domestic debt



Source: Central Securities Depository

Fiscal balance



Source: Ministry of Finance

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	29.5	30.1	30.7	31.3	32.1	32.9	33.7
Nominal GDP (GHC bn)	309	356	392	462	610	849	1039
Nominal GDP (USD bn)	66	66	68	78	68	74	119
GDP / capita (USD)	2 231	2 204	2 228	2 481	2 121	2 238	3 545
Real GDP growth (%)	6.3	6.6	0.5	4.5	3.6	4.2	5.0
Cocoa bean production ('000 MT)	905	812	771	1 047	822	1050	985
Oil production (k bpd)	135.4	199.0	200.0	179.0	182.0	178.0	183.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-3.7	-4.4	-11.1	-9.4	-9.9	-5.9	-6.7
Budget balance (incl. grants) / GDP (%)	-3.4	-4.1	-10.8	-8.5	-9.6	-5.4	-6.2
Domestic debt / GDP (%)	29.1	29.5	38.2	39.6	43.7	41.4	38.7
External debt / GDP (%)	28.8	31.6	36.1	37.0	45.8	40.5	42.3
Balance Of Payments							
Exports (USD bn)	14.9	15.7	14.5	14.7	17.5	17.2	17.7
Imports (USD bn)	-13.1	-13.4	-12.4	-13.6	-14.6	-14.0	-14.5
Trade Balance	1.8	2.3	2.0	1.1	2.9	3.2	3.2
Current account (USD bn)	-2.0	-1.9	-2.1	-2.5	-1.5	-1.0	-1.6
- % of GDP	-3.1	-2.8	-3.1	-3.2	-2.2	-1.4	-1.3
Capital & Financial account (USD bn)	1.5	3.1	2.9	3.3	-2.1	-1.2	1.3
- FDI (USD bn)	2.9	3.2	1.3	2.4	1.5	1.8	2.1
Basic balance / GDP (%)	1.3	2.0	-1.2	-0.1	0.0	1.1	0.4
Gross FX reserves (USD bn) pe	7.0	8.4	8.6	9.7	6.2	5.8	6.3
- Import cover (months) pe	3.6	4.0	4.0	4.3	2.7	3.1	3.4
Sovereign Credit Rating							
S&P	B-	B-	B-	B-	SD	SD	CC
Moody's	B3	B3	B3	B3	Ca	Ca	Caa2
Fitch	B	B	B	B	C	RD	C
Monetary & Financial Indicators							
Consumer inflation (%) pa	9.8	8.6	9.9	10.0	31.5	34.1	17.4
Consumer inflation (%) pe	9.4	7.7	10.5	12.6	54.1	19.2	11.8
M2 money supply (% y/y) pa	33.8	5.6	23.0	22.5	17.1	26.9	15.4
M2 money supply (% y/y) pe	46.7	-8.4	35.1	11.9	27.8	22.5	18.3
BOG prime rate (%) pa	17.9	16.1	14.9	14.0	21.3	33.3	26.8
BOG prime rate (%) pe	17.0	16.0	14.5	14.5	27.0	29.5	22.0
3-m rate (%) pe	16.5	15.1	14.1	12.6	35.4	19.0	16.2
1-y rate (%) pe	19.5	15.5	17.0	16.6	36.1	24.5	16.9
2-y rate (%) pe	21.3	19.3	19.1	20.3	55.0	43.0	35.0
5-y rate (%) pe	21.5	19.0	19.7	21.7	67.5	47.0	38.0
USD/GHC pa	4.70	5.37	5.73	5.95	8.96	11.53	8.70
USD/GHC pe	4.90	5.69	5.87	6.17	10.10	10.95	8.35

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

Kenya: debt restructuring unlikely

Medium-term outlook: agricultural sector may still recover

In 2022, GDP growth slowed to 4.8% y/y, matching our forecast. We now retain our GDP forecast at 5.5% - 5.8% y/y for 2023.

Per our Jan AMR edition, a recovery in the agricultural sector would be pivotal for GDP growth recovering this year. However, the long rains season (which began in Mar after a slight delay) proved inadequate across Kenya's key food-growing counties.

However, the Kenya Meteorological Department (KMD) has a 60% probability of El Niño rains (May-Jul 23), rising to 60-70% (Jun-Aug 23), then to 70-80% (Jul-Oct 23).

During El Niño events over the past 5-y, particularly in 2019, the initial impact of heavy rainfall was negative for the agrarian sub-sector. However, these rains, if not destructive, may also boost private consumption, through declining food prices.

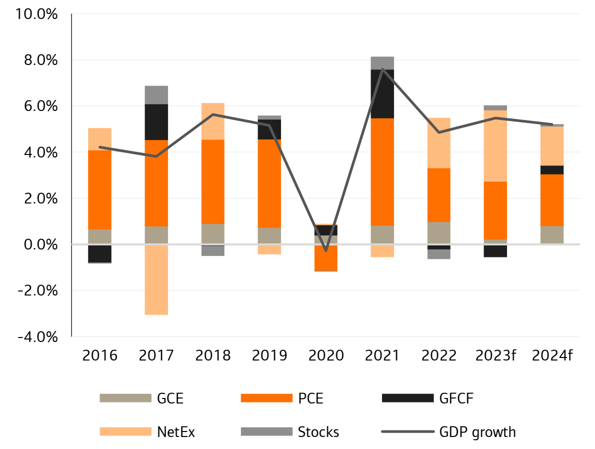
Notably, there are persistent downside risks to economic growth for 2023/24. Firstly, poor debt sustainability has seen the government trim development expenditure. Sharply higher public investment in infrastructure had largely underpinned GDP growth over the last decade. Now, the government has slashed expenditure by around KES300b in the FY2022/23 supplementary budget, with capital expenditure comprising the lion's share of the cuts. Therefore, funding constraints will likely subdue development expenditure absorption rates for FY2023/24.

Furthermore, most of the proposals in the Finance Bill 2023 (that could increase both the cost of doing business and cost of living), may stunt growth in private investment and personal consumption, thereby weighing on growth.

The opposition has warned of protests resuming, following the passing of the Finance Bill. Private sector activity waned earlier in H1:23, particularly when the opposition staged protests for weeks (on Mondays and Thursdays).

Nevertheless, unwinding base effects should favour GDP growth for 2023. However, impending bills may still increase banking sector NPLs and stunt private sector credit growth. The last reported stock of impending bills was around KES500-600bn.

GDP by expenditure



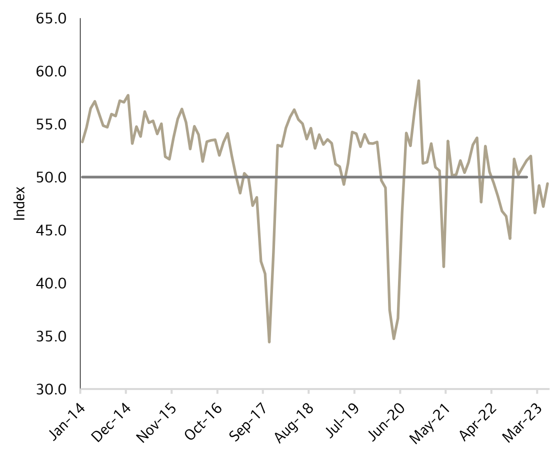
Source: Kenya National Bureau of Statistics

Contribution to GDP by sector

% of GDP	2020	2021	2022
Agriculture	22.6	22.4	21.2
Mining & quarrying	0.7	0.8	0.9
Manufacturing	7.6	7.2	7.8
Electricity & water	2.1	2.0	1.8
Construction	7.0	7.0	7.1
Wholesale & retail trade	8.1	7.9	7.8
Accommodation	0.7	1.0	1.1
Transport & storage	10.7	11.4	12.4
ICT	2.6	2.4	2.4
Financial & insurance	6.8	7.1	7.6
Public administration	5.5	5.2	5.0
Real estate	9.2	8.9	8.6
Education	3.9	4.3	4.1

Source: Kenya National Bureau of Statistics

Stanbic Bank Kenya PMI



Source: IHS Markit

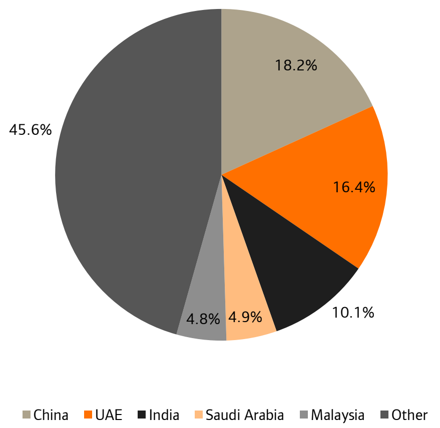
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	2.8	5.0	7.8	6.3	7.3	5.4	4.0	4.2	4.0	5.6	6.6	7.6	5.7	4.7	3.3	5.2
CPI (% y/y) pe	9.2	7.7	7.6	7.3	7.8	6.9	5.3	6.0	6.0	6.4	6.4	5.5	6.0	6.4	6.9	6.9
CBK policy rate (%) pe	9.50	10.50	11.50	11.50	11.50	11.50	10.50	10.00	10.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00
3-m rate (%) pe	9.8	11.8	12.8	12.8	12.6	12.2	11.0	9.9	8.7	8.7	8.7	8.4	8.4	8.2	8.2	7.8
6-m rate (%) pe	10.7	11.9	13.1	13.3	13.0	12.5	11.5	10.3	9.1	9.0	8.9	8.6	8.5	8.4	8.3	8.2
USD/KES pe	132.4	140.7	145.2	147.2	147.8	150.0	152.4	152.5	153.0	154.9	156.9	157.0	157.6	159.9	162.6	162.6

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

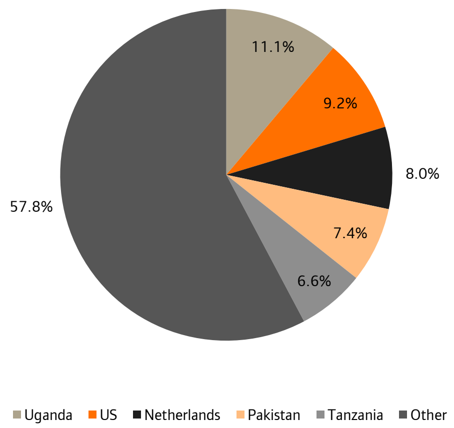
Notes: pe – period end; pa –a period average

Kenya's top 5 imports origin (% of total)



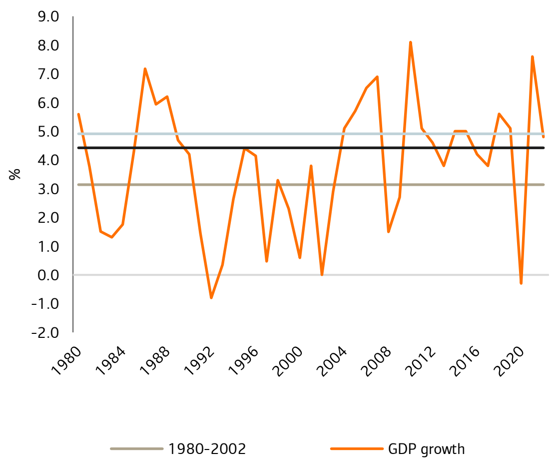
Source: International Trade Centre

Kenya's top 5 exports destination (% of total)



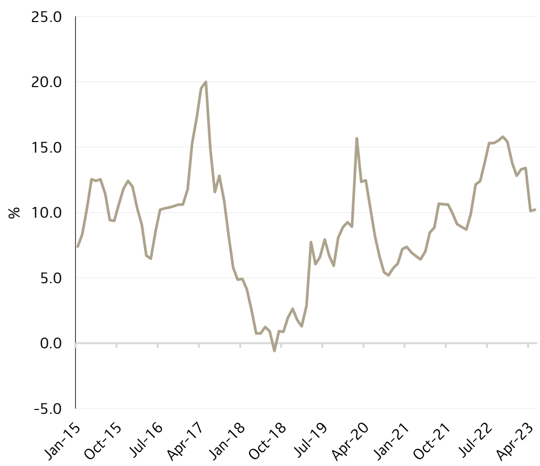
Source: International Trade Centre

Long-term GDP performance



Source: Kenya National Bureau of Statistics; World Bank

Food inflation



Source: Kenya National Bureau of Statistics

Balance of payments: boost from external funding

We now see the C/A deficit narrowing to 4.8% of GDP in 2023, from 5.1% in 2022. Thereafter, the C/A deficit may narrow further, to 3.9% of GDP in 2024.

We reiterate that C/A dynamics aren't much of a concern. Rather, the shortfalls in the capital and financial account has been straining the external position.

Gross FX reserves declined by USD927m between Dec 22 and May 22, to USD6.5bn, primarily due to external debt-servicing pressures and sell-side intervention by the CBK (to mitigate USD/KES volatility). However, FX reserves had recovered to USD7.5bn by mid-Jun 23 after the disbursement of the USD1.0bn budget support loan from the World Bank.

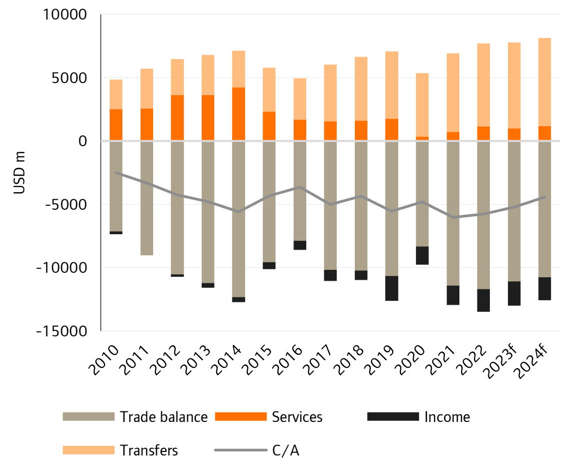
Reserves may even recover further as the IMF will likely disburse USD410m more in Jul (which includes an augmentation of the ECF/EFF facilities), subject to executive board approval. The government also expects USD540m under the Resilience and Sustainability Facility (RSF) in Jul 23, which will be a 20-m arrangement, with funds disbursed over that period. Positively, the current ECF/EFF programme has been extended by 10-m, to Apr 25.

However, downside risks to export earnings persist largely from the tea sector where demand from large buyers, such as Pakistan, Egypt and Sudan, has been diminishing.

Imports too may edge further down over the coming year due to the government likely reducing expenditure on development projects, particularly should external funding sources stagnate.

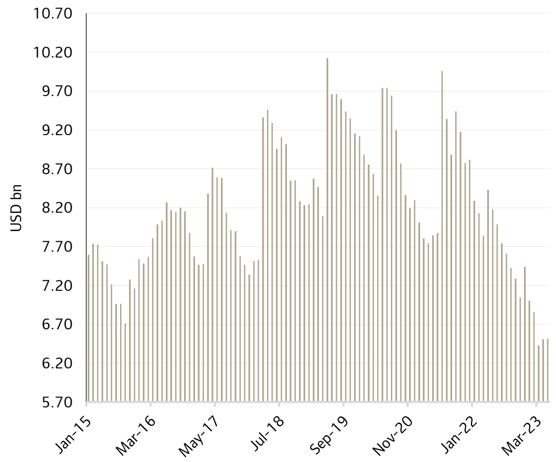
However, per our Jan AMR edition, oil prices will likely remain elevated (even if lower on average than in 2022), which may further widen the trade account.

Current account developments



Source: Central Bank of Kenya; Standard Bank Research

FX reserves



Source: Central Bank of Kenya

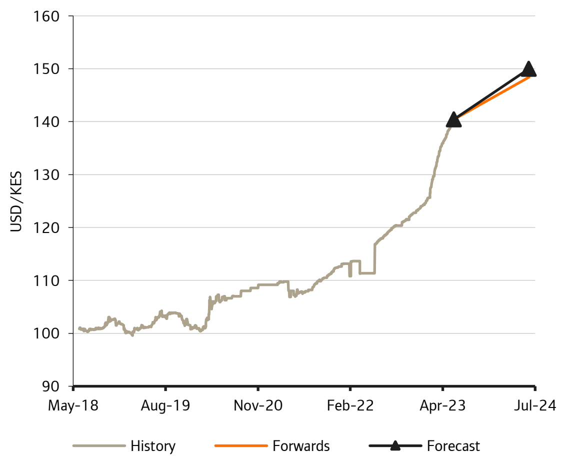
FX outlook: still a weaker KES bias

We expect the USD/KES pair to approach 147-150 by Dec.

Over the past few months, there have been notable reforms to revive FX interbank trading, impelling to a narrowing of the (previously wide) bid/offer spreads for USD/KES.

However, FX liquidity pressures remain, which may not abate until there are notable FX inflows to clear the current USD backlog. We still think that short-term interest rates need to rise further to restore sufficient USD liquidity. The government expects its 6-m deferred oil payment LC financing arrangement to enhance USD liquidity. This may explain the delay in allowing short-term KES yields to rise. Should those yields rise faster than we currently anticipate, the KES may even move lower, or stabilise, by Dec.

USD/KES: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: likely further rate hikes in H2:23

We expect the MPC to hike the CBR by at least 100 bps in H2:23. We then see the MPC cutting the key policy rate by 150 bps in 2024.

Our inflation outlook for H2:23 is largely linked to certain tax proposals in the Finance Bill 2023. Crucially, the additional 8% of VAT on fuel products may result in second-round impacts on the wider economy as transport costs may rise further.

But, depending on the timing of the expected El Niño rains in H2:23, food inflation may turn volatile again. Nevertheless, base effects will remain favourable in H2:23. Thus, the potential rise in prices, from the hike in VAT on fuel, may be counterbalanced by unwinding base effects.

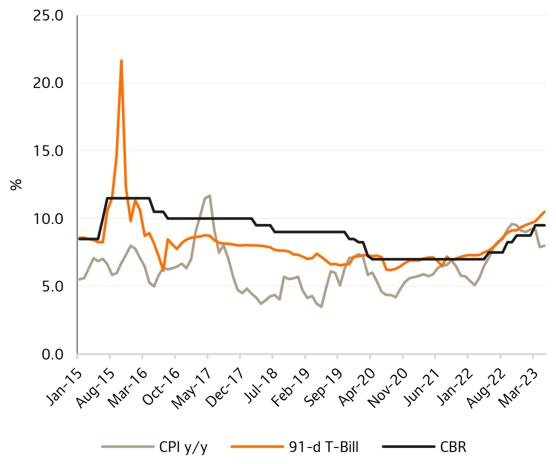
We now expect headline inflation to average 7.6% y/y in H2:23 and 6.5% y/y in 2024.

Further upside risks to inflation will likely stem from the ongoing depreciation in the KES. The KES may well remain on the backfoot if short-term KES yields don't rise meaningfully in H2:23.

However, given the fragmented nature of the domestic banking sector, the authorities appear cautious around financial sector stability and the risks that may arise from higher short-term yields.

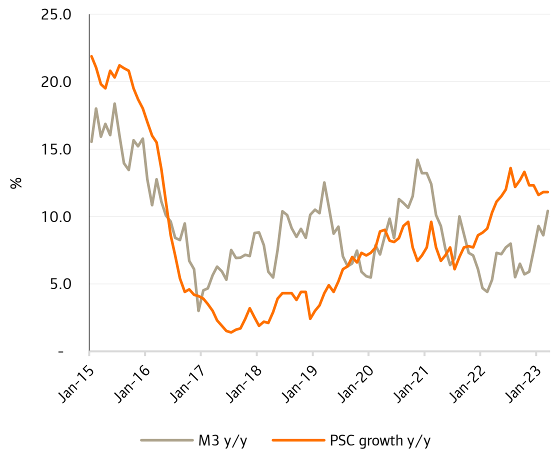
Moreover, private sector credit growth may only recover gradually over the coming year due to underlying concerns around weaker aggregate demand – despite most commercial banks having secured approvals for their risk-based pricing models earlier this year.

Inflation and interest rates



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

Monetary aggregates



Source: Central Bank of Kenya

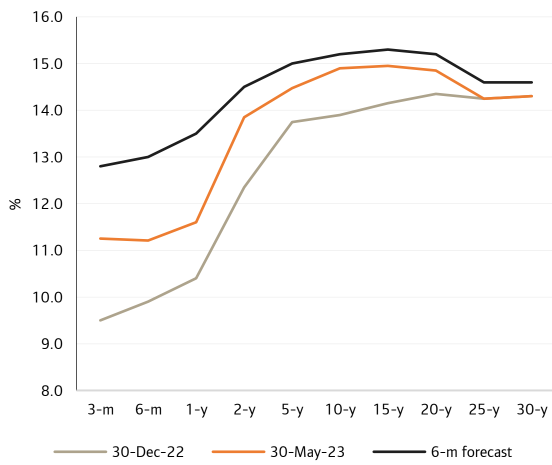
Yield curve outlook: short-end yields to rise more

We still expect a bear-flattening of the yield curve in H2:23. Earlier in Jun 23, the government was well short of its net domestic borrowing target for FY2022/23, as large T-bill and bond maturities coincided with the rejection of expensive bids at primary bond auctions. However, the large infrastructure bond issuance in Jun 23, where c.KES216bn was accepted at the primary auction, helped bridge that gap.

Still, amidst poor FX liquidity, the authorities may allow yields at the shorter end of the curve to rise further because tighter KES liquidity conditions would be crucial in restoring USD liquidity.

Furthermore, should FX liquidity challenges persist, foreign portfolio inflows into the infrastructure bonds will likely remain constrained in H2:23.

Changes in the yield curve



Source: Standard Bank Research; Central Bank of Kenya

Fiscal policy: external funding sources improving

The government expects the fiscal deficit (including grants) to decline to 4.4% of GDP in FY2023/24, from an expected 5.8% in FY2022/23.

The deficit for FY2023/24 will be financed by lower net external borrowing, which is seen declining to KES131.5bn (0.8% of GDP), from KES362.7bn (2.5% of GDP). However, net domestic financing is seen rising to KES586.5bn (3.6% of GDP), from KES478.1bn (3.3% of GDP).

Indeed, the investment community is concerned about the government refinancing the upcoming USD2.0bn Eurobond maturity in Jun 24.

However, with an expected fiscal consolidation path over the coming year, in addition to new funding from multilateral sources and commercial syndicated loans, the government may well repay the Eurobond maturity in 2024. It had already secured commercial syndicated loan financing worth USD500m in FY2022/23, World Bank budget support of USD1.0bn, and a further USD400m from other multilateral sources. Also, the IMF is expected to disburse USD410m, subject to board approval in Jul 23, while USD540m is expected over the next 20-m (under the Resilience and Sustainability Fund (RSF)) from the IMF.

Positively, the current IMF programme was extended to Apr 25 to allow for reforms to be completed under the arrangement.

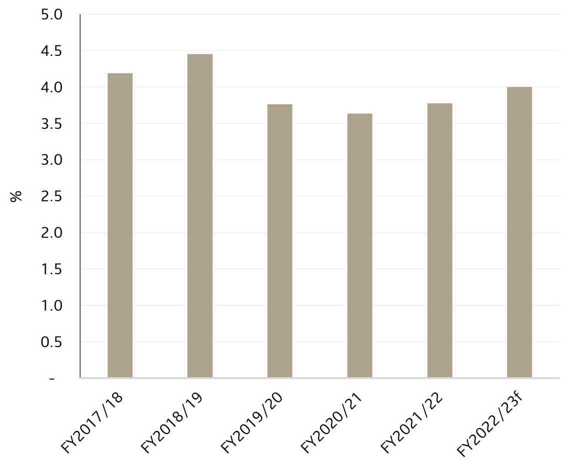
The raft of new tax proposals under the Finance Bill 2023 should spur tax revenue in FY2023/24. The increase in VAT on fuel products, by 8%, to 16%, should yield KES50bn more per year in ordinary revenue for the government.

Central government budget

% of GDP	FY2022/23	FY2023/24
Total revenue	17.0	18.2
Total expenditure	23.1	22.6
Wages	3.7	3.7
Interest	4.7	5.0
Development	3.8	4.7
Overall balance (+ grants)	-5.8	-4.4
Overall balance (- grants)	-6.1	-4.7
Net external borrowing	2.5	0.8
Net domestic borrowing	3.3	3.6
Donor support	0.3	0.3

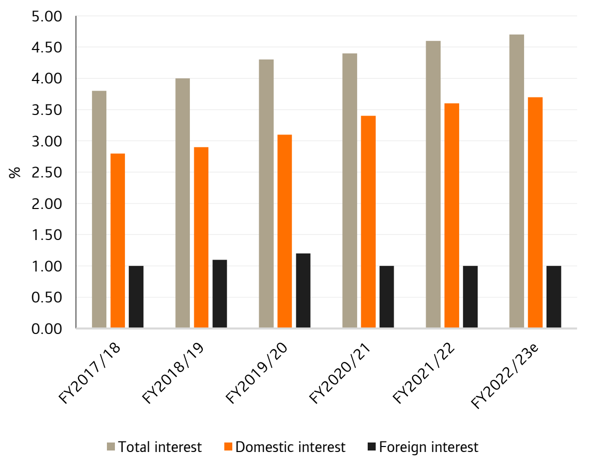
Source: National Treasury

VAT collections (% of GDP)



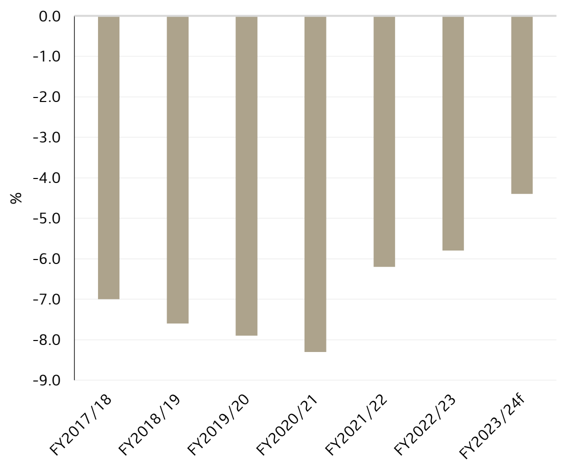
Source: National Treasury

Debt service (% of GDP)



Source: National Treasury

Fiscal deficit including grants



Source: National Treasury

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	46.5	47.6	48.5	49.4	50.5	51.4	52.4
Nominal GDP (KES bn)	9 340	10 226	10 716	12 028	13 368	15 213	17 048
Nominal GDP (USD bn)	87.8	95.4	100.6	109.1	112.2	107.6	113.1
GDP / capita (USD)	1 829	1 931	2 075	2 208	2 223	2 093	2 161
Real GDP growth (%)	6.3	5.4	-0.3	7.6	4.8	5.5	5.2
Coffee production ('000 tons)	36.8	33.6	24.4	28.2	32.0	35.8	39.6
Tea production ('000 tons)	493.0	458.9	569.5	537.8	583.5	594.3	636.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-7.3	-7.9	-8.1	-8.5	-6.5	-6.1	-4.7
Budget balance (incl. Grants) / GDP (%)	-7.0	-7.7	-7.8	-8.4	-6.2	-5.8	-4.4
Domestic debt / GDP (%)	28.4	24.5	26.3	27.6	30.0	31.3	33.5
External debt / GDP (%)	29.5	32.5	34.6	35.4	39.5	43.8	41.2
Balance Of Payments							
Exports of goods (USD bn)	6.1	5.9	6.1	6.7	7.4	7.4	7.6
Imports of goods (USD bn)	16.3	16.5	14.4	18.2	19.1	18.5	18.3
Trade balance (USD bn)	-10.2	-10.6	-8.3	-11.4	-11.7	-11.1	-10.8
Current account (USD bn)	-4.4	-5.5	-4.8	-6.0	-5.8	-5.2	-4.4
- % of GDP	-5.0	-6.0	-4.8	-5.5	-5.1	-4.8	-3.9
Financial account (USD bn)	5.3	6.2	3.0	6.7	4.2	4.5	5.1
- FDI (USD bn)	1.1	1.1	0.7	0.4	0.6	0.5	0.4
Basic balance / GDP (%)	-4.2	-5.0	-4.1	-5.2	-4.6	-4.4	-3.6
FX reserves (USD bn) pe	8.0	8.8	7.8	8.8	7.4	7.8	8.2
- Import cover (mths) pe	5.2	5.4	4.8	5.4	4.2	4.3	4.5
Sovereign Credit Rating							
S&P	B+	B+	B+	B	B	B	B
Moody's	B2	B2	B2	B2	B2	B3	B2
Fitch	B+	B+	B+	B+	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	5.0	4.9	5.4	6.2	7.9	7.9	6.5
Consumer inflation (%) pe	5.7	5.8	5.6	5.7	9.1	7.3	6.0
M3 money supply (% y/y) pa	8.7	8.4	9.9	8.8	6.3	8.4	11.1
M3 money supply (% y/y) pe	10.1	5.6	13.2	6.1	7.5	10.2	9.5
Policy interest rate (%) pa	9.10	8.90	7.25	7.00	7.88	10.75	10.88
Policy interest rate (%) pe	9.00	8.50	7.00	7.00	8.75	11.50	10.00
3-m rate (%) pe	7.3	7.2	6.9	7.3	9.4	12.8	9.9
1-y rate (%) pe	10.0	9.8	8.3	8.9	10.3	13.5	10.2
2-y rate (%) pe	10.8	10.4	9.3	9.8	12.4	14.5	10.9
5-y rate (%) pe	11.6	11.5	10.5	11.4	13.8	15.0	13.3
USD/KES pa	101.3	102.1	106.5	110.2	119.1	141.4	150.7
USD/KES pe	102.0	101.4	109.6	113.1	123.2	147.2	152.5

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

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

Malawi: external debt restructuring making some progress

Medium-term outlook: El Niño unease

We were confident about 2023 due to expectations of favourable weather and improving FX liquidity, with attendant increases in agricultural and non-agricultural output.

However, several negative risks have since arisen, which may see GDP growth undershooting our 3.0% y/y forecast in the Jan AMR edition. 2023 thus far has been subject to climate shocks and entrenches FX shortages. Our new forecast now stands at 2.0% y/y. This would still exceed growth of 1.2% y/y in 2022.

Cyclone Freddy struck in Mar, in the southern region (8% of tobacco production). Several northern regions had drought, lowering agricultural output as well as non-agricultural output. This on top GDP growth plummeting to 1.2% y/y in 2022, from 4.6% y/y in 2021, due to the Russia-Ukraine war and storms Ana and Gombe which sharply diminished agricultural and manufacturing production as well as damaged power-generation infrastructure.

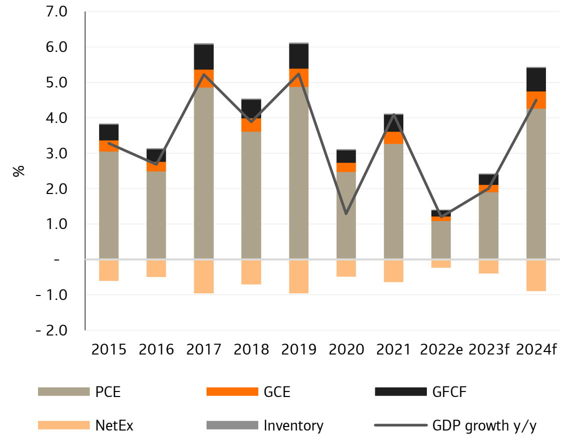
The World Meteorological Organization forecasts El Niño weather patterns from H2:23. The agricultural sector is particularly vulnerable. Malawi, almost entirely reliant on rain-fed agriculture (90%), faces prolonged droughts during El Niño events. If so, agricultural yields diminish and food prices increase, with knock-on effects for food security and poverty, all of which spills over to an economy dependent on agriculture as primary source of jobs and exports. This also implies poorer FX liquidity. It also spells less disposable income, slower wholesale and retail growth, compounded by higher inflation.

However, because the major rainy season in Malawi is from October to April, and the season for 2022-2023 was still during a La Niña weather pattern, 2023 production should only be impeded by cyclone Freddy, with El Niño consequences only playing out in 2024.

Base effects should still benefit the manufacturing sector. However, agro processing may disappoint. Further downside risks include FX shortages and troubled power supply.

Still, mining should still provide some support, especially as of 2024, due to the reopening of the Kayelekela uranium mine by Lotus Resources Limited. In addition, there should be increased extraction as the government plans to formalize artisanal mining in the mining sector.

Composition of GDP by demand



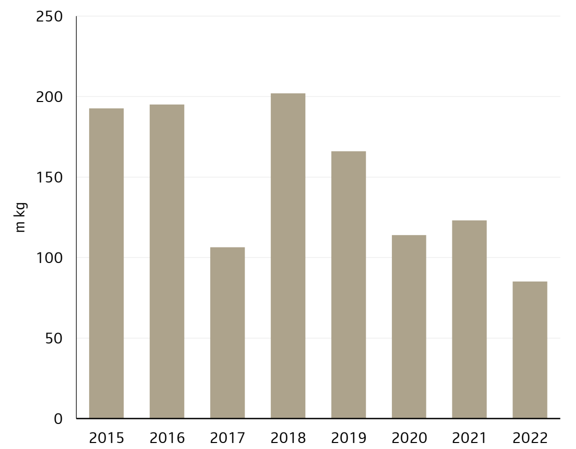
Source: Reserve Bank of Malawi; National Statistical Office; Standard Bank Research

GDP composition by sector

	2017	2021	2022
Agriculture, forestry & fishing	23.3	23.2	23.4
Mining & quarrying	0.7	0.7	0.7
Manufacturing	11.5	12.2	12.2
Electricity gas &water supply	2.8	3.0	2.9
Construction	3.1	3.2	3.2
Wholesale and retail trade	12.9	12.2	12.0
Transport and storage	4.5	4.3	4.4
Accommodation and food	1.6	1.1	1.1
Information and communication	5.3	6.1	6.1
Financial and insurance services	6.0	6.3	6.3
Real estate activities	7.3	6.6	6.4
Professional & support services	1.2	1.2	1.2
Public administration & defence	3.0	3.3	3.3
Education	4.4	4.0	4.0
Health and social work activities	4.4	5.4	5.3
Other services	1.7	1.8	1.8
Plus: Taxes less Subsidies on products	6.3	5.5	5.6
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

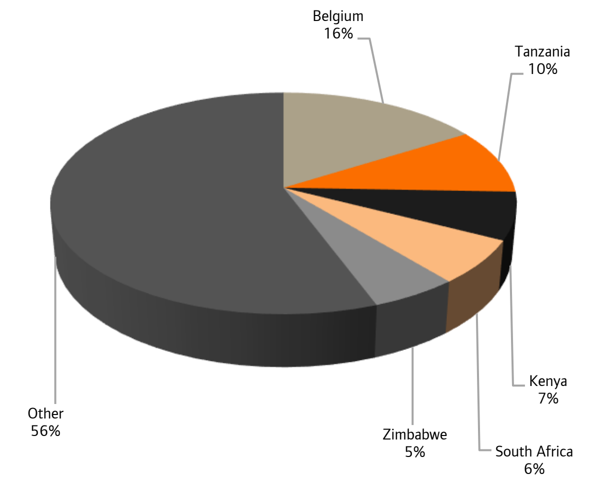
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	2.0	2.0	2.0	2.0	4.5	4.5	4.5	4.5	3.3	3.3	3.3	3.3	4.0	4.0	4.0	4.0
CPI (% y/y) pe	27.0	23.9	26.7	29.5	28.8	24.9	24.1	24.9	22.9	21.7	22.5	20.0	19.1	17.2	18.7	13.8
Policy rate (%) pe	18.0	22.0	22.0	22.0	22.0	22.0	22.0	20.0	18.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
3-m rate (%) pe	13.00	14.0	15.0	15.0	15.0	15.0	15.0	13.0	13.0	13.0	13.0	13.0	11.0	11.0	11.0	11.0
6-m rate (%) pe	17.5	19.0	19.5	19.5	19.5	19.5	19.5	17.5	17.5	17.5	17.5	17.5	15.5	15.5	15.5	15.5
USD/MWK pe	1033.8	1053.0	1105.7	1116.7	1127.9	1150.4	1173.4	1196.9	1220.8	1245.3	1270.2	1295.6	1321.4	1347.9	1374.8	1402.3

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

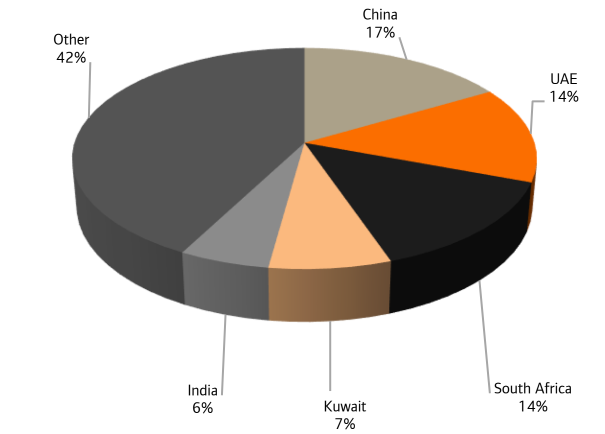
Notes: pa - period average; pe - period end

Share in Malawi's exports (%)



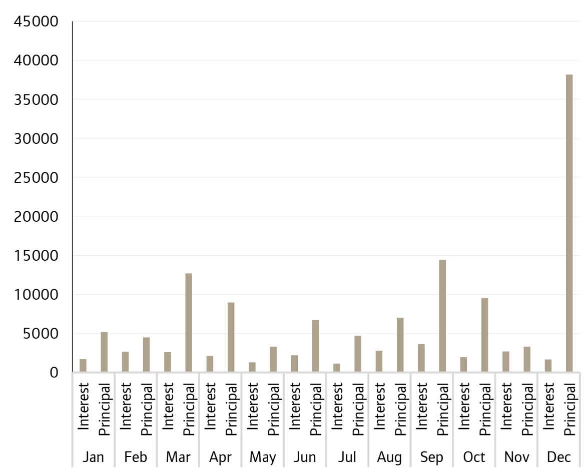
Source: ITC

Share in Malawi's imports (%)



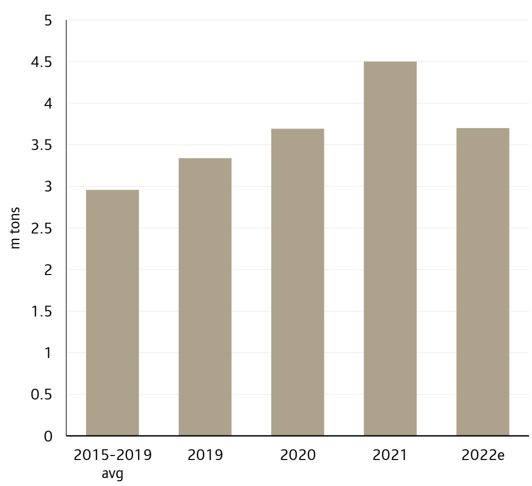
Source: ITC

2023's external debt service payments



Source: World Bank

Maize production



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

Balance of payments: deficit still to narrow

Though still high, the C/A deficit may narrow in 2023/24, a year after Malawi's external payment indicators deteriorated in 2022 due to unfavourable trade terms flowing from the Ukraine crisis. However, poor FX liquidity may keep constraining imports.

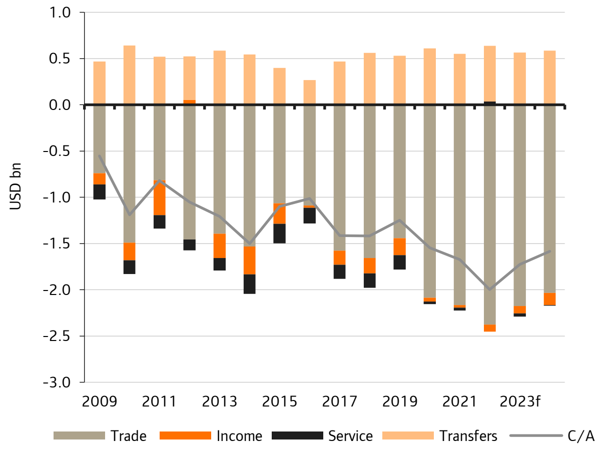
The trade deficit widened to USD283.5m in Q1:23, from USD15.7m in Q4:22, but was still narrower than the deficit of USD388.2m in Q1:22, a trend that continued in Apr 23, with the trade deficit rising on a m/m basis but narrowing on a y/y basis.

The 2022 tobacco auctions recorded a solid average price of USD2.14/kg (compared to USD1.59/kg in 2021), and the 2023 auction recorded as much as USD2,28/kg by the end of week 9, implying a much higher the full-year average. However, other BOP inflows may be less lively; the latest RBM reports reveal that total official FX reserves had declined to USD194.8m as of May 23, supporting only 0.78-m of imports (way below the USD250.0m monthly import requirement).

A successful IMF ECF programme might stem a sharp decline in the BOP. Indeed, the IMF programme during the most recent El Niño event helped stabilizing the balance of payments during that period of drought.

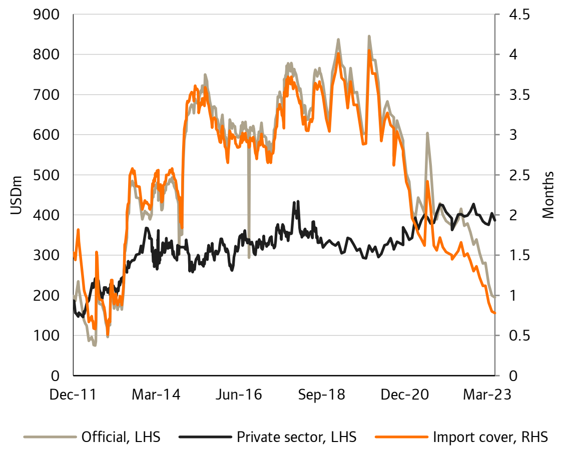
In addition, the pending ECF IMF programme may impel funding from other development partners. Most capital flows will still be FDI, mostly retained earnings, and, to a lesser extent, government borrowing, considering ongoing debt restructuring.

Current account developments



Source: Reserve Bank of Malawi

FX reserves



Source: Reserve Bank of Malawi

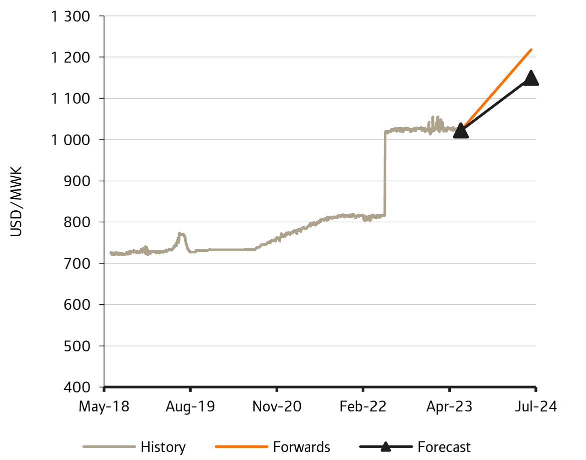
FX outlook: MWK still overvalued

Trade-weighted, the MWK is overvalued. Furthermore, the spread between official TT rates and foreign exchange bureau cash rates has widened beyond the pre-devaluation level. According to the IMF, if the RBM is committed to controlling reserve money expansion, no prolonged period of MWK devaluation and high inflation should follow (as in the 2012-16 cycle). However, fiscal consolidation, which should accompany tighter monetary policy, has proven challenging.

Currency adjustments may now be required to correct macroeconomic imbalances. Therefore, further devaluation cannot be ruled out. Furthermore, the IMF's board has adopted a 12-m Staff-Monitored Program (SMP), which may pave the way to an IMF-supported upper credit tier (UCT) programme and, in the absence of fiscal consolidation, may induce IMF-sponsored devaluation.

For now, however, it seems that the RBM may favour gradual depreciation of the MWK.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still tightening

After the 400 bps hike in the policy rate, to 22% in Apr, and the 200 bps hike in the LRR ratio on domestic currency deposits, to 5.75%, we anticipate further tightening of monetary policy because of persistent inflationary pressures and a bleaker FX outlook.

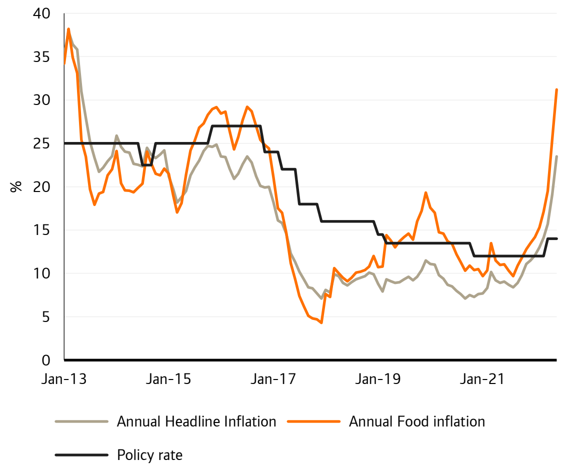
Headline inflation may reach 29.5% y/y by Dec, with the 2023 annual inflation average at 26.1% y/y, from 20.95% y/y last year. Inflation seems set to remain elevated, reaching an average of 25.71% y/y in H2:23.

Food inflation (accounting for 53.7% of the CPI basket) may still drive that trend. Still, food prices fell by 4.3% m/m in Apr reflecting the impact of the opening of some of Agricultural Development and Marketing Corporation of Malawi’s (ADMARC) maize markets as well as the seasonal rise in vegetable availability. However, a comparatively smaller food crop size may see the lean period arrive earlier than usual. Additionally, El Niño may disrupt the harvest in the Oct-Apr season and thereby reduce output.

The cyclone's second-round effects may still further bump up inflation this year. New tax initiatives and exchange rate pressures will add strain. However, this may be partly offset by lower international oil prices.

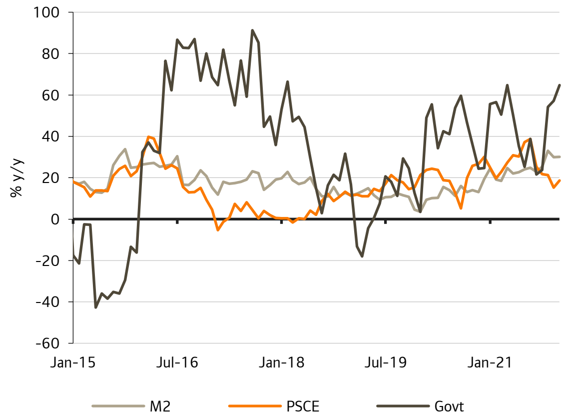
Money supply increased to 35.9% in April, from 31.6% in Mar and 26.8% in Apr 22. As monetary conditions grow tighter, money supply growth may decline. However, fiscal concerns and the RBM's net claims with the central government, which are not unusual, as well as ways-and-means advancements, may mean upside risk for money supply and inflation.

Inflation and interest rates



Source: Reserve Bank of Malawi; Standard Bank Research

Money supply growth



Source: Reserve Bank of Malawi; Standard Bank Research

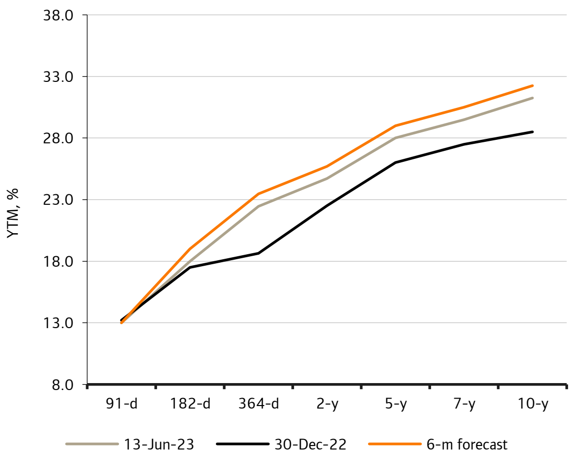
Yield curve outlook: still rising

We anticipate the yield curve to rise further in the coming months. While monetary tightening may put some upward pressure on rates, a high number of domestic maturities should subdue yields.

Maturities are expected to remain relatively large. However, we anticipate that the RBM will seek to cover the maturing amount.

We would not rule out the prospect of tighter liquidity in the coming months as the RBM may favour draining liquidity to defend the sinking currency as well as extend the bank’s current monetary policy stance.

Yield curve changes



Source: Reserve Bank of Malawi; Standard Bank Research

Fiscal policy: external debt restructuring may impel IMF-funded programme

Reportedly, Africa Export Import Bank officials are contemplating the restructuring of USD850m in debt. In addition, it also committed to lend Malawi USD2.5bn for infrastructure, food security and job creation projects. The costs of humanitarian response and reconstruction following the recent cyclones will generate spending needs.

If successful, the debt restructuring may well impel an IMF-funded programme. Malawi’s debt restructuring strategy focuses on commercial and bilateral debt restructuring. Although multilateral debt accounts for much of the external debt portfolio, foreign commercial debt has shorter maturities and is mostly owed to the Africa Export Import Bank. Multilateral creditors account for 64% of Malawi's total external debt, followed by commercial (23.3%), and bilateral (12.7%).

However, as domestic debt payment comprises 92% of total debt service, local debt restructuring may be necessary if liability management proves difficult. In November 22, Malawi received a 12-m Staff Monitored Programme (SMP) from the IMF. But first, the IMF would want to see progress made on a comprehensive debt restructuring framework as well as fiscal consolidation initiatives.

According to Malawi's FY2023 fiscal budget, the Ministry of Finance is examining the country's debt profile to address current concerns about debt sustainability by extending maturities. Domestic debt maturities are expected at MWK989bn this year, higher than the budgeted deficit for FY2022/23. The government may well roll over the maturing amount. However, the RBM's net claims with central government (including ways-and-means advances and withdrawals of government deposits) could still be another key financing source. Commercial banks hold the most domestic debt, followed by the RBM, and the insurance sector.

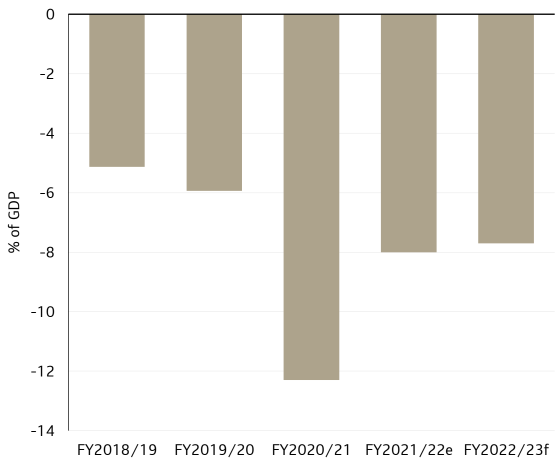
Central government budget

% 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

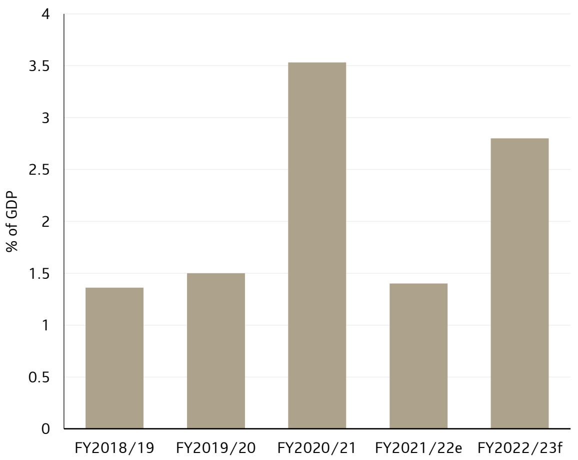
*Fiscal period of 9 months.

Fiscal deficits



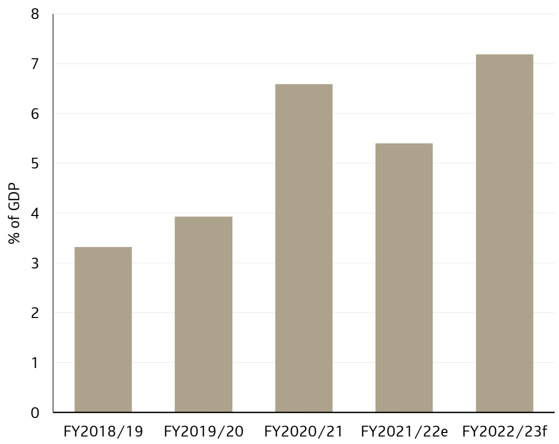
Source: Ministry of Finance; Standard Bank Research

Budget grants



Source: Ministry of Finance; Standard Bank Research

Developmental spending



Source: Ministry of Finance; Standard Bank Research

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	17.3	17.5	17.8	18.0	18.2	18.4	18.7
Nominal GDP (MWK bn)	5 266.3	5 970.1	6 517.9	7 255.0	8 878.0	11 374.2	14 841.2
Nominal GDP (USD bn)	7.2	8.1	8.4	8.9	8.7	10.2	12.4
GDP / capita (USD)	418.4	460.5	473.8	493.8	475.6	553.6	664.5
Real GDP growth (%)	4.0	5.1	0.9	2.0	1.7	2.0	3.0
Tobacco auction sales (million kgs)	202.0	166.1	114.0	123.1	85.1	110.0	116.0
Tea production (million kgs)	50.5	48.2	48.6	49.6	50.4	59.8	70.7
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.1	-7.0	-8.1	-16.7	-8.0	-7.7	n.a
Budget balance (incl. Grants) / GDP (%)	-4.0	-5.1	-6.2	-11.8	-6.6	-4.9	n.a
Domestic debt / GDP (%)	21.0	25.0	38.8	43.8	46.5	48.8	n.a
External debt / GDP (%)	31.0	30.0	30.0	32.9	34.9	36.6	n.a
Balance of Payments							
Exports (USD m)	945.4	1 149.0	966.0	1 246.0	1 149.0	1 231.0	1 345.0
Imports (USD m)	-2 603.7	-2 593.0	-3 052.0	-3 410.0	-3 526.8	-3 407.8	-3 379.1
Trade balance (USD m)	-1 658.4	-1 444.0	-2 086.0	-2 164.0	-2 377.8	-2 176.8	-2 034.1
Current account (USD m)	-1 418.6	-1 249.7	-1 547.0	-1 674.0	-1 998.0	-1 725.5	-1 582.8
- % of GDP	-19.6	-15.5	-18.3	-18.8	-23.1	-16.9	-12.8
Financial account (USD m)	458.3	452.8	359.5	468.9	430.3	432.1	351.6
- FDI (USD m)	107.1	118.5	94.0	120.0	113.4	114.2	123.9
Basic balance / GDP (%)	-18.1	-14.0	-17.2	-17.5	-21.8	-15.8	-11.8
FX reserves (USD m) pe	730.0	700.0	574.3	362.0	400.0	480.0	730.0
- Import cover (months) pe	3.4	3.2	2.8	1.4	1.5	1.8	2.8
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	9.2	9.4	8.3	9.3	20.7	26.1	27.5
Consumer inflation (%) pe	9.9	11.5	7.6	11.5	25.4	29.5	24.7
M2 money supply (% y/y) pa	15.7	13.2	10.5	14.9	34.1	33.5	28.4
M2 money supply (% y/y) pe	11.4	3.6	24.4	30.0	36.7	28.1	29.3
Policy interest rate (%) pa	14.8	14.8	13.1	12.0	14.5	21.0	21.5
Policy interest rate (%) pe	16.0	13.5	12.0	12.0	18.0	22.0	22.0
3-m rate (%) pe	11.5	10.9	9.5	9.4	13.0	16.0	10.0
USD/MWK pa	727.5	740.8	747.3	861.3	983.9	1 077.3	1 162.2
USD/MWK pe	736.8	730.0	771.5	815.0	1 025.0	1 116.7	1 196.9

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: likely narrower twin deficits

Medium-term outlook: tourism sector still being in recovery should support GDP growth above the long-term average

Based on trends in the tourism industry, the tax reforms and public investment projects listed in the budget, GDP should grow by 4.8% y/y this year, thereby exceeding by 0.4 percentage points our estimate in the Jan AMR edition. Tourism in Mauritius is now approaching pre-pandemic levels, which will likely spill over to other sectors (as tourists spend on accommodation, recreational activities, and services) as well as to job creation. This bodes well for private spending.

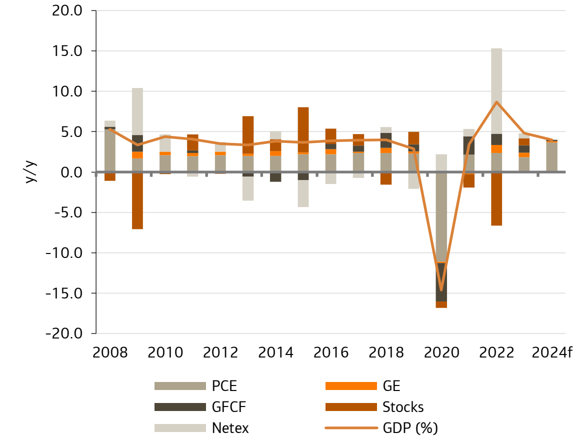
Given that this economy is heavily reliant on tourism, which accounts for a sizeable portion of the country's employment and FX earnings, a considerable y/y gain, after more than 200% y/y growth in 2022, would confirm a sound economic recovery. Visitor numbers rose by 64% y/y in the first five months of 2023. In 2019, the tourism industry employed 7.6% of the labour force; it then declined to 7.0% in 2021. The unemployment rate rose to 9.9% in 2021, from 7.0% in 2019.

The textile sub-sector, alongside other manufacturing sub-sectors (such as sugar), also employs a sizable portion of the labour force, and related exports here too contribute economically. Manufacturing was already on the mend in 2022 with its contribution to GDP up 1.3ppts. Its contribution to GDP and employment had declined meaningfully due to the pandemic; it either matched or was exceeded by wholesale and retail trade during 2020 and 2021.

The manufacturing sector remains 1.7% below its pre-pandemic production levels in real terms, implying a base effect increase in 2023 from sugar and textile production. Furthermore, the government has extended the investment tax credit to all manufacturing enterprises for the next three years to stimulate further investment and automation. However, for large MNEs, this benefit may be offset by the Minimum Top-up Tax. The drawback for the tourism and manufacturing sectors is that global GDP growth is slowing, particularly in Europe and South Africa, both of which are destination countries for exports from Export Oriented Enterprises.

After this year (when GDP in real terms should return to pre-pandemic levels), growth may decline to 4.0% y/y or below again. Annual GDP growth has dwelled below 4.0% since the 2008/09 Global Financial Crisis. Because global growth is now slowing, any GDP growth acceleration in Mauritius will likely be spurred by local demand (projected to rise strongly in a pre-election year) – notably, investment spending. Indeed, investment spending has been increasing steadily since 2010 (bar 2020), partly due to FDI inflows since 2010. Our current forecasts do not factor in potential benefits from trade deals with China and India. However, Mauritius runs a net trade deficit with both those nations, so a large portion of any such boost would likely stem from reduced import costs.

Composition of GDP by demand



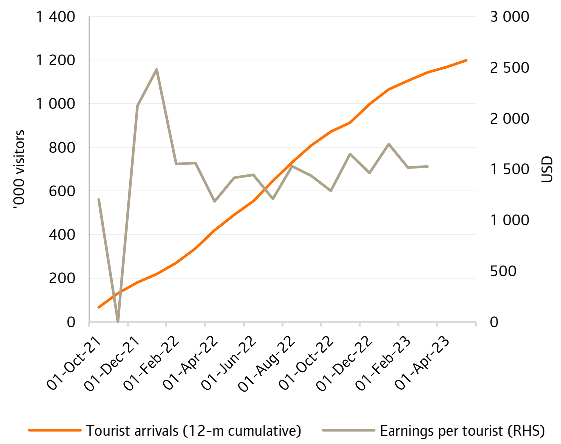
Source: Statistics Mauritius; Standard Bank Research

Contribution to GDP by sector

% of GDP	2014	2017	2020	2022
Agriculture	3.2	3.0	3.1	3.4
Sugarcane	0.8	0.5	0.3	0.3
Manufacturing	13.5	11.8	10.8	12.1
Food excl. Sugar	4.7	4.1	4.3	4.9
Textiles	4.1	3.5	2.4	2.7
Construction	4.2	3.9	3.8	4.5
Wholesale & retail trade	10.4	10.4	10.9	10.0
Transportation and storage	5.4	5.7	4.9	4.4
Accommodation and food service	5.5	6.3	2.6	5.6
ICT	3.7	3.6	4.5	3.9
Financial and insurance	10.7	10.7	12.4	11.9
Real estate activities	5.3	5.1	5.7	4.8
Professional activities	4.1	4.5	4.9	4.9
Public administration	5.4	5.4	6.4	5.9
Education	4.2	4.2	4.6	4.0

Source: Statistics Mauritius

Tourism trends



Source: ank of Mauritius; Standard Bank Research

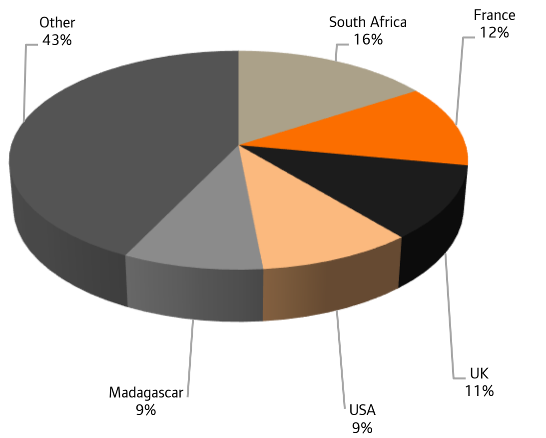
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	6.73	6.49	3.92	2.02	3.61	3.65	4.06	4.51	3.70	3.68	4.01	4.37	1.94	1.89	3.57	5.43
CPI (% y/y) pe	9.15	6.89	5.41	4.72	5.09	5.92	5.74	5.57	5.00	4.53	4.01	3.78	4.06	4.04	4.08	4.13
BOM policy rate (%) pa	4.50	4.50	4.50	4.50	4.25	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.00	2.00
3-m rate (%) pe	4.55	4.50	4.50	4.50	4.25	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.00	2.00
6-m rate (%) pe	4.60	4.60	4.60	4.60	4.35	3.35	3.10	2.85	2.60	2.60	2.60	2.60	2.60	2.60	2.10	2.10
USD/MUR pe	45.83	45.33	45.24	45.12	44.20	43.54	43.43	43.29	42.23	41.47	41.35	41.19	41.23	41.25	41.26	41.26

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

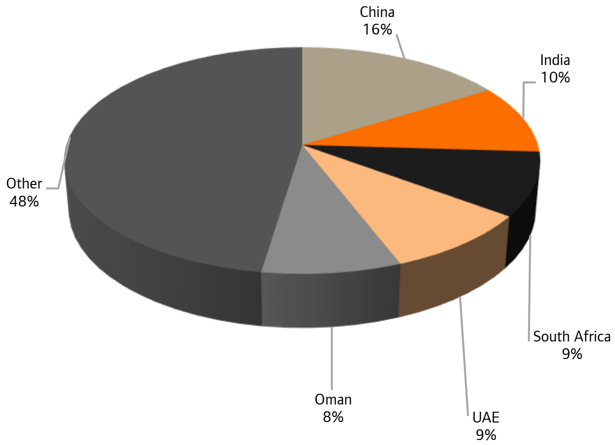
Notes: pa - period average; pe - period end

Share in Mauritius's exports (%)



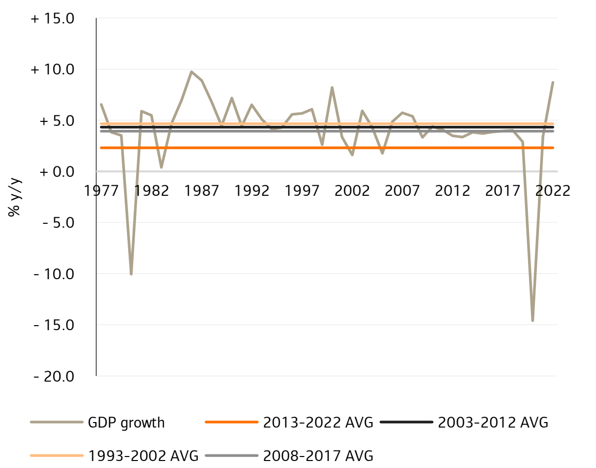
Source: ITC

Share in Mauritius's imports (%)



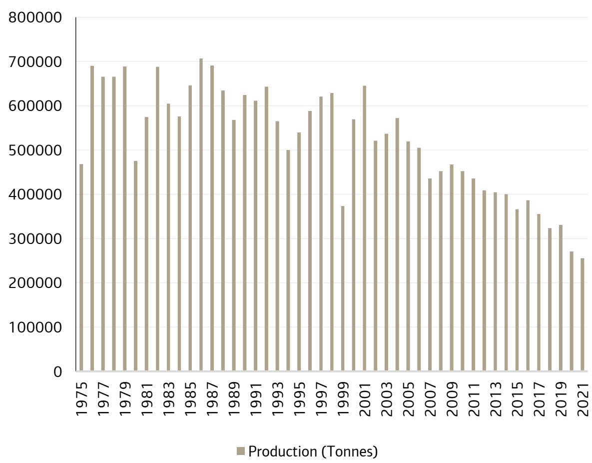
Source: ITC

Long-term GDP performance



Source: World Bank; Statistics Mauritius

Sugar production



Source: statistics Mauritius

Balance of payments: net service exports staging a brisk recovery

The BOP has traditionally been in surplus due to a business-friendly environment attracting foreign direct investment, political stability, and tax incentives. We expect significant further FDI as well as a recovery in the services sector, which implies a shrinking C/A gap.

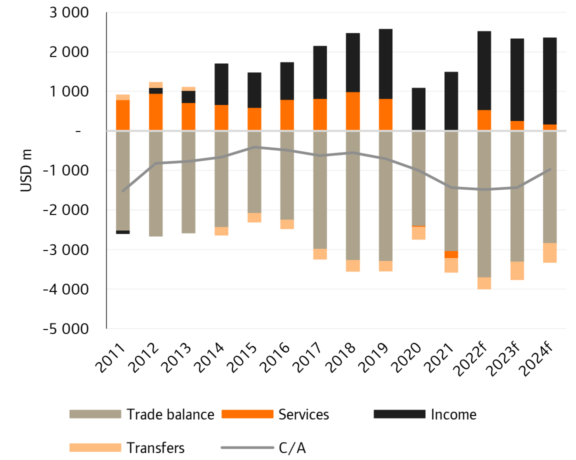
The C/A deficit may therefore decline to 10.6% of GDP this year, then normalise during 2024. Given that the goods trade balance is increasing, a narrower C/A would be supported by the services account, though neither goods nor services exports may offer much support until next year.

For now, however, FX reserves have been dwindling inferring a large C/A deficit and lethargic financial flows. FX reserves decreased to USD6.35bn in May (9.8-m of imports, as calculated by BOM), from USD7.79bn in Dec 22, doing little to support the C/A deficit.

The tourism sector contributes significantly to FX liquidity. With tourists largely from Europe, slowing growth in Europe often bodes ill for the services account. Indeed, as of 2022, tourist arrivals had only reached 72% of pre-pandemic levels. hus, net service exports should improve in the next 2-y. Visitor arrivals already increased by a cummuative144% y/y in the 12-m to May this year. Pricing power in this sector seems robust, as total earnings continue to climb, up by a cumulative 237% y/y.

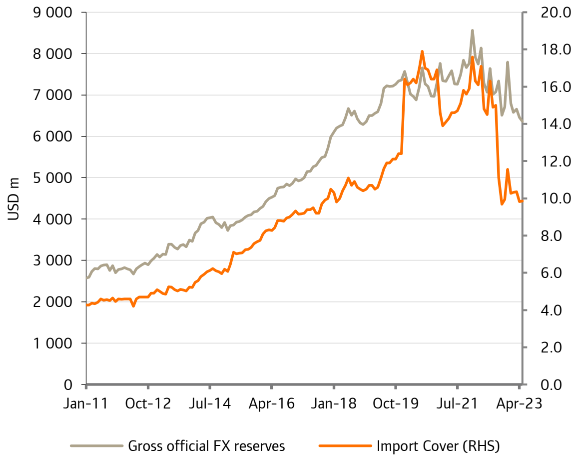
However, import demand may slow this year due to lower commodity prices, particularly oil. However, the pace may be moderated by the expansion of the road network and the Metro Express project. Still, any increase in domestic demand should bump up import demand. Also, policymakers may well stimulate domestic demand, particularly investment spending in a pre-election year, which too would increase import demand.

Current account developments



Source: Bank of Mauritius; Standard Bank Research

FX reserves



Source: Bank of Mauritius

FX outlook: appreciation bias

Although the BOM may still occasionally intervene (intervention has decreased to USD50m since Jan, compared to USD489m in Jan last year), the USD/MUR will now mostly depend on the trajectory in the EUR/USD. Due to liquidity and intervention, the correlation sometimes shrinks. Notably, the currency distribution of trade flow was diverted partly to Africa and Asia during the Covid-19 pandemic and the war in Ukraine and the country experienced adverse FX shortages.

Both trade-weighted indices which the BOM calculates have depreciated further. The trade-weighted indices the BOM calculated as of Mar were both 2.7% higher than in Jan. Considering that 6-m to 2-y from now, EUR/USD is most likely to trade at 1.15-1.30, USD/MUR will likely trade at 41.11-45.06.

USD/MUR: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: unchanged

Further hikes may be spurred by needing to close the negative interest rate differentials with the USD because the policy rate has already returned to pre-pandemic levels and inflation is expected at 5-6% in the short-term. However, at the most recent meeting, the MPC maintained rates. Given that policy rate hikes have increased the costs of debt service for the household and business sectors, the MPC may be factoring in the potential impact on financial stability.

However, the balance of the risks points to hikes in the near term.

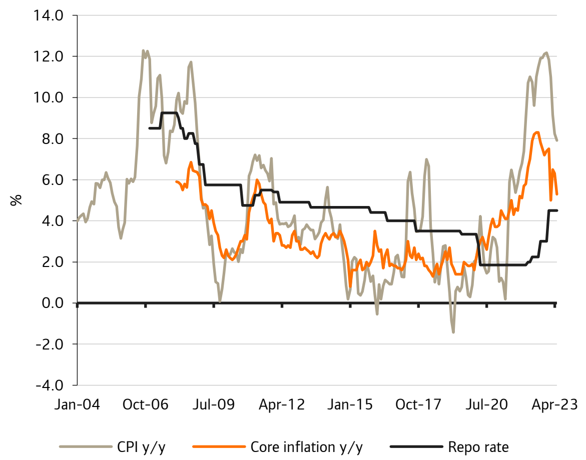
The MPC noted inflationary pressures as having begun to ease due to the interaction between falling global commodity prices and policy rate hikes. Core inflation also implies that inflationary pressures will likely ease further. The BOM expects headline inflation at 6.8% y/y in 2023, then reach the targeted range of 2%-5% during 2024.

Core inflation (which excludes food, beverages, tobacco, mortgage interest, energy, and administered prices) from the headline CPI, was 5.3% y/y in May, down from 6.3% y/y in Apr and 7.5% y/y in Jan. Headline inflation has slowed, matching y/y inflation. In May, y/y inflation fell to 7.9% y/y, from 8.2% y/y in Apr and 11.8% y/y in Jan. We forecast y/y inflation at 4.7% y/y by Dec, and average 7.2% y/y this year.

Against the backdrop of likely robust economic growth, and slowing inflation, we expect monetary policy to remain unchanged in the next 6-m. The risk of imported inflation pressures seems low as global food price pressures are diminishing, per the steady decline of the FAO Food Price Index.

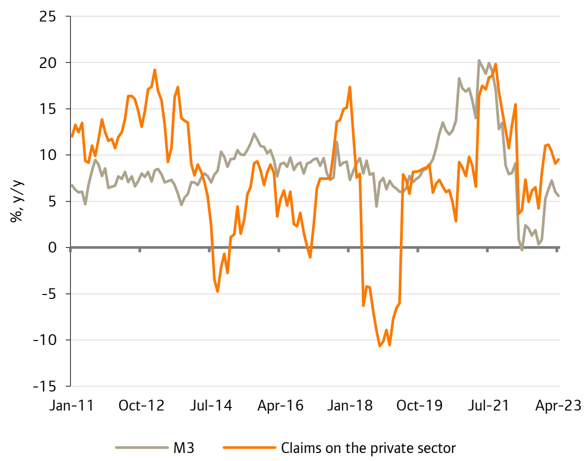
While oil prices have been volatile, we doubt that they will rise enough to bump up inflation. In addition, the fiscal decision to eliminate VAT on 15 key items should also ease inflationary pressures.

Inflation and interest rates



Source: Bank of Mauritius; Statistics Mauritius

Money supply



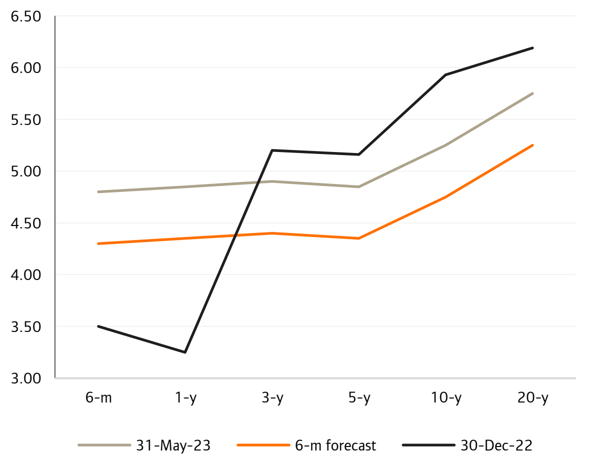
Source: Bank of Mauritius

Yield curve outlook: curve-flattening

Yields are expected to fall in the next 4-6-m. Bond yields will likely fall faster than T-bill yields, flattening the curve. However, given an unchanged monetary stance and the drawdown of excess liquidity from the money market, small fluctuations in rates are to be expected. Also, demand for paper is expected to remain strong, while issuances are expected to fall by 9.2% y/y and redemptions by 7.3% y/y, based on the planned budget.

Inflation moderating implies average short-term interest rates as likely to decline over the life of long-term bonds. This also implies that yields on long-term bonds will decline in the medium term.

Change in yield curve



Source: Bank of Mauritius; Standard Bank Research

Fiscal policy: 50/50 between external and domestic funding

Government estimates published at the time of the FY2023/24 budget showed a targeted budget deficit of 2.9% of GDP, less than the 3.9% of GDP anticipated for FY2022/23. Needing to keep the fiscus under control reflects concerns about increasing debt. Already, the country's credit rating has been downgraded to Baa3.

While the government indicated a 16.9% y/y increase in revenue, expenditure restraint, relative to revenue, should constrain spending growth to 12.8% y/y. And, expected revenue growth exceeds historical y/y growth. However, this is understandable given the much stronger growth forecast and because GDP growth drivers usually boost employment and boost personal income tax.

The government plans to finance the deficit more or less equally from external and local sources.

We doubt that the government will struggle to source funds from domestic and external markets.

For now, there is still sufficient liquidity in the domestic money market.

Given that multilateral institutions cover a substantial percentage of Mauritius's debt, and at reasonable rates (compared to other African economies that face high borrowing costs from the international capital market), Mauritius should have little trouble in obtaining external financing. External debt as a percentage of GDP more than doubled, to 25.1% in FY2021, from 10.8% in FY2019, then declined again to 18.7% in FY2023.

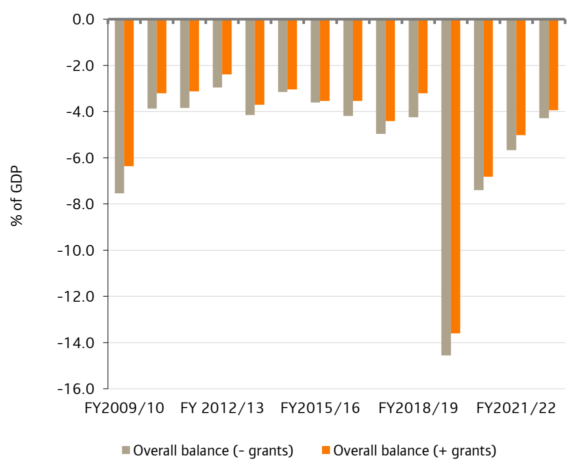
Public sector debt should reach 79% by Jun 23 and 71.5% by end Jun 24, from 86.1% in Jun 22; the medium-term target matches pre-pandemic levels of 60%.

Central government budget

% of GDP	FY2022/23f	FY2023/24f
Total revenue	24.9	24.8
Total expenditure	28.9	27.7
- Interest	2.4	2.5
- Wages	6.0	5.4
- Capital expenditure	3.3	3.0
Net lending	3.9	3.4
Overall balance (- grants)	-4.3	-3.2
Overall balance (+ grants)	-3.9	-2.9
Net lending to parastatals	0.1	0.1
Net external borrowing	1.4	1.7
Net domestic borrowing	2.6	1.7
Donor support (grants)	0.3	0.3

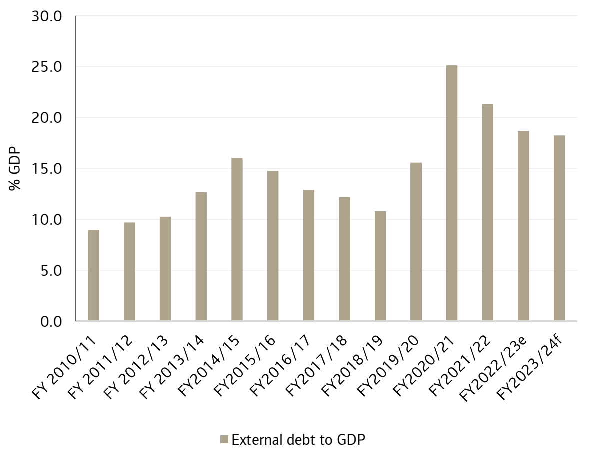
Source: Ministry of Finance and Economic Development

Fiscal deficit



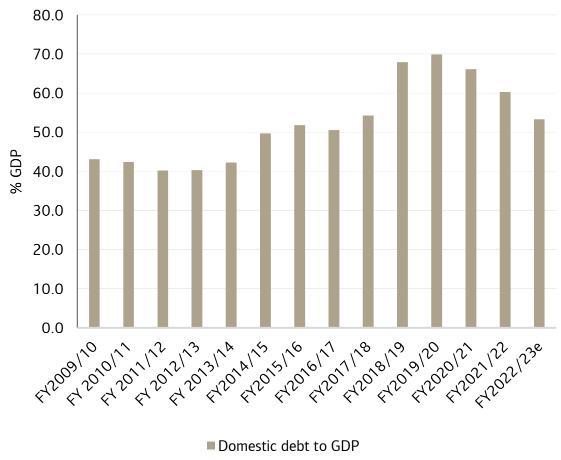
Source: Ministry of finance and Economic Development

External debt



Source: Ministry of finance and Economic Development

Domestic debt



Source: Ministry of finance and Economic Development

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	1.266	1.265	1.266	1.272	1.280	1.3	1.3
Nominal GDP (MUR bn)	481.3	498.3	429.7	465.1	547.6	615	675
Nominal GDP (USD bn)	14.1	14.0	10.8	10.3	12.1	13.6	15.5
GDP / capita (USD)	11174.6	11030.9	8542.5	8108.5	9484.3	10585.9	12035.0
Real GDP growth (%)	3.8	3.0	-14.6	4.0	8.7	4.8	4.0
Sugar production ('000 Tonnes)	323.4	331.1	322.0	331.1	340.2	349.3	358.4
Tourism arrivals ('000)	1399.3	1541.5	309.0	195.7	690.0	1580.0	1681.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.0	-4.2	-14.6	-7.4	-5.7	-4.3	-3.2
Budget balance (incl. Grants) / GDP (%)	-4.4	-3.2	-13.6	-6.8	-5.0	-3.9	-2.9
Domestic debt/GDP (%)	50.6	54.2	67.9	69.9	66.1	60.3	53.3
External debt/GDP (%)	12.2	10.8	15.6	25.1	21.3	18.7	18.2
Balance of Payments							
Exports of goods and services (USD bn)	2.3	2.2	1.8	1.9	2.3	2.7	3.0
Imports of goods and services (USD bn)	5.6	5.5	4.2	4.9	6.6	6.1	5.5
Trade balance (USD bn)	-3.3	-3.3	-2.4	-3.0	-4.3	-3.4	-2.4
Current account (USD bn)	-0.55	-0.71	-1.00	-1.43	-1.48	-1.44	-0.97
- % of GDP	-3.9	-5.1	-9.2	-13.9	-12.2	-10.6	-6.3
Capital & Financial account (USD bn)	2.46	-1.98	1.48	3.64	-0.44	1.65	2.10
- FDI (USD bn)	7.26	3.27	2.81	3.42	1.37	2.99	3.85
Basic balance / GDP (%)	13.46	-19.22	4.42	21.37	-15.78	1.58	7.26
FX reserves (USD bn) pe	6.4	7.4	7.3	8.6	6.9	7.08	8.20
- Import cover (months) pe	10.5	12.4	16.9	17.6	13.3	13.8	18.0
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa1	Baa1	Baa1	Baa2	Baa3	Baa3	Baa3
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.2	0.5	2.5	4.3	10.8	7.2	5.6
Consumer inflation (%) pe	1.8	0.9	2.7	6.7	12.2	4.7	5.6
M2 money supply (% y/y) pa	7.7	7.1	13.2	16.4	3.3	5.0	2.0
M2 money supply (% y/y) pe	6.3	8.5	16.8	8.8	5.3	2.3	2.3
BOM Policy rate (%) pa	3.5	3.4	1.9	1.85	2.94	4.5	3.3
BOM Policy rate (%) pe	3.50	3.35	1.85	4.50	4.50	4.50	2.75
3-m rate (%) pe	3.4	2.2	0.2	0.6	1.0	4.5	2.8
5-y rate (%) pe	5.2	5.2	1.2	3.5	4.4	5.4	6.4
USD/MUR pa	34.03	35.69	39.73	45.11	45.11	45.38	43.62
USD/MUR pe	34.30	36.35	43.39	44.31	44.31	45.12	43.29

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

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

Mozambique: LNG to support growth

Medium-term outlook: hefty LNG investments

It may be 4-5y before liquified natural gas (LNG) investments can make a meaningful contribution to Mozambique's fiscus, depending on the quantum of LNG output and income. Still, as investments increase, GDP growth too should speed up.

Planned investment for the next 3 LNG projects (the resumption of TotalEnergies LNG in H2:23, final investment decisions for ExxonMobil and ENI's 2nd FLNG projects in 2024), estimated at USD55bn, or nearly 3x 2022 GDP (USD19.2bn), spell an LNG boom as of 2027, foretelling fiscal support.

Mozambique still faces subdued GDP growth (besides the resources sector), and lower fiscal revenue, which has aggravated fiscal risks and pressures – exacerbated by the high wage bill and therefore sharply higher domestic debt.

The external position too is fragile due to large current account deficits (besides large projects), cyclical climate shocks, and frequent terms-of-trade shocks.

All this has seen the Banco de Moçambique further tightening monetary policy in H1:23 by transferring from commercial banks over 12% of GDP in cash required reserves – to address increased risks, while helping to lower inflation (which slid to 8.2% y/y in May after dwelling in double digits for most of the past 12-m).

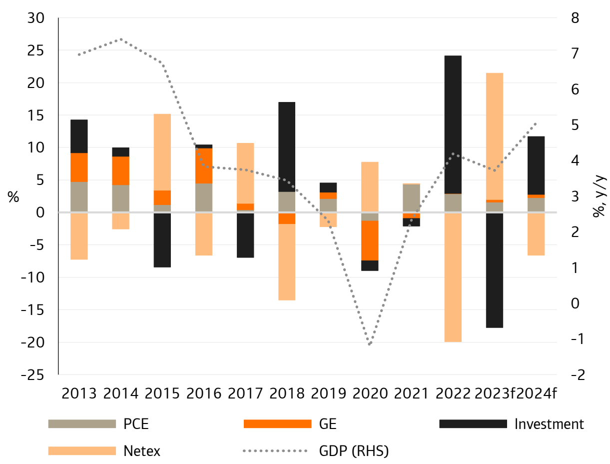
Tighter financing and liquidity conditions will likely subdue personal consumption expenditure (PCE) and government expenditure (GE), even with municipal elections due next Oct.

Our GDP growth forecasts for 2023 now slightly undershoot those we had in the Jan AMR edition. We now see growth decelerating to 3.7% y/y this year, from 4.2% y/y before, due to tighter financing conditions usually subduing growth (besides the extractive sector).

Investment, mostly LNG-related, alongside potential monetary policy easing next year as inflation declines further, and the likely rise in fiscal expenditure ahead of the Oct 24 general elections, may see growth at 5.1% y/y in 2024.

Per Instituto Nacional de Estatística (INE) data, GDP grew 4.2% y/y in Q1:23, matching that of Q4:22 as well as all of 2022. Q1:23 growth underpins a 32.6% y/y rise in extractive sector output, an acceleration from 13.2% y/y in Q4:22, due to the production ramp-up at ENI's Coral South FLNG plant, with 3.4 mtpa nominal capacity; exports began in Nov 22. Besides extractives, growth decelerated to 2.7% y/y in Q1:23, from 3.5% y/y in Q4:22, due to manufacturing and construction remaining in recession and adverse weather impelling softer growth in agriculture, of 3.8% y/y, down from 6.2% y/y.

Composition of GDP by demand



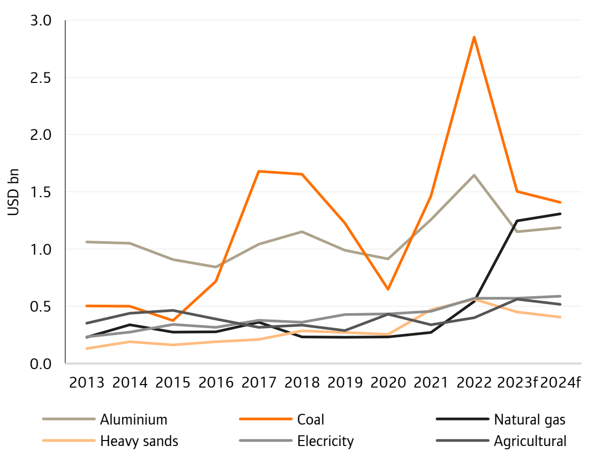
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution of GDP by sector (% of total)

	2013	2020	2021	2022
Agriculture & forestry	23.3	22.6	22.9	23.2
Fishing	1.5	1.5	1.5	1.5
Extractive	3.9	6.0	6.0	6.3
Manufacturing	8.2	7.8	7.7	7.4
Electricity and gas	3.0	2.5	2.4	2.4
Water supply	0.2	0.2	0.3	0.3
Construction	1.8	1.7	1.7	1.6
Trade	10.5	9.3	9.3	9.2
Transport and storage	6.8	6.9	6.8	7.4
Accommodation & food	2.1	1.4	1.3	1.4
Information & comm.	3.4	3.6	3.5	3.4
Financial	4.3	5.3	5.3	5.3
Real estate	5.6	5.1	5.0	4.8
Public administration	5.4	5.9	5.9	5.8
Education	6.4	5.9	5.9	5.8
Health	1.5	1.6	1.7	1.7
Other	0.8	0.8	0.8	0.8
Taxation minis subs	11.3	11.8	11.9	11.8
GDP	100.0	100.0	100.0	100.0

Source: Instituto Nacional de Estatística; Standard Bank Research

Principal exports



Source: Banco de Moçambique; Standard Bank Research

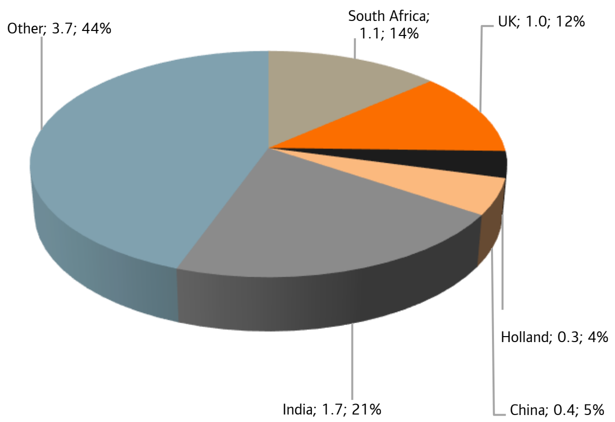
Medium-term economic growth forecasts

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	4.2	3.6	3.4	3.7	4.6	5.2	5.3	5.1	4.3	4.1	4.4	4.3	7.1	7.5	7.7	7.4
CPI (% y/y) pe	10.8	7.1	6.8	8.6	6.7	6.7	6.7	6.8	7.7	8.1	7.4	6.4	7.1	6.4	6.2	6.5
Policy rate (%) pe	17.25	17.25	17.25	17.25	17.25	15.25	15.25	15.25	15.25	14.25	14.25	14.25	14.25	14.25	13.25	13.25
3-m rate (%) pe	17.7	17.8	17.8	17.9	17.9	15.0	15.0	14.9	14.9	14.1	14.2	14.2	14.2	14.1	13.1	13.1
6-m rate (%) pe	17.8	17.8	17.8	17.9	17.9	15.1	15.1	15.0	15.0	14.2	14.3	14.3	14.2	14.1	13.2	13.2
USD/MZN pe	63.9	63.9	63.9	63.9	64.2	64.1	64.4	65.2	65.6	65.6	65.8	66.4	66.9	66.8	66.3	65.7

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

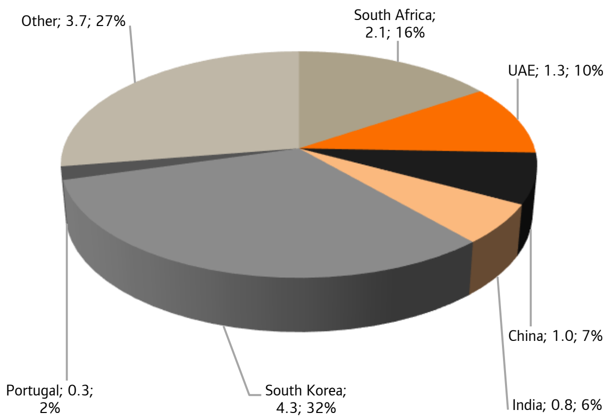
Notes: pa - period average; pe - period end

Exports destination



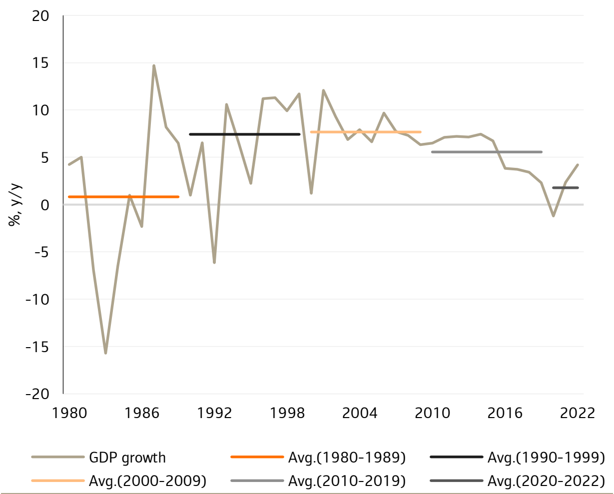
Source: Banco de Moçambique; Standard Bank Research

Imports origin



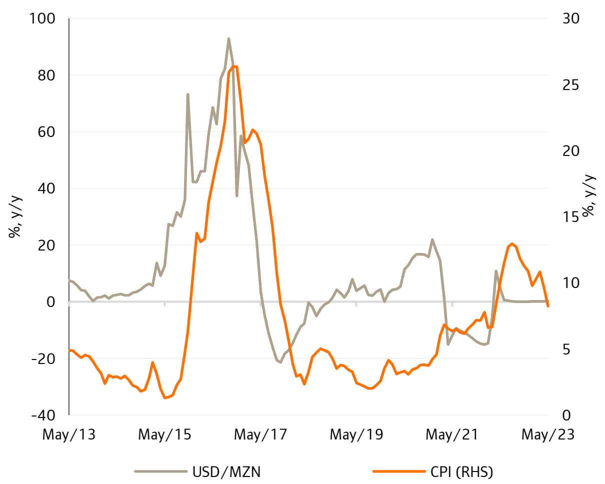
Source: Banco de Moçambique; Standard Bank Research

Long-term GDP performance



Source: Instituto Nacional de Estatística; Standard Bank Research

Annualised FX rate change versus inflation



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

Balance of payments: softer exports and imports

We see this year's ramp-up of LNG exports, to over USD800m from Coral South FLNG, moderating the 16.3% y/y expected decline in overall goods and services exports, to USD7.9bn.

In 2022, goods and services exports rose by 47% y/y, to an all-time high of USD9.4bn when coal prices were at their recent highs. This year's declining exports reflects a slump in coal and aluminium prices and softer demand for those commodities.

Last year, coal output rose by 33.6% y/y, to 14.8 mtpa, supported by a production ramp-up at Vulcan as well as buoyant prices. This saw coal exports up by 94.6% y/y, to USD2.9bn, accounting for 34% of goods exports. Aluminium exports too benefited from stronger prices, up 30.7% y/y, to USD1.6bn.

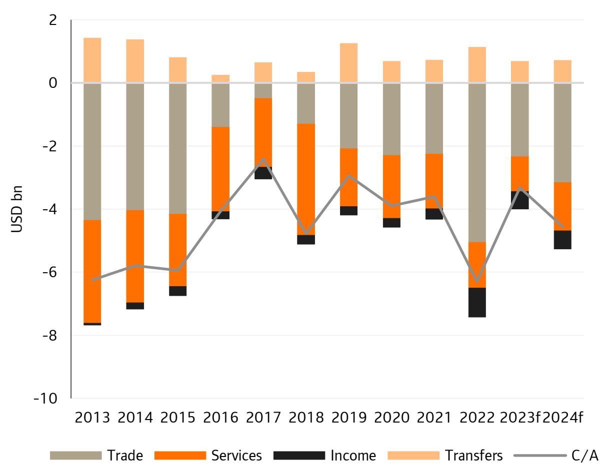
Despite declining exports, the current account (C/A) deficit this year should ease to USD3.3bn, or 15.4% of GDP, due to softer imports, then widen further again next year to USD4.6bn, or 19% of GDP, as investments in LNG projects, requiring large imports during construction, gain momentum.

In 2022, the C/A had recorded one of the largest deficits in history, of USD6.3bn, or 32.9% of GDP, reflecting imports related to the completion of the offshore Coral South Floating LNG 3.4 mtpa project (led by ENI) as well as the impact of Russia's Ukraine invasion, which swelled the fuel import bill.

Despite TotalEnergies likely resuming onsite construction during H2:23, any meaningful impact on imports is only likely next year. Imports, excluding the large projects, too will likely ease this year due to tight monetary policy.

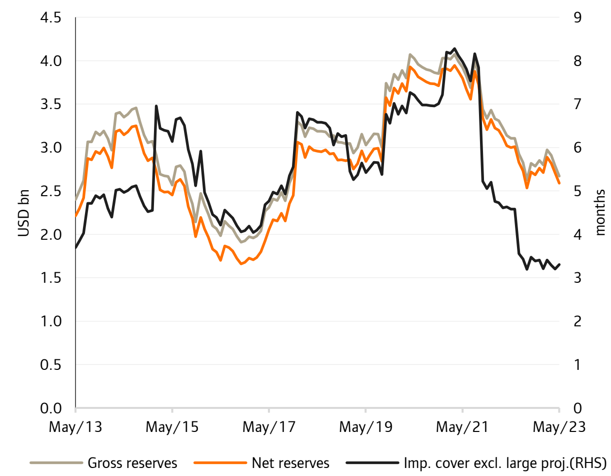
Reduced imports, planned disbursements under the IMF programme, and reduced FX sales from Banco de Moçambique for fuel imports should help stabilize FX reserves this year at just over USD3bn, or 3.3-m of import cover (4.6-m excluding the large projects imports).

Current account developments



Source: Banco de Moçambique; Standard Bank Research

FX reserves versus import cover



Source: Banco de Moçambique; Standard Bank Research

FX outlook: USD/MZN steady

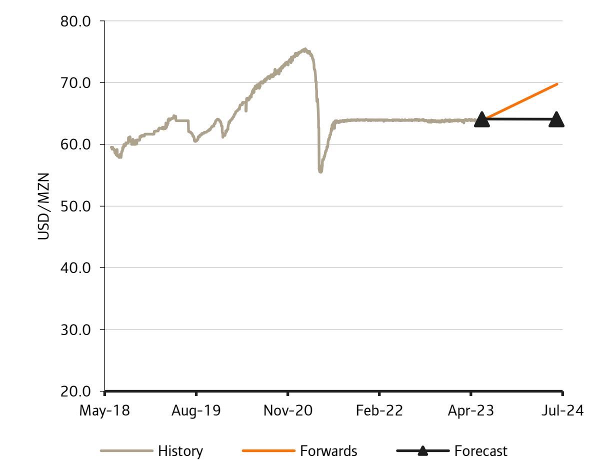
The USD/MZN pair was stable for the past 24-m and is seen as still steady into year-end. As the IMF programme advances, reform progress towards a more flexible metical is expected.

Last year's USD2bn fuel imports benefited from Banco de Moçambique (BOM) FX sales for 100% of the fuel bill or USD2bn. This saw FX reserves down by USD580m in 2022 but it still supported the market in FX liquidity supply.

From early Jun, and to help protect FX reserves, the BOM stopped FX sales for fuel imports, after having reduced it to 60% of the fuel import bill in Apr.

This, combined with the rise in foreign currency required reserves, has seen the market experiencing FX liquidity pressures; however, we still see the USD/MZN pair as stable.

USD/MWK: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: end of rate hike cycle

We now lower our year-end inflation forecast to 8.6% y/y for 2023, from 9.9% y/y in the Jan edition of the AMR, with year-end inflation for 2024 forecast at 6.8% y/y.

This reflects both monetary policy tightening and the resumption of seasonal disinflation in May (-0.4% m/m), which has seen headline inflation down to 8.2% y/y in May, from 9.6% y/y in Apr, unlocking favourable base effects (which are likely to persist).

The BOM has tightened monetary policy to ensure inflation remains in single digits and to deal with the risks from fiscal as well as balance-of-payment pressures.

Fiscal expenditure overrunning, mainly due to the sharply higher wage bill and softer revenue, saw government's domestic debt up by 23.8% y/y in 2022, to MZN281.5bn, or 23% of GDP.

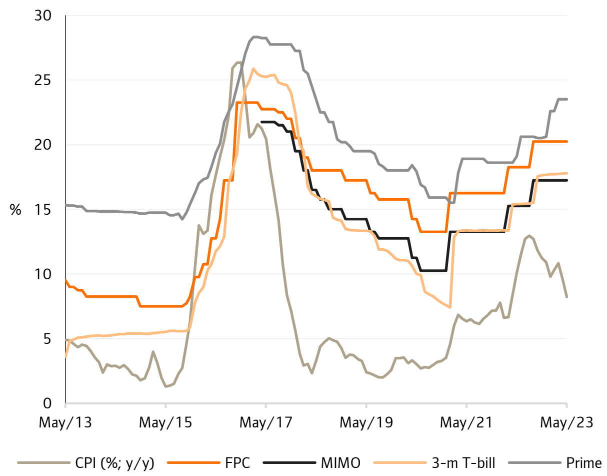
Higher government wages saw personal loans growing fast, at 36.1% y/y in Apr (12-m rolling average 24.6% y/y), despite the prime lending rate up by 800 bps since Jan 21, to 23.5%.

Despite the MIMO policy rate being kept on hold at 17.25% after a 700 bps rise between Jan 21 and Sep 22, this year's monetary policy tightening came by way of an unprecedented rise in cash required reserves (CRR).

The CRR was raised twice in H1:22, to 39% for local currency (LCY) deposits and 39.5% for foreign currency (FCY) deposits, after having been kept stable at 10.5% (LCY) and 11.5% (FCY) since Sep 21. This should subdue private sector credit growth, which accelerated to 6.7% y/y in LCY and 14.8% y/y in FCY in Apr, after closing 2022 at respectively 2.8% y/y and 10.4% y/y.

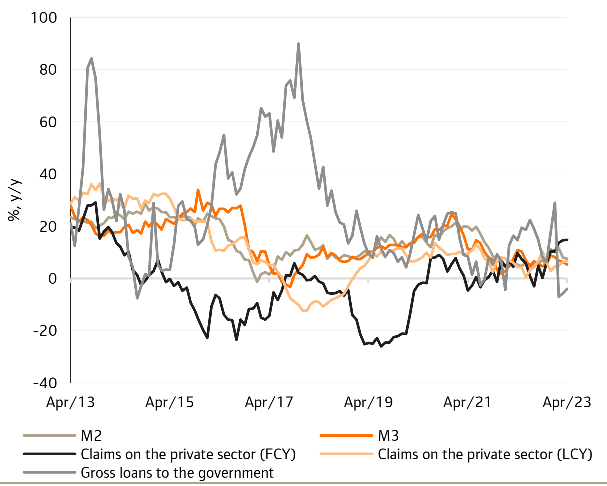
As inflation moderates further, the BOM will likely start easing monetary policy next year. Indeed, we see the MIMO policy rate being cut by 200 bps in Q2:24, to 15.25%.

Inflation and interest rates



Source: Banco de Moçambique; Standard Bank Research

Monetary statistics



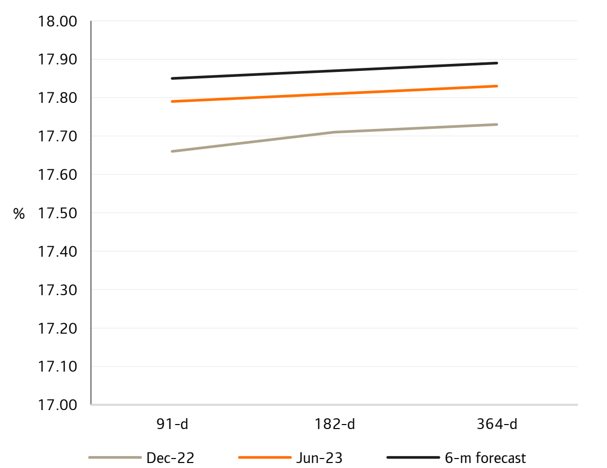
Source: Banco de Moçambique; Standard Bank Research

Yield curve outlook: up at the long end

Yields will likely display a minor upward pressure at the short end of the curve and start declining as the BOM cuts policy rates. The cumulative 700 bps rise in the MIMO policy rate since Jan 21 has seen T-bill yields and government bonds rising by a similar magnitude. Yields on the latest issuances for T-bills ranged at 17.81% for 91-d to 17.82% for the 364-d tenor.

However, fiscal pressures and tight liquidity conditions may impel upward pressure at the long end of the curve. Policymakers are planning reforms to help develop the local debt market. Most likely, this will see government bonds being issued at fixed coupon, as opposed to the current complex hybrid structures of fixed rate for the first few coupons, then floating. This could help develop a proper local currency yield curve. The latest 5-y issuance attracts a fixed coupon of 19% for the first 2-y, then becomes a floating coupon (T-bill + 0.75%).

Yield curve changes



Source: Banco de Moçambique; Standard Bank Research

Fiscal policy: persistent pressures

This economy faces fiscal pressures from last year's 39.7% y/y rise in the wage bill, to MZN194.4bn, or 15.9% of GDP (nominal GDP of MZN1,223.2bn, or USD19.2bn for 2022), which sharply exacerbated domestic debt pressures.

And, there was softer nominal growth in revenue of 7.4% y/y in 2022, to MZN285.7bn, or 23.4% of GDP, due to income tax falling by 14.1% y/y, to MZN85.9bn; this was however compensated by a 42.9% y/y rise in VAT revenue, to MZN146.6bn.

We see this year's 25% y/y targeted nominal growth in revenue to MZN357.1bn, or 26% of GDP, as ambitious, considering lower commodity prices and possibly softer GDP growth.

Thus, easing fiscal pressures will require further cuts in expenditure. Wage bill reform, which began with the implementation of a unified salary table (TSU) for public servants in Jun 22, had implementation errors. To bring the wage bill on to a more sustainable path, the government has cut salaries twice this year: early in Jan for most of public servants, and in Jun for senior government officials and members of parliament.

These corrections are seen as critical in supporting fiscal performance and the completion of the second review under the IMF 3-y USD456m ECF (which should see another disbursement of USD61m bringing total disbursements to USD213m).

Overall public debt plummeted to USD15.1bn, or 79.1% of GDP in 2022, from a peak of 113.8% of GDP in 2020, reflecting an exposure of near USD3bn from Empresa Nacional de Hidrocarbonetos (ENH), related to LNG investment, now placed into an SPV (with no recourse for the government).

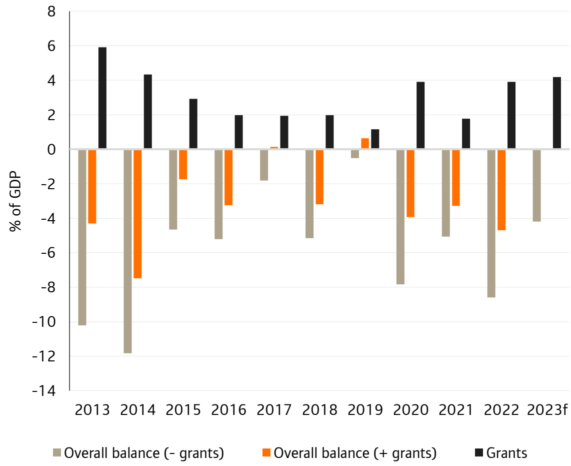
Considering the large domestic bond repayments scheduled for 2025 and 2026, which will pressurize debt service, the Treasury is therefore expected to engage in active debt management for effective liability management.

Central government finances

% of GDP	2020	2021	2022	2023
Total revenue	23.9	25.3	23.4	26.0
Total expenditure	31.8	30.3	32.0	30.2
- Recurrent	23.1	23.5	25.8	23.1
- Domestic interest	1.7	1.7	2.0	2.2
- External interest	1.1	0.9	0.9	0.8
- Wages	12.7	13.2	15.9	13.5
- Development	8.0	6.5	5.9	6.8
- Net lending to SOEs	0.7	0.3	0.2	0.3
Overall balance (-grants)	-7.8	-5.1	-8.6	-4.2
Overall balance (+grants)	-3.9	-3.3	-4.7	0.0
Grants	3.9	1.8	3.9	4.2
Net domestic borrowing (-saving)	3.6	2.4	4.1	0.9
Net external borrowing (-saving)	2.2	0.6	0.8	-0.9
Previous years revenue allocation	1.8	1.5	1.1	0.0
Changes in balances	-3.6	-1.2	-1.4	0.0

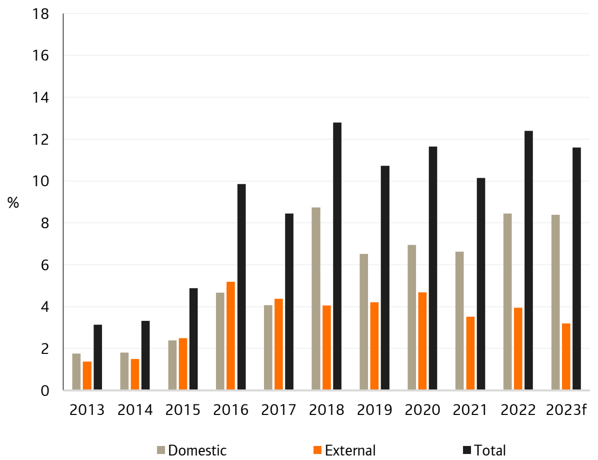
Source: Ministério da Economia e Finanças; Standard Bank Research

Fiscal deficits and grants



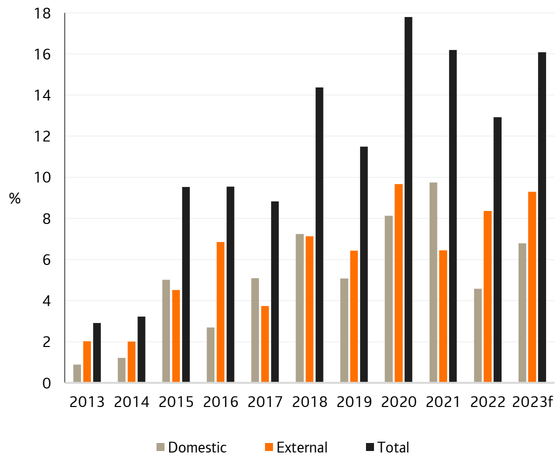
Source: Ministério da Economia e Finanças; Standard Bank Research

Interest to revenue



Source: Ministério da Economia e Finanças

Principal repayment to revenue



Source: Ministério da Economia e Finanças; Standard Bank Research

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	28.6	29.3	30.1	30.8	31.6	32.4	33.2
Nominal GDP (MZN bn)	895.6	962.6	983.4	1,053.1	1,223.2	1,374.3	1,542.8
Nominal GDP (USD bn)	14.9	15.4	14.2	16.2	19.2	21.5	24.0
GDP / capita (USD)	519.6	524.9	470.8	523.9	605.9	663.6	721.5
Real GDP growth (%)	3.4	2.3	-1.2	2.4	4.2	3.7	5.1
Coal output ('000 000 tonnes)	15.2	10.3	8.0	11.1	14.8	15.6	16.8
LNG output ('000 BOE/d)					1.2	66.2	73.9
Central Government Operations							
Budget balance (- grants)/ GDP (%)	-5.2	-0.5	-7.8	-5.1	-8.6	-4.2	-2.6
Budget balance (+ grants)/ GDP (%)	-3.2	0.6	-3.9	-3.3	-4.7	0.0	-0.3
Domestic debt / GDP (%)	21.0	21.1	23.0	24.2	25.2	26.7	27.1
External debt / GDP (%)	83.6	84.8	90.9	84.0	53.9	50.4	48.6
Balance of Payments							
Exports (USD bn)	5.8	5.6	4.4	6.4	9.4	7.9	8.1
Imports (USD bn)	-10.6	-9.5	-8.7	-10.4	-15.9	-11.3	-12.8
Trade balance (USD bn)	-4.8	-3.9	-4.3	-4.0	-6.5	-3.4	-4.7
Current account (USD bn)	-4.8	-2.9	-3.9	-3.6	-6.3	-3.3	-4.6
- % of GDP	-32.2	-19.1	-27.6	-22.3	-32.9	-15.4	-19.0
Capital and financial account (USD bn)	4.8	2.9	3.9	3.6	6.3	3.3	4.6
- FDI (USD bn)	1.7	3.4	3.0	5.1	2.0	2.6	4.2
Basic balance / GDP (%)	-20.7	3.0	-6.1	9.3	-22.6	-3.2	-1.6
FX reserves (USD bn) pe	3.0	3.8	4.0	3.4	2.9	3.2	3.3
- Import cov. excl. large proj. (months) pe	6.3	6.9	7.2	5.0	3.7	4.6	4.5
Sovereign Credit Rating							
S&P	SD	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Moody's	Caa3	Caa2	Caa2	Caa2	Caa2	Caa2	Caa2
Fitch	RD	CCC	CCC	CCC	CCC+	CCC+	CCC+
Monetary & Financial Indicators							
Headline inflation (%) pa	3.9	2.8	3.1	5.7	10.3	8.3	6.9
Headline inflation (%) pe	3.5	3.5	3.5	6.7	10.9	8.6	6.8
M2 money supply (% y/y) pa	10.3	12.4	15.6	15.2	6.0	7.0	7.2
M2 money supply (% y/y) pe	7.9	14.3	19.9	5.6	11.2	4.8	6.7
Policy interest rate (%) pa	16.19	13.46	11.04	13.25	15.58	17.25	15.92
Policy interest rate (%) pe	14.25	12.75	10.25	13.25	17.25	17.25	15.25
3-m rate (%) pe	13.5	11.2	7.6	13.4	17.7	17.9	14.9
1-y rate (%) pe	13.2	11.6	7.3	13.4	17.7	17.9	15.0
USD/MZN pa	60.3	62.6	69.5	65.2	63.9	63.9	64.3
USD/MZN pe	61.5	61.5	74.9	63.8	63.9	63.9	65.2

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

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

Namibia: buoyed by mining and green hydrogen prospects

Medium-term outlook: mining sector upside

We retain our 2023 GDP growth forecast at 2.8% y/y. In 2022, growth was a robust 4.6% y/y. However, we now trim our 2024 growth forecast to 3.2% y/y, from 3.5% y/y. As of 2025-2026, we would foresee average growth of 3.4%.

We had forecast Q1:23 at 2.6% y/y – but growth expanded by 5.0% y/y, from 2.1% y/y in Q4:22. This however still undershot 7.3% y/growth for Q1:22. Slower growth in Q1:23 was mainly due to declines in the financial services and manufacturing sectors, respectively contracting by 4.9% y/y and 2.7% y/y.

Mining and quarrying however posted a stellar performance of 34.3% y/y and 18% q/q respectively, contributing 3.7 percentage points to GDP growth. There was further mineral exploration activity as well as investment in mining. Indeed, this sector should underpin growth in 2023; it had posted growth of 21.6% y/y in 2022. Besides exploration activities, the uranium and diamond sub-sectors too have been growing meaningfully. For the first 4-m of this year, uranium production was up 27.3% y/y over the 4.1% y/y contraction over the same period last year. With the global policy shift to support nuclear power as a cleaner and more sustainable energy source, we are optimistic about uranium demand and production. Diamond production too was higher during Jan-Apr, at 805.9k carats, from 624.k carats over the same period in 2022. With the global outlook for 2023 revised lower by the IMF, demand could falter.

With the government now having signed a partnership agreement with the developer for the next phase of the USD10bn green hydrogen project, this too should support growth. Namibia intends to ship its first green hydrogen exports by 2026 (a 125,000 tonne first phase).

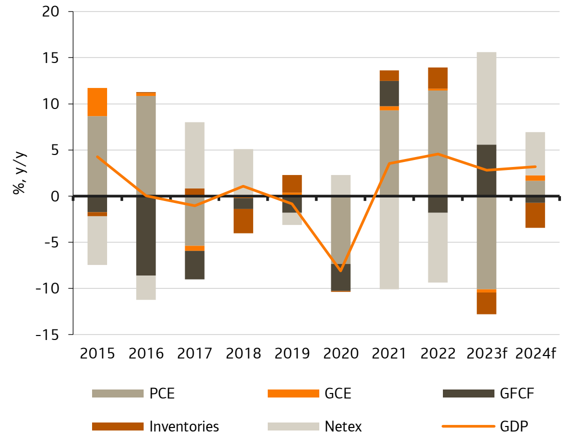
No final investment decision (FID) has been announced yet for the two recent offshore oil discoveries; still, both should prove to boost both this economy, as well as per-capita GDP, tremendously in the long term.

The tourism sector too has been recovering meaningfully, though it remains below the pre-pandemic level of 1.6m tourists a year. Tourist arrivals, a proxy for activity in this sector, hit 331, 560 in 2022 (2021 arrivals were 232,756).

That said, with higher probabilities of an El Niño this year, this may harm the already fragile agriculture sector. In Q1:23, it grew moderately, by 3.6% y/y, from the 8.1% y/y in Q1:22, but still down 59% q/q due to inadequate rainfall constraining the crop farming subsector.

Further downside risks to our growth outlook include domestic and global monetary tightening undermining demand. An economic slowdown in Europe, a major tourist partner, too may limit tourism.

Composition of GDP by demand



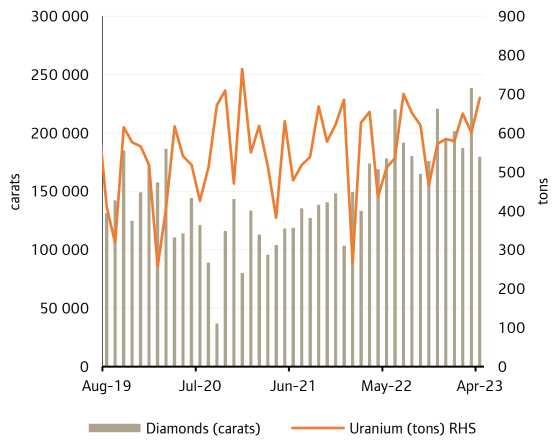
Source: Namibia Statistics Agency; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2018	2022
Agriculture, forestry & fishing	6.7	7.8	8.6
-Fishing	2.6	2.5	2.5
Mining and quarrying	8.9	8.8	12.2
Manufacturing	11.4	12.3	11.2
Electricity and Water	1.7	3.7	3.1
Construction	5.5	2.1	1.5
Wholesale and retail trade	11.2	9.9	11.4
Hotels and restaurants	1.9	1.9	1.5
Transport	3.1	3.2	3.0
ICT	1.4	1.4	1.4
Financial and insurance	7.0	7.7	6.8
Real estate	5.1	5.3	5.2
Professional, scientific & technical	0.8	0.7	0.5
Administrative and support	1.3	1.0	1.0
Arts and Entertainment	1.6	1.7	1.5
Public administration and defence	11.4	11.4	9.4
Education	8.8	9.6	9.7
Health	3.5	3.4	3.4

Source: Namibia Statistics Agency

Diamond and uranium production



Source: Namibia Statistics Agency

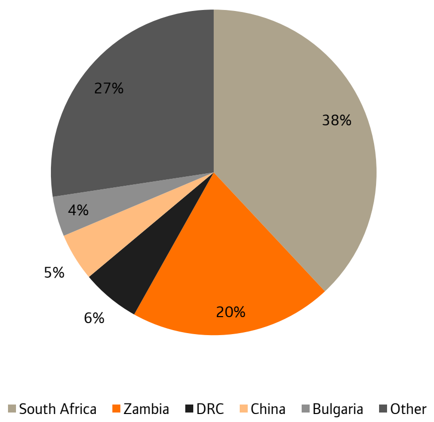
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	5.0	3.1	2.7	0.5	0.3	2.7	6.0	3.9	3.6	3.7	2.0	4.2	2.8	3.4	3.7	4.0
CPI (% y/y) pe	7.2	5.5	5.3	5.0	4.9	5.0	4.9	4.8	4.3	4.4	4.4	4.4	4.9	4.9	4.8	4.8
Policy interest rate (%) pe	7.00	7.75	8.00	8.00	7.75	7.25	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
3-m rate (%) pe	7.82	8.57	8.82	8.82	8.57	8.07	8.07	7.82	7.82	7.82	7.82	7.82	7.82	7.82	7.82	7.82
6-m rate (%) pe	8.15	8.90	9.15	9.15	8.90	8.40	8.40	8.15	8.15	8.15	8.15	8.15	8.15	8.15	8.15	8.15
USD/NAD pe	18.27	19.20	18.40	17.50	17.30	17.10	16.90	16.70	16.85	17.00	17.15	17.30	17.38	17.46	17.53	17.61

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

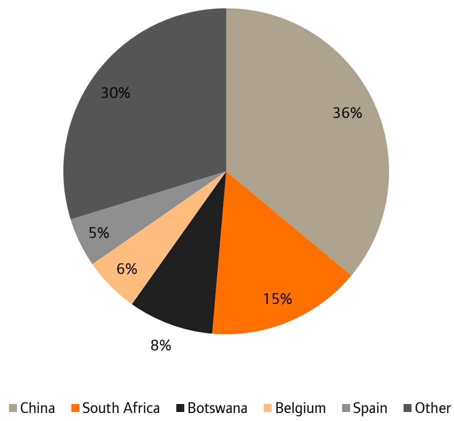
Notes: pa - period average; pe - period end

Top 5 imports origin markets (% of total)



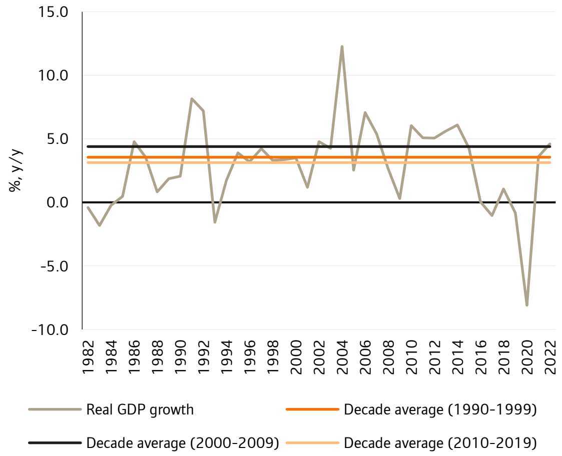
Source: International Trade Centre

Top 5 exports destination markets (% of total)



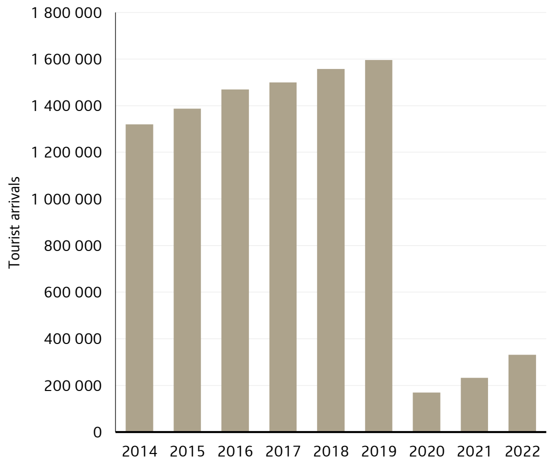
Source: International Trade Centre

Long-term growth performance



Source: Namibia Statistics Agency; Standard Bank Research

Tourist arrivals



Source: Ministry of Environment, Forestry and Tourism, Bank of Namibia

Balance of payments: C/A deficit narrowing

We now see the C/A deficit narrowing to 9.4% of GDP in 2023, from a wider deficit of 12.3 % of GDP in 2022. Our 2022 estimate was 16.3% of GDP.

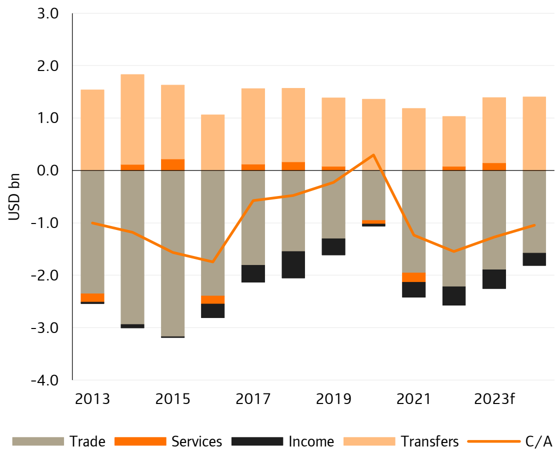
Secondary income flows are set to pick up meaningfully this year and in 2024 due to a strong rebound expected in SACU receipts. This is on account of regional trade improvements in 2021, with the revenue-sharing formula for member countries usually adjusted with a 2-y lag. Indeed, the SA National Treasury revised SACU payments higher (compared to the 2022 budget), by ZAR13.3bn in 2023/24 and ZAR21.1bn in 2024/25. This revision will now see Namibia receiving NAD24.4bn (c.USD1.3bn) for the current financial year; this is higher by a staggering NAD10.2bn (up 71.6% y/y), compared to an average of NAD14.4bn over the last three financial years. Over the next three financial years, SACU transfers proceeds to Namibia are projected to increase by 44.9% (NAD21.4bn), from NAD14.2bn in FY2022/23.

The relatively lower global oil and food prices into this year should soften the import bill in 2023. However, currency volatility, especially in Q2:23, may have undermined some of that recovery. Global supply-chain disruptions too, though improving, still pose upside risk to import costs. Furthermore, continued policy tightening may contain household import spending further. However, we expect uranium exports to rebound this year. Diamond exports too may remain sturdy though a likely relatively shallow global downturn presents some risk.

Still, transport services may make further gains this year. In addition, with tourism having picked up meaningfully in 2022, travel receipts too should continue rebounding in 2023 also.

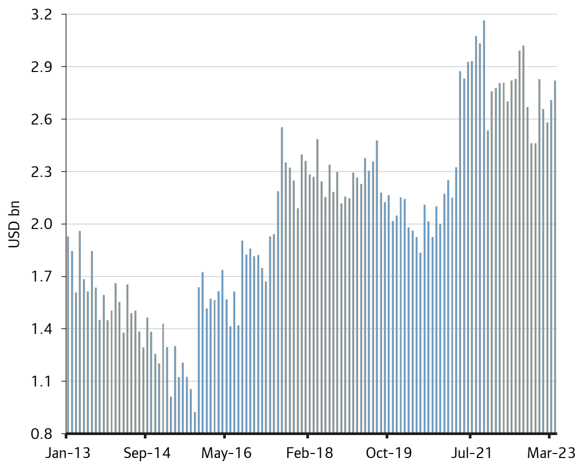
We foresee FX reserves stabilising at USD3.1bn (6.1-m cover) by Dec, premised on a softer import bill and higher service receipts. The rebound in custom receipts should buoy FX reserves over the next 3-y, in time for the USD750m RepNam'25 redemption.

Current account developments



Source: Bank of Namibia; Standard Bank Research

FX reserves



Source: Bank of Namibia

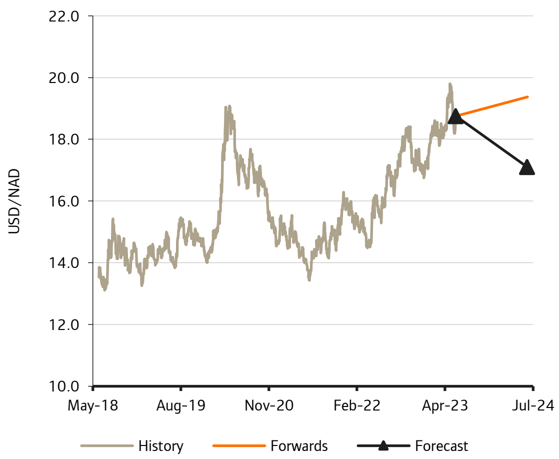
FX outlook: partial reversal in the softening terms of trade

In the near- to medium term, the peg between the NAD and the ZAR should continue, with the USD/NAD taking its cue from the USD/ZAR outlook.

The terms of trade, an important factor which supported the rand for most of 2022, has softened so far into 2023. However, it may reverse, albeit only partially, as global conditions improve. We see the USD/ZAR ending Dec at 17.50 (averaging 18.30 in 2023) and 16.70 by end 2024. However, investor concerns may further weigh on the rand in the near term.

In the medium term, some rand recovery should be underpinned by global growth and commodities improving, as well as some improvement in the SA's electricity shortfall. Moreover, projected dollar weakness too should benefit the rand.

USD/NAD: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation closer to targeted range

To further anchor inflation at the 3%-6% targeted range, the Bank of Namibia's (BON) MPC may hike by a further 25 bps in H2:23, to 8.00%. Thereafter, as inflation expectations soften, we may see 100 bps worth of cuts during 2024.

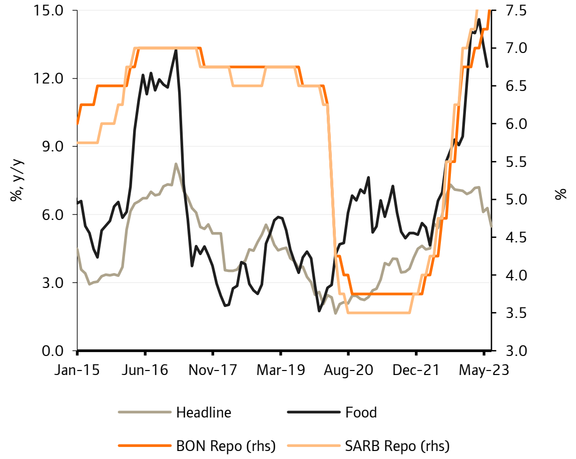
Our SA macroeconomic strategists foresee the SARB raising the repo rate by a further 25 bps in Jul. The BON is now at a 50 bps repo rate differential to the SARB. Should such a SARB hike transpire, it may impel the BON's MPC too to implement a further 25 bps hike in Aug, thereby narrowing the differential to 25-50 bps, matching predominant historical trends and likely restraining capital outflows.

Inflationary pressures have persisted into 2023 in Namibia, compounded by currency volatility in Q2:23, which saw the BON hike the repo rate by a cumulative 100 bps in H1:23, to 7.75% currently; this after 300bps worth of repo rate hikes in 2022.

That said, favourable base effects have helped to drive down headline inflation as of Apr, with it recording 6.1% y/y, from 7.2% y/y in Mar. However, food inflation remains stickily in double digits, currently at 13.0% y/y, with price pressures mainly stemming from fruit (22.1% y/y), vegetables (18.5% y/y) as well as the bread and cereals (17.7% y/y) categories. Nevertheless, the rate of increase in the food sub-index has been moderating in recent months, to below 1.0% m/m, from 2.4% m/m in Jan 23. Still, food inflation lifted headline inflation marginally higher in May, to 6.3% y/y. However, headline inflation should moderate into the targeted range, ending Dec at 5.0% y/y as base effects continue to unwind. Currency volatility, given the peg to the rand, may spell upside pressure for our inflation outlook. We forecast a 2023 inflation average of 5.9%, from 6.1% in 2022; the BON's average forecast for 2023 is 6.1%.

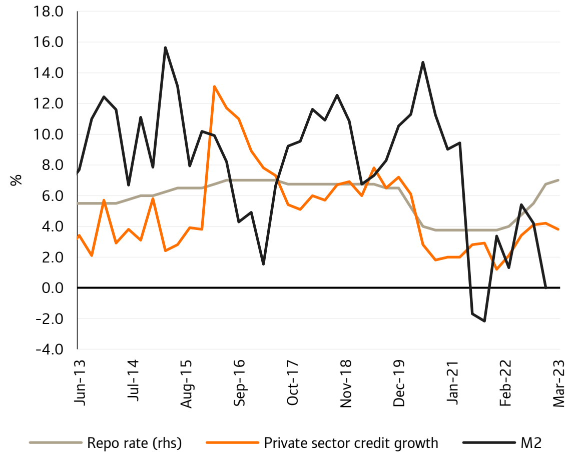
At 2.6% y/y in Apr 23, growth in the private sector credit extension remains weak, and well below inflation.

Inflation and interest rates



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

Monetary statistics, policy rate



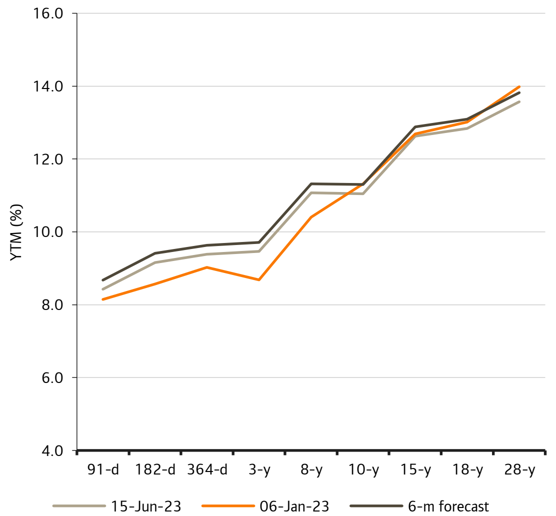
Source: Bank of Namibia

Yield curve outlook: still heading higher

Should the SARB hike the repo rate, by a further 25 bps at the Jul meeting, the BON's MPC may follow suit with a similar magnitude in H2:23 to retain the current repo rate differential of 50 pbs. This may drive T-bill yields higher over the next 6-m. Moreover, we still foresee commercial banks continuing to deploy excess liquidity at the short end of the curve because demand for credit remains subdued.

Per the latest government's borrowing plan for FY2023/24, domestic issuances remain largely tilted to longer-dated bonds, with the allocation for GC32-GC50 bonds accounting of 79.7% of planned fixed-rated bond issuances. Therefore, the yield curve may steepen further, and possibly proving prolonged due to the MPC's tightening bias in H2:23 given that expectations that inflation may hover above the mid-point of the 3%-6% over the next 9-m. Subscriptions at auctions remain well supported, on average.

Yield curve changes



Source: Bank of Namibia; Standard Bank Research

Fiscal policy: SACU revenue boost in view

In keeping with the government's fiscal consolidation plans, the FY2023/24 budget foresees Namibia's fiscal deficit declining to 4.2% of GDP (NAD9.1bn) in FY2023/24, from an estimated 5.3% of GDP (NAD10.7bn) in FY2022/23.

Such a narrowing is attributable to a 16.5% increase in total revenue, to NAD74.7bn, due to the expected boost from SACU revenue rather than lower expenditure. Compared to the 2022 budget, the National Treasury revised SACU payments higher, by ZAR13.3bn in 2023/24 and ZAR21.1bn in 2024/25. This revision will now see Namibia receiving NAD24.4bn (up by NAD6.4bn from the mid-year review estimates) for the current financial year; this is higher by a staggering NAD10.2bn (up 71.6% y/y), compared to an average of NAD14.4bn over the last three financial years. For the outer years of the MTEF, total revenue is projected at NAD23.8bn and NAD22.0bn during FY2024-FY2026. Dividend proceeds from SOEs in the diamonds sector are also expected to boost revenue.

Total expenditure for FY2023/24 was adjusted upwards by NAD6.6bn from the mid-year review estimates, representing an increase of 9.9% from the previous FY's expenditure. 2024 is a general elections year in Namibia, and c.NAD295m has been provisioned for voter education and registration. Still, 11.8% of total expenditure is earmarked for interest payments; this equates to 13.4% of revenue, and is projected to increase to 14.2% in the next 2-y. Furthermore, the public wage bill remaining rigid accounts for 38.9% of total expenditure and 44% of revenue.

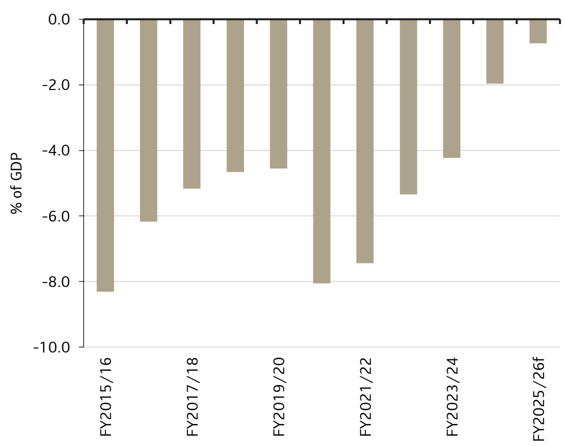
A lower fiscal deficit slashes the financing requirement by NAD1.9bn this year, to NAD10.1bn, with 73.1% sourced from the domestic market; the rest (NAD2.7bn) likely to be augmented by funding from multilateral institutions. There are no provisions to re-tap the Eurobond market until the RepNam'25 redemption. Plans are underway to replenish the sinking fund, partly using the expected boost in SACU flows. As at end Jan 2023, the balance on the ZAR sinking fund stood at ZAR200m.

Central government budget

	FY2021/22	FY2022/23	FY2023/24
% of GDP	**Actual**	**Estimated**	**Budgeted**
Total revenue and grants	29.6	31.4	34.7
Total expenditure	37.5	36.6	39.3
- Operational	30.4	32.6	30.7
- Interest	4.1	4.5	4.7
- Development	2.5	2.7	3.0
Budget deficit (excl. grants)	-8.0	-5.3	-4.6
Budget deficit (incl. grants)	-7.5	-5.3	-4.2
Domestic debt	50.7	51.7	52.5
Foreign debt	16.5	17.2	17.6
Total debt	67.2	68.9	70.1

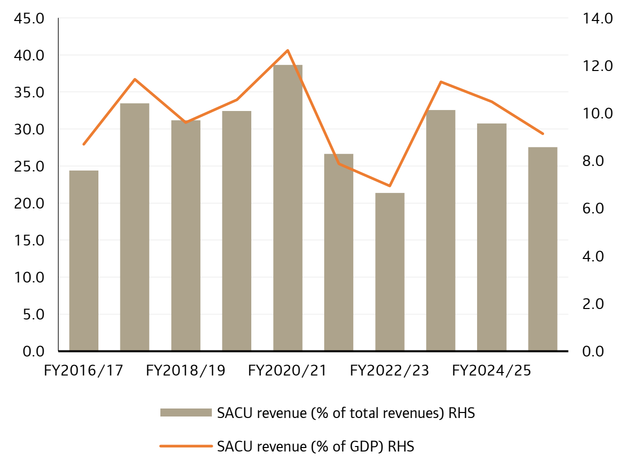
Source: Ministry of Finance

Fiscal deficit



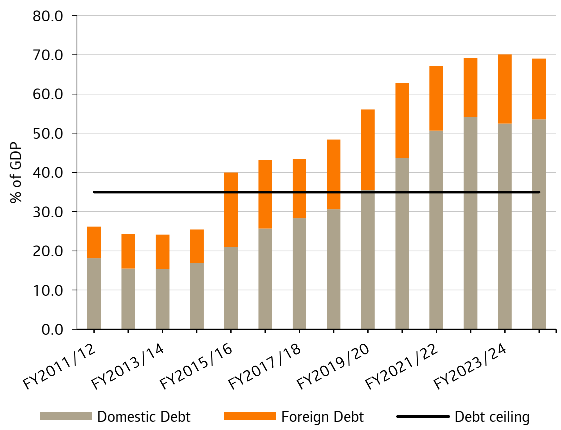
Source: Ministry of Finance

SACU revenue



Source: Ministry of Finance, Standard Bank Research

Composition of total debt stock



Source: Ministry of Finance

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	2.3	2.3	2.4	2.5	2.5	2.6	2.6
Nominal GDP (NAD bn)	181.1	181.2	174.2	183.9	206.2	224.1	242.4
Nominal GDP (USD bn)	13.8	12.5	10.6	12.4	12.6	12.2	14.3
GDP / capita (USD)	5 993	5 454	4 409	4 976	4 944	4 735	5 428
Real GDP growth (%)	1.1	-0.8	-8.0	2.7	4.6	2.8	3.2
Diamonds ('000 carats)	2 028	1 713	1 452	1 475	2 065	2 891	3 758
Uranium (MT)	6 935	6 529	6 861	6 782	6 618	6 757	6 892
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.2	-4.7	-4.6	-8.2	-8.0	-5.3	-4.6
Budget balance (incl. Grants) / GDP (%)	-5.2	-4.7	-4.6	-8.1	-7.5	-5.3	-4.2
Domestic debt / GDP (%)	28.3	30.6	35.6	43.7	50.7	51.7	52.5
External debt / GDP (%)	15.1	17.8	20.5	19.0	16.5	17.2	17.6
Balance of Payments							
Exports (USD bn)	4.2	3.9	3.1	3.6	4.2	5.0	6.0
Imports (USD bn)	5.7	5.2	4.1	5.5	6.4	6.9	7.6
Trade balance (USD bn)	-1.5	-1.3	-1.0	-2.0	-2.2	-1.9	-1.6
Current account (USD bn)	-0.5	-0.2	0.3	-1.2	-1.5	-1.3	-1.0
- % of GDP	-3.5	-1.8	2.8	-9.9	-12.3	-9.4	-7.0
Financial account (USD bn)	-0.3	0.0	0.3	-1.2	-0.6	-0.4	-0.4
- FDI (USD bn)	0.8	1.0	0.7	1.4	1.2	2.2	3.2
Basic balance / GDP (%)	2.3	6.2	9.4	1.3	-6.6	7.6	15.1
FX reserves (USD bn) pe	2.1	2.0	2.2	2.8	2.8	3.1	3.2
- Import cover (months) pe	4.5	4.7	6.4	5.8	5.9	6.1	6.2
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Ba1	Ba2	Ba3	Ba3	B1	B1	B1
Fitch	BB+	BB	BB	BB	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.3	3.7	2.2	3.6	6.1	5.9	4.9
Consumer inflation (%) pe	5.1	2.6	2.4	4.5	6.9	5.0	4.8
M2 money supply (% y/y) pa	9.2	8.5	11.2	11.9	12.6	12.1	0.0
M2 money supply (% y/y) pe	7.8	9.3	8.8	11.0	10.4	10.6	0.0
BON bank rate (%) pa	6.75	6.75	4.19	3.75	5.25	7.69	7.31
BON bank rate (%) pe	6.75	6.75	3.75	3.75	6.75	8.00	7.00
3-m rate (%) pe	7.9	7.7	4.3	4.6	7.2	8.8	7.8
5-y rate (%) pe	9.4	8.9	9.4	9.9	10.3	10.2	10.2
USD/NAD pa	13.14	14.45	16.47	14.79	16.42	18.34	17.00
USD/NAD pe	14.30	14.00	14.87	15.89	17.29	17.50	16.70

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

Notes: pa - period average; pe - period end

Nigeria: oil sector should see growth soon

Medium-term outlook: promising

We maintain our real GDP growth forecast at 3.0% y/y for 2023 and 3.2% y/y for 2024. As oil production improves, the oil sector should start posting growth during H2:23.

Indeed, the new administration has reiterated its commitment to improving pipeline surveillance and security to improve oil production. The government has targeted 2.6mbpd by 2027 and 4.0mbpd by 2030. On a q/q basis, while oil production has been improving, from 1.49mbpd in Q4:22, to 1.51mbpd in Q1:23, it has been declining more recently given a pipeline explosion and *force majeure* declared at some terminals. Nonetheless, the Tompolo contract has shown promising signs, with room for further improvement in the coming months.

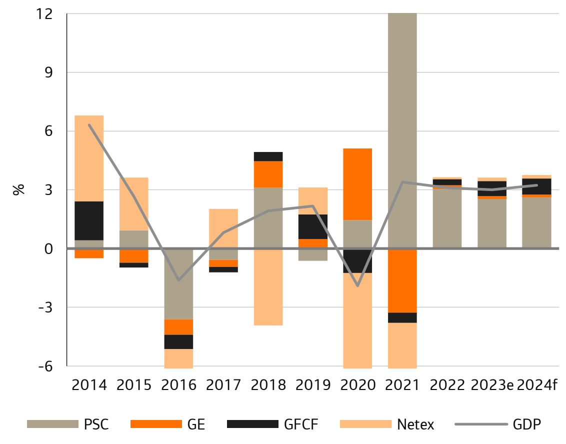
The operations commencing at the Dangote refinery too should support growth given the impact on auxiliary economic activity as well as providing jobs. The oil refining sub-sector too should post growth after a decade-long contraction. Refining capacity at the Dangote refinery is 650,000mbpd, likely gradually reaching full capacity over the medium term. As operations commence around Q4:23/Q1:24, there should also be spill-over effects to the services sector, further supporting economic growth.

Q1:23 growth was 2.3% y/y, undershooting 3.5% y/y in Q4:22, due to the cash crunch in Q1 which had a broad negative impact on key sectors. The Stanbic IBTC PMI fell into contraction in Feb and Mar 23. The agricultural sector was the worst hit, contracting for the first time (-0.9%y/y in Q1:23) in decades as farmers had little access to cash (the major means for transactions in the retail segment).

Agricultural productivity also faces climate change, such as flooding. According to the National Emergency Management Agency (NEMA), over 676,000 hectares of farmlands were damaged by flooding in the 2022 rainy season. Crops were largely destroyed. This will heighten the risk of less food supply this year.

Medium-term growth prospects though appear promising due to the new administration's reform focus as well as pending full operations at Dangote. We are also likely to see more private sector participation in driving growth, particularly if the recent FX reforms are durable. Faster implementation of the Petroleum Industry Act (PIA), and the deregulation of the power sector, too should spur investment.

GDP by Expenditure



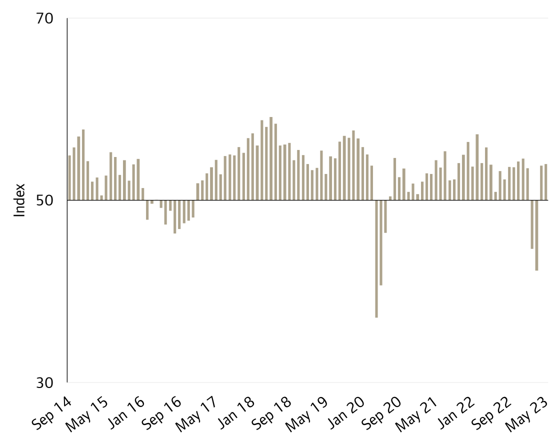
Source: NBS; Standard Bank Research

GDP by sector (%) contribution

	2010	2016	2020	2021	2022
Agriculture	40.9	18	26.2	25.9	25.6
Mining and Quarrying (Oil)	15.9	7.7	8.3	7.4	5.7
Manufacturing	4.2	9	8.9	8.9	8.9
Electricity, Gas, Steam and Air	0.4	0.6	0.4	0.5	0.6
Water Supply, Sewerage, Waste	0.1	0.1	0.2	0.2	0.2
Construction	2.0	4	3.5	3.5	3.5
Trade	18.6	18.9	14.9	15.7	16.0
Accommodation	0.5	0.5	0.8	0.8	0.7
Transportation and Storage	1.3	1.5	1.2	1.3	1.5
Information and Communication	4.6	14.7	15.3	15.6	16.5
Financial and Insurance	3.6	3.8	3.4	3.6	4.0
Real Estate	1.7	8.8	5.7	5.6	5.6
Professional and Scientific Services	3.1	4	3.4	3.2	3.2
Public Administration	3.7	2.9	2.1	2.0	2
Education	1.5	1.8	1.9	1.8	1.8
Other Services	6.8	2.6	3.2	3.1	3.1
GDP	100	100	100	100	100

Source: National Bureau of Statistics; Standard Bank Research

Stanbic IBTC Purchasing Managers Index



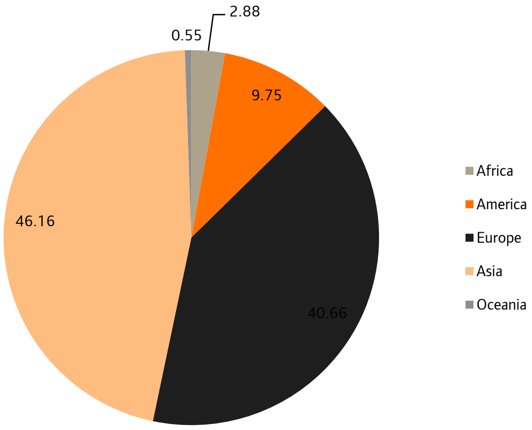
Source: S& P Global

Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	2.3	3.1	3.4	3.2	3.6	3.5	3.2	2.6	2.7	3.0	3.1	2.9	2.9	3.3	3.4	2.7
CPI (% y/y) pe	20.0	23.6	26.24	27.5	26.2	23.7	20.9	19.9	19.3	19.1	18.2	17.1	17.2	17.0	17.1	17.2
CBN policy rate (%) pe	18.0	18.5	19.5	19.5	19.5	19.5	19.5	19.5	18.5	18.5	18.5	18.5	18.0	18.0	18.0	18.0
3-m rate (%) pe	6	5	9.2	11.5	11.9	12.2	12.8	13.1	12.9	13.2	13.8	13.6	13	13.4	14.1	14.5
6-m rate (%) pe	8	7.5	10.5	13	13.5	13.9	14.2	14.9	14.4	14.8	15.5	15.2	15	15.5	16.0	16.3
USD/NGN pe	465	700	800	750	750	751	753	755	800	800	800	800	800	800	800	800

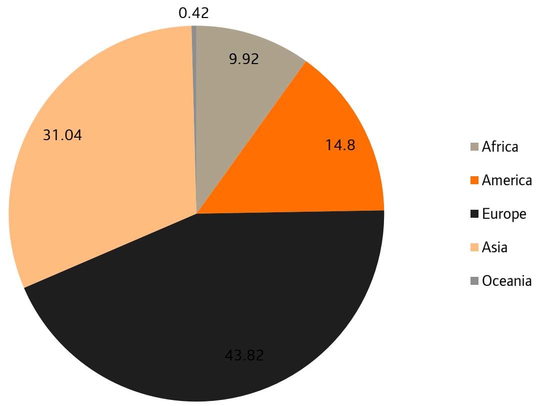
Source: Central Bank of Nigeria; National Bureau of Statistics; Bloomberg; Ministry of Finance; Standard Bank Research Notes: pa - period average; pe - period end

Import source markets



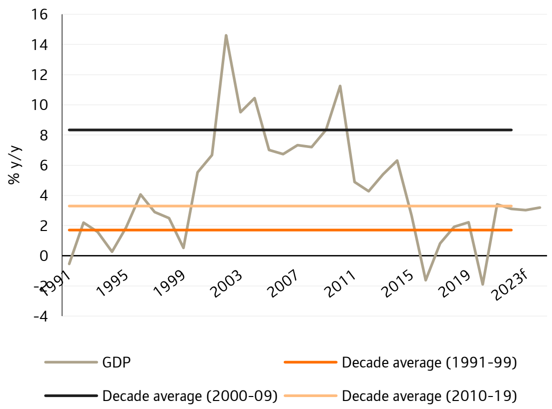
Source: NBS; Standard Bank Research

Export Destination markets



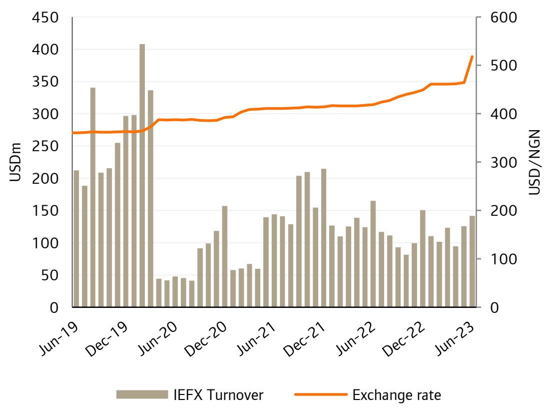
Source: NBS; Standard Bank Research

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: C/A surplus likely

We now forecast a C/A surplus of 0.5% of GDP for 2023, from a 0.2% of GDP in 2022. The trade account remains the major driver, as imports are expected to decline, while we also foresee a marginal boost in exports over the medium term.

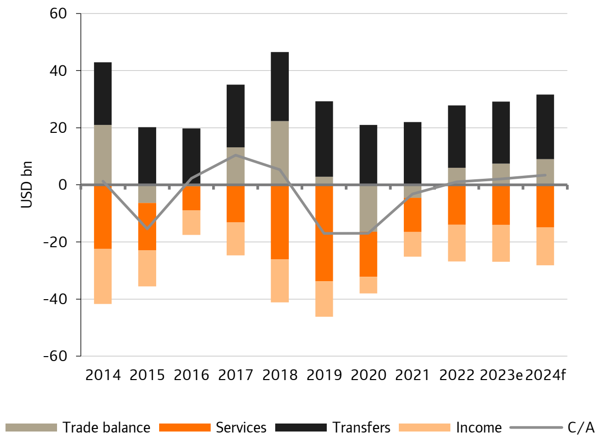
Despite the decline in oil production in 2022, high oil prices supported total exports, launching the trade account into a surplus. We expect improved oil production this year, likely to average about 1.6mbpd including condensates (from 1.34mbpd in 2022). In the medium term, full implementation of the PIA, and improved security, too should bode well for investment in this sector, likely boosting oil production. However, the OPEC+ production cut for 2024 may pose a downside risk.

Oil imports should moderate as of H2:23 given the abolishing of petrol subsidy; it should also disincentivize the smuggling of petrol to neighboring countries. With full operations at Dangote, which we expect in the next 1-2y, oil imports should further decrease, to near zero, as the refinery should meet domestic demand. Other products from the Dangote refinery (fertilizer and other petrochemical bi-products) too should swell export revenue. Full Dangote operations, combined with the petrol subsidy removal, may even impel net export gains. However, import growth would require improvement in onshore FX liquidity. We expect some improvement in the next 6-m.

Workers' remittances will likely keep lagging pre-pandemic levels, especially in 2023, because of slower global growth. Indeed, major source markets for remittances include the United States, United Kingdom, and Canada.

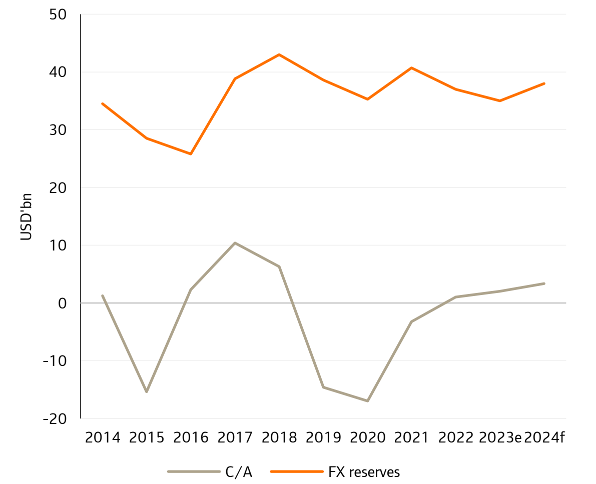
However, the president's commitment that investors may repatriate dividends may further clear the demand backlog, which may deplete FX reserves further. Furthermore, limited access to Eurobond financing may mean little reserves accretion, for now. Still, with FX reforms implementation, foreign investors should return, thereby supporting reserves.

Current account developments



Source: Central Bank of Nigeria; Standard Bank Research

FX reserves and current account



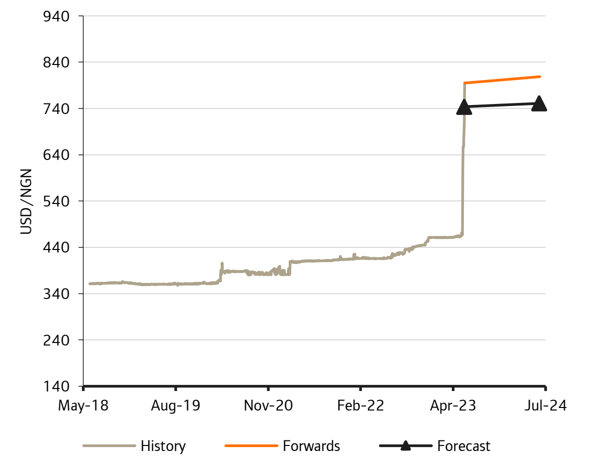
Source: Central Bank of Nigeria; Standard Bank Research

FX outlook: FX market reforms

We now see USD/NGN ending Dec at 650-750 from 461 in Jan. The Central Bank of Nigeria (CBN) has abolished all previous FX market segments, now allowing "eligible" FX transactions at market-determined rates at the Investors and Exporters (I&E) Window. This has seen the naira weaken by c.39%, to 756 at the time of writing. However, FX supply returning to the market will be likely be merely gradual.

A more liberalized FX environment would sweeten foreign investor sentiment. In time, FX liquidity should improve. This should shore up FX reserves (on a steady decline since 2022, now at USD 34.4bn (7.0-m import cover), from USD40bn (9-m import cover) as at Jan 22). The CBN may soon resume FX sales to foreign investors; this was suspended in Jun 22. The FX backlog is estimated at USD800m-USD1bn for foreign portfolio investors and USD2.5bn-USD3.0bn for corporates.

USD/NGN: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: still expansionary – but little room for more

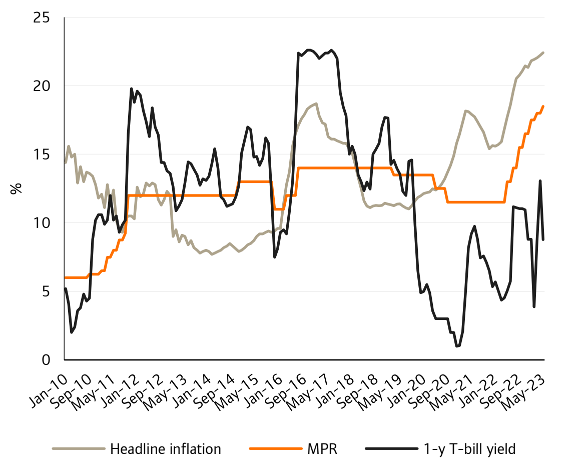
The CBN's MPC will likely hike the policy rate further, by 100bps in H2:23, to 19.5%, as inflation will likely keep rising this year. Since May 22, the MPC has hiked the policy rate by a cumulative 700bps, now at 18.5%.

The president desires lower interest rates given the impact on the cost of credit as well as companies' production. However, we see little room for cutting policy rates into Dec 23, given upside risks to inflation. Inflation rose to 22.2% y/y in Apr, from 21.8% y/y in Jan, the highest since Sep 2005 despite multiple interest rate hikes. Petrol scarcity, the cash crunch earlier this year and sub-optimal harvest yields due to flooding late in 2022 have seen inflation at record highs this year.

Inflation faces further pressure due to the removal of the petrol subsidy. Petrol pump prices have increased by an average 176% countrywide. This may drive transport inflation further up (it contributes 7.5% to the inflation basket) as major transportation vehicles 'intra-state' use petrol. This may also spill over to inflation sub-baskets. Although, while the liberalization of the FX market might not add further inflation pressure, should the NAFEX overshoot NGN750, that may well transpire, potentially adding about 5%-10% to inflation by Dec. We forecast inflation at 27.5% by year-end. Per the IMF selected issues paper for Nigeria (published in Feb 22), the IMF sees an underlying and significant driver of inflation as continued monetary expansion. The various intervention schemes by the CBN in its backward-integration drive, to spur local production, likely further impelled monetary expansion. The CBN continued funding of the budget deficit too, keeping money supply (M3) growth in double digits. Should the senate approval, to securitize the USD50bn CBN overdraft, lead to minimal (within limit) budget funding going forward, inflationary pressures may ease.

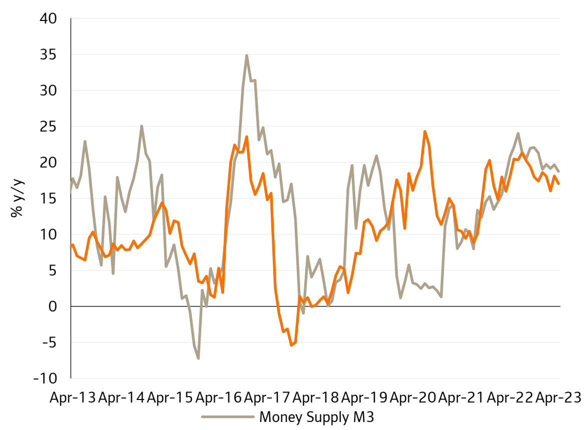
M3 growth has average 18.8%y/y so far this year, compared to 20.3% y/y in 2022, likely impacted by the demonetization policy earlier in the year.

Inflation and interest rates



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

Monetary statistics

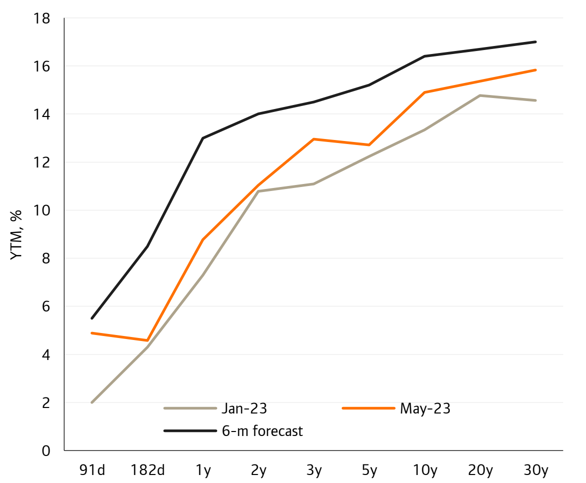


Source: Central Bank of Nigeria

Yield curve outlook: upside bias

The new administration plans to abandon unorthodox monetary policies, which should reflect in the CRR policy and the interest rates. The discretionary excess cash reserving has seen the effective CRR for some banks rising above 50%, with the nominal CRR still at 32.5%. We expect a gradual normalization, putting all banks on a level playing field. We also think that yields at the short end would need to rise further, into double digits, encouraging foreign portfolio investors back into the market. Despite the 200bps cumulative policy rate hike this year, the monetary policy rate transmission remains weak. Still, market liquidity has been buoyant this year, driven initially by the demonetization policy and further supported by maturing CBN swaps (albeit that most of those were rolled over). Furthermore, the CRR policy has kept rates low, particularly at the shorter end of the curve, with negative real interest rate having widened for the 1-y T-bills between Dec 22 and Jun 23.

Yield curve changes



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

Fiscal policy: entrenched fiscal deficit

The federal government's fiscal deficit for FY2023 might stay high, at 5% of GDP, despite the petrol subsidy removal. The fiscal deficit has stayed above the Fiscal Responsibility Act benchmark of 3.5% of GDP for the past 3-y given the twin effects of double-digit growth in expenditure but slow revenue growth. However, the lack of a petrol subsidy is unlikely to narrow the fiscal deficit for 2023 given that the 2023 budget only factored in the subsidy only for H1:23. Still, we foresee more government expenditure to cushion the vulnerable.

Still, the removal of the petrol subsidy should help contain the budget deficit after 2023, allowing for more capital spending (until now, grossly undershooting target). Furthermore, the recent approval for the securitization of the CBN overdraft to the federal government of NGN22tr should also contain expenses due to a lower interest burden of 9% (currently 21.5% (MPR plus 3%)). However, securitization is unlikely to deter using the overdraft in the coming years. Notably, the lawmakers are seeking approval to increase the limit on CBN overdraft to 15% of the previous year's revenue, from currently 5%, further strengthening the likelihood of still using this as funding avenue.

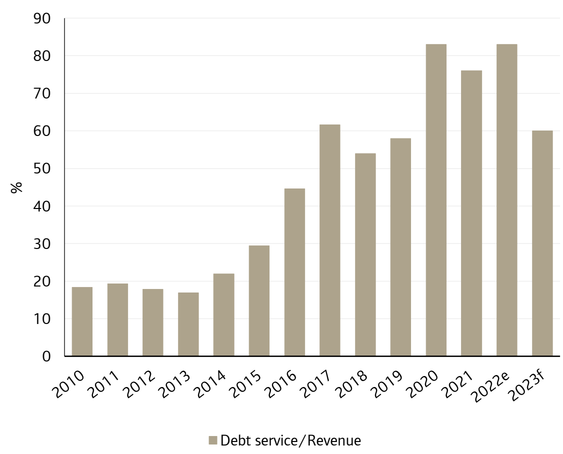
However, the new government is likely to tread with caution. The recent currency devaluation, and further increases in oil production, should support oil revenue this year, though the recent OPEC+ production cut poses a downside risk. In any case, the government is yet to meet current target numbers from either OPEC+ plus or the government budget. Debt service expense in the next 2-y will likely trend further upwards given the impact of increased borrowing and currency devaluation on external debt service. This year, the government plans to borrow more than double the 2022 domestic borrowing target from the local market, with most of it targeting the longer end of the curve. Therefore, the capital budget this year may again be compromised by attempting to reel in the fiscal deficit, as in recent years. Last year, capital expenditure undershot target by 60%. For the foreseeable future, the new administration too may focus on security spending because managing insecurity remains crucial.

Federal Government Budget

	FY2021	FY2022	FY2023f
% of GDP			
Revenue	3.1	5.5	4.7
Capital expenditure	1.9	1.01	2.9
Recurrent expenditure	4.9	5.6	6.5
Statutory transfers	0.3	0.4	0.4
Service debt	2.4	2.8	2.8
Supplementary budget	0.1	1.0	0
Total expenditure	7.1	9.9	9.7
Oil price assumption (US$/bbl)	79.3	106.8	75.0
Oil production assumption (m bbl)	1.6	1.2	1.7
Exchange rate assumption	410.2	444.1	435
Domestic Financing	2.9	1.9	3.1
External Financing	0.9	1.4	0.8
Fiscal deficit	-4.0	-4.4	-5.0

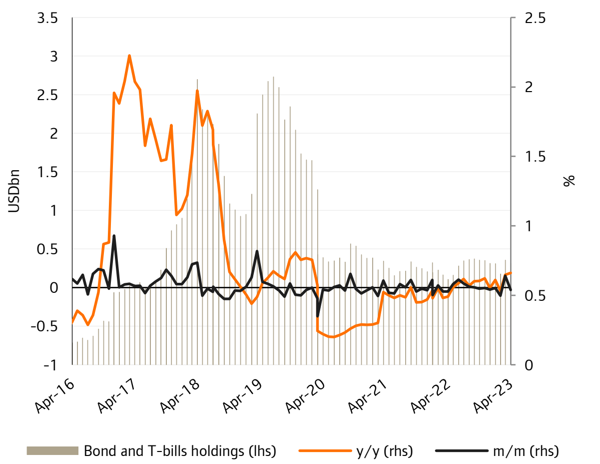
Source: Federal Ministry of Finance; Standard Bank Research

Debt-service-to-revenue



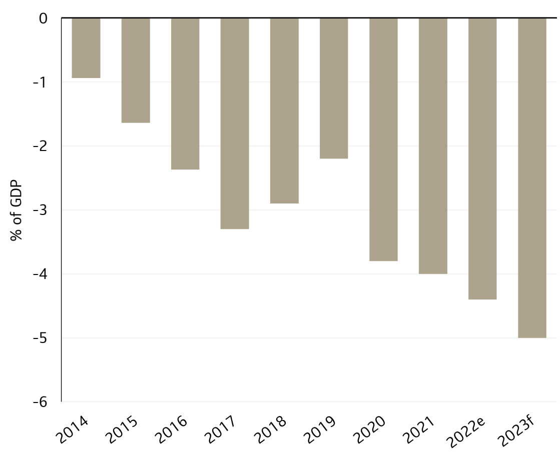
Source: Federal Ministry of Budget and National Planning; Standard Bank Research

Domestic debt held by foreigners



Source: Standard Bank Research

Fiscal deficit



Source: Federal Ministry of Budget and National Planning

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	187.5	192.3	197.3	202.5	207.7	213.1	218.7
Nominal GDP (NGN bn)	127762.0	145639.0	154252.3	176075.5	202365.0	259047.5	326917.9
Nominal GDP (USD bn)	352.9	402.7	403.9	430.5	474.3	381.7	434.6
GDP / capita (USD)	1882.5	2093.6	2046.7	2126.1	2282.9	1790.6	1987.2
Real GDP growth (%)	1.8	2.3	-1.9	3.4	3.1	3.0	3.2
Crude oil production (mbpd) pa	1.8	2.0	1.7	1.6	1.3	1.6	1.7
Central Government Operations							
Budget balance / GDP (%)	-3.4	-2.2	-3.8	-4.0	-4.4	-5.0	-5.0
Domestic debt / GDP (%)	12.9	12.6	13.0	17.8	13.6	24.0	28.0
External debt / GDP (%)	7.1	6.2	7.9	12.4	9.2	12.4	12.9
Excess crude account/SWF (USD bn)	2.0	0.3	0.0	0.0	0.0	0.0	0.0
Balance of Payments							
Exports (USD bn)	63.1	65.0	35.9	46.9	64.2	58.6	75.8
Imports (USD bn)	40.8	62.1	52.3	51.4	58.2	58.4	73.0
Trade balance (USD bn)	22.3	2.9	-16.4	-4.6	6.0	7.4	9.0
Current account (USD bn)	5.3	-14.6	-17.0	-3.3	1.0	2.0	3.4
- % of GDP	1.5	-3.6	-4.2	-0.8	0.2	0.5	0.8
Financial account (USD bn)	3.5	21.4	1.0	6.2	6.5	6.6	5.7
FDI (USD bn)	1.2	2.3	2.4	3.3	0.1	1.0	2.1
Basic balance / GDP (%)	4.6	4.5	-3.6	0.0	0.2	0.8	1.3
FX reserves (USD bn) pe	43.0	38.6	35.0	40.7	37.0	36.0	38.0
Import cover (months) pe	12.7	7.5	8.0	9.5	7.6	7.4	6.2
Sovereign Credit Rating							
S&P	B	B	B-	B-	B-	B-	B-
Moody's	B2	B2	B2	B2	B3	Caa1	Caa1
Fitch	B+	B+	B	B	B-	B-	B-
Monetary and financial Indicators							
Headline inflation pa	12.2	11.4	13.2	17.0	18.9	25.0	23.0
All items less farm produce CPI pa	10.6	9.2	10.8	13.1	16.0	18.6	15.6
Food CPI pa	14.5	13.7	16.1	20.6	20.8	23.9	21.2
M2 money supply (% y/y) pa	4.6	15.4	3.5	11.9	20.1	17.0	9.7
M2 money supply (% y/y) pe	16.4	4.3	11.1	13.4	19.0	14.7	9.0
Policy interest rate (%) pa	14.0	13.6	12.3	11.5	13.7	18.7	19.5
Policy interest rate (%) pe	14.0	13.5	11.5	11.5	16.5	19.5	19.5
3-mth rate (%) pe	12.3	3.8	0.0	2.5	3.9	11.5	13.1
1-yr rate (%) pe	17.0	4.4	1.0	5.3	8.8	13.0	14.4
3-yr rate (%) pe	15.2	10.0	3.9	9.2	11.8	13.9	14.9
5-yr rate (%) pe	15.0	10.0	5.7	11.3	13.9	14.8	15.8
USD/NGN pa	362	362	381.9	409.0	426.7	678.8	752.3
USD/NGN pe	365	364.7	395.0	415.0	461.0	750.0	755.0

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: currency depreciation pace quicker than before

Medium-term outlook: seemingly robust

Base effects seem unfavourable after the stellar performance of 8.2% y/y in 2022. Still, our GDP growth forecasts of 6.2% y/y for 2023 and 6.6% y/y in 2024 stand as are. Slowing global growth may see fewer grants for Rwanda, thereby constraining household spending as well as spending by non-governmental organizations. Furthermore, poor security in the DRC's east usually draws in the Rwandan army; however, the Rwandan authorities have denied involvement this time. Rebel groups in this region makes it particularly unstable.

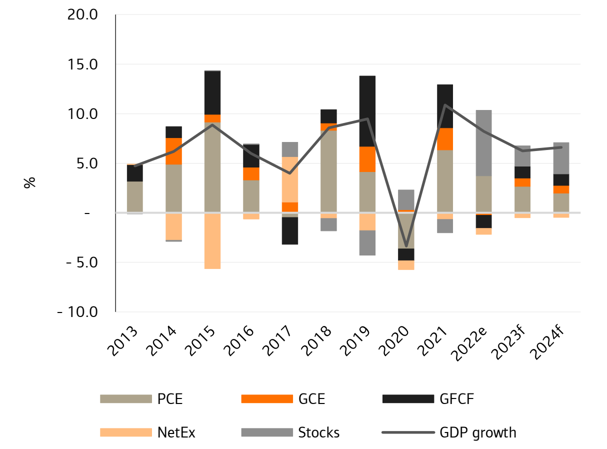
Real GDP growth in 2022 was 8.2% y/y, with most sectors expanding. The services sector led the way, rising by 12.0% y/y, assisted by 14% y/y growth in wholesale and retail trade, 87% y/y growth in hotels and restaurants, 22% y/y growth in transportation activities, 10% y/y growth in financial services, and 20% y/y growth in ICT. This trend continued into Q1:23, with services growing by 13% y/y, from 10% y/y in Q4:22 and 11% y/y in Q1:22.

While the base effects seem negative, the contemporaneous effects may prove strongly supportive. Rwanda's tourism industry, over 34% higher than pre-pandemic levels by end 2022 in real terms, had already made up for pandemic-related losses; in Q1:23, it increased by 42% y/y. Even should momentum slow after Q2:23, services should still support growth this year.

However, agriculture is underperforming again. Agricultural production increased by 2% y/y, with food crops declining by 1% y/y and export crops increasing by 4% y/y in 2022. But then, agriculture slowed to 1% y/y in Q1:23, from 2% y/y in Q4:22 and 1% y/y in Q1:22. Food harvests likely underperformed due to adverse weather. Season A runs from Sept to Feb, and Season B runs from Mar to Jun. The planting season was likely hampered by poor weather, implying poor agricultural output for 2023, according to Rwanda's National Institute of Statistics. However, El Niño rains may still prove beneficial. Moreover, budgetary support for the agricultural sector, such as the availability of affordable seeds and fertilizers, the construction of progressive and radical terraces, too may prove supportive.

Industry posted growth of 5% y/y in 2022 as manufacturing and mining expanded despite a contraction in building. In Q1:23, manufacturing increased by 16% y/y, and mining increased by 15% y/y. Foreign direct investment (FDI) into the manufacturing sector, as well as the Made in Rwanda programme, which kicked off in 2015 with the aim of improving the quality and longevity of Rwandan products should bring further benefits. However, the construction industry posted growth of only 1% in Q1:23, with gross capital remaining insufficient.

Composition of GDP by demand



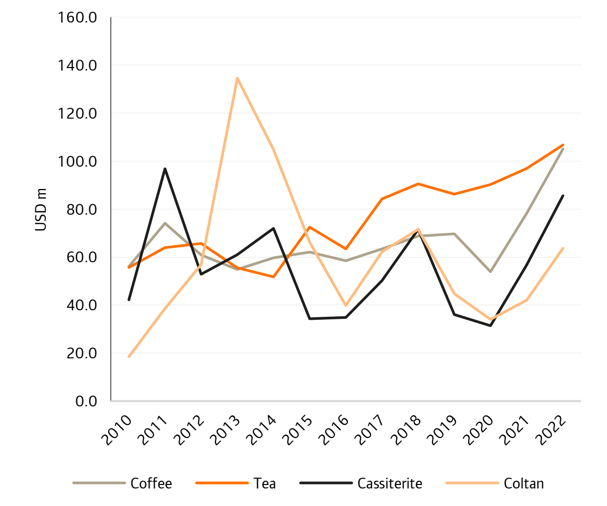
Source: National Institute of Statistics of Rwandа; Standard Bank Research

Contribution to GDP by sector

% of GDP	2015	2018	2021	2022
AGRICULTURE	24.0	24.6	24.1	24.9
Food crops	14.2	13.9	13.3	13.7
Forestry	5.6	6.1	5.9	5.9
INDUSTRY	17.4	17.3	20.3	21.2
Mining & quarrying	1.7	2.2	2.8	2.8
Manufacturing	6.8	7.6	9.2	9.9
Construction	7.5	6.0	6.9	7.6
SERVICES	49.7	49.7	47.7	46.5
Wholesale & retail trade	8.6	8.5	9.5	9.9
Transport services	4.3	5.6	5.5	5.9
Information & communication	2.2	1.7	2.0	1.5
Financial services	2.6	2.5	2.6	2.7
Real estate activities	7.0	7.3	6.2	5.2
Professional activities	2.1	2.2	2.3	2.1
Admin	3.5	3.5	3.1	2.8
Public admin	5.8	5.9	5.4	5.3
Education	3.4	2.9	3.0	3.6
TAXES LESS SUBSIDIES	8.8	8.3	7.8	7.4

Source: National Institute of Statistics of Rwanda

Principal exports



Source: National Bank of Rwanda

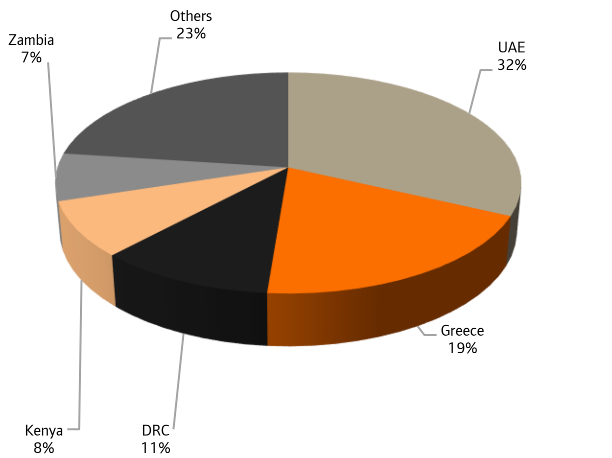
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	9.1	5.3	4.9	5.8	5.8	6.1	6.5	7.9	7.9	7.7	7.7	6.9	6.8	7.0	6.6	7.2
CPI (% y/y) pe	19.2	13.3	10.3	6.9	3.5	4.9	4.5	4.4	4.9	3.7	3.8	2.8	2.7	3.5	3.4	4.1
Policy rate (%) pe	7.0	7.5	7.5	7.5	7.5	7.0	7.0	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
3-m rate (%) pe	7.4	7.3	7.6	7.8	7.7	7.8	7.5	7.4	7.3	7.4	7.1	7.0	7.0	7.0	7.2	7.4
6-m rate (%) pe	9.0	8.7	9.3	8.7	8.1	8.3	7.8	8.3	7.6	7.9	7.4	7.8	8.5	8.3	8.8	8.3
USD/RWF pe	1102	1182	1243	1318	1323	1341	1352	1372	1378	1398	1410	1434	1439	1459	1470	1492

Source: Standard Bank Research

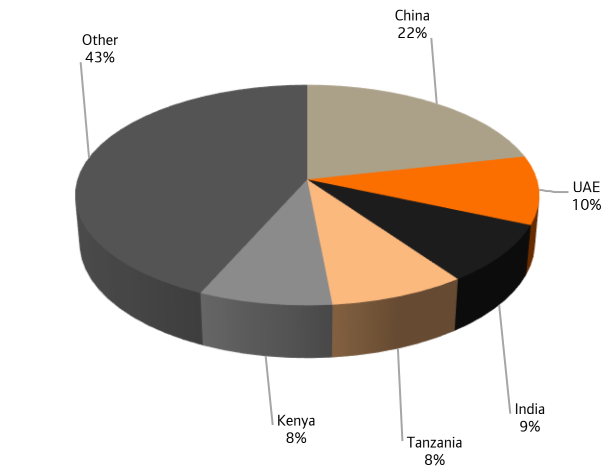
Notes: pa - period average; pe - period end

Share in Rwanda's exports (%)



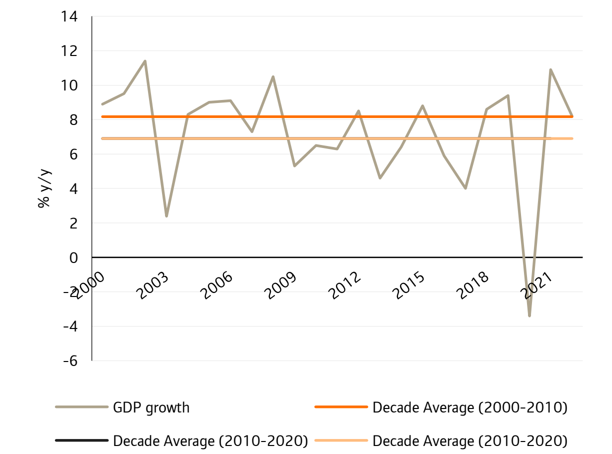
Source: ITC

Share in Rwanda's imports (%)



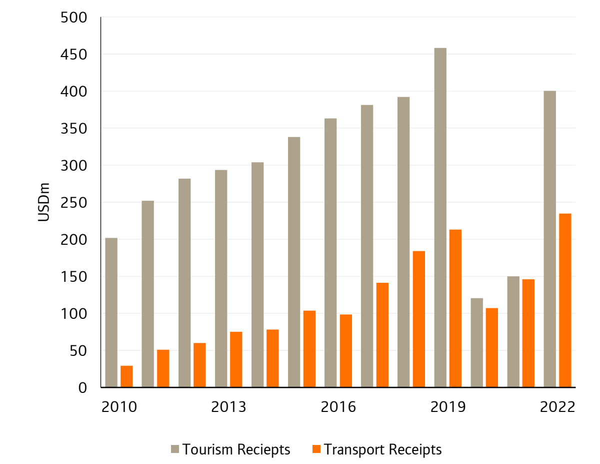
Source: ITC

Long-term GDP performance



Source: IMF; Standard Bank Research

Annual tourism and transport receipts



Source: National Bank of Rwanda

Balance of payments: widening C/A deficit

It now seems that the C/A deficit will widen. For 2023 and 2024, we forecast the C/A deficit at respectively 10.6% and 8.2% of GDP. This year, per budget execution, capital imports may rise.

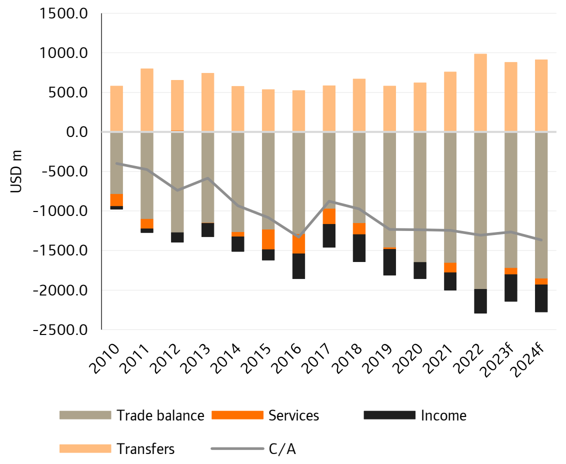
Over the past 10-y, imports of goods and services increased on average by 9%, while exports of goods and services increased on average by 12.0%. However, the C/A widened, since imports continue to outpace export earnings because of its larger size.

In the first 4-m of this year, goods exports rose by 30.5% y/y largely due to coffee and coltan which rose by 119.2% y/y and 75.9% y/y respectively. Goods imports rose by 24.4% y/y, largely due to food products. Even capital imports were up by 15% y/y after being flat in 2022. However, despite stronger export growth, a trade deficit persisted during the first 4-m of this year.

The services account (which is significantly lower than the goods account), net primary income (due to increased external debt services against a trend of insignificant primary income inflows), and transfers will likely not boost the C/A in 2023. Inflows of net current transfer normally bode well for the C/A. Indeed, there are downside risks to these flows, especially in 2023. The strength of the source market, which will be impacted by slowing global growth, and the views of donor countries towards Rwanda's political development, both affect the official components of these flows.

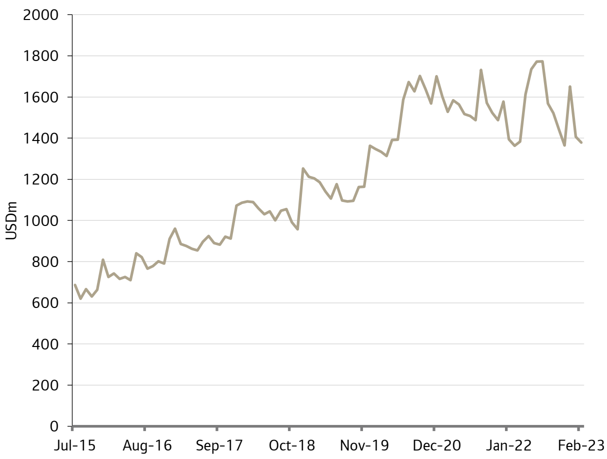
FDI and government borrowing should be the main source of capital flows. It is worth highlighting that the IMF programme, Resilience and Sustainability Trust (RST), should assist the BOP. The IMF Executive Board concluded the first review of Rwanda's programme under the Resilience and Sustainability Facility in May, allowing for a disbursement of US98.6m in May for budget support.

Current account developments



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

FX reserves



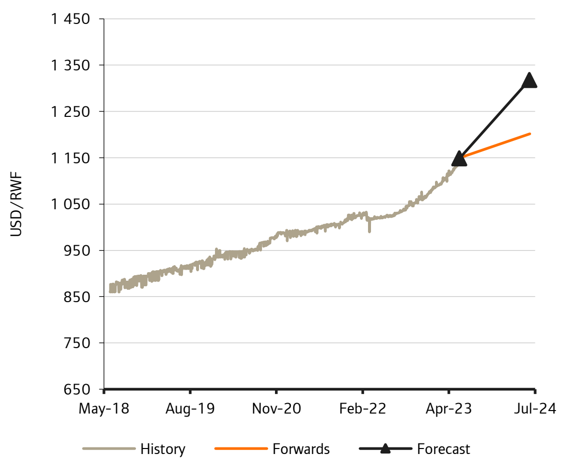
Source: National Bank of Rwanda

FX outlook: faster depreciation seems likely

The USD/RWF may close Dec around 1318. Due to limited portfolio inflows, the pair is typically immune to fluctuations in global risk appetite for emerging markets. Trade dynamics, more notably high rates of capital import growth, have grown in importance as a determining factor of the path of the RWF.

The RWF was weak in Q1:23, indicating a growing current account deficit and poor FX liquidity as external funding dwindled. Additionally, the execution of the FY2023/24 budget, which may end up being funded domestically, implies upside risk to our forecasts because the RWF is overvalued in real effective terms. Even the Ministry of Finance anticipates persist pressure this year due to the large import bill and less external financing. It also expects exchange rate pressure to ease only in medium term.

USD/RWF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: perhaps turning neutral

It is unlikely that the NBR will alter its policy position. The MPC kept the policy rate constant at its most recent quarterly meeting and predicted that, due to government policy initiatives and a further easing of global pressures, inflation would slide below the upper bound of 8% at by Dec and below 5% in 2024. We concur.

Headline urban inflation plummeted to 14.15%y/y in May, from a high of 21.67% y/y in Dec 22. Food inflation, which peaked at 45.33% y/y in Dec 22, had impelled inflation to 21.67% y/y, partly due to poor agricultural seasonal performance and the ongoing fall-out of the war in Ukraine.

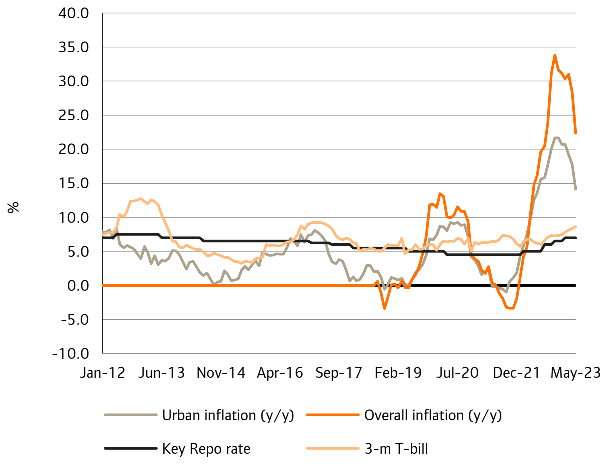
Food inflation will be instrumental in easing inflation. Food inflation has a meaningful impact overall prices because it carries a weight of 27% in the CPI basket. Energy inflation too is important as it carries a large weight in the CPI basket – it shed in Q2:23 due to an increased supply of charcoal and firewood, coupled with downward revisions for local pump prices.

With typical rainfall unlikely, according to Rwanda's National Institute of Statistics, agricultural production may suffer. Nonetheless, food inflation declined to 25.4% y/y in May, from 36.83% y/y in Apr. However, the onset of the dry season in Jul may temporarily restrain food deflation.

Consistent with the NBR's monetary policy stance, credit extended to the private sector rose by an average of 13.76% y/y in the 12-m to Feb, from 28.17% y/y the preceding12-m. This should support a neutral policy stance.

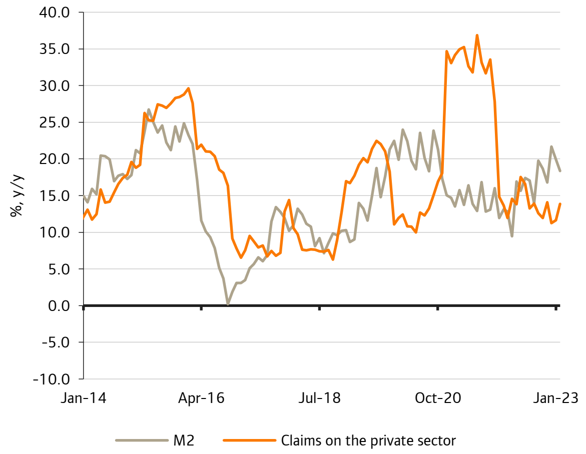
However, the IMF has proposed significant monetary tightening, together with other policy measures, to prevent macroeconomic imbalances from worsening.

Inflation and interest rates



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

Money supply



Source: National Bank of Rwanda

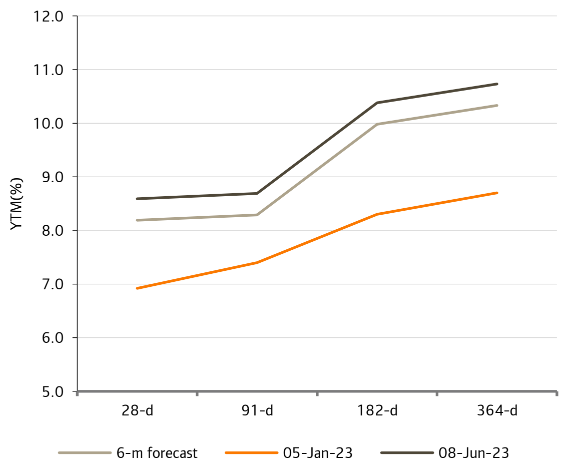
Yield curve outlook: stabilise, then decline

The stability of the yield curve is probably consistent with our expectation of a neutral monetary policy stance over the next 6-m.

Looking at yields during 2022, there was a consistent upward trajectory due to rising inflation expectations and a tighter monetary policy stance. Additionally, as external funding were constrained, net domestic lending and borrowing increased by RWF543.5bn, from the initial budget's RWF368.4bn.

With all of these elements likely reversing course, yields should now be stable, if not fall further, in the next 6-m. Inflation has begun to slow, and the FY2023/2024 budget anticipates borrowing only RWF194.9bn from the domestic market.

Yield curve changes



Source: National Bank of Rwanda; Standard Bank Research

Fiscal policy: favouring external funding

Only 17.5% of the RWF1113.5bn fiscal deficit for FY2023/24 is anticipated to be met domestically. The budget for FY2023/2024 anticipates borrowing RWF1,225.1bn from external sources and RW194.9bn from the local market. Most of Rwanda's external funding is anticipated to be provided on favourable terms, in line with developments in the country's debt stock. Rwanda has a sizable amount of concessional external debt. The Ministry of Finance estimates that 89% of all debt comprises concessional debt. According to the IMF, using resources under concessions is essential for lowering debt-related risks and easing the burden of debt servicing.

It is anticipated that debt service (interest payments) will increase in FY2023/24, from RWF339.0bn, to RWF467.7bn. The increase is primarily attributable to domestic debt services rising to RWF311.1bn, from RWF228.8bn in FY2022/23. Despite representing a sizable portion of Rwanda's total debt, external debt service is less than domestic debt service. The cost of servicing external debt is anticipated to rise to RWF156bn, from RWF110.2bn in FY2022/23.

The budget for FY2023/24 has been set at RWF5030.1bn, a 5.6% increase over the revised FY2022/23 budget. This is based on increased levels of domestic resource mobilization, whereas grants are predicted to decelerate by 12.2% y/y, to RWF652.1bn.

The budget for FY2023/24 again prioritizes development spending. The expected amount for all capital expenditures is RWF1,885.2bn, which is RWF104.4bn more than allotted in the revised budget for FY2022/23, and accounts for 38% of the overall budget.

The country's fiscal and BOP metrics have not deteriorated much; thus, the bonds should recover. In line with other African Eurobonds, the Rwanda '31s rallied over the past 2-m. However, Rwanda frequently suffers the effects of seemingly ever poorer security in the eastern DRC.

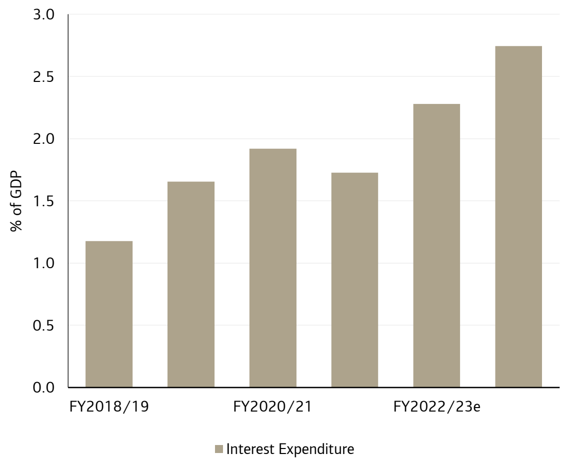
Central government budget

% of GDP	FY2020/21	FY2022/23e	FY2023/24f
Total revenue & grants	24.0	22.74	21.76
Total expenditure	30.4	32.04	29.52
- Wages	3.0	2.46	2.74
- Interest	1.9	2.28	2.74
- Capital expenditure	11.1	11.98	11.06
Overall fiscal deficit	-6.4	-7.33	-6.53
Net domestic borrowing	-0.3	0.93	0.41
Net foreign borrowing	6.7	5.37	6.43
Donor support (grants)	5.8	5.00	3.83

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

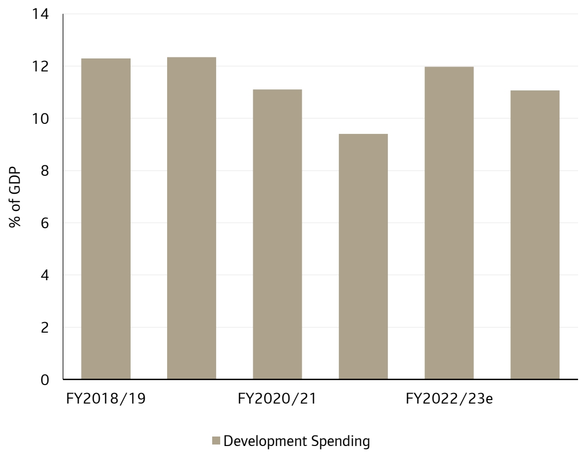
*original budget forecasts

Interest expenditure



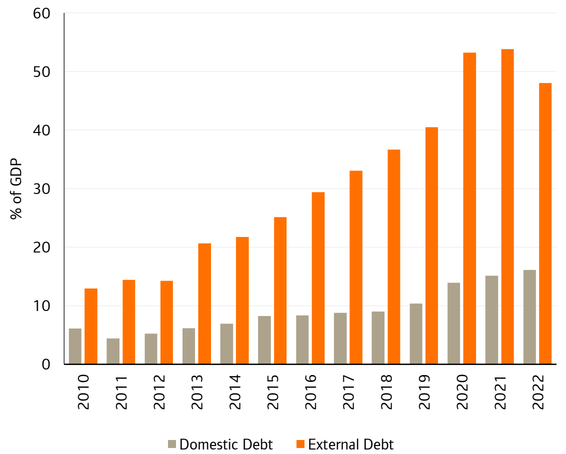
Source: Ministry of Finance and Economic Planning, Standard Bank Research

Development expenditure



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

Public debt



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

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	12.6	12.8	12.7	12.5	12.6	12.7	12.8
Nominal GDP (RWF bn)	8 302.0	9 315.0	9 612.0	10 740.6	13 079.9	15 663.6	16 696.9
Nominal GDP (USD bn)	9.5	10.2	10.0	10.7	12.6	11.9	12.4
GDP / capita (USD)	756.1	792.5	790.2	861.2	1 005.0	935.4	968.4
Real GDP growth (%)	8.6	9.5	-3.4	10.9	7.9	6.3	6.6
Coffee production ('000 tons)	21.3	23.4	16.0	20.8	21.8	22.9	29.8
Central Government Operations							
Budget balance (incl. Grants) / GDP (%)	-4.6	-6.3	-7.4	-6.4	-7.0	-8.2	-8.9
Budget balance (excl. Grants) / GDP (%)	-9.1	-10.8	-11.6	-11.1	-11.7	-14.9	-14.3
Domestic debt / GDP (%)	9.0	10.4	13.9	15.1	17.1	18.0	20.1
External debt / GDP (%)	36.7	40.5	53.2	53.8	64.5	67.7	70.6
Balance of payments							
Exports of goods and services (USD m)	2 043.3	2 246.8	1 407.5	1 414.7	1 400.5	1 470.5	1 781.8
Imports of goods and services (USD m)	-3 342.4	-3 737.0	-3 057.8	-3 052.0	-3 296.2	-3 263.2	-3 309.9
Trade balance (USD m)	-1 299.2	-1 490.3	-1 650.3	-1 658.5	-1 895.6	-1 792.7	-1 528.0
Current account (USD m)	-974.8	-1 230.9	-1 234.9	-1 243.7	-1 306.0	-1 264.5	-1 366.8
- % of GDP	-10.2	-12.1	-12.3	-11.6	-10.3	-10.6	-8.2
Financial account (USD m)	735.0	993.5	958.0	864.0	950.0	951.0	889.6
- FDI (USD m)	348.2	384.5	240.0	378.0	390.0	410.0	338.4
Basic balance / GDP (%)	-6.6	-8.3	-9.9	-8.1	-7.2	-7.2	-8.3
FX reserves (USD m) pe	1 252.0	1 363.0	1 700.0	1 577.0	1 635.0	1 500.0	1 500.0
- Import cover (months) pe	4.5	4.4	6.7	6.2	6.0	5.5	5.4
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	B+	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Urban consumer inflation (%) pa	1.4	2.4	7.8	0.8	13.8	13.5	4.4
Urban consumer inflation (%) pe	1.1	6.7	3.7	1.9	21.7	6.9	4.35
M3 money supply (% y/y) pa	13.2	13.6	18.7	17.9	21.7	10.9	15.8
M3 money supply (% y/y) pe	15.6	15.4	18.0	17.8	22.5	16.6	16.7
Policy interest rate (%) pa	5.5	5.2	4.6	4.5	5.5	7.4	7.0
Policy interest rate (%) pe	5.5	5.0	4.5	4.5	6.0	7.5	6.5
3-m rate (%) pe	5.8	6.0	7.5	6.9	7.2	7.8	7.4
1-y rate (%) pe	4.6	8.0	9.8	9.2	9.5	8.7	8.3
USD/RWF pa	872.7	915.7	957.2	1001.4	1034.7	1191.3	1343.8
USD/RWF pe	894.2	935.0	984.8	1 024.6	1 065.9	1 318.1	1 371.8

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: hydrocarbon production should spur growth

Medium-term outlook: promising

We now forecast real GDP growth at 5.5% for 2023 and then 8.7% in 2024, likely driven by significantly higher exports growth, as well as higher industry growth.

Medium-term economic prospects remain strong, supported by infrastructure projects and the likely commencement of oil and gas production this year. However, growth faces further potential domestic insecurity linked to the upcoming 2024 general elections.

While President Macky Sall claims legal right to run for a third term, he has made no definitive announcement yet. Should he run, we may see another round of violent protests when he confirms his candidacy.

Additionally, Ousmane Sonko, a major opposition potential candidate, was sentenced to 2-y in prison for 'corrupting the youth', likely lessening his chances to participate in this election. His sentencing led to violent protests, deaths, and affected economic activity.

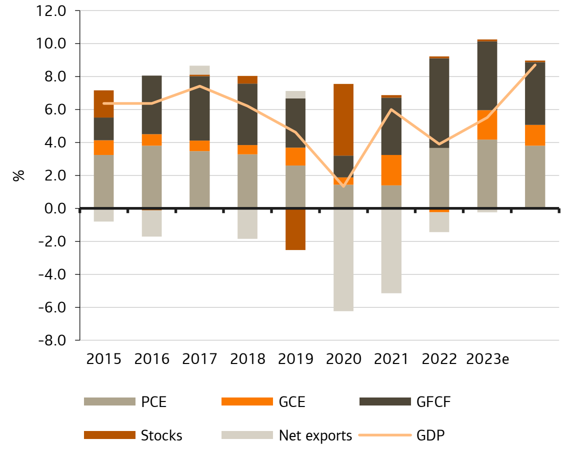
In 2022, economic growth slowed, with GDP growth decreasing to 4% y/y, from 6.5% y/y in 2021. Food and energy prices had soared due to the Ukraine invasion, harvests were poor, and industrial production low. Real export growth declined to 8.1% in 2022, from 22.6% in 2021, mainly due to reduced external demand and the temporary closure of borders.

This year, economic activity should rebound. The outlook though will rely largely on hydrocarbon production prospects. Hydrocarbon production is likely to begin by Q4:23, playing fully out as of 2024.

The medium-term outlook is still positive due to the commencement of oil and gas production and the implementation of structural reforms aimed at enhancing private-sector participation.

However, there are downside risks by way of potential delays in hydrocarbon production, election-related expenses, and entrenched energy subsidies.

Composition of GDP by demand



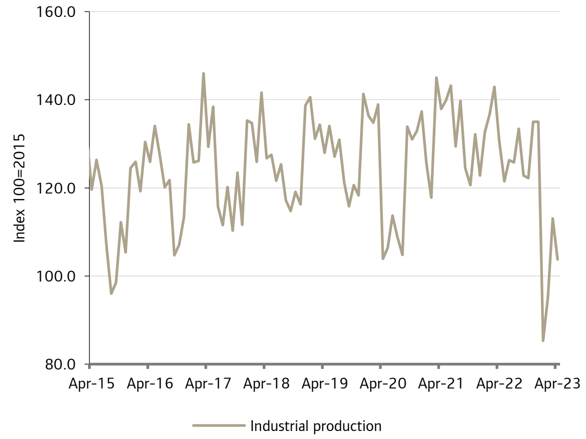
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

GDP by sector (%) contribution

	2020	2021	2022
Agriculture	10.6	10.4	9.9
Livestock and hunting	3.5	3.3	3.4
Forestry	0.4	0.4	0.4
Fishing	1.7	0.8	0.8
Mining	3.6	2.6	2.4
Energy/oil products	0.6	0.4	0.4
Utilities	1.1	1.0	0.9
Construction	3.1	2.6	2.6
Manufacturing	15.5	15.8	15.4
Commerce	6.3	6.3	5.9
Transport and communications	8.0	7.9	8.0
Other sectors	35.5	45.9	45.9
Public administration, education, health	11.4	11.7	11.8
GDP	100.0	100.0	100.0

Source: Agence Nationale de la Statistique et de la Demographie

Harmonised index of industrial production



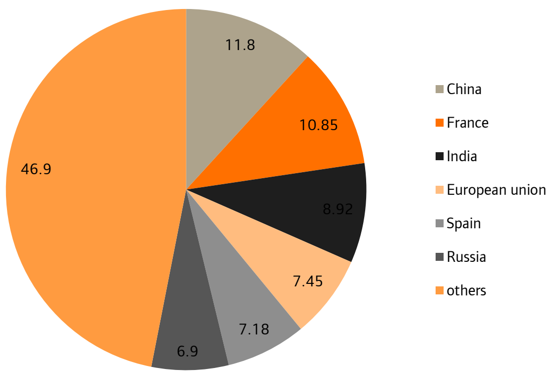
Source: Agence Nationale de la Statistique et de la Demographie

Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	3	4.4	5.5	9.2	9.8	9.9	8.1	6.8	5.7	5.4	5.1	5.5	5.3	6.1	6.3	6.3
CPI (% y/y) pe	9.5	6.8	4.0	3.0	4.4	3.5	3.6	3.6	3.5	4.0	3.9	3.7	3.8	4.1	4.0	4.1
Marginal lending facility (%) pe	4.75	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
USD/XOF pe	612.5	613.0	596.3	555.9	551.2	546.6	516.5	500.7	504.6	496.9	512.5	510.5	510.5	508.5	506.5	504.6

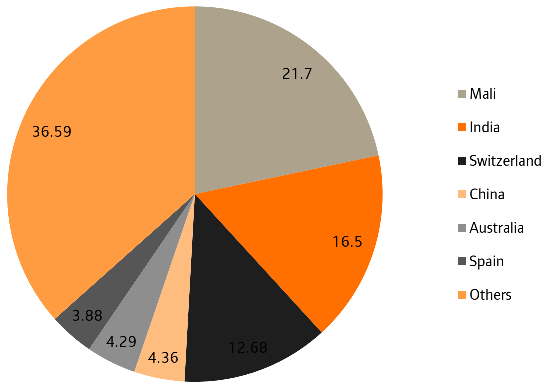
Source: International Monetary Fund; Ministère de l'Economie et des Finances; Agence Nationale de la Statistique et de la Demographie; Banque Centrale des Etats deNotes: pa - period average; pe - period end

Import Source market



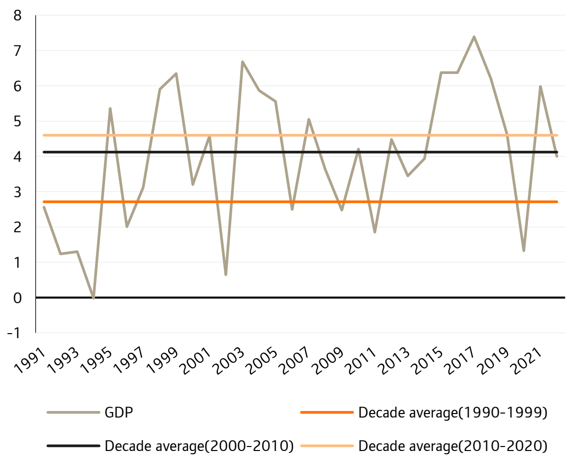
Source: Trade Map

Export Destination market



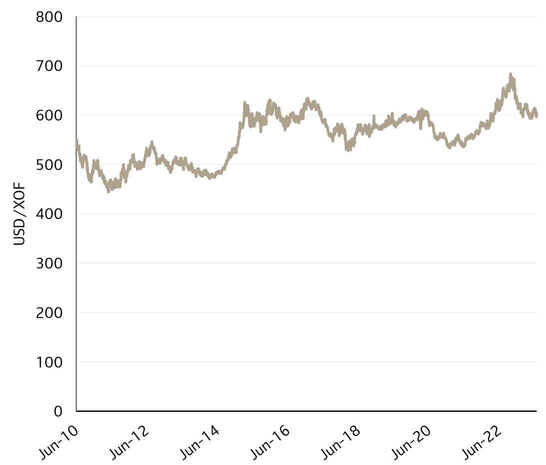
Source: Trade Map

Long-term GDP performance



Source: : Bloomberg; Standard Bank Research

Historical USD/XOF



Source: Bloomberg; Standard Bank Research

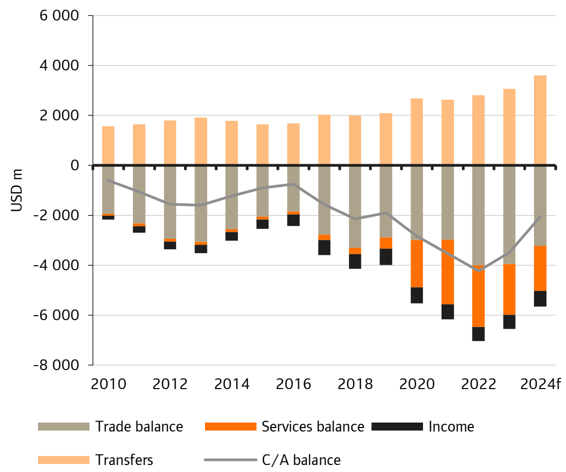
Balance of payments: deficit to narrow further

We now see the current account deficit at 11.5% of GDP in 2023, from 16% of GDP in 2022 (we had forecast 9% of GDP in the AMR Jan edition). We had initially expected hydrocarbon commencement by Q3:23 but now foresee late Q4:23/Q1:24. Lower commodity and food prices should see imports moderating, while the likely commencement of oil production should see exports increase marginally despite lower oil prices.

The current account deteriorated to 16% of GDP in 2022, from 14% of GDP in 2021, due to higher food and oil import prices and higher services imports associated with the FDI-financed hydrocarbon projects. The current account deficit will be financed mostly by FDI, concessionary loans, and loans linked to projects. The current account deficit will likely narrow further, to 5.2% of GDP in 2024, supported by hydrocarbon exports.

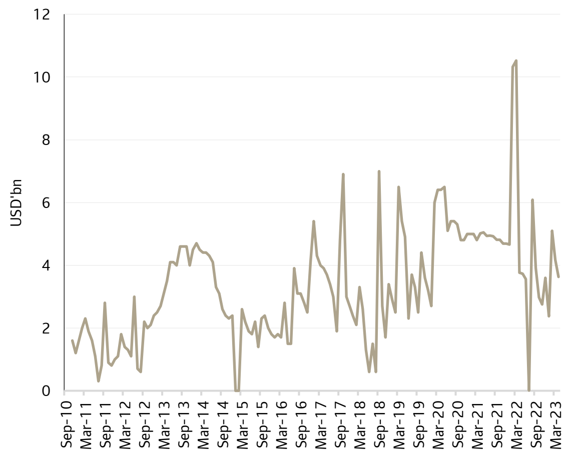
Despite relatively lower crude oil prices in Q1:23, imports growth remained in double digits, likely supported by capital imports and higher food imports affecting the terms of trade. Hence, the trade-balance deficit deepened to USD1.3bn in Q1:23, from USD1.2bn in Q1:22. Total imports rose by 11.5% y/y in Q1:23, to USD3bn, with finished products imports recording the most growth, at 60% y/y in Q1:23. Nevertheless, exports expanded in Q1:23, by 14% y/y, to USD1.7bn, set to be further boosted by hydrocarbon production. With limited access to the international debt market, Senegal should ease external financing pressures via a funded IMF programme. IMF staff and the Senegalese authorities have reached a staff-level agreement for a new 36-m financing arrangement under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) of US$ 1.526bn, combined with the Resilience and Sustainability Facility (RSF) of US$327.1m. The RSF will support Senegal's climate-change mitigation objectives, accelerate climate-change adaptation, and support the mainstreaming of climate-change considerations into the budget. Policy priorities here include fiscal consolidation by way of narrowing government spending and phasing out energy subsidies and boosting government revenue by way of streamlining tax exemptions.

Current account developments



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

FX reserves



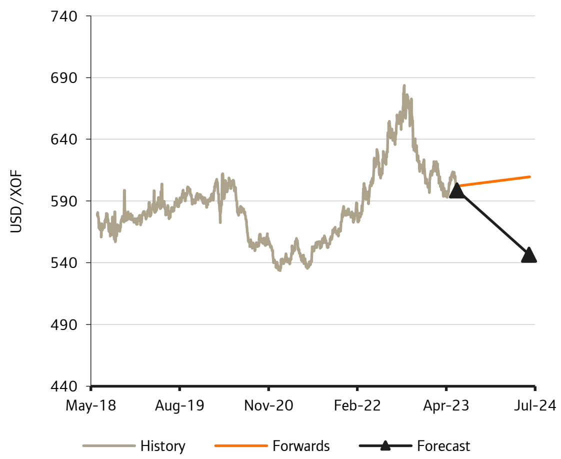
Source: Bloomberg

FX outlook: tagging EUR/USD

Tthe XOF may remain pegged at 655.957 to the EUR for our forecast period given that plans for the adoption of the common currency "eco" have been pushed out to 2027. The euro seems to have recouped most losses against the USD in the aftermath of the energy crisis ignited by Russia's Ukraine invasion; the EUR/USD is around 1.09, from lows of 0.98 in Sep 22. Euro gains were partly due to better sentiment in the eurozone as well as slower interest rate hikes by the Fed.

In Jun, the ECB hiked by 25bps, to 4%, and flagged further hikes; the Fed paused its hiking cycle. The ECB may well lift rates despite slower hikes by the Fed, which may assist the euro. We forecast the EUR/USD to range at 1.10-1.18 in H2:23, reaching 1.20 by H1:24. Typically, EUR/USD weakness coincides with USD/XOF gains. Thus, we forecast USD/XOF at 555.9 by Dec and 500.7 by Dec 2024.

USD/XOF: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: inflation moderating

We expect the BCEAO to maintain the policy rate at 3% and 5% for the liquidity calls and marginal lending window respectively for the remainder of 2023 due to the continued decline in inflation and the anticipation of a gradual moderation towards the targeted range of 1%-3%. This year, an additional 25 bps interest rate hike was implemented, taking the cumulative interest rate hike to 100 bps since Jun 22. Regional inflation moderated to 4.6% y/y in Apr 23, from 8.4% y/y in Sep 22, likely due to increased cereal production and softer imported energy and food product prices. The inflation rate for Q1:23 was 5.8% y/y, down from 7.8 % y/y in Q4:22.

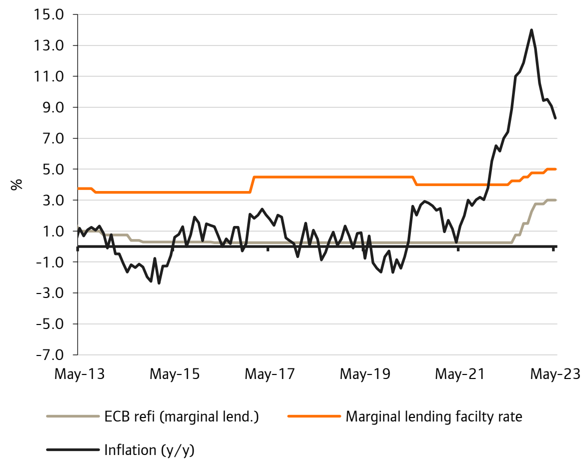
Preliminary estimates from the Permanent Interstate Committee for the Fight Against Drought in the Sahel (CILSS) indicate a projected 15.9% increase in cereal production in the WAEMU zone for the 2022/2023 crop year. This should tamp down the price of local cereals in the coming months.

However, regional inflation is expected to remain above the BCEAO's target of 3% in the near term. The BCEAO predicts that inflation in the bloc will only return to the targeted range by 2024, with an average of 2.9% y/y, compared to an expected average of 5.6% y/y in 2023.

Inflation in Senegal has been slowing, to 9.1% y/y in Apr 23, from a peak of 14.1% y/y in Nov 22. We see inflation averaging 6.3% y/y in 2023, from 9.6% y/y in 2022. However, there are risks by way of ongoing insecurity impinging on food distribution channels. Additionally, further increases in fuel prices and electricity tariffs would hinder inflation slowing further. For instance, in Senegal, the price of electricity per kilowatt-hour has increased by 16.7%, diesel by 15.27%, and gasoline by 11.24% since Jan 2023.

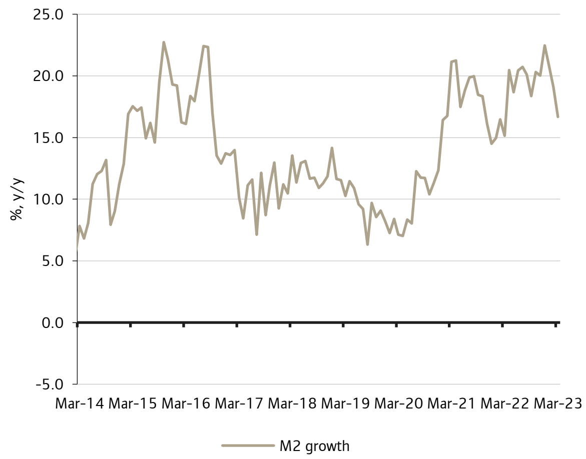
Although money growth (M2) has declined slightly y/y, it still exceeds pre-pandemic levels. M2 growth was 16.7% y/y in Mar 23, down from 20.8%y/y in Jan 23. M/m growth too has decreased, to 0.4% in Q1:23, from 2.0% in Q4:22.

Inflation and interest rates



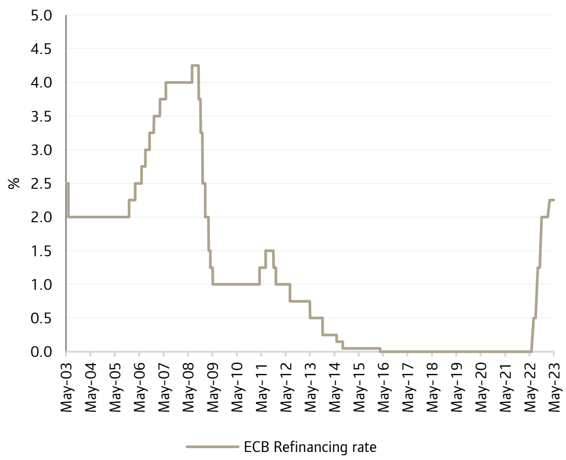
Source: Agence Nationale de la Statistique et de la Demographie; Standard Bank Research

Money supply growth



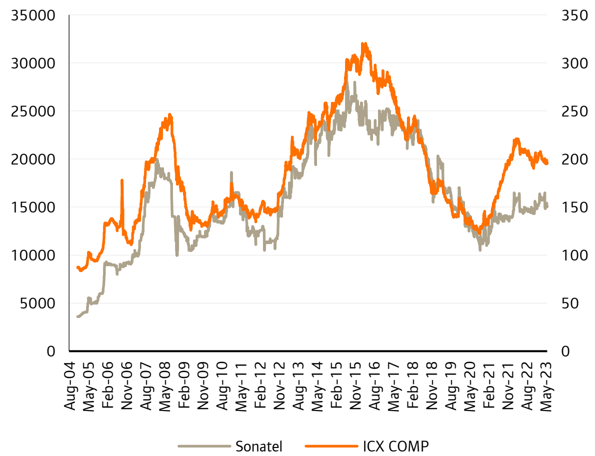
Source: Banque Centrale des Etats de l'Afrique de l'Ouest

Historical ECB refinancing rate



Source: Bloomberg

Capital market



Source: Bloomberg

Fiscal policy: entrenched deficit

Recent petrol price increases and relatively lower oil prices should contain the energy subsidy bill. However, a higher wage bill, fiscal slippage and election-related expenditure may see Senegal's budget deficit at over 5% in 2023. In 2022, fiscal deficit remained high, at 6.7%, with significant fiscal costs related to electricity sector subsidies due to elevated oil prices. However, with the planned phasing out energy subsidies and expanding targeted social protection measures show government's commitment to implementing medium-term fiscal consolidation while protecting the poor. The authorities aim to narrow the fiscal deficit to below 5%, from the budgeted 5.5%.

In 2022, the fiscal balance rose to 6.7% of GDP, from 6.3% in 2021.Though total revenue improved to 20.4% of GDP due to tax revenue, increased spending, at 27.1% of GDP (including social transfers and tax exemptions to mitigate the impact of income contractions), offset the revenue increase. To rebuild fiscal space, the government has adopted a roadmap to eliminate energy subsidies by 2025, shift towards regional-market financing, and reduce non-concessional financing.

The fiscal deficit is expected to decrease to 3% in 2025 through the elimination of energy subsidies as well as higher tax revenue. The implementation of fiscal consolidation measures should create room for social spending, with likely higher social assistance payments, partly driven by savings from the elimination of energy subsidies.

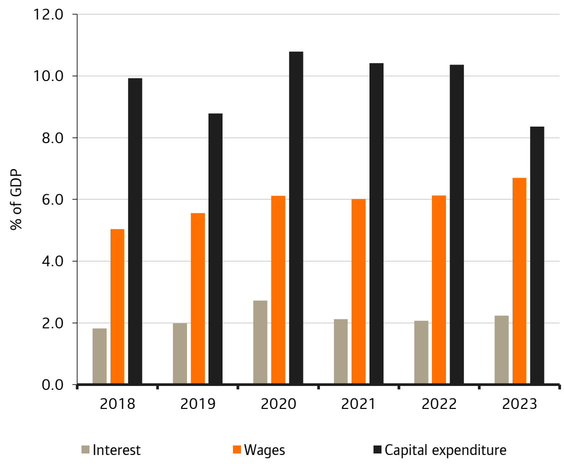
Investment spending has been reduced to keep the fiscal deficit in check, with public debt over 70.0% of GDP. Senegal therefore needs to strengthen domestic revenue mobilization, streamline non-priority spending, and utilize more concessionary financing. Budget deficit financing may primarily come from external sources, mainly concessionary funding, with project and programme loans accounting for a significant portion. Senegal should receive USD 1.8bn over 36-m once board approval of the ECF and RSF facility has been received.

Central government budget

% of GDP	2020	2021	2022	2023e
Revenue	17.8	18.8	19.7	21.6
Grants	2.3	1.5	1.6	1.5
Expenditure	26.5	26	27.5	28.6
- Salaries	5.7	6.6	6.1	6.7
- Interest	2	2.1	2.1	2.2
- Capital	9.3	10.4	10.4	8.4
Fiscal deficit (excl. grants)	-8.7	-7.2	-8.3	-7.0
Fiscal deficit (incl. grants)	-6.4	-6.3	-6.7	-5.5

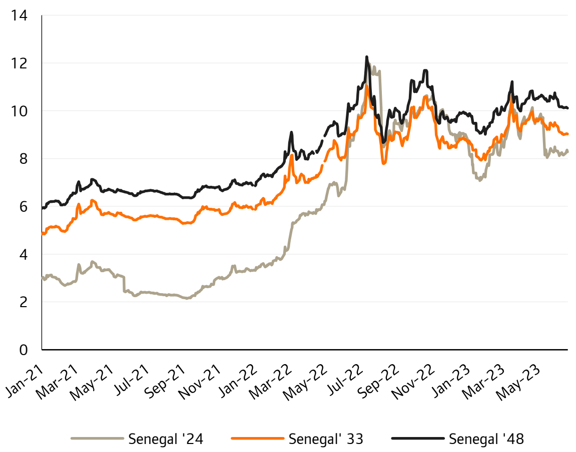
Source: Ministre de l'Economie et des Finances et du Plan

Components of expenditure



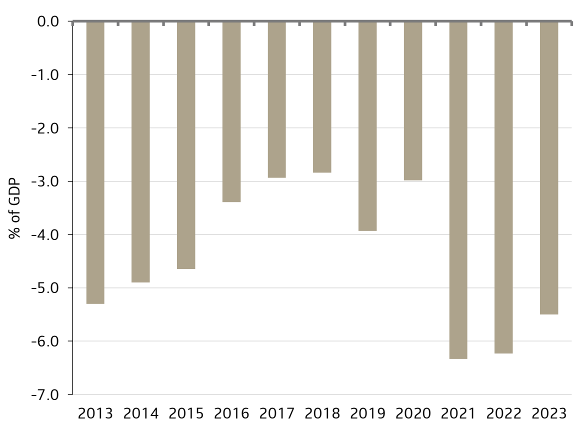
Source: Ministre de l'Economie et des Finances et du Plan

Eurobonds yields- mid



Source: Bloomberg

Fiscal deficit (incl grants)



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

Annual indicators

	2018	2019	2020	2021e	2022	2023e	2024f
Output							
Population (million)	15.5	15.8	16.3	16.7	17.0	17.4	17.7
Nominal GDP (XOF bn)	12 615	13 197	13 372	14 127	16 104	18 004	20 255
Nominal GDP (USD bn)	22.0	22.3	23.5	25.1	26.3	30.3	38.3
GDP / capita (USD)	1 426	1 415	1 444	1 500	1 542	1 743	2 161
Real GDP growth (%)	6.2	4.6	1.3	6.0	4.0	5.5	8.7
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-5.8	-5.5	-8.7	-8.7	-8.3	-7	-6.2
Budget balance (incl. grants) / GDP (%)	-3.7	-3.9	-6.4	-6.3	-6.7	-5.5	-5.2
Domestic debt / GDP (%)	18.5	18.6	19.2	20.0	21.0	14.3	14.3
External debt / GDP (%)	39.0	39.1	48.9	49.5	51.8	53.4	55.0
Balance of Payments							
Exports of goods (USD bn)	3.7	4.4	4.5	5.3	5.9	6.8	9.6
Imports of goods (USD bn)	-7.0	-7.3	-7.5	-8.2	-9.9	-10.8	-12.8
Trade balances	-3.3	-2.9	-3.0	-2.9	-4.0	-3.9	-3.2
Current account (USD bn)	-2.1	-1.9	-2.9	-3.5	-4.2	-3.5	-2.0
- % of GDP	-9.8	-8.5	-12.2	-14.0	-16.0	-11.5	-5.2
Capital & Financial account (USD bn)	3.1	2.1	2.7	3.4	3.8	4.7	4.0
- FDI (USD bn)	0.8	1.0	1.9	2.1	2.5	3.5	3.2
Basic balance / GDP (%)	-6.3	-4.1	-4.2	-5.4	-6.7	0.0	3.1
FX reserves (USD bn) pe	3.1	3.4	3.2	2.8	2.3	3.5	4.3
- Import cover (months) pe	5.3	5.5	5.1	4.1	2.8	4.0	4.0
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	0.5	0.4	1.5	2.2	10.0	6.3	3.8
Consumer inflation (%) pe	1.3	-1.7	2.5	3.8	12.8	3.0	3.6
M2 money supply (% y/y) pa	12.0	9.7	9.7	18.3	19.0	13.6	9.9
M2 money supply (% y/y) pe	14.1	8.2	12.3	12.3	22.5	10.1	10.1
Marginal lending facility (%) pe	4.5	4.5	4.0	4.0	4.0	5.0	5.0
USD/XOF pa	572.7	591.7	568.3	564.0	613.3	594.4	528.8
USD/XOF pe	580.3	585.7	535.3	576.8	599.9	555.9	500.7

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

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

Tanzania: pro-business reforms projected to back growth

Medium-term outlook: infrastructure investments spell upside bias for growth

We now expect GDP growth at 4.8% y/y – 5.1% y/y in 2023, from our previous forecast of 5.9% y/y. Growth in 2022 had eased to 4.8% y/y, from 4.9% y/y in 2021. As of 2024, growth should reach 5.7% y/y - 6.0% y/y.

Per preliminary data, GDP growth had averaged 5.2% y/y in the 9-m to Sep 22, implying a decline of 3.5% y/y in Q4:22. While this would indicate q/q growth of 12.5% y/y in Q4:22, up from a 2.9% q/q contraction in Q3:22, it still undershoots the Q4 average of 14.8% q/q growth from 2019 to 2021.

Growth in 2022 was subdued primarily by the large agricultural sub-sector where it eased to 3.3% y/y, from 3.9% y/y in 2021. The Tanzania Meteorological Authority (TMA) had warned that the long rains season (Mar to May 23) would be uneven. Furthermore, the TMA expects the onset of El Niño rainfall during the short rains season (Q4:23). These inherent downside risks, to agricultural productivity and private consumption expenditure, may therefore outweigh the favourable base effects for growth in this sector this year.

Additionally, weaker global demand for key merchandise exports, such as cashew nuts, may subdue exports over the coming year.

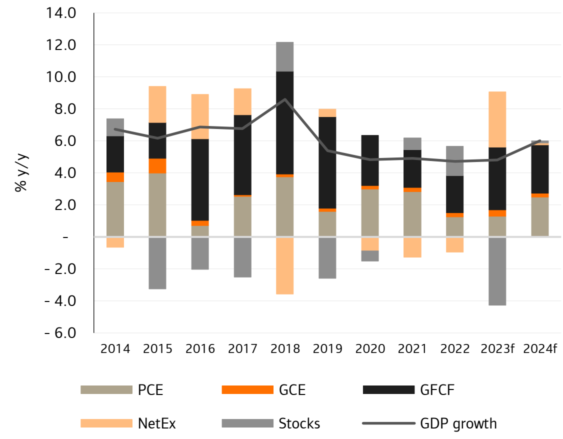
Growth in the services sub-sector, which accounts for around 35% of GDP in nominal terms, recovered to 5.2% y/y in 2022, from 5.0% y/y in 2021 and 4.3% y/y in 2020, spearheaded by the tourism and financial services sector. We expect the tourism sector to continue to recover over the coming year despite slower global growth.

However, ever poorer FX liquidity may constrain growth in the manufacturing sector over the coming year. Growth in the manufacturing sub-sector subsided to 4.2% y/y in 2022, from 4.8% y/y in 2021 and 5.8% y/y in 2019.

The government remains committed to investing in infrastructure, which should buoy growth over the medium term. Projects, such as the Standard Gauge Railway (SGR), will likely underpin the transport sector, once completed and connected to neighbouring landlocked countries.

Furthermore, the authorities are confident of securing a Host Government Agreement (HGA) for the LNG project in H2:23, which may increase investment spending in the medium term and perhaps see GDP growth exceed our current forecasts.

Composition of GDP by demand



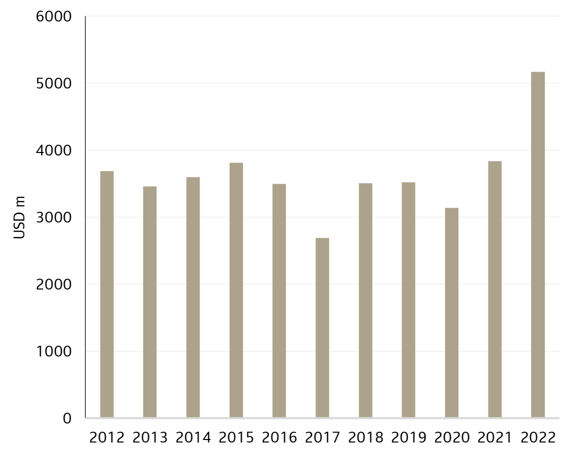
Source: National Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2020	2021	2022
Agriculture	26.7	26.8	26.2
Mining & quarrying	6.8	7.3	9.1
Manufacturing	7.7	7.2	7.1
Electricity & gas	0.3	0.2	0.1
Construction	14.1	15.1	15.3
Wholesale & retail trade	8.9	8.7	7.9
Transport & storage	7.4	6.9	6.7
Hotels & restaurants	0.9	1.0	1.1
ICT	1.5	1.5	1.5
Finance & insurance	3.4	3.4	3.2
Real estate	3.0	2.9	2.9
Public administration	3.8	3.8	3.7
Education	2.4	2.3	2.3

Source: National Bureau of Statistics

Capital goods imports



Source: Bank of Tanzania

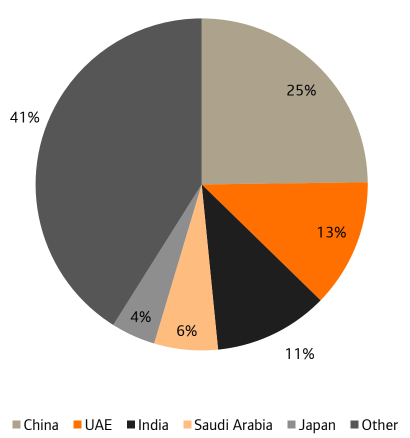
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	3.7	4.6	4.4	6.4	6.1	6.5	5.6	5.8	6.7	7.2	5.6	5.0	5.5	5.9	6.5	9.5
CPI (% y/y) pe	4.7	3.5	3.4	2.9	3.5	3.7	3.3	3.2	3.4	3.5	3.4	3.5	3.2	3.2	3.2	3.17
BoT policy rate	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
3-m rate (%) pe	4.0	4.1	4.7	4.9	4.5	4.1	3.7	3.8	3.4	3.0	2.6	2.7	3.2	3.6	3.9	3.8
6-m rate (%) pe	5.1	5.6	5.9	6.5	6.3	5.6	5.5	5.4	5.3	4.6	4.5	4.4	4.6	5.3	5.4	5.4
USD/TZS	2336	2412	2477	2495	2515	2520	2523	2535	2557	2558	2558	2562	2582	2583	2583	2586

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

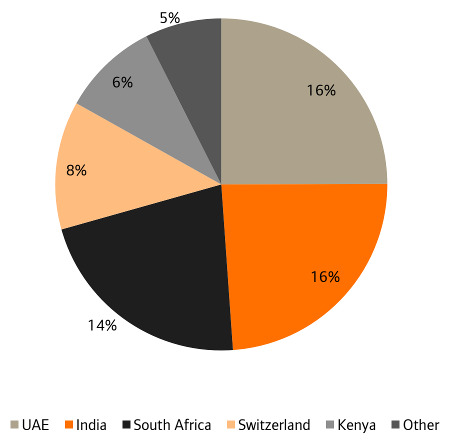
Notes: pe – period end; pa –a period average

Top 5 imports origin (% of total)



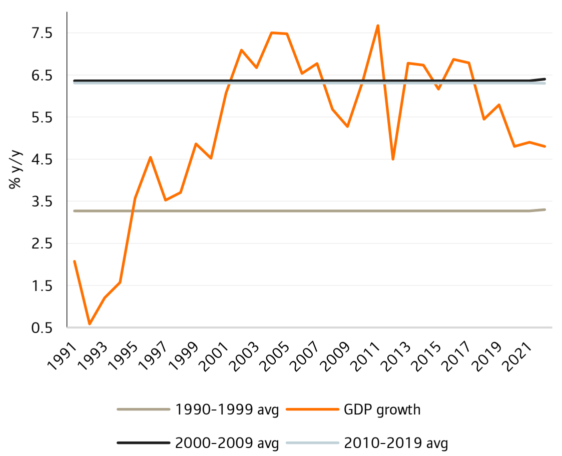
Source: International Trade Centre

Top 5 exports destination (% of total)



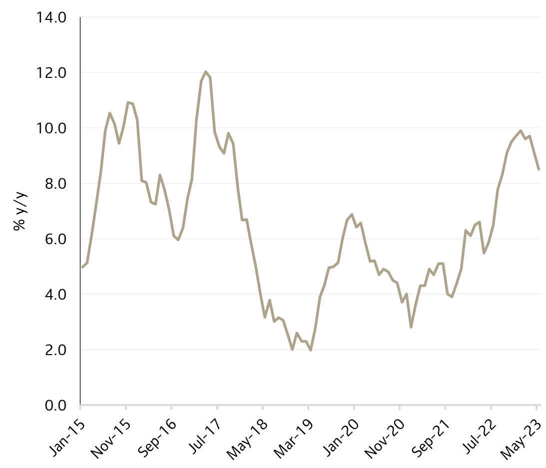
Source: International Trade Centre

Long-term GDP growth



Source: World Bank

Food inflation



Source: National Bureau of Statistics

Balance of payments: C/A deficit still deep

We now expect the C/A deficit to narrow to 7.3% of GDP in 2023, from 7.4% of GDP in 2022; our previous forecast was for it to deepen 6.9%, from 3.0% of GDP in 2021.

In the 4-m to Apr 23, cumulative imports of goods rose to USD14.4bn, from USD11.07bn in the same period the year before. Capital goods imports grew by 56.4% y/y during that period, while fuel imports increased by 47.2% y/y.

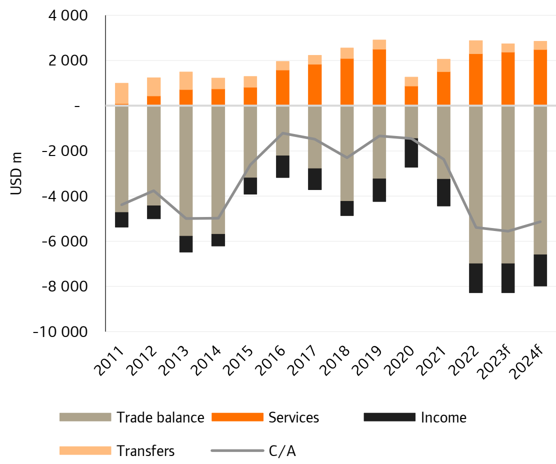
With international oil prices still likely high in H2:23, oil imports may further widen the trade balance. Furthermore, should the government secure adequate external funding, development expenditure too may rise further and keep the C/A deficit still deep.

FX reserves declined to USD4.6bn in Feb 23, from USD5.2bn in Dec 22, largely due to sell-side intervention by the BOT to stabilise the exchange rate. The BOT ramped up net FX sales to the market to a cumulative USD80m from Mar to Apr 23 (from USD41m from Jan to Feb 23).

Following a successful first review under the current ECF programme, the IMF disbursed around USD150m in Apr 23; a similar amount is expected closer to Q4:23. The government will likely still seek sourcing commercial syndicated loans to underpin FX reserves.

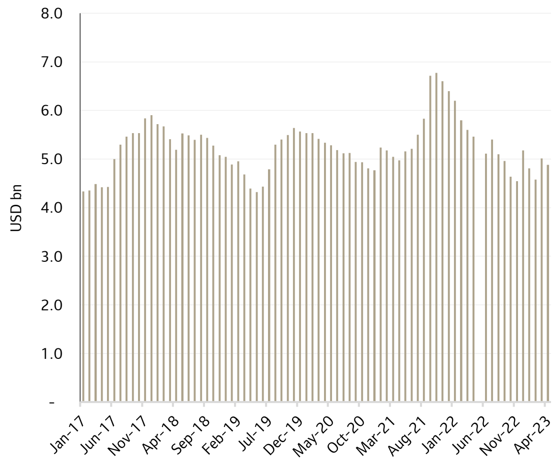
However, external debt service rose to USD453m from May to Jun 23, which may further subdue reserves. Also, as external debt service increases notably to a combined USD369m between Nov and Dec 23, reserves may decline even further.

Current account developments



Source: Bank of Tanzania; Standard Bank Research

FX reserves



Source: Bank of Tanzania

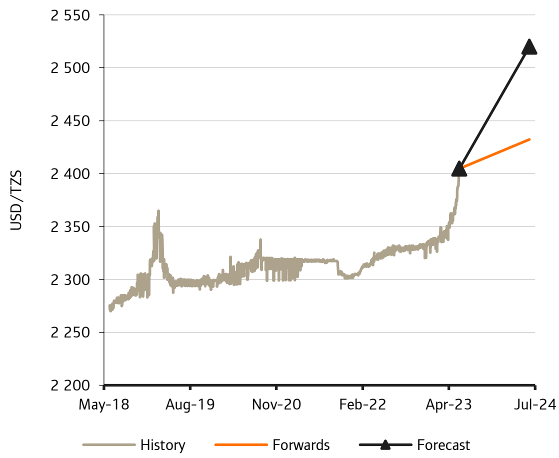
FX outlook: weaker TZS bias

We now expect the USD/TZS screen price to rise to 2480-2500 by Dec.

The TZS has been under pressure since Q4:22 due to reduced USD inflows from the cashew nut export season caused by last year's poor weather.

Upside pressure on the USD/TZS pair was exacerbated by cyclical demand for dividend repatriation in Q1:23. Thus, for the better part of H1:23, FX liquidity constraints have persisted. Given the inherent inefficiencies in the functioning of the FX interbank market, the BOT now requires all banks to trade FX within the interbank platform. Thus, with executable USD/TZS levels trading above 2480, the screen price for this pair may begin converging towards that level – although the executable rate too may head higher.

USD/TZS: forwards versus forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: tightening bias

The MPC will likely favour a tighter policy stance in H2:23 given the recent upside pressure on USD/TZS.

However, the BOT still hasn't transitioned to an interest rate targeting monetary policy framework, implying further tightening of policy via open-market operations.

The MPC used to prefer adjusting policy conditions via altering the Statutory Minimum Reserve (SMR) ratio.

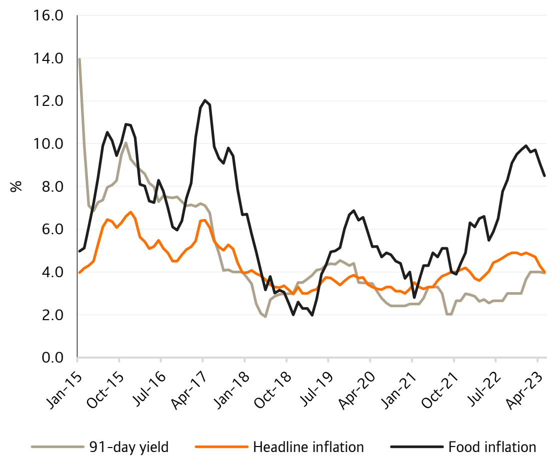
Currently, TZS liquidity is being mopped up via 7-d, 14-d and 30-d repos by the BOT. However, T-bill yields have not risen in line with the required tighter TZS liquidity environment. Crucially, in the absence of an interest rate targeting monetary policy framework, T-bill yields may need to rise further to help stabilise the TZS as well as anchor inflation expectations.

Headline inflation eased to 4.0% y/y in May 23, from 4.7% y/y in Mar 23 and 4.9% y/y in Jan 23. We see inflation easing further, to 3.4% y/y in Sep 23 and 2.9% y/y by Dec 23. Thereafter, headline inflation will likely average 3.4% y/y in 2024.

The upside risks come by way of poor weather associated with the likely El Niño rains beginning in Q4:23. Additionally, further TZS depreciation too poses upside risks to inflation by way of second-round impacts.

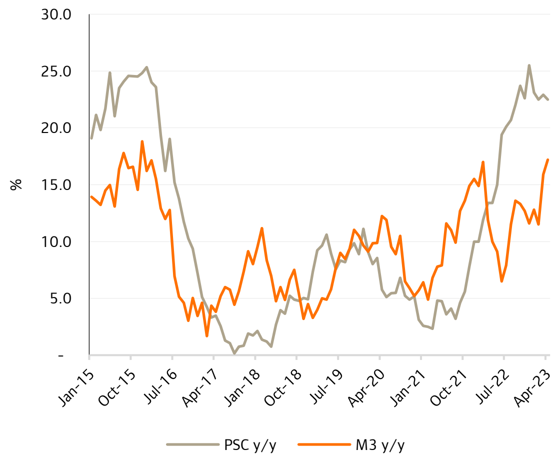
However, the USD/TZS rate has been trading well above the screen price since Jan. Hence, the incremental impact from a further weakening of the TZS may be somewhat limited on input and output prices as prices broadly would have already reflected the executable USD/TZS rate.

Inflation and interest rates



Source: National Bureau of Statistics; Bank of Tanzania

Monetary aggregates



Source: Bank of Tanzania

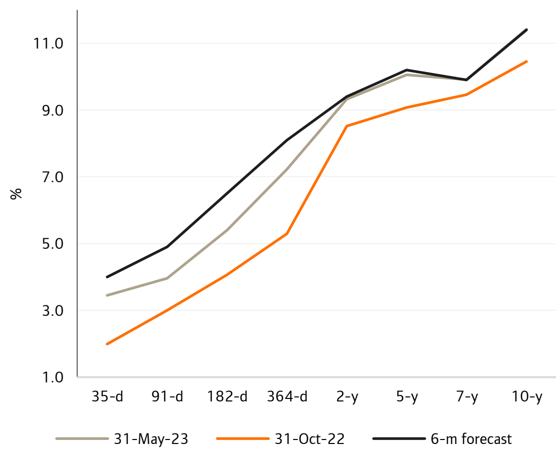
Yield curve outlook: bear-flattening

We expect the yield curve to bear-flatten in H2:23. T-bill yields are still likely to rise further as monetary policy conditions will probably have to be tightened to anchor inflation expectations following the depreciating TZS.

Government bond yields will likely rise too, but more moderately than the front-end of the curve, due to thin secondary market trading.

The TZS bond market still hasn't seen a meaningful rise in foreign portfolio investment despite the removal of capital account restrictions for SADC based investors. We don't expect this to change over the coming year, particularly with ever poorer FX liquidity.

Changes in the yield curve



Source: Bank of Tanzania; Standard Bank Research

Fiscal policy: revenue target ambitious

The government forecasts the fiscal deficit including grants to fall to 3.6% of GDP in FY2023/24, from 4.6% in FY2022/23.

Tax revenue collections may grow by 15.2% y/y in FY2023/24, to TZS26,725m, which seems an ambitious target, considering that revenue contracted by 1.9% y/y in FY2022/23.

However, the government is confident that new revenue proposals for FY2023/24 will spur collections. An amendment to the VAT Act will now see an increase in the VAT registration threshold, to TZS200m, from TZS100m previously. The authorities expect this to promote voluntarily tax compliance and yield TZS75.3m more in tax revenue.

Furthermore, excise duty on non-petroleum products will be increased to 10%, while duty on beer and tobacco products will be raised to 20%. This should bump up revenue by TZS299.6m more a year.

However, to boost investment and spur local production, the government has lowered excise duty on domestically manufactured drink products to TZS2,466.4 per litre, from TZS4,386.6 per litre. This may crimp revenue by TZS779.1m. Additionally, import duty reductions and waivers as an incentive to boost local production may cause a TZS1,258.3m reduction in annual revenue.

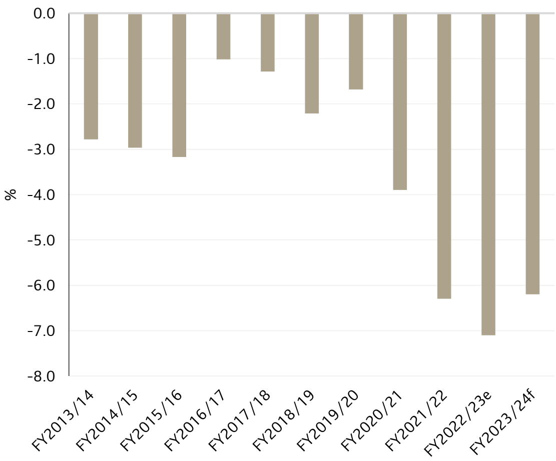
The FY2023/24 budget will be financed by lower net domestic financing of TZS1,898m, from TZS2,480m in FY2022/23. Furthermore, net external financing is projected to ease to TZS6,455m, from TZS6,581m.

Central government budget (% of GDP)

	FY2022/23	FY2023/24
Total revenue	14.4	14.9
Total expenditure	21.5	21.1
Wages	5.1	5.2
Interest	4.8	5.0
Development	8.0	6.7
Overall balance (- grants)	-7.1	-6.2
Overall balance (+ grants)	-4.6	-3.6
Net domestic borrowing	1.3	0.5
Net external borrowing	0.8	0.5
Donor support (grants)	2.5	2.6

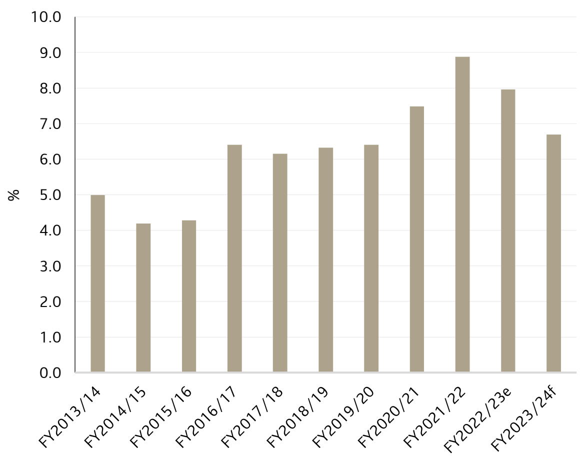
Source: Ministry of Finance

Fiscal deficit excluding grants



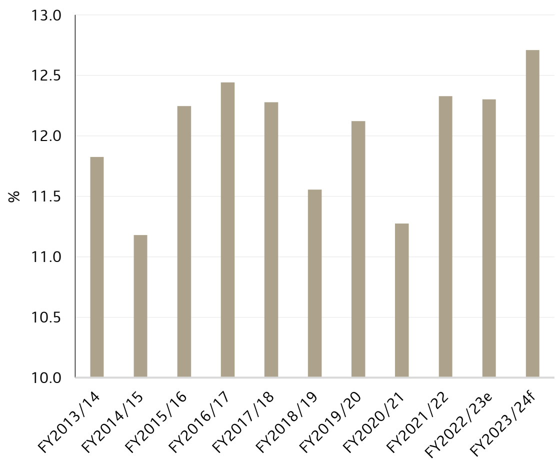
Source: Ministry of Finance

Development expenditure (% of GDP)



Source: Ministry of Finance

Tax revenue (% of GDP)



Source: Ministry of Finance

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	56.3	58.0	59.7	61.3	63.0	64.7	66.3
Nominal GDP (TZS bn)	123 989	134 383	145 434	156 375	170 255	184 889	202 695
Nominal GDP (USD bn)	56.6	60.5	62.9	67.9	73.2	76.1	80.3
GDP / capita (USD)	1 036	1 075	1 084	1 137	1 161	1 177	1 211
Real GDP growth (%)	7.0	7.0	4.8	4.9	4.8	4.8	6.0
Gold production ('000 Kg)	39.3	48.4	55.8	59.6	60.0	74.7	69.5
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.1	-2.9	-1.7	-3.9	-6.3	-7.1	-6.2
Budget balance (incl. Grants) / GDP (%)	-1.9	-3.2	-1.4	-3.5	-3.8	-4.6	-3.6
Domestic debt / GDP (%)	11.9	11.1	10.7	12.2	12.8	12.8	13.0
External debt / GDP (%)	29.5	28.6	28.0	28.2	28.1	27.5	27.5
Balance of Payments							
Exports of goods and services (USD bn)	8.4	9.7	8.8	10.0	11.9	12.1	12.3
Imports of goods and services (USD bn)	10.4	10.9	8.9	11.7	16.6	18.2	17.1
Trade balance (USD bn)	-1.7	-1.2	-0.1	-1.8	-4.7	-6.1	-4.8
Current account (USD bn)	-2.3	-1.3	-1.4	-2.3	-5.4	-5.6	-5.1
- % of GDP	-4.8	-2.6	-1.5	-3.4	-7.4	-7.3	-6.4
Financial account (USD bn)	1.6	2.5	0.8	4.0	3.9	3.6	3.8
- FDI (USD bn)	1.0	1.2	0.9	1.1	1.3	1.6	1.8
Basic balance / GDP (%)	-1.2	2.0	-1.0	2.5	-2.0	-2.6	1.5
FX reserves (USD bn) pe	5.0	5.6	4.8	6.6	5.2	4.5	5.1
- Import cover (months) pe	6.3	6.5	5.6	6.8	4.7	4.1	4.4
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	B2	B2	B2	B2
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	3.5	3.5	3.3	3.7	4.4	3.6	3.4
Consumer inflation (%) pe	3.3	3.8	3.2	4.2	4.9	2.9	3.2
M3 money supply (% y/y) pa	6.6	7.4	8.8	10.2	11.7	15.3	17.4
M3 money supply (% y/y) pe	4.5	9.6	5.7	15.5	11.6	20.5	8.7
BoT discount rate (%) pa	8.00	7.00	5.50	5.00	5.25	5.00	5.00
BoT discount rate (%) pe	7.00	7.00	5.00	5.00	5.50	5.00	5.00
3-m rate (%) pe	3.5	4.5	2.5	3.0	3.0	4.9	3.8
1-y rate (%) pe	9.3	5.9	4.3	4.2	6.6	9.4	6.5
2-y rate (%) pe	10.5	11.1	7.1	7.7	8.5	10.2	8.8
5-y rate (%) pe	12.0	12.0	9.1	9.4	9.1	10.5	9.3
USD/TZS pa	2281	2311	2314	2304	2327	2430	2523
USD/TZS pe	2310	2300	2319	2298	2329	2495	2535

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

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

Uganda: much still hinges on oil investment

Medium-term outlook: first oil remains on track for 2025/26

We now trim our FY2023/24 GDP growth forecast to 5.9% y/y – 6.1% y/y, from 6.5% y/y – 6.8% y/y. For FY2024/25, GDP growth should reach 6.7% y/y – 6.9% y/y.

Per preliminary data, GDP growth was 5.3% y/y in FY2022/23, from a (revised) 4.6% y/y in FY2021/22. Official data denotes growth for Q1 and Q2 (of FY2022/23) at an average of 6.8% y/y, implying much slower economic activity in H1:23 (the quarterly GDP growth breakdown for Q3 and Q4 had not been released at the time of writing). Still, revisions to historical GDP growth still seem likely. This would imply that H2:22 growth might still undershoot the reported 6.8% y/y average.

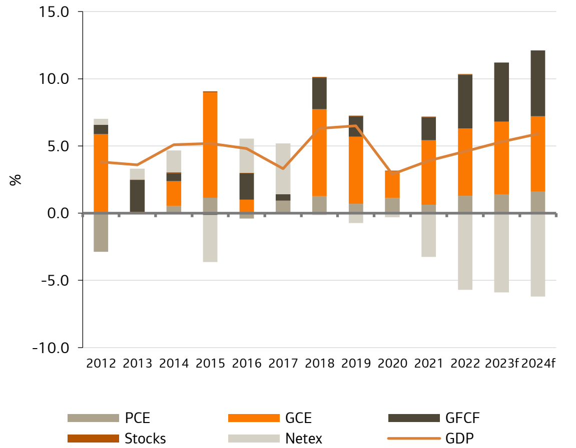
As weather conditions have been good, the agricultural sector should underpin GDP growth in H2:23. However, the risk of El Niño rains may restrain that sector's growth and thereby also subdue GDP growth.

The Uganda National Meteorological Authority (UNMA) sees a 50% probability of El Niño rains in H2:23. Initially, there may be flooding which would constrain agricultural sub-sector growth but, eventually, such heavy rainfall should subdue food prices as well as spur personal consumption expenditure.

We reiterate that the timing of first oil will increasingly depend on government securing financing for the USD3.5bn crude oil pipeline. They remain confident of first oil transpiring in 2025. However, further financing delays might see this this target being missed. Reportedly, commercial lenders have been pulling out of crude oil pipeline funding arrangements due to environmental and social concerns. They government however expects funding from sources in China to compensate for the supposed pullback from commercial lenders. The government has also confirmed that 60% of the funding for the pipeline has been secured.

Our robust growth outlook for 2024 to 2025 hinges largely on investment spending in the oil sector as likely to rise meaningfully. If not, our GDP growth forecasts may prove too rich.

GDP by expenditure



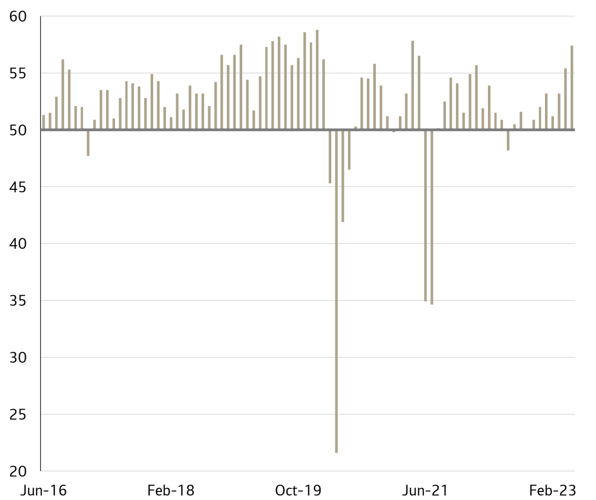
Source: Uganda Bureau of Statistics; Standard Bank Research

Contribution to GDP by sector

% of GDP	2008	2015	2022
Agriculture	27.1	23.2	24.4
Mining	1.2	1.0	1.4
Manufacturing	8.7	16.1	16.4
Construction	5.5	5.1	5.5
Trade & repairs	13.3	9.7	8.2
Transport	2.6	3.3	3.2
Accommodation & food	2.1	2.5	2.2
ICT	4.2	1.6	1.7
Financial & insurance	2.4	2.8	2.9
Real estate	5.5	6.0	6.3
Public administration	2.8	2.0	2.9
Education	5.3	5.2	3.6

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: Bloomberg

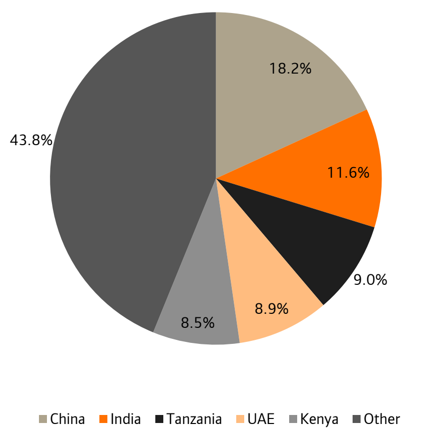
Medium-term economic scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	5.5	2.2	3.9	6.2	5.3	8.2	8.4	7.0	5.5	6.0	5.8	7.8	8.7	6.6	7.7	7.4
CPI (% y/y) pe	9.0	5.4	3.2	2.7	3.1	4.1	4.0	4.4	4.4	4.6	4.7	4.5	3.9	3.4	4.2	4.8
BOU policy rate (%) pe	10.0	10.0	9.5	9.0	9.0	8.0	8.0	8.0	7.0	7.0	6.5	6.5	6.5	6.5	6.5	6.5
3-m rate (%) pe	10.0	10.0	9.5	9.2	8.1	7.9	7.7	7.7	7.4	7.4	7.1	6.8	6.8	6.7	6.7	6.7
6-m rate (%) pe	10.2	12.0	11.6	11.1	10.5	9.7	8.8	8.5	8.3	8.3	8.1	7.9	7.7	7.8	7.5	7.5
USD/UGX	3770	3650	3700	3660	3715	3700	3660	3620	3580	3550	3550	3520	3530	3530	3515	3500

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

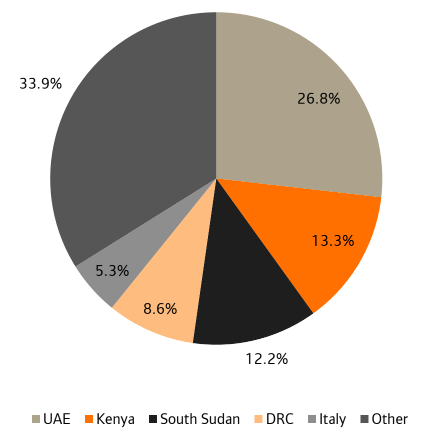
Notes: pa - period average; pe - period end

Uganda's top 5 imports origin (% of total)



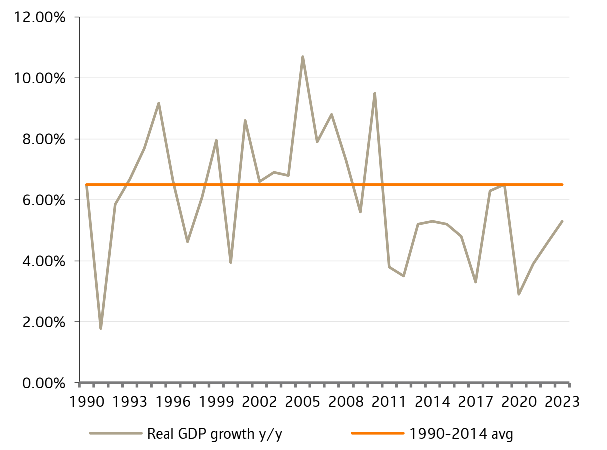
Source: International Trade Centre

Uganda's top 5 exports destination (% of total)



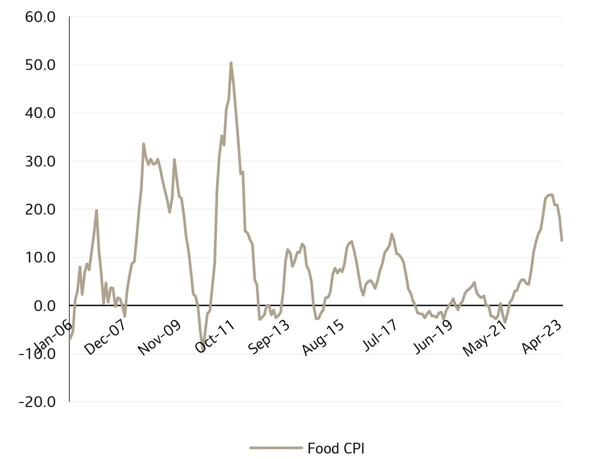
Source: International Trade Centre

Long-term GDP performance



Source: World Bank; Standard Bank Research

Food inflation (%)



Source: Uganda Bureau of Statistics

Balance of payments: imports may remain elevated

We still expect the C/A deficit to remain elevated, at 9.3% of GDP in 2023 and 9.9% of GDP in 2024. The deficit had deepened to 9.0% of GDP in 2022, from 8.6% in the previous year.

Export receipts have been recovering since Jan 23, primarily due to higher gold earnings and livelier regional trade. Gold exports recovered to USD480.7m in the 4-m to Apr 23, from USD29.6m in the 4-m to Dec 23. However, most such USD flows do not pass through the local FX interbank market. Thus, there is a limited impact on the BOU's FX reserves. Gold exports have been recovering gradually after a tweak in the taxation structure had prompted mining firms to suspend exports.

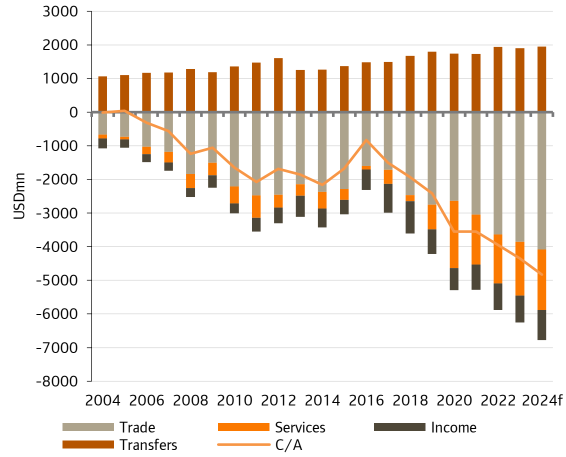
Following the re-opening of the border with Rwanda in Mar 22, cross-border trade and exports have recovered too. Exports to neighbouring Rwanda increased to USD69.1m in the 4-m to Apr 23, from a mere USD33k during the same period last year. Exports to Rwanda were USD212.1m in 2018 prior to the border spat halted trade between these two economies in 2019.

In the 4-m to Apr, exports to Kenya rose by 56.5% y/y, to USD280.2m. However, these are mostly re-exports (Uganda is landlocked, and uses Kenya's port to export goods).

Still, imports should keep rising because of increased machinery imports (associated with ongoing investment in the oil sector). We see this continuing for some years.

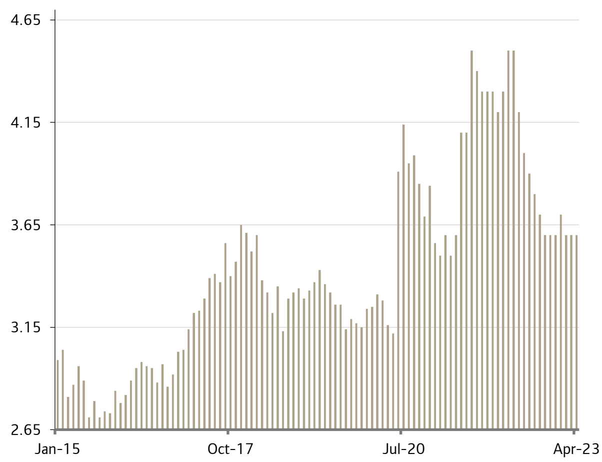
Since Sep 22, gross FX reserves have been stagnant around USD3.5-3.6bn. There have been many delays in obtaining commercial syndicated loans over the last year or so. However, reserves may now be spurred from the government's planned syndicated loan issuance of EUR500m, expected by end Jun 23.

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves (USD bn)



Source: Bank of Uganda

FX outlook: persisting USD/UGX upside risks

We still see a bias for a moderately stronger UGX in H2:23 because real UGX bond yields remain relatively attractive while consumer import demand remains muted. Furthermore, coffee export earnings tend to increase between Jun and Jul, which should also support the UGX.

However, after parliament passed what is being considered as one of the harshest anti-homosexuality laws, the USD/UGX pair may be prone to volatility. Still, foreign portfolio investors are unlikely to abandon the UGX bond market but the risk of sanctions, which could reduce donor support and NGO-related flows, could still weigh down the UGX.

Also, oil-related imports may put upside pressure on the USD/UGX (though most such imports will likely be pre-funded via FDI flows).

USD/UGX: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: easing cycle imminent

We still expect the MPC to have cut the key policy rate by a cumulative 200 bps during FY2023/24 (Jul 23 – Jun 24).

Headline inflation eased to 6.2% y/y in May 23, from 9.0% y/y in Mar and 10.4% y/y in Jan 23. Food crops inflation eased to 15.7% y/y in May 23, from 27.6% y/y in Jan 24.

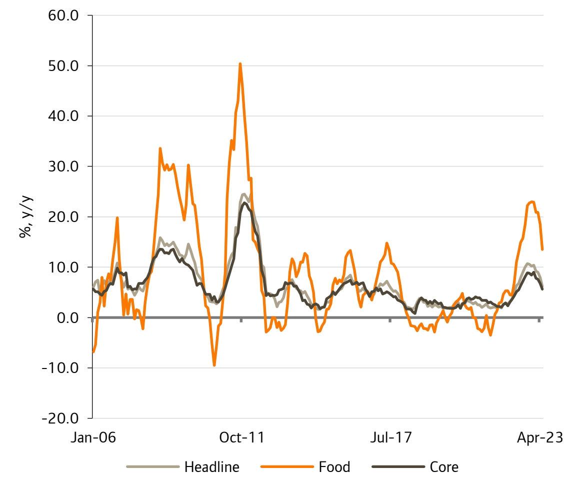
Weather conditions were broadly favourable in H1:23, thereby moderating food inflation. However, should El Niño rains disrupt food supply in H2:23, there could be notable upside risks to the inflation outlook. Although excessive rainfall usually bumps up food prices, vegetable prices tend to decline over time. Thus, food inflation too may ease.

The broad stability of the UGX during H1:23 helped anchoring inflation expectations. Core inflation eased to 5.6% y/y in May 23, from 9.0% y/y in Jan 23. However, the risks of foreign sanctions and slower donor flows may see a volatile USD/UGX pair, which could dislocate inflation expectations. Per the BOU, donor support and NGO flows account for nearly USD1.7bn a year.

Furthermore, upside risks to inflation may also come from increased portfolio outflows putting upside pressure on USD/UGX. However, the stock of foreign portfolio investment in UGX local debt is now around USD500m, down from just over USD1.0bn in 2022.

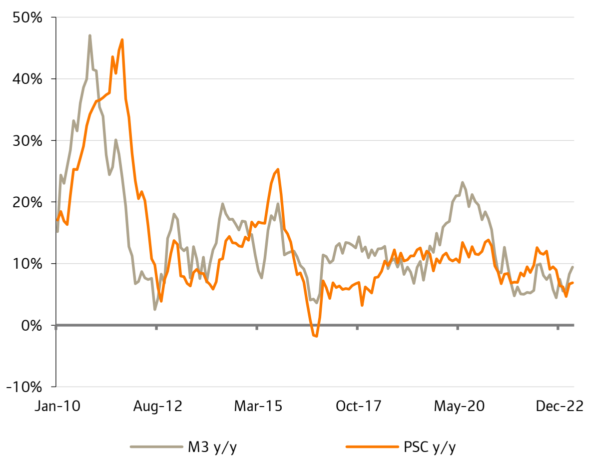
Favourable base effects will likely keep inflation easing during H2:23 – if there were no sharp weakness in the UGX.

Inflation and interest rates



Source: Bank of Uganda; Uganda Bureau of Statistics

Monetary aggregates



Source: Bank of Uganda

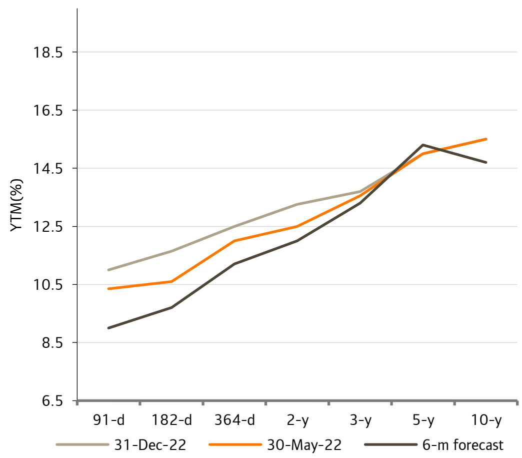
Yield curve outlook: duration attractive – but FX entry levels could be better

We reiterate that the duration trade may turn compelling in H2:23.

We always favour caution ahead of the FY end, as UGX yields tend to spike then as government borrowing tends to increase. Indeed, since Jun 23, the government has been borrowing more than initially planned from T-bill and bond auctions.

The government expects a EUR500m syndicated loan disbursed before end Jun 23. If not, an unscheduled bond auction before end Jun 23 would have been likely, particularly with the authorities under pressure to clear the BOU overdraft arrears (c.UGX5.9trn).

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: reforms crucial in unlocking IMF funding

The fiscal deficit (excluding grants) is seen falling to 5.0% of GDP in FY2023/24, from an expected outturn of 6.3% in FY2022/23.

There were delays in sourcing external funding, which curtailed development expenditure. Therefore, the government failed to meet the 6.6% of GDP fiscal deficit it had planned for FY2022/23.

At the time of writing, the authorities were expecting a EUR500m syndicated loan to be disbursed before end Jun 23. If delayed, expenditure should ease further in H1:23.

Volatile global risk conditions meant that the government couldn't draw down on the remainder of the EUR464m commercial syndicated loan. Only EUR180m was disbursed in 2022. Additionally, parliament didn't approve another commercial loan meant to compensate for this. Hence, the government chose to increase the domestic borrowing target for FY2022/23, as demonstrated by increased borrowing appetite in Jun 23.

The government aims to clear its overdraft with the BOU, a currently contentious issue under the current IMF programme. The outstanding stock of this overdraft is around UGX5.9tr (nearly double from Jul 22). Per the agreement with the IMF, the authorities expect to have cleared around UGX2.2trn of arrears by end FY2022/23, and the rest in FY2023/24.

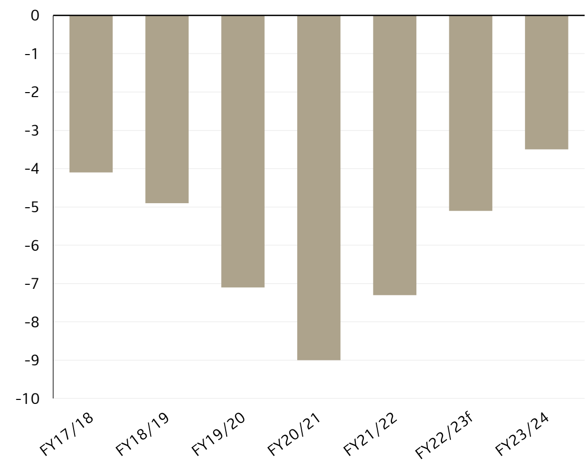
The persisting overdraft may not affect the IMF programme disbursement in Jul 23 – but it may disrupt funding under the programme in Sep 23. The government had pencilled in around a combined USD250m funding under the IMF programme for 2023. However, should the Sep review be delayed, the government would have to ramp up borrowing from domestic sources.

Central government operations

% of GDP	FY2022/23	FY2023/24
Total revenue	13.6	14.4
Total expenditure	19.9	19.4
Wages	3.8	3.5
Interest	3.3	3.0
Development expenditure	6.7	6.7
Overall balance (- grants)	-6.3	-5.0
Overall balance (+ grants)	-5.1	-3.5
Net domestic borrowing	1.3	0.9
Net external borrowing	3.8	2.6

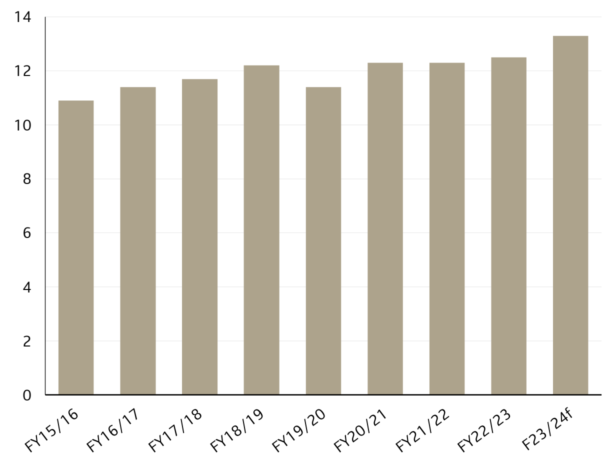
Source: Ministry of Finance

Fiscal deficit inclusive of grants (% of GDP)



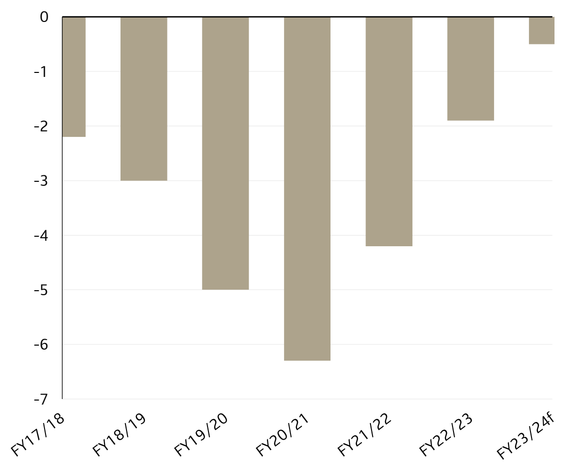
Source: Ministry of Finance

Tax revenue (% of GDP)



Source: Ministry of Finance

Primary balance (% of GDP)



Source: Ministry of Finance

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	38.8	39.8	41.2	42.5	43.7	45.0	46.4
Nominal GDP (UGX bn)	120 485	132 628	143 390	148 309	163 238	173 032	179 953
Nominal GDP (USD bn)	31.9	35.9	38.5	41.4	43.8	46.8	49.0
GDP / capita (USD)	823	903	935	976	1001	1041	1056
Real GDP growth (%)	6.3	6.5	2.9	3.9	4.6	5.3	5.9
Coffee production ('000 Tonnes)	225.5	220.5	228.5	227.8	218.5	225.2	229.3
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-4.7	-5.8	-8.0	-10.4	-8.4	-6.3	-5.0
Budget balance (incl. Grants) / GDP (%)	-4.1	-4.9	-7.1	-9.0	-7.3	-5.1	-3.5
Domestic debt / GDP (%)	13.9	14.2	16.0	16.2	18.1	19.0	19.9
External debt / GDP (%)	23.5	23.8	31.2	33.1	34.5	36.1	37.2
Balance Of Payments							
Exports of goods and services (USD bn)	6.0	6.3	5.6	6.2	6.0	6.3	6.5
Imports of goods and services (USD bn)	8.7	9.8	10.2	10.6	11.2	11.6	12.4
Trade balance (USD bn)	-2.7	-3.5	-4.6	-4.4	-5.1	-5.3	-5.9
Current account (USD bn)	-1.9	-2.4	-3.6	-3.6	-3.9	-4.4	-4.8
- % of GDP	-6.1	-6.7	-9.3	-8.6	-9.0	-9.3	-9.9
Financial account (USD bn)	-1.7	-1.8	-2.7	-3.4	-2.4	-1.8	-1.2
- FDI (USD bn)	1.0	1.3	0.8	1.1	1.5	1.8	2.0
Basic balance / GDP (%)	-2.9	-3.2	-7.2	-5.9	-5.6	-5.4	-5.8
FX reserves (USD bn) pe	3.4	3.2	3.8	4.3	3.6	4.0	4.2
- Import cover (months) pe	4.5	4.1	4.0	4.2	3.8	3.7	3.6
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	2.5	2.2	2.8	2.2	7.2	5.1	3.9
Consumer inflation (%) pe	2.2	2.4	2.5	2.9	10.2	2.7	4.4
M3 money supply (% y/y) pa	10.8	11.0	19.8	10.4	6.9	9.8	13.7
M3 money supply (% y/y) pe	8.2	16.0	17.1	5.0	7.5	10.1	14.3
BOU policy rate (%) pa	9.2	9.8	7.5	6.6	8.3	9.6	8.3
BOU policy rate (%) pe	10.0	9.0	7.0	6.5	10.0	9.0	8.0
3-m rate (%) pe	10.4	9.2	8.5	6.5	11.0	9.2	7.7
1-y rate (%) pe	13.2	12.9	14.0	10.4	12.5	11.0	8.9
2-y rate (%) pe	14.9	14.5	16.0	10.7	13.3	12.3	11.6
5-y rate (%) pe	16.5	16.0	16.5	13.9	15.0	15.3	14.7
USD/UGX pa	3773	3690	3721	3580	3729	3695	3674
USD/UGX pe	3705	3665	3 650	3560	3715	3660	3620

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

Notes: pa - period average; pe - period end

Zambia: the tide has finally turned

Growth outlook: consumer demand upside and debt restructuring justify optimism

The Government of the Republic of Zambia finally agreed on the terms of their external debt restructuring with official creditors in late Jun 23. USD6.3bn of outstanding debt will be termed out to at least 20-y with a 3-y moratorium on principal payments. Private sector creditors are expected to follow suit. Importantly, investors in local currency bonds are excluded from any treatment, unlike Ghana. Zambia will now be able to access the next tranche of IMF funding of USD188m.

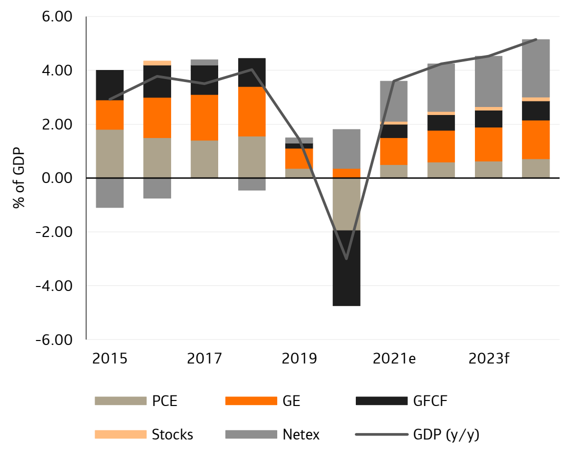
We forecast GDP growth of 4.5% y/y and 5.1% y/y for 2023 and 2024 respectively. GDP grew by 5.8% y/y in Q4:22, bringing 2022 growth to 4.2% y/y. Q4:22 growth was driven mainly by the education, transport and storage, and ICT sub-sectors. However, mining and quarrying remained a drag.

Q1:23 was challenging. Delayed rains meant lower dam water levels, causing electricity generation to plummet by 19% m/m, with a subsequent spike in electricity imports in Jan 23. Delayed rains also drove fears of a weak maize crop, which sent grain prices higher by 41% y/y in Mar 23, which will likely weigh down private consumption expenditure.

Copper export earnings declined as output was lower by 19% y/y in Q1:23, which created negative fundamentals for the kwacha as USD revenue declined. The kwacha also suffered negative sentiment due to little progress on debt restructuring during this period. Copper output thus far in 2023 has been subdued. Total production in Q1: 23 was 143,640 MT, down 19% y/y. This is unlikely to turn around until the KCM and Mopani copper mining firms overhangs have been resolved, which, for Mopani may happen as early as Q3:23.

We nevertheless expect the non-mining sector to star in the growth outlook for 2023. Rains were late but sufficient to replenish water levels and transform the situation from net importing of electricity to net exporting. In addition, officials estimate an 18% y/y increase in maize output, to 3.2 million tonnes, for Q2:23 (although this number is being disputed by observers). However, should the current El Niño weather patterns continue for some years after 2023, hydro-electric power generation and agricultural productivity would be negatively affected. Still, government initiatives should stimulate consumer spending in 2023, benefiting economic growth. For instance, early and partial pension withdrawals, amounting to 2.3% of the 2022 nominal GDP, should boost consumption expenditure. Another initiative is the increase in the allocation and delivery through devolution of the Constituency Development Fund (CDF), projected to constitute 0.9% of 2022 nominal GDP. These measures form part of the government's strategy to promote economic growth, with results likely in the near to medium-term.

Composition of GDP by expenditure



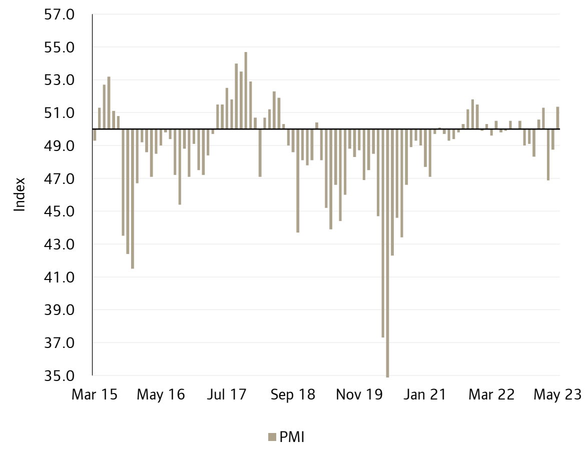
Source: Standard Bank Research

Contribution to GDP by sector

	Q2:22	Q3:22	Q4:22
Wholesale and retail trade	17.7	19.4	17.5
Transportation and storage	13.5	16.5	15.7
Mining and quarrying	14.6	10.6	12.0
Construction	13.1	11.3	11.5
Manufacturing	7.6	7.4	8.1
Financial and insurance	6.4	6.4	6.4
Public administration and defence	4.3	4.4	4.0
Information and communication	2.0	3.4	3.7
Agriculture, forestry, and fishing	3.6	2.8	3.6
Education	3.1	3.3	3.6
Real estate activities	2.8	2.8	2.7

Source: Zambia Statistics Agency

Stanbic Bank Zambia PMI



Source: IHS Markit, Bloomberg

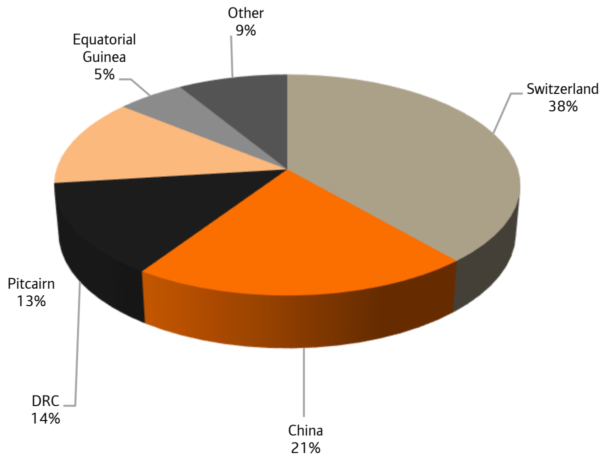
Medium-term economic growth scenarios

	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26
Base scenario																
GDP (% y/y) pa	6.1	4.2	4.1	3.9	4.4	4.0	5.6	6.4	5.6	5.6	4.4	3.7	4.4	4.4	4.4	4.4
CPI (% y/y) pe	9.9	9.4	9.9	10.7	8.6	8.5	8.4	8.3	8.9	9.3	9.5	10.0	9.1	8.6	8.4	7.7
BOZ policy rate (%) pe	9.3	9.3	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.0	9.0	9.0
3-m rate (%) pe	10.0	9.8	9.5	9.0	9.0	9.5	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.7
6-m rate (%) pe	11.0	11.0	10.5	10.0	10.0	10.5	10.5	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.5
USD/ZMW	20.0	18.2	17.5	17.5	17.6	17.8	17.7	18.1	18.2	18.5	18.4	18.8	18.9	19.2	19.1	19.5

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

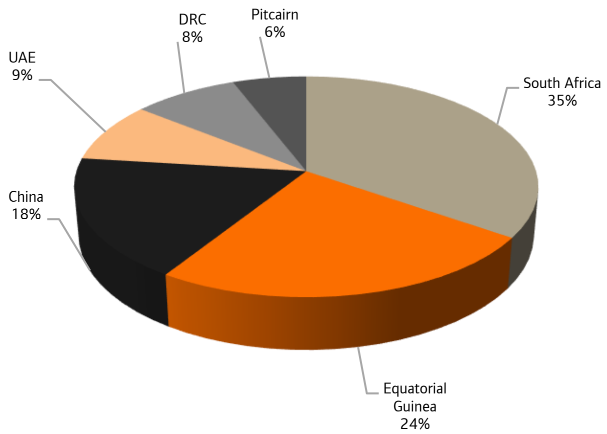
Notes: pa - period average; pe - period end

Share in Zambia's exports (%)



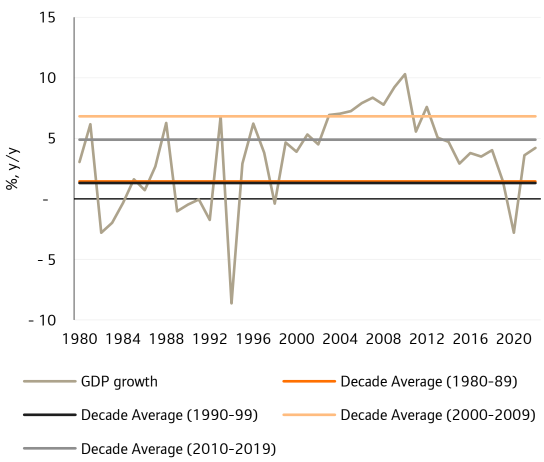
Source: ITC

Share in Zambia's imports (%)



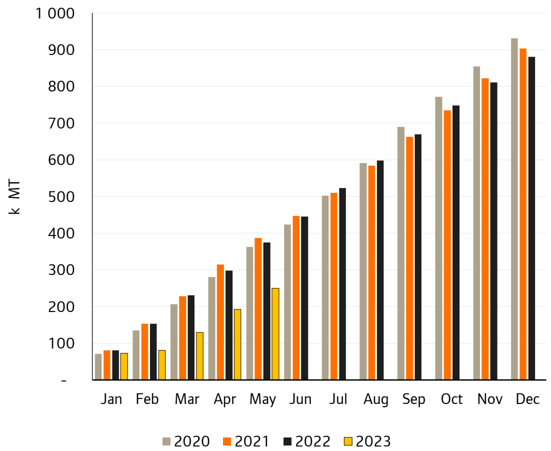
Source: ITC

Long-term GDP performance



Source: World Bank; Standard Bank Research

Cumulative export volumes of refined copper



Source: Zambia Statistics Agency

Balance of payments: short term relief but mining investment needed for the long term

Our current account surplus estimate for the year is now 3.89% of GDP from 3.81% in 2022.

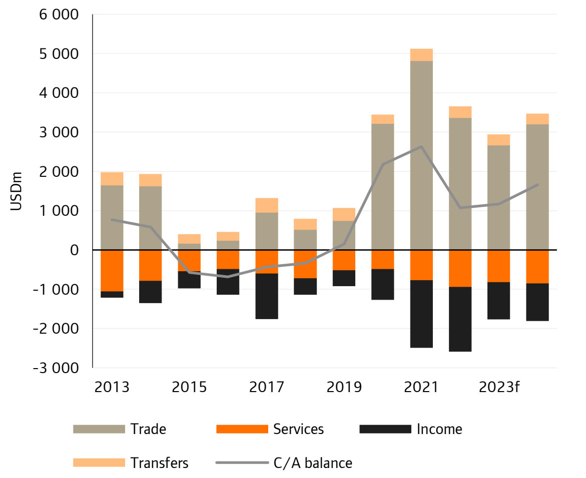
The kwacha, after a 10% cumulative appreciation between Q2:22 and Q3:22, faced a 4.3% depreciation in Q4:22, a trend that has persisted into 2023 with significant volatility underpinned by the news cycle pertaining to debt restructuring.

This depreciation was fuelled by low FX supply, high demand for imports, and the divestment of foreign financial institutions from the domestic bond market. The Bank of Zambia intervened in Q4:22, selling USD443.5m to the market – but its capacity to intervene has diminished as forex inflows have dried up. A 2.5% increase in the statutory reserve ratio in Q1:23 on commercial banks' deposit liabilities aimed to curb exchange-rate volatility.

The restructuring agreement with official creditors confirmed that holders of Kwacha denominated government bonds would not be subjected to any restructuring. However, at the time of writing, it remains unclear if provisions have been made for the potential large demand for USD from non-resident holders of local bonds, which could possibly induce balance of payment stress. This situation could arise if non-resident holders of local bonds decide to convert all their Kwacha coupon and maturity proceeds into USD particularly in 2026 when the Kwacha equivalent of USD671m matures, and in 2031, when USD1bn matures.

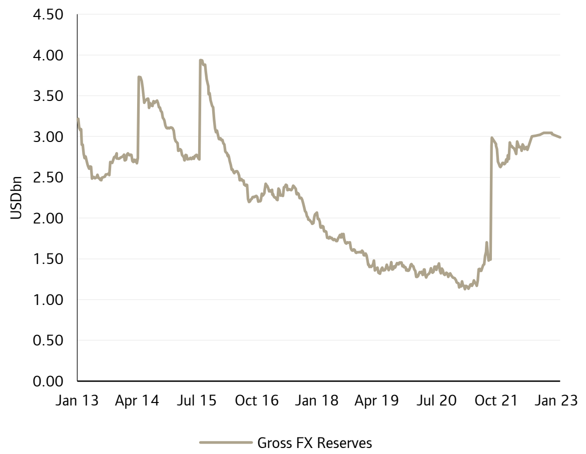
EUR110m of budget support from the EU and an immediate disbursement of USD188m from the IMF following the announcement of the debt restructuring arrangement will likely support the external position over the coming year. Medium and long-term stress on external balances would be eased by channelling more private investment into copper, gold, and other non-traditional exports, such as agricultural produce.

Current account developments



Source: Bank of Zambia; Standard Bank Research

Gross FX reserves



Source: Bank of Zambia

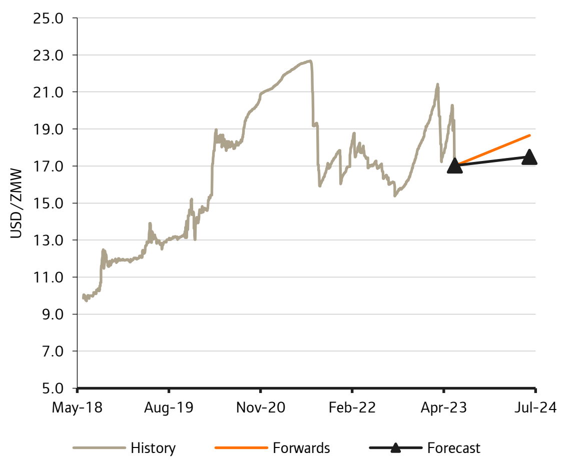
FX outlook: stronger ZMW in H2:23

Our base case of a restructuring program, without local debt being restructured has indeed transpired. Owing to concerns around local debt restructuring in H1:23, the USD/ZMW pair has been somewhat volatile.

The 3-y moratorium on principal repayments under the restructuring plan would likely free up debt servicing capacity and facilitate funded arrangements with multilateral and commercial creditors. The subsequent increase of USD inflows, and de-dollarisation of local dollar deposits, should stabilize the USD/ZMW pair at 17.5 by Dec 23.

Key risks to our outlook are softer copper prices and negative sentiment shifts among non-resident holders of local bonds, particularly if global risk sentiment remains precarious in H2:23.

USD/ZMW: forecast versus forward



Source: Bank of Zambia; Standard Bank Research

Monetary policy: inflation under control

We now trim our inflation expectations to 9.84% y/y on average for 2023. However, the MPC may well raise the key policy rate in H2:23 to fend off inflation risks from a weakening kwacha (especially if debt restructuring proves more protracted with bondholders), higher electricity prices, and potential demand-pull inflation caused by spending from early, partial pension withdrawals.

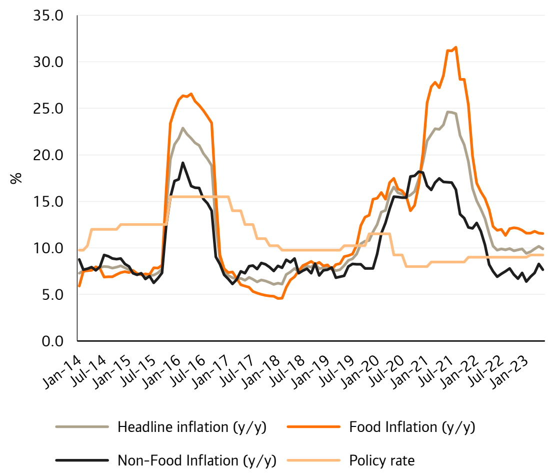
Annual broad money supply growth peaked in Jul 21, at 38% y/y, ahead of the 2021 elections. Since then, it has still remained elevated but moderated to 23% y/y as of Mar 23. Thus, monetary conditions seem relatively accommodative, with moderate upside risk to inflation. The BOZ cognisant of this, sterilized liquidity by increasing the kwacha and USD statutory reserve requirement from 9% to 11.5% (in Feb 23).

However, commercial banks are holding even greater amounts of liquidity in reserve; effective statutory reserves were 12.2% as of May 23. Banks are also placing record amounts in the current accounts they hold with the BOZ, choosing to earn 9.5% in returns (instead of the double-digit returns available in the fixed income market) because of fears that holding the latter may result in NPV losses if local debt was restructured.

A significant driver of food inflation in late 2022 and H1:23 was the rising cost of maize-related staple foods. Local grain prices had soared by 36% y/y at end Q1:23, with benchmark maize-flour products (breakfast-meal and roller-meal) rising 25.3% y/y and 24.6% y/y respectively. Early signs indicate that grain prices have begun their seasonal decline, due to a crop better than last year. This should dampen inflationary pressures, as should the recent reductions in fuel prices.

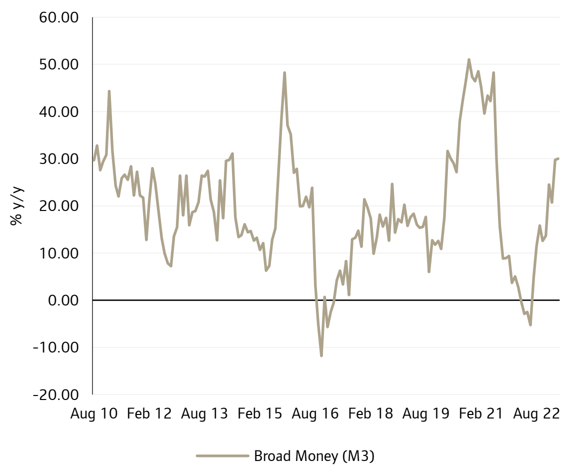
Therefore, inflationary risks may stem mostly from monetary expansion, currency weakness, and a spike in demand from National Pension Scheme Authority (NAPSA) disbursements. We expect just one 25bp rate hike in Q3:23.

Inflation and interest rates



Source: Bank of Zambia; Zambia Statistics Agency

Money supply growth



Source: Bank of Zambia

Yield curve outlook: bull-flattening

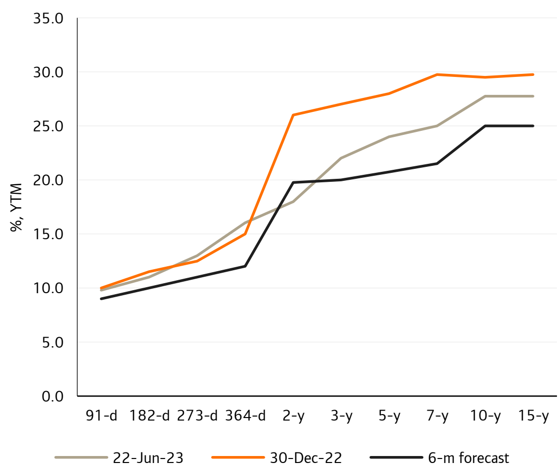
Our expectation of upside pressure on yields has panned out – but not to the extent we had earlier envisaged.

Our new base case lowers inflation expectations as well as factors in a resolution of the long outstanding debt restructuring this year.

We now expect yields at both the short-end and long-end of the curve to fall, with long-term rates falling faster, likely leading to a bull-flattening of the ZMW yield curve in H2:23.

We expect local market participants to re-enter the fixed income market following confirmation from the Ministry of Finance that both resident and non-resident bondholders will not face debt restructuring. This will likely embolden more interest in primary auctions and probably aid in a convergence of secondary and primary market yields.

Changes in the yield curve



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: expansion amid uncertainty

Navigating through fiscal headwinds, the Minister of Finance presented what seemed an expansionary budget for 2023 with a planned fiscal deficit of 9.8% of GDP.

Key measures include a Tax Amnesty Programme and tax adjustments aimed at enhancing the socio-economic welfare of vulnerable groups and invigorating industry performance. These are matched by revenue-boosting measures, notably the increased property transfer tax and an expansion of turnover tax to digital services. The budget earmarks a significant 40% for debt servicing and arrears clearance. An unprecedented 22% is allocated to education, social protection, and constituency development.

Only 30% of budget funding is projected to be sourced from the domestic market, implying a modest new ZMW debt issuance of K15.5bn.

Despite high levels of liquidity in the banking system, local-currency bond auctions have underperformed.

Domestic market participants, cautious of the Ghanaian precedent of local bond restructuring, have been adopting a wait-and-see approach. This uncertainty, coupled with net selling by offshore holders inflating secondary-market yields, had suppressed appetite for bonds. Following the debt restructuring announcement, particularly the assurances that local bondholders will face no restructuring, we expect risk appetite from local market participants to return.

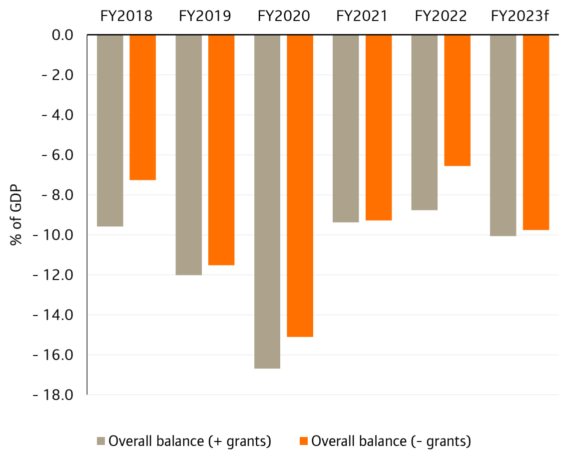
For non-resident bondholders, a potential balance of payment issue looms – unless dollar revenue can increase. The resolution seemingly lies in a debt-restructuring plan that excludes resident bondholders and accommodates non-residents, thereby managing Zambia's dollar demand.

Central government budget

% of GDP	FY2021	FY2022	FY2023f
Total revenue and grants	22.3	20.8	20.5
Total expenditure (-amortisation)	31.1	29.2	30.3
- Interest	6.1	6.4	7.9
- Salaries	7.2	7.8	8.4
Overall balance (+ grants)	-8.8	-8.4	-9.8
Overall balance (- grants)	-9.4	-8.8	-10.1
Net domestic financing	7.0	2.8	2.8
Net external financing	1.2	5.2	6.9
Donor support (grants)	0.6	0.4	0.3
Statistical discrepancy	0.0	0.3	0.0

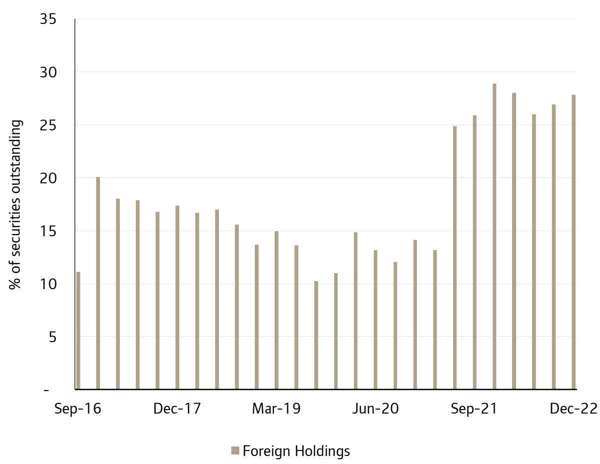
Source: Ministry of Finance and National Planning

Fiscal deficit



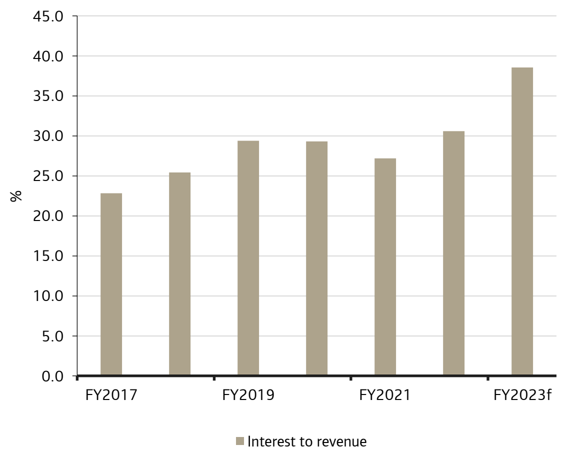
Source: Ministry of Finance and National Planning; Standard Bank Research

Foreign holdings of domestic debt



Source: Bank of Zambia; Standard Bank Research

Interest payments



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

Annual indicators

	2018	2019	2020	2021	2022	2023f	2024f
Output							
Population (million)	17.40	17.90	18.40	18.90	19.60	20.00	20.49
Nominal GDP (ZMW m)	275175.00	300449.00	332223.00	443362.00	483414.00	552905.71	630865.41
Nominal GDP (USD bn)	23.14	23.24	18.09	21.60	28.13	30.06	35.25
GDP / capita (USD)	1329.88	1298.13	983.42	1142.86	1435.41	1502.87	1720.52
Real GDP growth (%)	4.00	1.40	-2.80	3.60	4.24	4.53	5.15
Copper production ('000 tons)	894.00	797.00	931.00	903.00	879.99	800.00	960.00
Central Government Operations							
Budget balance / GDP (%)	-9.35	-11.74	-16.18	-8.82	-8.37	-9.76	n/a
Domestic debt / GDP (%)	21.08	26.71	39.19	43.08	42.20	39.72	n/a
External debt / GDP (%)	38.29	61.71	87.52	65.27	49.76	53.90	n/a
Balance of Payments							
Exports of goods and services (USD bn)	10.0	8.3	8.6	11.7	12.4	12.7	12.6
Imports of goods and services (USD bn)	10.2	8.0	5.8	7.7	10.0	9.4	9.6
Trade balance (USD bn)	-0.2	0.2	2.7	4.0	2.4	3.3	3.0
Current account (USD bn)	-0.3	0.2	2.2	2.6	1.1	1.2	1.7
- % of GDP	-0.03	0.65	12.02	12.17	3.81	3.89	4.71
Financial account (USD bn)	-0.1	0.1	-2.4	-2.1	-2.9	-1.0	-1.0
- FDI (USD bn)	0.5	1.6	0.3	-0.6	-0.3	-0.2	-0.3
Basic balance / GDP (%)	0.4	0.1	0.4	-1.5	-1.8	0.2	0.7
FX reserves (USD bn) pe	1.57	1.40	1.20	2.90	3.00	3.17	3.83
- Import cover (months) pe	1.85	2.09	2.47	4.52	3.60	4.06	4.8
Sovereign Credit Rating							
S&P	B	B	SD	SD	SD	SD	CCC
Moody's	B3	B3	C	C	Ca	Ca	C
Fitch	B-	B-	RD	RD	RD	RD	CCC
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.49	9.10	15.70	22.08	11.06	9.84	8.61
Consumer inflation (%) pe	7.86	11.70	19.23	16.35	9.90	10.74	8.27
M3 money supply (% y/y) pa	16.32	15.00	34.90	28.62	6.19	28.02	9.21
M3 money supply (% y/y) pe	16.48	12.60	46.40	3.66	24.50	22.91	4.03
Policy interest rate (%) pa	9.79	10.20	9.66	8.50	9.00	9.50	9.50
Policy interest rate (%) pe	9.75	11.50	8.00	9.00	9.00	9.50	9.50
3-m rate (%) pe	12.00	16.50	14.00	9.50	10.00	9.00	10.00
1-y rate (%) pe	19.50	27.50	25.80	9.50	15.0	12.0	11.5
3-y rate (%) pe	20.00	29.80	32.70	20.00	27.00	20.0	20.0
5-y rate (%) pe	21.00	33.00	33.00	21.75	28.00	20.8	21.0
USD/ZMW pa	11.72	12.93	18.36	19.55	17.18	18.40	17.90
USD/ZMW pe	11.92	14.15	21.18	16.67	18.08	17.45	18.10

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

Notes: pa - period average; pe - period end

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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