ECONOMICS | SUB-SAHARAN AFRICA

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Economic growth was underpinned by robust global demand and high commodity prices during 2021, and the rebound is set to continue throughout 2022. However, the risks to growth are firmly to the downside. Domestically, structural impediments, low vaccination rates and high debt levels constrain the pace of recovery. On the global front, the economic impact of the Russian invasion of Ukraine could weaken demand for the subcontinent's key exports, while high commodity prices will keep inflation high for most of the year.

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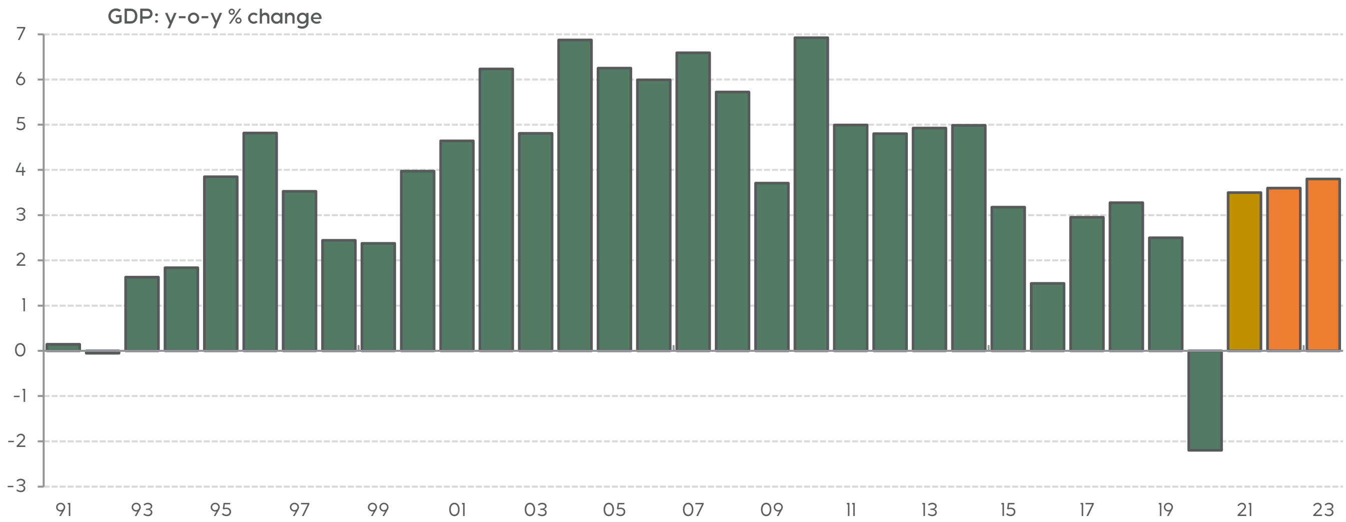
The Zambian kwacha remains the best performer and will draw further support from the multilateral credit inflows. The tightly managed exchange rates have remained broadly steady despite high external financing needs and elevated inflation.

BACKGROUND AND OUTLOOK

Economic growth rebounded strongly in 2021, buoyed by strong global demand for commodities and high commodity prices. The economic expansion continues in 2022, although downside risks have increased

Graph 1: Sub-Saharan African real GDP growth



Source: The World Bank (2021 estimate, forecasts from 2022)

The sub-Saharan African (SSA) economic rebound is set to continue during 2022 and 2023, although the downside risks to the outlook have intensified in recent weeks. Global demand remains broadly supportive and will continue at a reasonable pace, barring any significant disruption from the adverse geopolitical events. Commodity prices have been supportive. Elevated oil prices will boost external liquidity conditions of oil exporters. However, the net effect on the subcontinent will be negative as most economies are net oil importers.

Risks to the economic outlook remain firmly tilted to the downside – for several reasons. The tepid pace of Covid-19 vaccinations threatens to prolong the economic scarring of the pandemic. According to the Johns Hopkins University Coronavirus Resource Center, all but two African nations are well behind schedule to meet the global target of achieving herd immunity – vaccinating 70% of their populations – by September 2022. **Rwanda** achieved significant progress in recent months by lifting its inoculation rate to 61.3% from just over 16% in November, while **Botswana** has vaccinated 50.5% (from 13.3%) of its population. East African nations are lagging. **Kenya** has raised its ratio to only 14.6% from 3.5%, while **Tanzania** and **Uganda** are still way behind at 4.1% (from 1.7%) and 6.1% (from less than 1%), respectively. In West Africa, **Ghana** increased its vaccination rate to 15.7% from 2.7%, while **Nigeria's** remains at a low 4.0% from 1.5%. In southern Africa, **South Africa** has fully inoculated only 29.6% of its population, little changed from 22.1% three months ago. However, government figures indicate that just over 50% of the adult population is fully vaccinated. Vaccinations have remained slow in **Mozambique** (34.7% from 8.0%), **Lesotho** (34.2% from 16.0%), **Eswatini** (29.3% from 20.7%), **Zimbabwe** (23.3% from 18.1%), **Angola** (17.1% from 5.7%), **Namibia** (15.0% from 10.7%) and **Zambia** (11.1% from 3.2%). Even if local outbreaks of new infections can be contained, the countries with large tourism sectors will not attract high numbers of visitors due to the high risk of new infections. SSA countries depend primarily on vaccine donations, but vaccine hesitancy and weak health systems have kept vaccination rates low despite donations of large volumes of vaccines. In his State of the Union address on 1 March, US President Joe Biden pledged another 475 million doses to more than 100 developing nations after 500 million doses were donated in 2021. Other developed nations, China and India, have also donated more vaccines.

Elevated inflation and the normalisation of global interest rates will compel the inflation-targeting central banks to tighten monetary policy. Global inflation was widely expected to ease in the second half of this year, but this trajectory has been disrupted by the surge in oil and grain prices due to the Russia-Ukraine conflict. Higher global grain prices, coupled with either insufficient or excessive rain in some SSA economies, will keep food inflation elevated. Overall, the impact of the war on SSA economies will be negative if trade routes are disrupted, and oil prices remain high for most of 2022. Eswatini, Lesotho and Namibia will generally align with the South African Reserve Bank's (SARB's) interest rate hikes, although Namibia is likely to tighten at a slower rate. Kenya's central bank is set to tighten moderately. Ghana, which hiked its policy interest rate in November, will be compelled to tighten further as inflation remains well above the target band. Nigeria is unlikely to raise its interest rates even though inflation remains sticky above the central bank's target range.

Domestic political developments remain a crucial driver of economic prospects in SSA. A few of the leading SSA nations will hold elections during 2022, with the most critical contests in Kenya and Angola, which have general elections in August. In **Kenya**, President Uhuru Kenyatta will make way for his successor as he reaches the end of his second and final term, in line with the constitutional limit. Vice President William Ruto will be challenged by former prime minister Raila Odinga. Kenyatta's endorsement of Odinga, a long-time opposition leader, has raised political tensions. Election-related disagreements in Kenya are fuelled by ethnic clashes between the Kikuyu and the Luo and other smaller groups. The 2007 post-election unrest killed more than 1 000 people and left 350 000 displaced, while the 1992 and 1997 elections triggered similar levels of ethnic-based violence. Results of the 2017 polls were annulled after the courts confirmed serious irregularities, but Kenyatta won the re-run that was boycotted by the opposition. Reports of sporadic violence and intimidation have already emerged. The instability could intensify as the 2022 election approaches. But, although some instability will occur, we do not expect violence of the same magnitude as in 2007. A more significant threat is posed by the Somali terror group Al-Shabab. It could take advantage of the election period to escalate its terror campaign.

Angola's President João Lourenço and the People's Movement for the Liberation of Angola will likely retain power. Lourenço's anti-corruption drive will boost his re-election prospects, although the challenging macroeconomic conditions favour the opposition. Parliamentary elections will be held in **Lesotho**, **Congo Republic**, and **Senegal**.

Recent events in the **G5 Sahel countries** confirm that the countries' governments cannot maintain control over large parts of the territories. Chadian president Idriss Déby died in a frontline battle with rebels in April 2021. In Mali, the military toppled the government in August 2020, and the transitional government was deposed in May 2021. Therefore, Mali recorded two military coups within a year. The Malian military government's reluctance to restore civilian rule prompted the Economic Community of West African States to impose strict trade and diplomatic sanctions that have effectively crippled its capacity to operate. Worryingly, the French-led anti-terrorist force has been scaled down as the military junta has taken a hard-line stance against what it regards as foreign interference in the country. This does not bode well for security in a country that is the epicentre of attacks by radical Islamists in the Sahel and has battled to control the Tuareg separatists for decades. In Niger, the president has expressed concern that the country is at risk of a military takeover. Mauritania's security situation also remains precarious, with rebel attacks and abductions persisting in large parts of the country. Added to these are the coups in Mali in May 2021 (the second in two years) and Burkina Faso in January 2022. Another military takeover in West Africa saw Guinea's Alpha Conde's government toppled in September 2021.

SSA has limited economic linkages with Russia and Ukraine. As a result, the direct economic impact of the Russian invasion of Ukraine will be contained. However, the adverse effects of the war on the global recovery will have significant spill-over effects on SSA. If trade routes are affected, supply bottlenecks will restrict trade volumes, and inflationary pressure will intensify. High fuel prices and security concerns will hurt global travel. Kenya, Tanzania, Botswana and Namibia derive more earnings from global travel than the other SSA economies. High oil prices will be broadly supportive of oil exporters. However, Nigeria and Angola, the subcontinent's largest oil producers, cannot take advantage of higher prices due to logistical constraints. At best, the favourable prices will help to ease the pressure on the budget and external liquidity positions. Ghana, Gabon, and the Congo Republic also stand to benefit from the elevated oil prices, although the benefit will be contained by the small production volumes.

ESWATINI

The economic outlook improves as the government demonstrates a commitment to an attractive business environment.

Economic activity expanded further in the second half of 2021, suggesting that the impact of the public protests around the middle of the year was more contained than initially feared. Real GDP grew by 3.1% y-o-y on a seasonally adjusted basis in the third quarter. The government's measures to revive economic growth and boost the contribution of the private sector bode well for an economy that was lacklustre before the Covid pandemic.

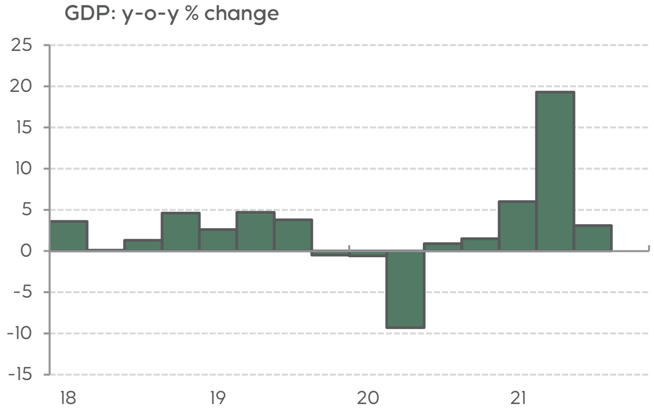
The **2022/23 Budget statement**, under the theme of 'transformation through economic sustainability, leans towards creating an environment that will stimulate business activity. The move is consistent with the government's Economic Recovery Plan, adopted in 2020, aiming to boost overall growth prospects in the medium term. The corporate tax rate has been cut to 25% from 27.5%, lower than South Africa's rate, which was cut to 27% from 28%. Capital gains tax for businesses will be introduced to reduce incentives for tax avoidance. The top marginal rate for personal income tax has risen to 36% from 33%, still below South Africa's 45%. Lower-income earners have been granted relief through adjustments to income tax thresholds. The withholding tax rate on interest for non-residents has increased to 15% from 10%. The 2021/22 (April to March) to 2023/24 expenditure plan limits aggregate spending. Public expenditure has been cut by 3.5% to E23.2 billion in 2022/23 from E24.0 billion in 2021/22. However, allocations to health and education have increased, while more funding has been allocated to road construction, renewable-energy projects and the power distribution network. The government intends to improve the cost-efficacy of critical infrastructure projects. The public sector wage bill (excluding pension contributions) rose by 61% between 2013 and 2018, and the government remains committed to containing that unsustainable trend. The wage bill was reduced by 2.1% to E7.3 billion in 2021/22 and will be shrunk by another 1.7% to E7.18 billion in 2022/23. According to the Finance Minister, the economy shows 'significant signs of recovery. The Treasury estimates real GDP growth of 5.9% in 2021 and 2.2% in 2022, from the 1.9% contraction in 2020. The government's 2021 growth estimate is higher than the World Bank's forecast of 1.5%.

Lower Southern African Customs Union (SACU) receipts hurt aggregate revenue despite the economic recovery. Total revenue dropped by 7% to E17.5 billion in 2021/22, as SACU revenue declined to E6.4 billion from E8.3 billion in 2020/21. SACU receipts will drop further to E5.8 billion in 2022/23 but will improve to E8.7 billion in 2023/24, according to government forecasts. The budget deficit target is 4.8% of GDP in 2022/23, from an average of more than 6% over the past three years. The target remains to cut the shortfall to 1% of GDP by 2023/24. The deficit will be funded primarily through international borrowing after the space for external loans was expanded by the five foreign loans that matured in 2021. The Eswatini government also plans to issue a Treasury bond on South Africa's Johannesburg Stock Exchange, but the timing of the issue has not been specified. Public debt totalled E27.7 billion at the end of 2021, equivalent to 39.8% of GDP.

The Central Bank of Eswatini (CBE) will increase its policy interest rate further as the SARB hikes its repo rate in response to the normalisation of global interest rates and elevated inflation. The CBE raised its discount rate to 4% from 3.75% in January, and we expect the policy interest rate to rise to 5% by the end of 2022 and 5.5% at the end of 2023. The local inflation rate averaged 3.7% in 2021, but higher fuel prices and global inflationary pressures will push it higher in 2022. However, subdued domestic demand and moderate credit growth will likely keep it below 4.5%, the midpoint of the 3% – 6% inflation target band. The inflation outlook faces upside risks due to high oil and grain prices.

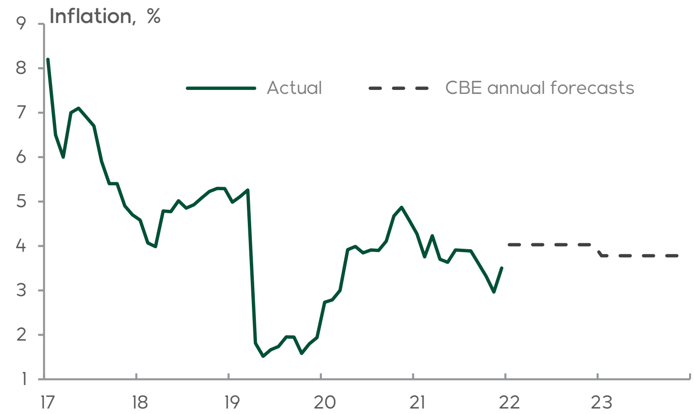
Overall, the outlook for the local economy remains favourable and economic activity should recover further during 2022. Downside risks emanate from local political tensions, the threat of further labour instability in the sugar processing sector, global supply chain bottlenecks and disruptions from geopolitical events. Global supply chain disruptions have put jobs in the textiles sector at risk. Eswatini factories employ about 22 000 people, and 12 000 jobs could be at risk if the supply of raw materials remains tight and shipment costs high.

Graph 2: A further but slower expansion in the third quarter



Sources: Central Statistics Office, Central Bank of Eswatini

Graph 3: Inflation could rise at a faster pace following the oil price surge



Source: Central Bank of Eswatini

LESOTHO

A robust increase in tax revenue is offset by a further drop in SACU receipts, keeping the fiscal space tight.

Lesotho's persistent political bickering has once again come to the fore. The collapse of the governing coalition affected the tabling of the 2022 Budget speech. The entire speech was published on the government website only after the Finance Minister was interrupted during his budget address. Disconcertingly, the frequent change of government delays policy implementation, which impacts the country's pace of development, as the transitions are often accompanied by the reshuffling of the principal secretaries of ministries responsible for implementation.

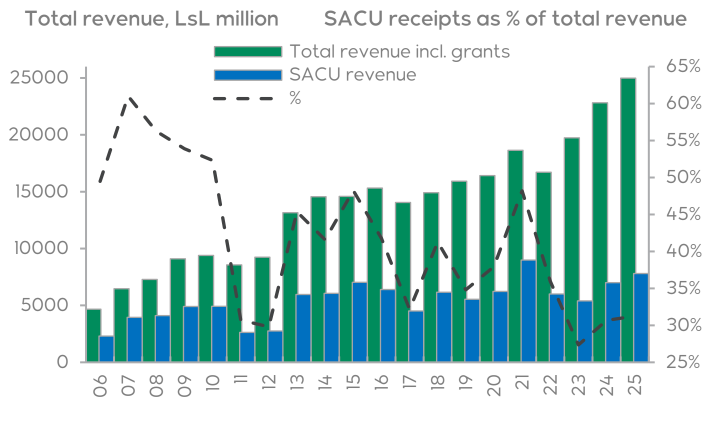
The **2022/23 Budget statement** reflects the limited fiscal space as the government grapples with declining SACU transfers and a large public sector wage bill. Like other commodity exporters in the region, a robust increase in mineral earnings will lift tax collections above initial estimates over the next two fiscal years. However, SACU receipts are expected to drop to M5.4 billion in 2022/23 from M6.0 billion in 2021/22. SACU revenue will decline to 27.4% of total revenue in 2022/23 before improving to 31% between 2023/24 and 2024/25 from 42% between 2020/21 and 2021/22. The public sector wage bill remains a significant expenditure burden. As a result, the Treasury intends to maintain the wage freeze implemented in April 2021. However, the labour unions are pushing for a 25% salary increase in 2022/23. High-interest payments on the debt stock add to the expenditure pressures. Debt service costs will jump to M766.5 million in 2022/23 and M807.4 million by 2024/25, as the wide budget deficit pushes public debt higher. As a ratio of tax revenue, interest payments will rise to 8.1% in 2022/23 from an annual average of 6.4% in 2020/21 and 2021/22, but ease to 6.3% a year between 2023/24 and 2024/25 on the back of the projected upturn in tax revenue. The budget deficit will widen to 7.7% of GDP in 2022/23, from 6.5% in the previous fiscal year. Public debt will expand by M3.3 billion for the year. Public debt totalled M18.9 billion in February 2022.

The budget is based on real GDP growth of 2.3% in 2022/23 and 2.5% in 2023/24, averaging 2.8% over the medium term. Although the growth forecasts are moderate, risks are firmly tilted to the downside. The negative terms-of-trade shock from the surge in international oil prices and slower global growth will likely contain Lesotho's economic growth to around 2% per annum in 2022 and 2023.

The Central Bank of Lesotho's (CBoL) Composite Indicator of Economic Activity shows that the economic recovery has been buoyed by a rebound in domestic demand, while output activity was relatively lacklustre. Production was hurt by the prolonged labour strike in the textiles sector and the closure of several factories, negating the boost from less restrictive Covid measures. The moderate economic recovery should continue during 2022, with supply-side constraints, primarily power outages, inhibiting a faster expansion. Diamond exports and higher construction activity will support the economy. The construction of the Polihali dam starts in June 2022, while other infrastructure development under the second phase Lesotho Highlands Water Project, will further expand construction activity.

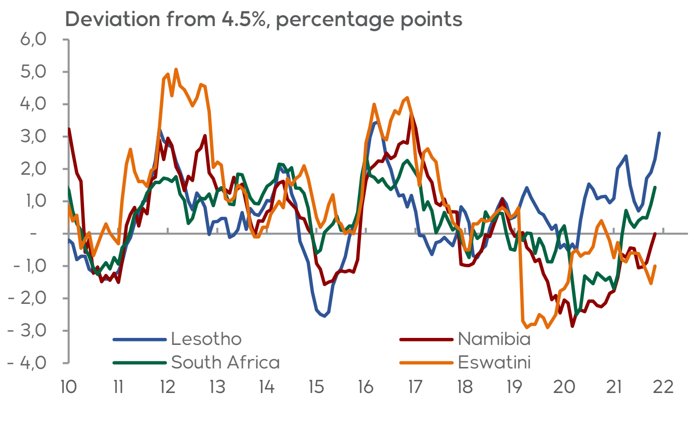
The CBoL will hike its policy interest rate as inflation remains high and the SARB tightens interest rates amid global monetary policy normalisation. Lesotho's inflation rate is higher than elsewhere in the Common Monetary Area. Since October, it has been above 6% and rose to 7.6% y-o-y in January. High global food and fuel price pressures will maintain the high domestic prices. We expect the SARB to raise its policy interest rate steadily during 2021. Still, rate hikes could be more moderate as the economic pressures from the adverse geopolitical events dampen the growth outlook. Consequently, we forecast the CBoL's repo rate at 5% in December 2022 and 5.5% by December 2023, from the current 4%.

Graph 4: SACU receipts to recover modestly in the next two years



Source: Lesotho Ministry of Finance (forecasts from 2022)

Graph 5: Lesotho's inflation is the highest in the region



Sources: Central banks, Nedbank calculations

MOZAMBIQUE

Liquefied-natural-gas production to start in 2022, while the government seeks to restore multilateral financial support.

Further progress has been made in the fight against rebels in the northern parts. The local army, backed by forces from Rwanda and the Southern African Development Community (SADC), has regained control of some strategic towns and villages in the area. However, the offensive needs to be maintained as the insurgents remain active and the attacks have spread from Cabo Delgado province to the neighbouring Niassa, while some of the rebels have fled to Nampula. Encouragingly, the push to eradicate the terrorist threat in the strategically important area is intensifying, with more international resources directed towards the mission. The SADC security organ extended the operations of the regional troops by a further three months, and progress will be assessed at the end of the period. Tanzania and Mozambique signed a military cooperation agreement to tackle the rebels. India donated two high-speed military vessels, while Turkey has offered intelligence support. Overall, the security situation has improved to the extent that construction of the liquefied-natural-gas (LNG) fields can resume later in 2022 or early 2023. TotalEnergies has reopened its office in Pemba, Cabo Delgado. Eni's offshore Coral South Floating LNG project will commence production around the middle of the year. ExxonMobil, whose final investment decision is still due to be announced, has reaffirmed its commitment to proceed with the US$3 billion investment. The sixth bidding round for exploration licences has been opened, and the successful bidders will be announced by November 2022.

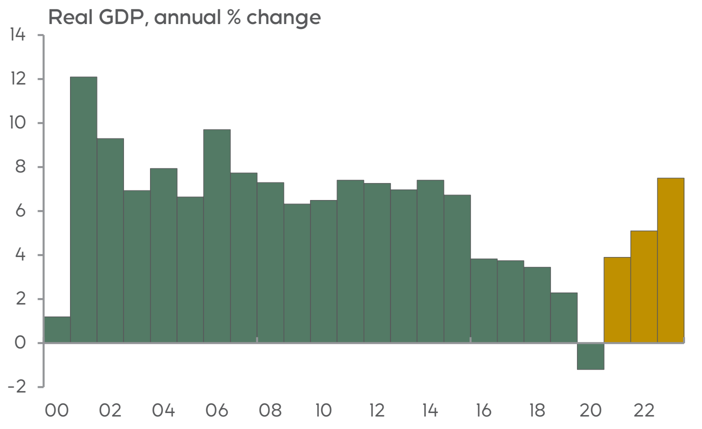
Solid global demand for Mozambique's commodity exports will underpin the firmer growth trajectory after growth rose to 3% in 2021 from a 1.2% contraction in 2020. So far, in 2022, volumes are growing at the existing production facilities, while new output will come on stream. The Moatize metallurgical coal mine, which has a capacity of 22 million tonnes (mt) a year, will boost its production to 18 mt in 2022 from 15 mt in 2021. Oil major Eni is on schedule to start LNG production at the Rovuma basin, as part of Area 4 offshore LNG fields, following the arrival of its Coral Sul Floating LNG platform. The platform will produce 3.4 mt of LNG a year at full capacity, sold to BP under contract for 20 years. Economic growth is likely to reach 4% during this year and exceed 5% per annum from 2023, buoyed by the development of the LNG fields.

The government has initiated talks with the International Monetary Fund (IMF) for a balance-of-payments support package after the 2015 programme was suspended following the disclosure of the hidden debt saga. IMF technical assistance will be critical in helping the sovereign manage its revenue from LNG exports prudently. The National Petroleum Institute projects potential tax revenue from LNG exports at US$35 million in 2022. The commitment to a macroeconomic reform programme will facilitate debt restructuring talks with foreign creditors.

The more stable macroeconomic environment is helping to improve the business climate. The inflation rate has risen to 8% on the back of food and fuel price pressures, but we expect it to remain in the single digits for most of 2022. The stable exchange rate should help ease the intense pressure from import prices. The metical has been steady around MZN63.83/USD since September 2021, and it appreciated by 16.9% in 2021, propped up by improved foreign currency liquidity in the local market. The broadly steady environment gives the Bank of Mozambique leeway to keep interest rates unchanged.

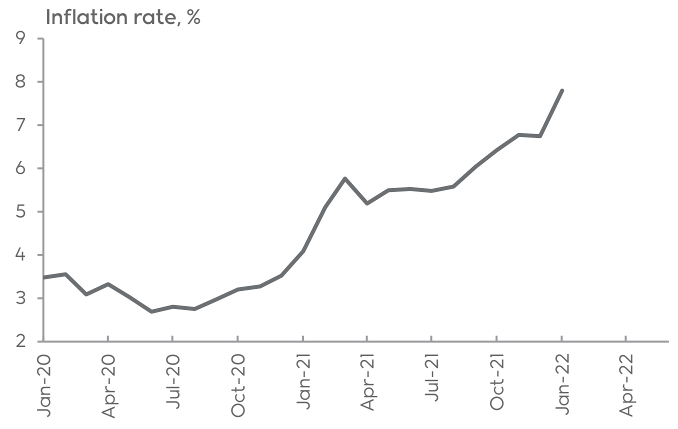
Generally, the economic environment is strengthening due to rising exports and progress in stabilising domestic security. These developments, if sustained, will set Mozambique on a solid growth path.

Graph 6: The economy is on course for a solid growth trajectory



Sources: International Monetary Fund, Nedbank estimates from 2021

Graph 7: Rising inflation will be moderated by currency stability



Source: Bank of Mozambique

NAMIBIA

Slower interest rate hikes as the economic recovery lags the regional trend

The economic recovery moderated in the third quarter of 2021, with real GDP growth dropping to 2.4% y-o-y from 3.0% in the previous quarter. Activity in agriculture and forestry rebounded, while mining and quarrying output jumped by 41.9% y-o-y, albeit from a low base following 11 consecutive quarters of contraction. However, lower manufacturing volumes and construction activity partially offset the boost. Although the services sector contracted by 0.7% y-o-y after rising by 19.7% in the previous quarter, there were signs of steady momentum in the sector before the disruption from the Omicron variant in the fourth quarter.

As local and global conditions improve further, we expect real GDP growth to increase to around 3% in 2022 from an estimated 1.6% in 2021. Better rains and higher prices point towards higher agricultural output, while mining activity will benefit from the still favourable commodity prices and global demand. Encouragingly, the effects of the Omicron variant have been mild compared to the Delta variant, suggesting that tourism will resume its recovery trend. However, international arrivals will be contained as long as local vaccinations remain low. The key risks to faster economic growth are power outages and persistent dry conditions in some critical farming areas. The government's limited capacity to expand its spending significantly will continue to contain infrastructure investment.

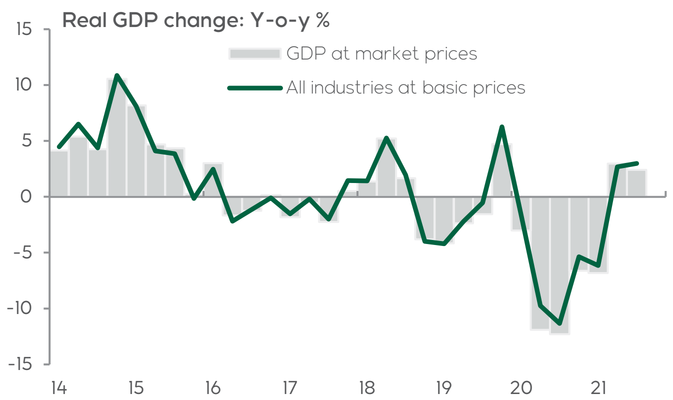
The **2022/23 Budget** envisages a better fiscal trajectory between 2022/23 and 2024/25, as the government adopts measures to revive economic activity. The higher revenue will be underpinned by rebounding SACU receipts. Public sector entities will not roll out new infrastructure projects in 2022/23 as the Treasury leans towards stabilising the fiscal position. However, the Minister committed to engaging global development finance institutions to improve the efficiency of infrastructure spending in the future. The budget deficit will remain wide at more than 5% of GDP per annum between 2022/23 and 2024/25, resulting in public debt absorbing more government resources. Debt service costs will consume 15.4% of revenue in 2022/23, up from only 5% in 2015, according to Moody's Investor Services. This situation highlights the need for fiscal consolidation and cutting the public debt stock.

The government estimates the growth rate at 1.2% in 2021 and forecasts a firmer 2.9% in 2022 and 3.7% in 2023, close to the Bank of Namibia's (BoN) estimated 0.9% in 2021 and expected 3.4% in 2022 and 3.7% in 2023. The BoN anticipates expanding primary production will be the key growth driver, as higher diamond volumes and favourable prices buoy mining.

The inflation rate edged higher to 4.5% in December 2021 after touching 1.6% – a 15-year low – in the second quarter of 2020, as food and fuel prices pushed it to the midpoint of the 3% – 6% target band. Local inflation has been lower than in South Africa since the first quarter of 2018 due to weaker consumer demand and lower administered prices. We forecast inflation to average 4.3% – the BoN estimates 4.5% – from 3.6% in 2020, as it remains below South Africa's. The primary driver will be higher fuel prices on the back of elevated global oil prices, while food inflation will be sticky around 5%. Lower transport inflation will help ease the overall inflation rate in the second half of 2022.

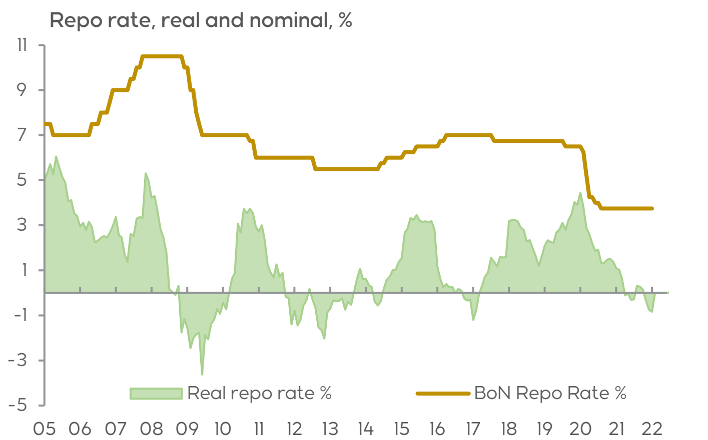
Higher inflation, locally and globally, and the normalisation of global interest rates will prompt the BoN to further hike its policy interest rate. The BoN increased the repo rate to 4.0% from 3.75% in February. The reversal of the negative real interest rate gap will be a crucial reason for tightening. Consequently, we expect the BoN to tighten further at three of the remaining five meetings in 2022, taking the repo rate to 4.75%. Therefore, the BoN will maintain its repo rate at between 25 basis points (bps) and 50 bps below the SARB's, due mainly to the weaker economic recovery and lower inflation rate. However, if the negative interest rate gap triggers capital outflows, the BoN will likely accelerate its tightening to restore the positive gap, which has hovered around 25 bps since 2017.

Graph 8: The tepid recovery is set to gain momentum



Sources: Namibia Statistics Agency, Nedbank calculations

Graph 9: The BoN will hike to normalise interest rates



Sources: Central banks, Nedbank calculations

ZIMBABWE

Exports to the rescue as plans to increase public expenditure will not boost economic growth significantly.

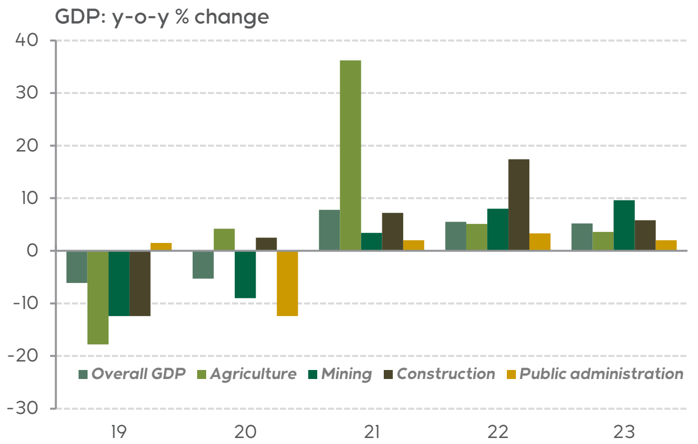
The **2022 Budget** statement presented in November envisaged an aggressive expansion in public spending to ZWLD927.3 billion (US$7.5 billion at the February 2022 exchange rate) from ZWLD509 billion in 2021 (US$6.2 billion at the 2021 average exchange rate). The higher spending will not significantly boost production as allocations to infrastructure investment are limited. Public sector salaries were raised by 20% from March this year, and workers will receive an additional monthly payment of US$100 (paid in US dollars) after workers embarked on work stoppages. The increase will raise the public sector wage bill's share of aggregate expenditure to above the planned 30%. Revenue collections are targeted at ZWLD850 billion from an estimated ZWLD495.1 billion in 2021. However, the new tax measures on low volume goods such as smartphones, cigarettes, and energy drinks, are unlikely to boost tax collections significantly. The budget deficit was projected at 1.5% of GDP in 2022 from 0.5% in 2021. It will be partly financed by the listing of Treasury bonds totalling US$100 million on the Victoria Falls Securities Exchange. According to the Finance Minister, public debt totalled US$13.2 billion in September 2021. We view execution risk as high, as significant revenue shortfalls and limited demand for the new foreign currency bonds will curtail the expenditure plans.

The budget projected GDP growth at 7.8% in 2021, 5.5% in 2022 and 5.2% in 2023. On the back of high output volumes and global commodity prices, robust mining activity drove a strong rebound in 2021. Export earnings expanded by 37.3% to US$6.0 billion, while imports totalled US$7.6 billion, up by 33.3%. Gold output expanded by 56%, platinum production rose by 6% in the first three quarters of the year (latest available figure), while exports of agricultural goods rose by 7.7% to US$939.1 million as tobacco volumes increased. Diaspora remittances through the financial system jumped by 43% to US$1.43 billion for the year. Although the global economy remains broadly favourable, downside risks have intensified due to adverse geopolitical developments in recent weeks. Therefore, economic growth will likely be lower than 5% in 2022. The country still needs to set the economy on a steady growth path by strengthening governance and creating a favourable business environment.

In recent months, inflation has edged upwards to 60% after dipping significantly to 50.2% in August 2021, pressured by high food and fuel prices. The 'blended inflation rate', which incorporates US dollar prices, increased to 27.8% y-o-y in February from 21.5% in August. We believe that high oil prices, tight food supplies and further exchange rate devaluation will maintain inflation above 50%. Shortages of basic foodstuffs and fuel and the local currency depreciation will keep food inflation around 60%. At the same time, transport costs will rise due to the surge in international fuel prices. The moratorium on maize and wheat imports has been lifted, but local prices are unlikely to ease significantly due to the increase in global prices. Zimbabwe is highly dependent on wheat imports, which account for 80% of local consumption.

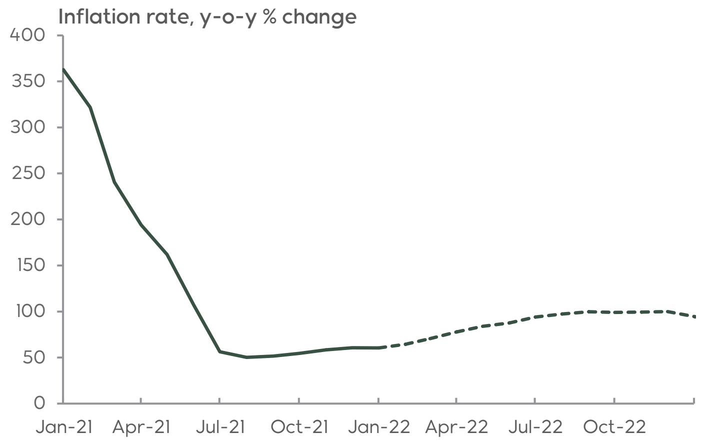
The Reserve Bank of Zimbabwe (RBZ) devalued the official exchange rate by 24.7% to ZWLD108.67/US$ in December 2021. The devaluation rate accelerated significantly in the first two months of this year. The unit traded at ZWLD124/US$ in the first week of March, a year-to-date depreciation of 12.4%. The RBZ has tightened the monitoring of foreign currency trades and shut down websites that quoted parallel market rates, but the clampdown is unlikely to contain the currency's slide. The severe shortage of foreign currency continues to drive parallel market activity. The RBZ estimates the parallel market premium at between 40% and 90%. The parallel market rate was quoted at ZWLD240/US$ in late February, a 48% premium. The narrow export basket and limited access to foreign credit facilities underpin the foreign liquidity crunch.

Graph 10: The government expects a broad-based economic upturn



Source: Zimbabwe Ministry of Finance (forecasts from 2021)

Graph 11: The ZWLD's faster depreciation will push inflation higher



Sources: Reserve Bank of Zimbabwe, Nedbank forecasts from Feb 2022

OTHER SOUTHERN AFRICAN ECONOMIES

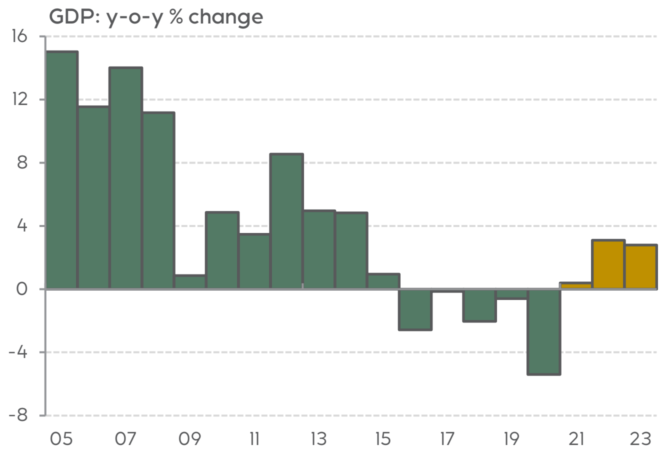
Generally positive sentiment as governance and economic management continue to improve.

The **Angolan** government's anti-corruption campaign, launched by President João Lourenço after he succeeded Jose Eduardo dos Santos in 2017, has recovered US$11.5 billion, while US$6 million of overseas properties have been attached and 715 criminal prosecutions for fraud and corruption are underway. The clean-up and the intention to join the Extractive Industries Transparency Initiative promise to strengthen institutional governance in a state dominated by an extensive patronage network for over four decades. Stronger governance will have to be coupled with the acceleration of the privatisation programme and modernisation of investment regulations to help to boost investment and diversify the oil-dominated economy. The economy showed signs of stabilisation in 2021, supported by higher oil prices, following five successive years of contraction. Real GDP expanded by a marginal 0.1% in 2021, and the government forecasts growth at 2.4% in 2022, with the non-oil sector growing by 3.1% and the oil sector by 1.3%. Foreign exchange reserves rose to US$16.2 billion in January, equivalent to 10 months of 2021 imports. However, the central bank will likely continue to limit the supply of foreign currency to the banking sector. According to the Organization of Petroleum Exporting Countries (OPEC) data, oil output averaged 1.55 million barrels per day (mbpd) in January 2022 from 1.12 mbpd in 2021 and 1.13 mbpd in 2020.

Botswana benefited further from favourable global conditions in the second half of 2021. Firm diamond prices and volumes boosted export earnings significantly, and recovering domestic activity lifted real GDP growth to an estimated 9.7% for the year. The state-owned diamond mining company recorded rough diamond sales totalling US$963 million in 2021, an annual record. Economic growth will likely remain above 5% in 2022 despite the higher downside risks to export earnings. The consumer inflation rate rose to 10.6% y-o-y in January, having remained above the official 3% – 6% target band since June 2021 on the back of high fuel and energy costs, elevated food inflation, the increase of the value-added tax rate and other administered costs. Inflation will be sticky as fuel prices rise further. This and the normalisation of global interest rates will prompt the Bank of Botswana to increase its policy interest rate. However, the pace of tightening will be slower than the SARB's, which we expect to hike by 1.25 percentage points by November 2022.

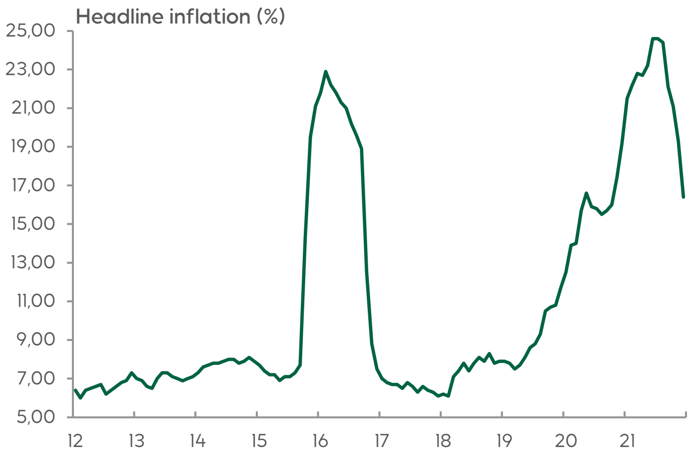
In another positive development since the August 2021 change, **Zambia** has secured a US$1.4 billion stabilisation and reform programme with the IMF. The package, due to be approved by the IMF's Executive Board, will facilitate easier talks with the sovereign's creditors under the guidance of the Group of 20's Common Framework for Debt Treatments. The economic environment will improve further between 2022 and 2023, although at a moderate pace. The Bank of Zambia (BoZ) forecasts real GDP growth to firm marginally to 3.5% and 3.6% in 2022 and 2023, respectively, from an estimated 3.3% in 2021. The slow economic upturn reflects the persistence of unstable power supply and insufficient rains, the same impediments that hurt activity between 2015 and 2019. Encouragingly, the more favourable business sentiment helped to attract foreign portfolio capital in the second half of 2021 and, together with higher export earnings, raised official foreign exchange reserves to more than US$2.5 billion, the highest level since 2016. The firmer local currency is helping to moderate the inflation rate. Therefore, the BoZ will have room to delay further interest rates increases for most of 2022 if the pass-through from higher global oil prices and hikes in local power tariffs is contained. Overall, the Zambian economy is expected to strengthen after almost a decade of macroeconomic imprudence dampened investment and growth.

Graph 12: Angola's moderate recovery from a prolonged recession



Source: The World Bank (January 2022)

Graph 13: The firmer Zambian kwacha moderating the inflation rate



Source: Bank of Zambia

EAST AFRICA

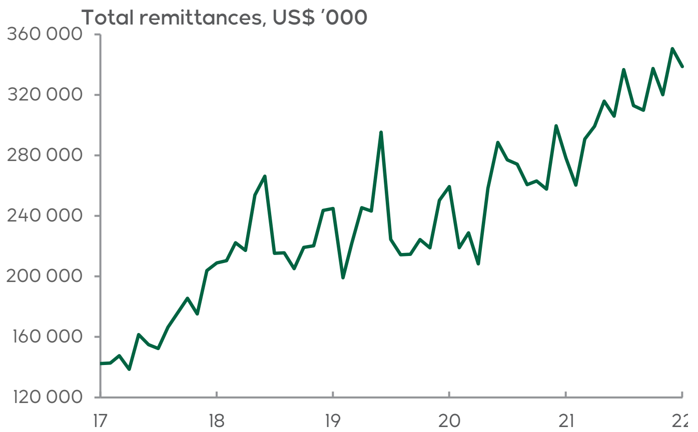
Rising foreign currency earnings drive the regional recovery, but effects of the war constrain the Ethiopian economy.

The **Kenyan** economy continued to recover in the second half of 2021 after growing by 5.3% y-o-y in the first half. Exports of horticultural goods and the recovery in tourist arrivals, albeit slow, helped to lift the economy from 2020's low. Foreign arrivals picked up to 870 465 in 2021, a 53.3% rise from the Covid-19-induced slump in 2020 but still well below 2 million in 2019. Tourism earnings increased to US$1.3 billion from US$780 million in 2020 but were still lower than US$1.8 billion in 2019. Diaspora remittances rose to more than US$300 million per month in the second half of 2021, boosting foreign exchange inflows and household spending. Higher activity in information and communication, wholesale and retail trade, transport and storage, and financial services underpinned the upturn in domestic demand. In line with more robust domestic activity, the private sector credit extension increased by 8.6% y-o-y in December. Inflation remained contained, easing to 5.7% y-o-y in December from 6.9% in September. However, oil and grain prices will push local prices higher in 2022. Against rising global interest rates, the Central Bank of Kenya will start hiking after maintaining an accommodative stance since the second quarter of 2020. Overall conditions favour a further expansion during 2022, barring any severe disruptions from adverse global developments or domestic political events. Beyond this year's elections, the government needs to improve the investment environment further.

Tanzanian economic growth improved in 2021, on the back of firmer merchandise export earnings. Despite the pandemic, real GDP growth rose to an estimated 5% in 2021, after expanding by a reasonably strong 4.8% in 2020. The economy will likely improve further to average growth of around 5.6% per annum between 2022 and 2024. Mining and quarrying output growth averaged 10.8% y-o-y per quarter in the first three quarters of 2021. Export earnings were strong, boosted by higher volumes and firm prices of gold and horticultural goods, and coupled with a pickup in foreign direct investment, helped to switch the balance of payments into surplus. The public infrastructure development programme, better agricultural conditions, and mining investment will be the main drivers of economic growth. The government's efforts to reform mining legislation and reverse the imprudent amendments adopted in 2018 are helping to boost mining activity.

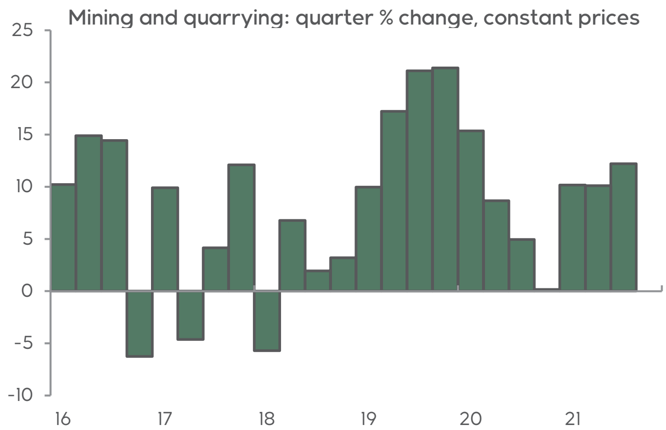
Ethiopia's security situation has stabilised somewhat following the intense civil conflict that commenced in November 2020. Although the environment is still volatile, the government has declared victory over the Tigrayan rebels and lifted the nationwide state of emergency. The war worsened the severe economic consequences of the Covid-19 pandemic. Foreign direct investment declined sharply, while the US suspended the country's preferential access to the US market under the Africa Growth and Opportunities Act (AGOA). AGOA benefits helped attract significant investment in the textiles and apparel sector and diversified the country's export basket. Hydropower generation at the Grand Ethiopian Renaissance Dam (GERD) started in early 2022 with a 375 W turbine. The GERD will significantly boost the country's power generation, and there are plans to export power to Kenya and Djibouti once output has been expanded sufficiently. However, it is a source of severe tension with Egypt and Sudan after its construction reduced the water supply to Egypt in particular. The dam threatens to be a significant source of conflict in the future.

Graph 14: Strong remittance inflows lifted household spending in Kenya



Source: Central Bank of Kenya

Graph 15: Robust mining activity underlays the upturn in Tanzania



Source: Bank of Tanzania

WEST AFRICA

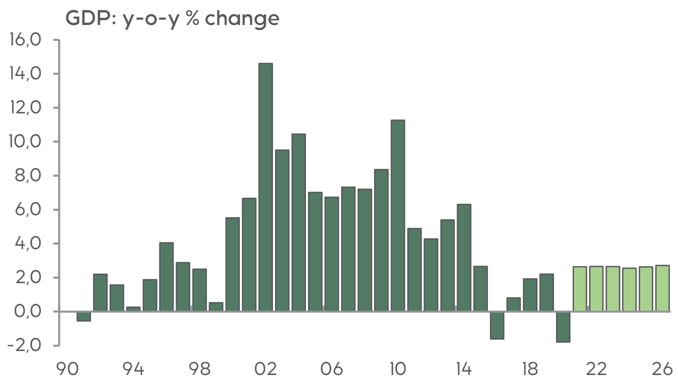
Missing out on the oil price boom due to limited capacity to boost output.

The **Nigerian** economy grew by 3.7% in 2021, the fastest pace since the 2014 oil price plunge. However, the recovery was subdued, considering the low base in 2020 (economy contracted by 1.8%). The non-oil sector grew by 4.4% in 2021, but it will continue to be constrained by the limited power supply, restrictions on imports of some essential goods and the foreign currency crunch. Oil sector activity contracted by 8.3%. According to OPEC data, oil output declined to 1.38 mbpd in 2021 from 1.58 mbpd in 2020. Gross foreign exchange reserves totalled US$40.2 billion at the end of 2021, from below US$37 billion in mid-2020. However, the backlog of foreign currency payments and transfers still stands at between US$2 billion and US$4 billion, as the Central Bank of Nigeria (CBN) limits the supply of foreign currency to the banking market. The inflation rate eased somewhat to 15.6% y-o-y by December from 18% in the second quarter, still well above the CBN's 6% – 9% target band.

In **Ghana**, the rebound strength is constrained by power shortages and the government's limited financial capacity to boost infrastructure investment. Public expenditure will be reduced by 20% in 2022 to narrow the budget deficit and stabilise the high public debt stock. Economic growth averaged 5.3% in the first three quarters of last year. The Bank of Ghana's Composite Index of Economic Activity (CIEA) was 10.2% y-o-y higher in November 2021, reflecting a broad-based expansion in output. Export earnings rose marginally to US$14.7 billion in 2021 from US$14.5 billion in 2020. Gold exports fell by 25.2% on the back of lower output volumes, offsetting the boost from the 20.3% and 35.6% rise in cocoa and crude oil earnings, respectively. The rebound in domestic demand raised the import bill by 9.7% to US$13.6 billion in 2021. Overall, growth will be propped up by the still-favourable global environment during 2022, barring any severe shocks. Domestic demand will be dampened by cuts in public expenditure and logistical constraints.

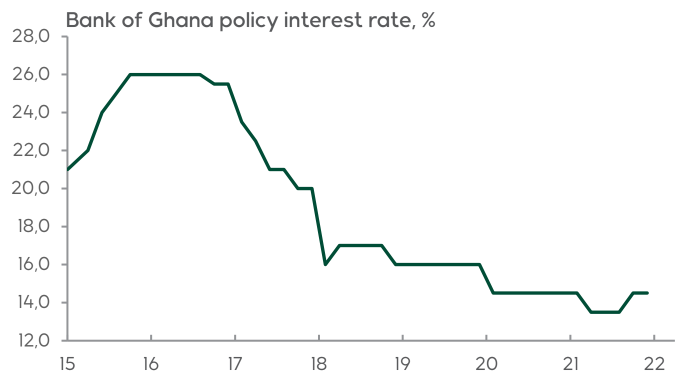
The more stable political environment in **Cote d'Ivoire** continues to support the economy. However, the country needs to expand its power supply and attract investment to expand its production and export earnings base. Oil production averaged 34 000 barrels per day (bpd) in the first half of 2021, falling steadily from 54 000 bpd in 2017. The government will invite bids for rights on 32 of the 51 identified blocks to boost oil and natural gas production. Italian oil major Eni plans to start oil and gas output from the offshore Baleine field in 2023.

Graph 16: A weak economic recovery in Nigeria



Source: International Monetary Fund

Graph 17: Ghana's growth underpinned by firm exports



Source: Bank of Ghana

COMMODITY PRICES

The Russia-Ukraine conflict will keep commodity prices at multi-year highs, but African producers have limited capacity to take advantage of the favourable market.

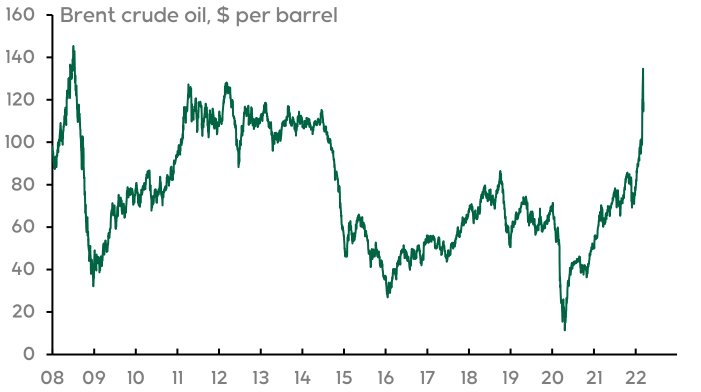
Energy and metal prices rose sharply in the final week of February on worries about the impact of the harsh financial sanctions on Russia, the world's second-largest oil producer and a key metal exporter. The benchmark Brent crude oil price briefly touched US$140 per barrel, the highest level since 2008, before dipping to US$125. Oil has gained 49% in 2022, adding to the 55% rise in 2021. To stabilise the oil price, OPEC+ will raise its output quota by 400 000 bpd, and members of the International Energy Agency will release 61.7 million barrels from their reserves, of which half will be from the US. OPEC+ has refrained from imposing sanctions on Russia as such a move would significantly destabilise the market. High oil prices will encourage producers to expand their output. However, Nigeria and Angola have insufficient installed capacity to raise their volumes. They will not meet their existing quotas of 1.7 mbpd and 1.4 mbpd, respectively. Ghana, Congo Republic, and Gabon also have low production capacity.

High-risk aversion has pushed the gold price to US$2 000 per ounce, while platinum group metals have recorded more robust gains. Aluminium prices spiked to a new historical high, gaining more than 30% in 2022. Copper set a new record high at US$10 895 per tonne on 4 March, taking its jump to just over 10% since the first day of the Russian invasion of Ukraine.

The Food and Agricultural Organization's food price index increased a solid 24.6% y-o-y in December 2021 and gained another 1.1% in January. Vegetable oils, sugar, and cereal prices recorded the most significant gains in 2021, up by 40.7%, 37.9%, and 21.5%, respectively. Prices of oils rose by 4.2% m-o-m in January, cereals were up by a marginal 0.1%, while the sugar price fell by 3.1%. In January. While higher production in Australia and Argentina initially subdued wheat prices, they have since surged, driven by concerns about supply from Russia and Ukraine. Wheat prices have jumped to the highest level since February 2008. The meat price index was up by 18.6% y- o-y in December 2021 and 0.2% m-o-m in January. The upward trend in maize prices – an essential ingredient of animal feed– will start to place upward pressure on meat prices in the coming months.

Non-food agricultural commodities have also gained, with cotton prices up by just over 10% year-to-date, trading at their highest level since 2011.

Graph 18: A sharp jump in oil prices

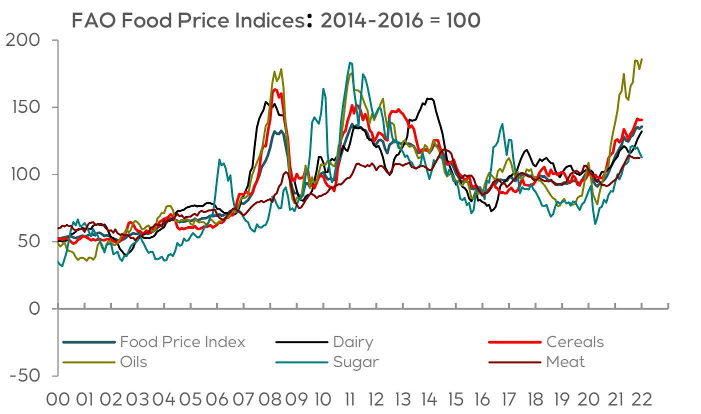


Source: Datastream

Graph 19: Precious-metal prices also edging higher

Source: Datastream

Graph 20: Oils, wheat and maize prices to keep food prices high



Source: Datastream

Graph 21: Wheat has risen to the highest level since 2008

Source: S&P Goldman Sachs Commodity Prices

EXCHANGE RATES

Most of the SSA currencies remain broadly steady on the back of managed float exchange rate regimes but high inflation has widened the exchange rate misalignments.

Sub-Saharan exchange rates have been broadly steady since the start of 2022, trading within narrow ranges. The **Angolan kwanza (Ang.)** bucked the trend, strengthening further as the oil price rose. It appreciated by 9.8% in January and February to trade firmer than AOA500/US$ for the first time since the onset of the pandemic. The **Nigerian naira (Nig.)** remains tightly managed and hovers around NGN415/US$. The **Ghanaian cedi (Gha.)** shed 2.9% to GHC6.80/US$ on worries about the country's high public external debt stock. In comparison, the **Ethiopian birr (Eth.)** weakened by 3.3% as the security instability continued to weigh on economic output and export earnings.

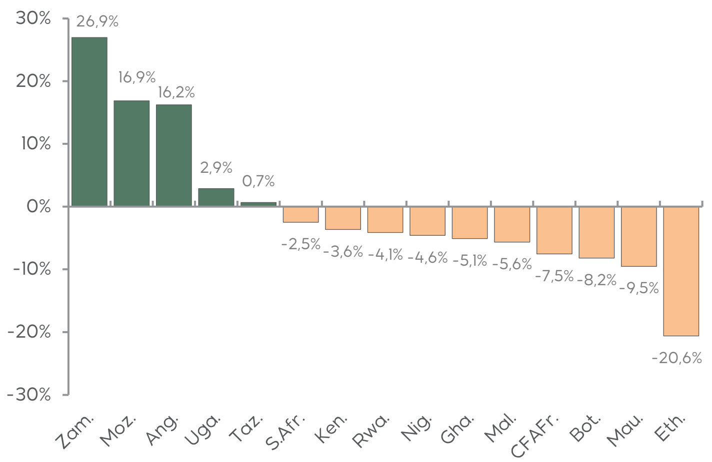
The 12-month performance of the SSA continues to mirror the trend in 2021. Positive sentiment underpinned the **Zambian kwacha (Zam.)** after the government secured a balance-of-payments support package with the IMF. The **Mozambican metical (Moz.)** drew support from the improved situation in Cabo Delgado. Expectations for the resumption of the LNG fields construction before the end of 2022 will continue to prop up the unit.

The **Nigerian naira (Nig.)** has fluctuated around NGN415/US$ since mid-January after it was devalued steadily from NGN380/US$ in March when the government announced the effective unification of the official rate and the 'Investors & Exporters' rate. Favourable oil prices will encourage the Nigerian authorities to maintain the current exchange rate levels despite high inflation and the severe foreign liquidity crunch.

East African currencies have been propped up by higher foreign exchange inflows, with firmer merchandise exports and diaspora remittance inflows offsetting the impact of low tourism. The **Ethiopian birr (Eth.)** was still the exception, falling further due to the effects of the civil strife on economic production and foreign currency earnings.

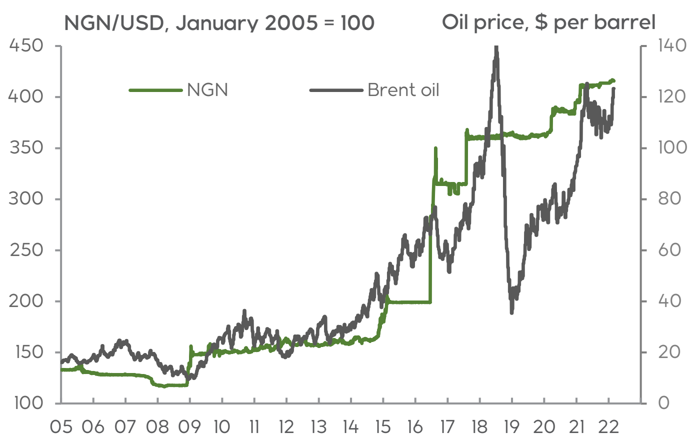
Other southern African currencies continue to fluctuate in line with the **South African rand (S.Afr.)**, to which most are tied.

Graph 22: 12-month performance to February 2022



Source: Datastream

Graph 23: The Nigerian naira will be steady as oil prices remain high



Source: Datastream

TABLE 1: ECONOMIC GROWTH FORECASTS

Annual growth rate (%)						
	Actual		Forecasts			
	2019	2020	2021	2022	2023	2024
Angola	-0.6	-5.4	-0.7	2.4	3.3	3.7
Botswana	3	-8.5	9.2	4.7	4.4	4
Cameroon	3.7	-1.5	3.6	4.6	4.9	5.3
DR Congo	4.4	1.7	4.9	5.6	6.6	6.8
Congo Republic	-0.4	-8.2	-0.2	2.3	3	6.8
Côte d'Ivoire	6.2	2	6	6.5	6.4	6.3
Eswatini	2.2	-2.4	1.5	1.7	1.8	2
Ethiopia	9	6.1	2	n/a	n/a	n/a
Gabon	3.9	-1.8	1.5	3.9	3.2	3.4
Ghana	6.5	0.4	4.7	6.2	4.7	5
Kenya	5	-0.3	5.6	6	5.7	5.5
Lesotho	-1.5	-5.4	2.8	1.6	1.6	1.8
Malawi	5.4	0.9	2.2	3	4.5	5
Mali	4.8	-1.6	4	5.3	5	5
Mauritius	3	-14.9	5	6.7	4	3.5
Mozambique	2.3	-1.2	2.5	5.3	12.6	3.5
Namibia	-0.6	-8	1.3	3.6	3.1	2.5
Nigeria	2.2	-1.8	2.6	2.7	2.7	2.6
Rwanda	9.5	-3.4	5.1	7	8.1	7.5
Senegal	4.4	1.5	4.7	5.5	10.8	6.2
South Africa	0.1	-6.4	5	2.2	1.4	1.3
Tanzania	7	4.8	4	5.1	5.5	5.8
Togo	5.5	1.8	4.8	5.9	6.1	6.3
Uganda	7.7	-0.8	4.7	5.1	6.6	6.7
Zambia	1.4	-3	1	1.1	1.3	1.4
Zimbabwe	-6.1	-4.1	5.1	3.1	3	3

Source: The World Bank Group, January 2022

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