ECONOMICS | SUB-SAHARAN AFRICA

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After the first real GDP contraction since 1992, a recovery is underway as firm global demand and high commodity prices boost export earnings. However, the slow pace of vaccination threatens the economic upturn and will keep the effects of Covid-19 persistent on the subcontinent for longer than in other global regions. External liquidity has remained broadly tight due to higher fuel import bills and elevated external payment obligations.

2 | Country and regional economic reviews

Countries recovering faster are benefiting from robust global demand for their key exports and favourable commodity prices. Domestic factors, primarily logistical bottlenecks and low foreign currency availability have constrained faster recoveries in the laggards.

3 | Commodity price developments

Nigeria and Angola have not taken advantage of higher oil prices and output quotas due to production constraints. Strong demand in key export markets and global supply chain bottlenecks have supported agricultural commodity prices. High metal prices have benefited Ghana and Tanzania, but power shortages have hurt mining in Zambia and Zimbabwe.

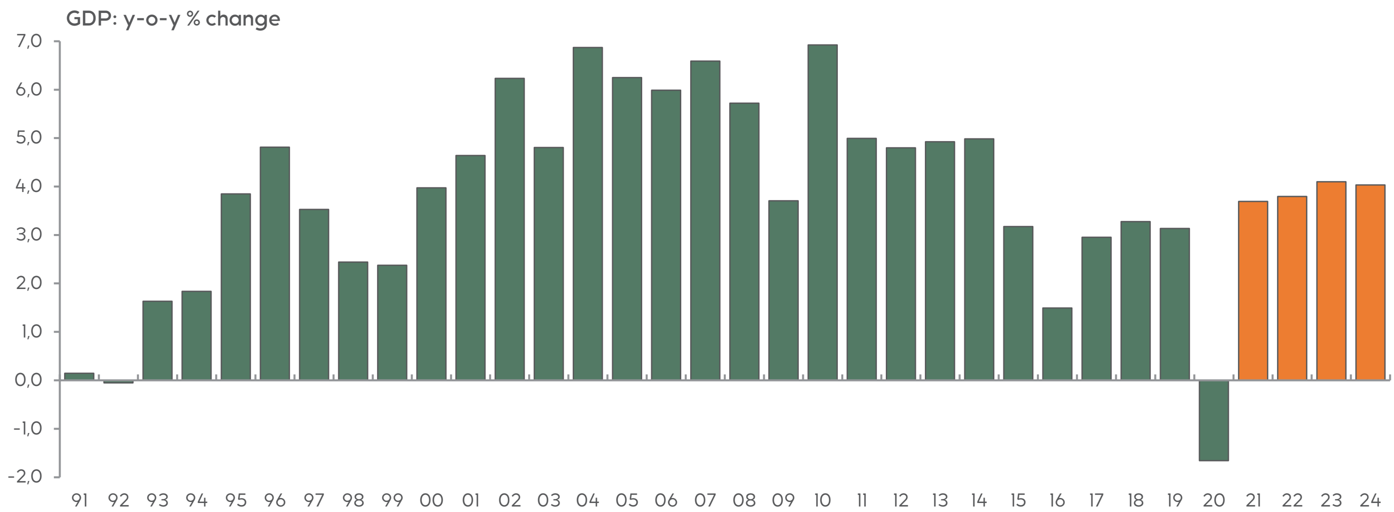
4 | Exchange rate developments

Encouraging political developments have boosted the Zambian kwacha, while the Mozambican metical has drawn support from higher export earnings. The intensifying conflict in Ethiopia has pressured the birr. The tightly managed exchange rates have remained broadly steady, despite high external financing needs.

BACKGROUND AND OUTLOOK

The macroeconomic effects of the pandemic resulted in the first economic contraction in almost 30 years. Output activity is benefiting from a favourable global environment, but risks are still tilted to the downside.

Graph 1: Sub Saharan Africa real GDP growth



Source: International Monetary Fund (forecasts from 2021)

Economic growth is rebounding in sub-Saharan Africa (SSA). Less restrictive Covid-19 containment measures have supported the recovery, and robust global demand boosted the prices of the countries' principal commodities. Domestic activity contracted mildly in 2020 as SSA nations adopted containment measures that were less stringent than those in other countries. However, the slump in global demand in the second quarter of 2020 reduced export earnings significantly, resulting in the subcontinent recording its first real GDP contraction since 1992. The macroeconomic climate has improved, driven by the robust upturn in global demand. Still, many countries have not fully taken advantage of the favourable conditions due to constrained production capacity. Higher oil prices amplified fuel importers, while logistical constraints inhibited oil producers from boosting their output and exports.

Although most of the SSA economies are rebounding from the sharp slump in global trade during 2020, the impact of lockdowns and the slow vaccination rates against Covid-19 will delay the acceleration of the upturn. The tourism-dependent economies are still missing out on the rebound in global leisure travel. SSA is well behind other regions in vaccinations. Other developing and emerging nations have vaccinated at least 30% of populations and the proportion is over 60% in industrialised nations. According to the Johns Hopkins University Coronavirus Resource Center, **South Africa** has fully inoculated only 22.1% of its population. In East Africa, **Rwanda** is leading the charge with a vaccination rate of 16.3%, and **Kenya** and **Tanzania** are well behind at 3.5% and 1.7%, respectively, while less than 1% of **Uganda's** population is fully vaccinated. In West Africa, vaccination rates are meagre, with **Nigeria** at 1.5% and **Ghana** at 2.7%. Progress has also been tepid in Southern Africa. **Eswatini** (20.7%), **Zimbabwe** (18.1%) and **Lesotho** (16.0%) are leading, followed by **Botswana** (13.3%) and **Namibia** (10.7%), while **Mozambique** (8.0%), **Angola** (5.7%) and **Zambia** (3.2%) are lagging.

The pace of vaccinations should improve as vaccine supply picks up in early 2022. The US donated more vaccines to African nations. The latest consists of 17 million doses, following an earlier commitment of 50 million doses. Additionally, India's Serum Institute resumed vaccine exports in October after suspending shipments for six months, and it plans to boost its output from January 2022. The World Health Organization estimates that Africa needs to receive 150 million doses per month, from the current 20 million, to meet the herd immunity target within 12 months. The International Monetary Fund (IMF) estimates that SSA needs at least US$2.5 billion to beef up the health systems for the vaccination drive. Despite the expected higher availability of vaccines, African nations will battle to vaccinate 70% of their populations by September 2022, a target set by world leaders at the Covid-19 Summit held on the sidelines of the United Nations General Assembly. In addition to logistical constraints, vaccine hesitancy is also contributing to low vaccination rates. Encouragingly, the level of infections has been well below other global regions, partly reflecting the relatively low level of mobility on the subcontinent. However, the prevalence of the pandemic is probably not accurately captured in the official statistics.

Export earnings have improved, boosted by higher prices for the countries' significant commodities. Still, their foreign currency liquidity positions have generally remained tight due to the high external financing needs. Their import bills have risen on the back of medical equipment purchases and higher fuel prices, and their external debt service costs remain elevated. The exceptions are few. **Botswana** and **Tanzania** recorded higher foreign exchange reserves on the back of firm diamonds and gold export earnings, respectively, while their external debt repayments remained low. External liquidity support has come from the IMF's liquidity injection through the distribution of its Special Drawing Rights (SDR) worth US$650 billion. A total of US$275 billion was disbursed to developing and emerging economies, with African economies receiving a combined US$22.5 billion. The SDR is the IMF's unit of account, consisting of a weighted basket of the US dollar, the euro, the Chinese yuan, the Japanese yen and the British pound. The countries can swap their allocations for hard currency with other countries, but the boost to the foreign exchange reserves of African economies has been limited.

Inflation rose across the subcontinent early in 2021, primarily due to increasing global food and fuel prices. In a few countries, lower domestic harvests and import restrictions have worsened food shortages and the resultant price pressures. Inflation is above the target levels in Botswana, Kenya, Nigeria, Uganda and Zambia, and it is close to the upper limit of the target band in Ghana. CPI is projected to ease in most economies in 2022 as global supply chains normalise.

The **African Continental Free Trade Agreement** (AfCFTA) came into effect on 1 January 2021. The AfCFTA's objective is to promote trade between the member countries by lowering and eradicating tariffs on most traded goods and services. However, its implementation will be slow. SSA economies that primarily rely on import tariffs as a source of fiscal revenue are unlikely to remove tariffs on merchandise from other African economies until they have boosted alternative income sources. In addition, the current trend in some countries is protectionist, and the restrictive trade policies will delay closer integration of African economies. Nigeria implemented bans on imports of about 45 goods that include basic foodstuffs produced in its neighbouring countries as it leans towards boosting local production.

Overall, the subcontinent's economic prospects are improving after the significant damage inflicted by the pandemic. However, the slow rate of Covid-19 vaccinations suggests that the macroeconomic effects of the pandemic will persist in SSA for longer than in other parts of the world. New mutations of Covid-19 will likely trigger more waves of new infections and the associated disruption from tighter lockdown measures. The moderation in global commodity prices will add further downside pressure. SSA countries also have limited policy space to counter any potential future global shocks. Most governments are highly indebted. Relatively undeveloped credit markets also render monetary policy changes less effective. Despite these factors, the subcontinent's medium-term economic prospects remain attractive.

FOREIGN DIRECT INVESTMENT TRENDS

The pandemic reduced foreign direct investment (FDI) in most of the economies.

The pandemic dampened investment activity in most of SSA's major industries. Relatively undiversified economies and unattractive investment policies compared to most Asian countries hurt the subcontinent's performance. The value of gross FDI in SSA dropped to US$29.6 billion in 2020, down by 11.7% over the year. However, gross outflows fell sharply to US$510 million from US$3.2 billion, limiting the drop in net inflows to US$29.1 billion in 2020 from US$30.4 billion in 2019. The decline in gross inflows was much better than in Latin America (-45.4%), but developing Asia attracted higher investment in 2020 as the manufacturing of information technology components rose strongly.

Central Africa bucked the trend of lower gross inflows on the subcontinent with a 3.6% increase, as the economies of Congo-Brazzaville and the Democratic Republic of Congo benefited from their rich mineral endowment. West Africa experienced a deep contraction of 18.3%, reflecting a 52% plunge in gross flows to Ghana. In East Africa, flows to Ethiopia fell for the fourth successive year as the country's security instability dims its attractiveness as an investment destination. In contrast, Tanzania's flows were underpinned by more favourable mining legislation and attractive export prices. Flows to southern Africa dropped by 15.8% to US$4.3 billion. Investment in South Africa, the largest regional recipient, fell by 39.4% to US$3.1 billion. Angola and Namibia recorded further outflows, while Mozambique continued to be boosted by investments in the coal and liquified natural gas (LNG) sectors.

TABLE 1: GROSS FDI FLOWS

Gross FDI flows, US$ million	2016	2017	2018	2019	2020	2020 change, %
Sub-Saharan Africa	**32 407**	**26 901**	**29 976**	**33 593**	**29 658**	**-11.7**
Southern Africa	**6 978**	**-941**	**4 469**	**5 051**	**4 252**	**-15.8**
South Africa	2 235	2 008	5 450	5 125	3 106	-39.4
Mozambique	3 093	2 293	2 703	2 212	2 337	5.7
Namibia	356	280	209	-179	-75	-58.1
Eswatini	21	-56	36	130	41	-68.5
Lesotho	159	123	129	118	102	-13.6
Angola	-180	-7 397	-6 456	-4 098	-1 866	54.5
Zambia	663	1 108	408	548	234	-57.3
Zimbabwe	372	349	745	280	194	-30.7
Central Africa	**5 403**	**8 496**	**9 354**	**8 858**	**9 177**	**3.6**
Cameroon	664	814	762	1 027	488	-52.5
Congo-Brazzaville	1612	4 417	4 315	3 366	4 016	19.3
Dem. Republic of Congo	1 205	1 340	1 617	1 488	1 647	10.7
East Africa	**8 302**	**8 784**	**8 054**	**7 726**	**6 461**	**-16.4**
Ethiopia	4 143	4 017	3 310	2 549	2 395	-6
Kenya	1 139	1 404	1 139	1 098	717	-34.7
Tanzania	864	938	972	991	1 013	2.2
West Africa	**11 725**	**10 112**	**8 100**	**11 958**	**9 768**	**-18.3**
Ghana	3 485	3 255	2 989	3 879	1 877	-51.6
Nigeria	3 453	2 413	775	2 305	2 385	3.5
Senegal	472	588	848	1 065	1 481	39.1

Source: United Nations Conference on Trade and Development

ESWATINI

Domestic instability offsets the strong boost from sugar exports

Renewed public protests threaten to disrupt domestic supply chains further. In late June, the unrest caused damage to businesses and public facilities worth an estimated E800 million (US$52 million) in the urban centres. The latest protests could disrupt domestic economic activity further and dampen the benefit from a favourable world economy. The government set aside E500 million for reconstruction, funded by reallocations in the current budget (April 2021/March 2022), funds from the international community, and pledges of over E330 million from other institutions. Encouragingly, the social instability is likely to subside after the government announced plans to initiate social dialogues to resolve the political disagreements.

Although the solid momentum has somewhat been upset by the social unrest, growth for 2021 looks set to be stronger than 2% on the back of the favourable global environment and reconstruction activity. A substantial rise in international sugar prices has boosted export volumes, while the normalisation of the textile sector's supply chains helped lift exports to China. The value of exports in local currency increased by 18.5% in August 2021 on the back of higher volumes and favourable prices. Exports of sugar and related products rose by 17.8% y-o-y, while textile export earnings gained 23.2%.

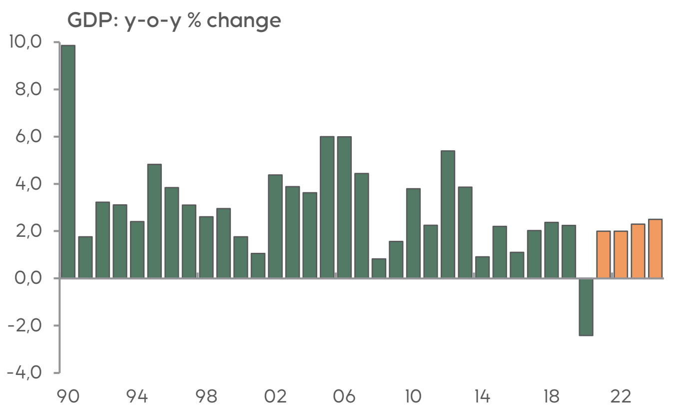
However, domestic demand is more subdued and will contain the overall pace of recovery. Corporate credit demand has weakened in recent months, pointing to the social instability hurting business operations. However, credit extension to the business sector was up by 9.3% y-o-y in September. Household credit demand expanded by 12% y-o-y in September, as the uptake of unsecured credit and home loans remained reasonably firm.

Lower customs revenue and the slow recovery in domestic tax collections limit the government's capacity to boost spending. Public spending grew by 3.6% in FY2020/21 but was 5% below budget due to pandemic-induced disruptions, while revenue was 10.4% below budget. Southern African Customs Union (SACU) revenue will drop by 24% to E6.38 billion in FY2021/22 from E8.35 billion in FY2020/21, hurt by the lower trade volumes and SACU export earnings. SACU receipts fell to 12.9% of GDP, contributing 43.9% of aggregate income. In 2020, the IMF approved US$110.4 million in emergency financial assistance, while the World Bank advanced US$45.5 million.

Encouragingly, the 2021 Budget speech reaffirmed the government's commitment to improving the efficacy of its spending. Implementing the Economic Recovery Plan, which aims to carve a path to a private sector-led economy, will boost growth and development beyond the post-Covid-19 recovery phase.

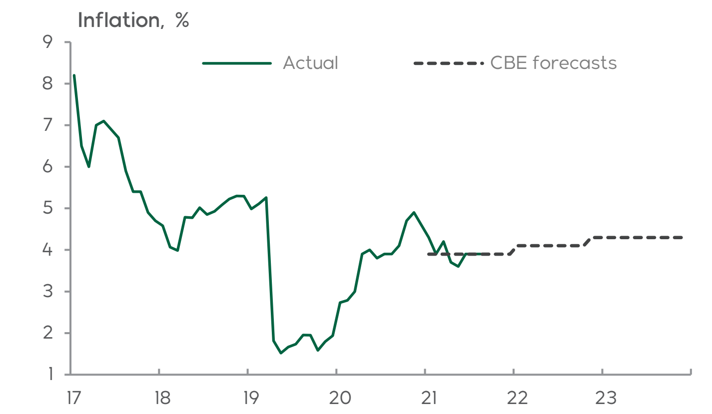
Given relatively subdued inflation and moderate credit growth, the Central Bank of Eswatini (CBE) should be able to maintain a cautious approach to normalising its policy interest rate. The CBE forecasts inflation to average 3.9%, 4.1% and 4.3% in 2021, 2022 and 2023, respectively.

Graph 2: A steady rebound in economic activity



Source: International Monetary Fund, Nedbank forecasts from 2021

Graph 3: Inflation is forecast to remain subdued



Source: Central Bank of Eswatini

LESOTHO

Domestic and regional pressures contain the benefit from strong exports

The solid global upturn and less restrictive domestic lockdown underpinned an upturn in mining exports and construction activity. However, close linkages with South Africa and a labour strike in the textiles sector have dampened the pace of the recovery. Employment in the textiles sector, the largest private-sector employer, dropped by more than 10% in 2020. At the same time, income remittances from South Africa, the largest employer of Basotho migrant workers, dipped. These factors weighed on household incomes and domestic demand growth.

The Central Bank of Lesotho (CBoL) forecasts growth of 3.7% in 2021, 4.3% in 2022 and 4.2% in 2023, from the 6.3% contraction in 2020. Crop production and mining and quarrying output are projected to expand by 15.8% and 10.5%, respectively. Construction activity contracted sharply after the border closure with South Africa halted work on the second phase of the Lesotho Highlands Water Project but will expand by an estimated 26.6% in 2021. Diamond exports have benefited from the recovery in global demand.

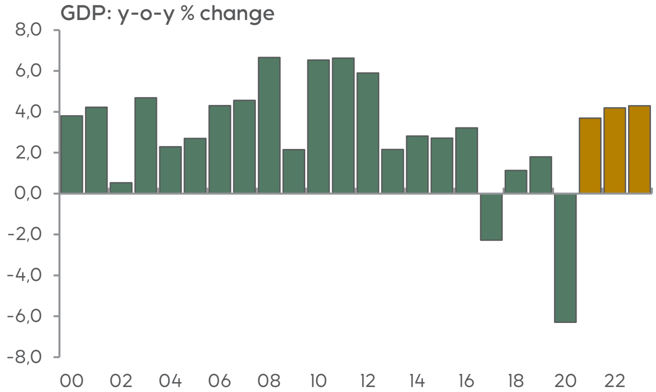
The CBoL's forecasts reflect the recent trend of its Composite Indicator of Economic Activity. Overall activity has improved steadily since the fourth quarter of 2020 despite periodic disruptions caused by changing Covid-19 restrictions. A broad-based expansion in manufacturing and other production underpinned the upward momentum, but domestic demand remained lacklustre.

Weak domestic demand and a regional trade slump significantly reduced Southern African Customs Union (SACU) transfers, hurting government revenue. The 2021 budget statement estimates SACU receipts will drop to M6.01 billion in 2021/22 (US$392.2 million or 16% of GDP) from M8.98 billion in 2020/21 (27% of GDP). As a ratio of total revenue, SACU receipts drop to 34.8% from 49.8%, respectively, and to 32.5% in 2022/23.

Subdued fiscal revenue will constrain the government's social and investment spending capacity, weighing on the recovery. The budget assumed a real GDP contraction of 5.8% in 2020/21 and average annual growth of 4.7% over 2021/22 to 2023/24.

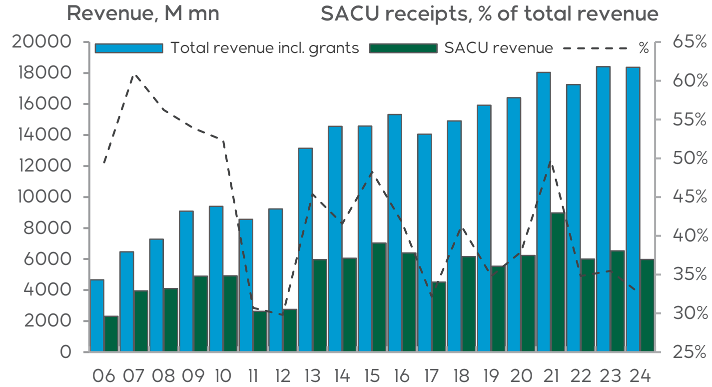
The slow economic rebound points to the Lesotho economy returning to its pre-pandemic level in 2022 but reaching its long-term growth trend only in 2025. Risks to growth remain tilted to the downside due to the persistence of the pandemic. Subdued inflation gives the CBoL room to keep interest rates unchanged for the remainder of 2021 before starting to hike moderately in 2022.

Graph 4: The economy's recovering from a deep 2020 slump



Source: Central Bank of Lesotho (forecasts from 2021)

Graph 5: Fiscal revenue hurt by lower SACU receipts



Source: Government of Lesotho (forecasts from 2021)

MOZAMBIQUE

Construction of LNG fields set to resume as the security situation is stabilised

Government forces, backed by military support from southern Africa and Rwanda, have made commendable progress in regaining control of the area captured by the al-Sunnah militants. The progress has boosted the prospects that the construction of the LNG fields will resume in 2022.

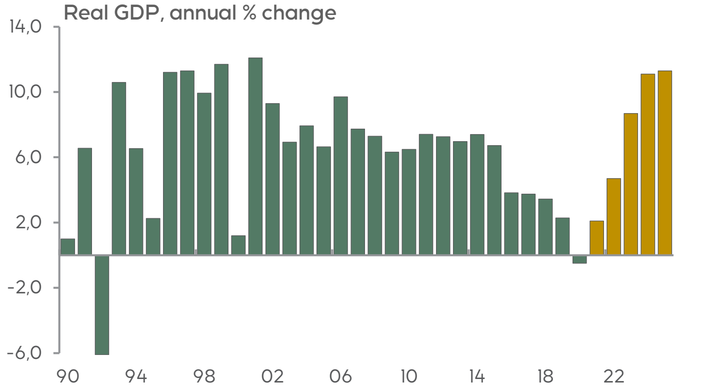
French oil major Total estimates that its LNG exports will start in 2026 if construction continues uninterrupted from 2022. Italian oil company Eni indicated that it is on track to start production at its small offshore fields in 2022. Exxon-Mobil's final investment decision hinges on the security developments, but the company reaffirmed its commitment to proceed with the US$3 billion investment.

Encouraging developments relating to the default by government entities on $720 million commercial loans also lifted sentiment. Swiss lender Credit Suisse reached a settlement with Swiss, US, and UK regulators, including writing off $200 million of the loans. The validity of the remainder of the debt, part of which was granted by Russian bank VTB, remains subject to a London High Court judgement. The hearings are scheduled for September 2023.

The economy is showing signs of a steady rebound after the Covid-19-induced slump in 2020. Agricultural output is benefiting from favourable weather conditions, although output dropped marginally in early 2021. Farming was unscathed by the pandemic, and cyclone-related damage in the northern parts is also relatively mild this year. Mining activity and export earnings rebounded strongly, buoyed by the higher coal prices and substantial increase in volumes shipped to China and India. Economic growth will trend higher at a moderate pace until the start of LNG production, which will boost growth significantly to above the annual average of 5.8% per annum recorded over the 10 years to 2019.

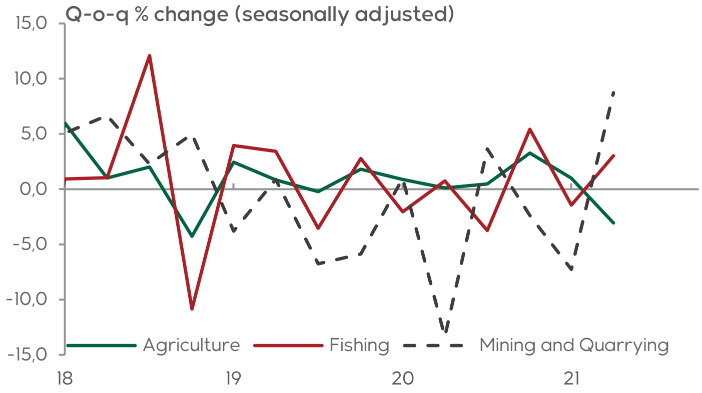
The local currency has been stable around MZN/US$63.80 over the past month, coming off the back of solid appreciation in February and March as foreign currency inflows rose substantially. The resolution of the defaults and the government's tightening of its expenditure controls will facilitate the resumption of multilateral credit facilities and foreign aid, which will help to revive public infrastructure investments and support foreign currency liquidity in the local market further. However, this is likely only after 2023 unless an out of court settlement on the remaining loans is secured earlier.

Graph 6: LNG output will boost GDP growth, exports and foreign exchange liquidity



Source: International Monetary Fund, Nedbank forecast from 2021

Graph 7: Mining lifted mainly by higher coal volumes and prices



Source: Haver Analytics

NAMIBIA

A slow climb from a deep and prolonged downturn

The recovery has been slow after real GDP shrank by 8.5% in 2020. Output in the major sectors remained broadly lacklustre in the first half of 2021. As a result, the value of the aggregate activity in inflation-adjusted terms – a measure of economic size – was only 4% higher in the second quarter of 2021, compared with the start of 2013. To lift the growth rate, boosting activity in agriculture and mining, and reviving tourism and construction is critical.

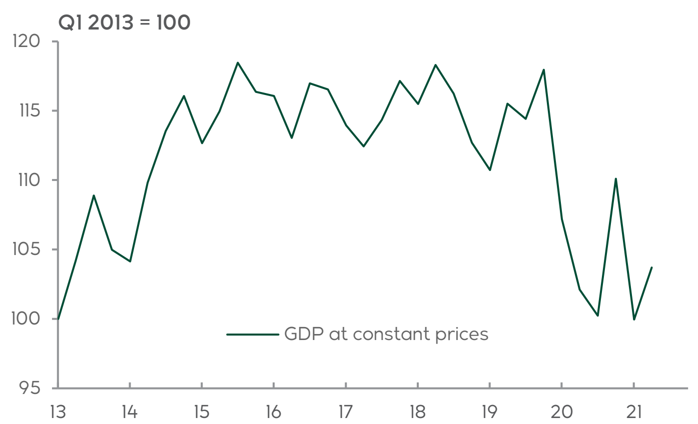
Tourism bore the brunt of the pandemic, and activity is rebounding very slowly from the 31.2% plunge in 2020. The Hospitality Association of Namibia reports that room occupancy averaged 20% in the seasonally busy month of August, up from only 8% in August last year but well below the monthly average of 67.1% in the pre-Covid-19 era. Foreign arrivals remain depressed after plunging by 89.4% in 2020. Slow vaccination will keep foreign visitors away for longer.

Other indicators of real economic activity paint a similarly weak picture. Modest output by livestock farming hurt agricultural production in the second quarter. In construction, the value of buildings completed was down by 40.1% y-o-y in August. Although public infrastructure spending will be vital in reviving the sector, tight government finances suggest that construction activity will remain weak for the foreseeable future. Mining output looks set to grow for the year, helped by favourable commodity prices. However, an unstable electricity supply will be a drag on production.

Lacklustre demand has kept inflation moderate, as limited pricing power compelled local businesses to absorb most of the cost pressures. Inflation has been below 4.5% for most of the period since 2018. Notably, the Namibian inflation rate has been lower than in South Africa, Lesotho and Eswatini since the first quarter of 2019, reflecting the impact of the prolonged downturn. However, rising fuel prices will likely push inflation towards the 4.5% midpoint of the 3% to 6% target band.

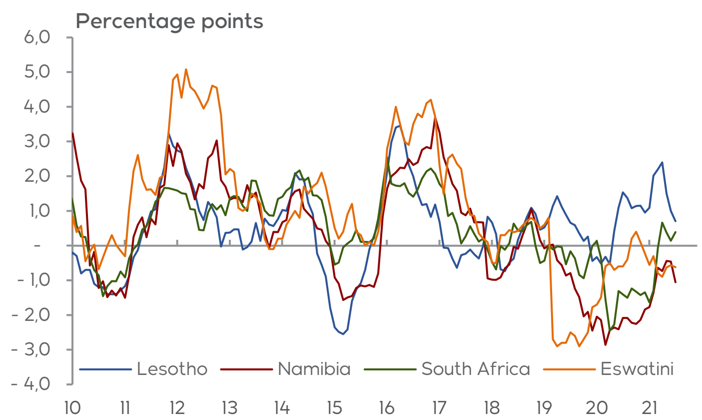
We expect the Bank of Namibia to hike its policy interest rate through 2022, but the hiking cycle will be moderate. We forecast the repo rate to increase from 3.75% to 4.75% at the end of 2022.

Graph 8: The economic size dropped significantly



Source: Namibia Statistics Agency, Nedbank calculations

Graph 9: CPI deviation from the midpoint of the 3% to 6% band



Sources: Central banks, Nedbank calculations

ZIMBABWE

Tight liquidity continues to constrain activity

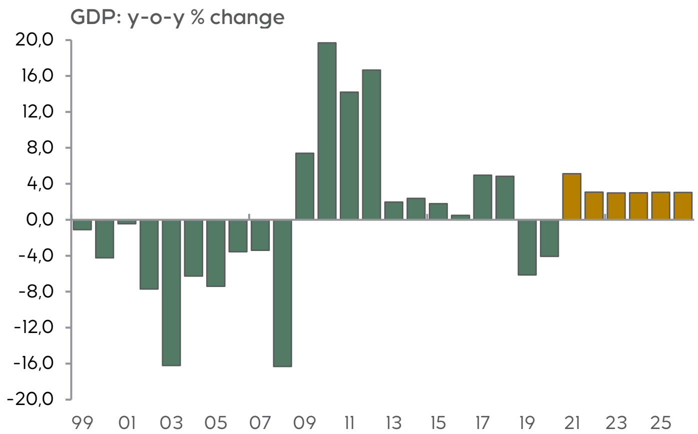
The severe shortage of foreign currency and a fundamentally weak domestic currency continue to constrain a faster recovery. Although export earnings are still too low to drive a sustainable economic revival, higher gold and platinum prices have boosted exports. Power outages have limited the upside for mining and agriculture, the primary export earners. The pandemic has hurt tourism earnings, and the slow pace of vaccinations will probably discourage foreign arrivals for the foreseeable future. Higher foreign direct investment is necessary to help improve foreign currency liquidity and expand the domestic production base. However, the investment will not pick up unless the government restores good governance.

The value of exports rose to US$1.4 billion in the second quarter from US$1.1 billion in the first quarter, up considerably from US$828.8 million in the second quarter of 2020. Platinum and gold earnings jumped by 53.9% and 23%, respectively, while tobacco earnings were up by 82.6%. However, the import bill was 57.5% y-o-y higher in the second quarter of 2020, limiting net foreign currency earnings. The US$961 million received from the IMF's SDR distribution has not improved foreign currency liquidity much. The government indicated that it would utilise US$500 million to prop up the local currency.

The official exchange rate is trading around ZWL$99/US$ as the Reserve Bank of Zimbabwe (RBZ) continues to devalue gradually. The central bank reintroduced the currency at ZWL$2.50/US$ in February 2019. Since then, the currency has depreciated sharply. The downward trend intensified once the weekly auctions started in June last year. The Zimbabwean dollar declined by 17.4% since the end of last year and by a massive 97.5% since its reintroduction in 2019. This weakness worsened the country's foreign liquidity crunch. As of early November, the parallel market rate was between ZWL$135–ZWL$190/US$, a range of between 27% and 48% weaker than the official rate.

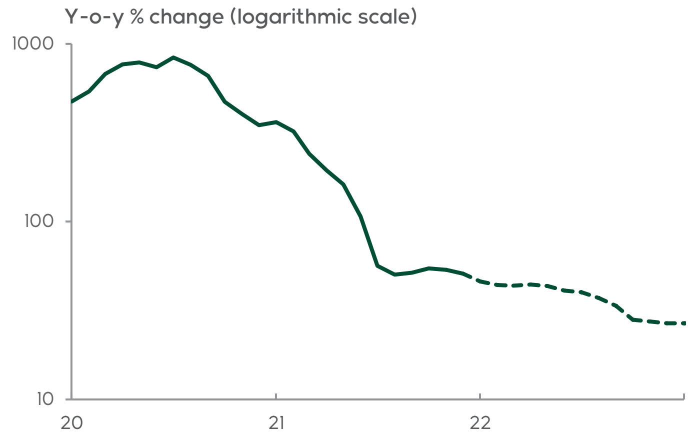
Hyperinflation returned upon the reintroduction of the Zimbabwean dollar and its rapid depreciation. Inflation peaked at 834% y-o-y in July 2020 before moderating to around 50% by August 2021. Since then, inflation rose to 54.5% in October, driven by higher food and fuel prices. Given renewed currency weakness, the RBZ will probably miss its 50% inflation rate target at the end of this year.

Graph 10: A fragile upturn as foreign liquidity remains tight



Source: International Monetary Fund (forecasts from 2021)

Graph 11: Inflation to ease slowly towards 25%



Source: Reserve Bank of Zimbabwe, Nedbank forecasts from Nov. 2021

OTHER SOUTHERN AFRICA

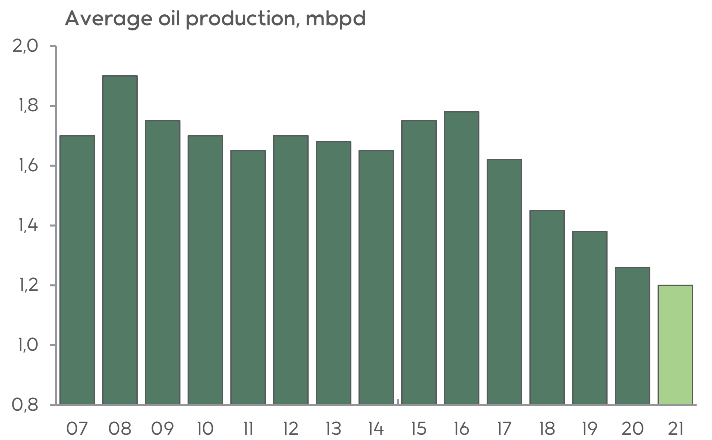
Mixed performances in mining while dry conditions hurt agriculture

In the third quarter, **Angola's** oil production dipped to 1.11 million barrels per day (mbpd), remaining below the country's output quota of 1.25 mbpd. According to the Organization of Petroleum Exporting Countries (OPEC), output averaged 1.125 mbpd in the first three quarters of this year, down from 1.37 mbpd in 2019 and 1.27 mbpd in 2020. Falling oil exports, despite higher oil prices, will hurt the economy further. The IMF forecasts a real GDP contraction of 0.7% in 2021, the sixth consecutive year of decline, with subdued activity in the non-oil sectors. The foreign currency liquidity position is tight due to the high import bill and interest payments on external debt. The government's governance and macroeconomic reforms are continuing but are still slow. The country is joining the Extractive Industries Transparency Initiative, a global initiative that promotes transparency and accountability in managing revenue derived from natural resources. The government has licensed new oil production fields to boost oil output to 1.3 mbpd within three years. The benefits of these measures will be visible only over the next five years or so.

Botswana's economy has rebounded to its pre-Covid-19 level, buoyed by a robust recovery in mining earnings as rough diamond sales jumped by 231% y-o-y in US dollar terms in the third quarter of 2021 following several quarters of weak exports. Real GDP expanded by 36% y-o-y in the second quarter, partly reflecting the low base in the second quarter of 2020, when GDP contracted by 26% due to the slump in global trade and domestic lockdown. The rebound restored the size of the economy, in inflation-adjusted terms, back to its level in the fourth quarter of 2019. In addition to mining and quarrying, public administration (primarily reflecting higher health spending), construction, wholesale and retail trade also supported the recovery in the second quarter. Lower livestock production hurt agriculture. According to IMF forecasts, the economy will grow by 9.2% in 2021 from the 8.5% plunge in 2020.

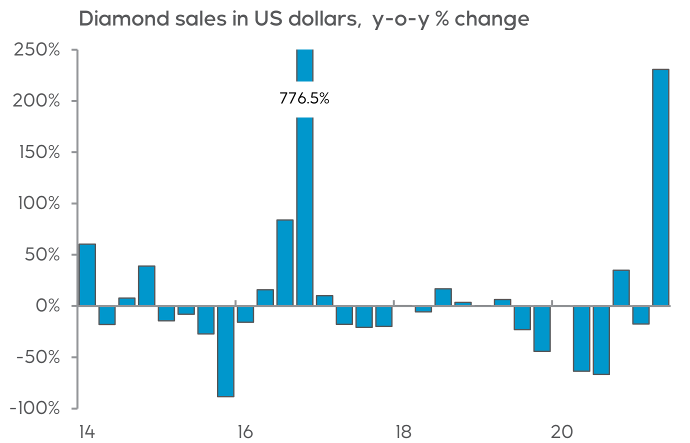
In contrast, **Zambia** has been unable to take advantage of favourable copper prices. Mining output is still relatively weak due to widespread and persistent power disruptions, while dry weather conditions have hurt agricultural output. Encouragingly, the pro-business United Party for National Development's (UPND) victory at the August 2021 polls has lifted sentiment. The UPND plans to implement prudent macroeconomic policies to reverse the damage caused by the Patriotic Front government over the past 10 years. However, reviving an economy beset by poor infrastructure will be a formidable challenge. The external debt stock is unsustainably high, and the sovereign defaulted on coupon payments on Eurobonds totalling US$3 billion. The government reports the external public debt stock at US$14.5 billion, excluding repayment arrears totalling US$470.8 million. Still, these figures are well below private sector estimates running as high as US$27 billion, equal to 115% of GDP. Negotiations for an IMF-funded macroeconomic stabilisation programme, which the country needs for participation in the Group of 20's debt restructuring initiative, are ongoing. Despite these challenges, the election has significantly boosted sentiment, buoying the Zambian kwacha against the US dollar.

Graph 12: A steady decline in Angola's oil production



Source: International Energy Agency, Economist Intelligence Unit

Graph 13: A sharp rebound in Botswana's diamond exports



Source: Bank of Botswana

EAST AFRICA

The recovery remains subdued by low foreign tourist arrivals, but the strong gold price has supported Tanzania

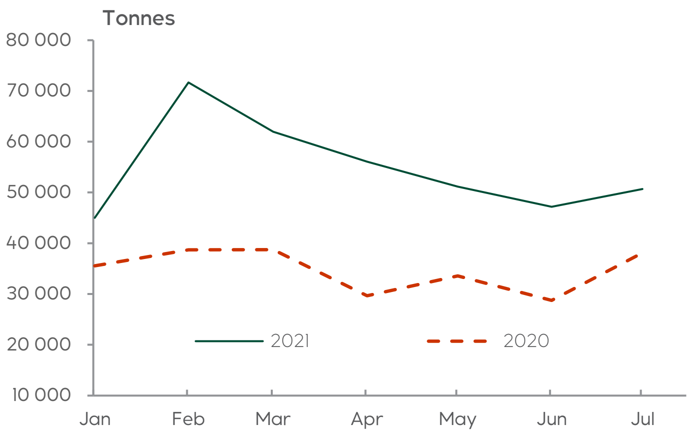
The slump in global tourism weighed on domestic consumption, tourism-related services, and foreign exchange earnings in **Kenya** and **Tanzania**. Foreign arrivals remained low during the peak tourism season that runs from August to October, coinciding with the migration of animals across the Masai Mara. In 2020, foreign arrivals were down by 71.8% in Kenya. Tourist arrivals improved slowly in the first seven months of July, but only rose by 4% off 2020's shallow base (in the second quarter of 2020, arrivals totalled only 1 777, a 95% slump from 2019). Tanzania recorded a 72.6% plunge in foreign travel income in 2020, and receipts were still down 23.2% y-o-y in the 12 months to August 2021. Slow vaccinations in these countries will inhibit a faster recovery in foreign arrivals even as global long-haul travel rises strongly during 2022.

Other sectors have lifted the **Kenyan** economy. The firm European demand buoyed horticultural exports. Horticultural goods' volumes and local currency value rose by 57.9% y-o-y and 43.8%, respectively, over the first seven months of 2021. The inflation rate moderated to 6.5% in August, but higher fuel prices following the reduction of fuel subsidies will keep overall price pressures elevated. The Central Bank of Kenya will maintain an accommodative monetary policy stance as inflation will likely hover within its 2.5% to 7.5% target range.

Higher export earnings have underpinned the recovery in **Tanzania**, but depressed tourism earnings capped the upside. Robust merchandise exports and investment inflows produced a balance of payments surplus of US$840 million in the year to August 2021 compared with a US$137.8 million deficit in the year to August 2020. Merchandise exports earnings were up by 7.1% y-o-y over the period. Gold exports rose by 33.5% in 2020 and were 7.5% y-o-y higher in the year to August 2021, after rising by 42.4% in the same period in 2020. The change in government leadership has improved the business climate, particularly in mining. The new president shifted towards friendlier mining policies and prudent policies to tackle the pandemic.

Ethiopia has been the top recipient of FDI in East Africa in recent years, but its economic liberalisation drive faces risks from the intense armed clashes between government troops and the Tigrayan rebels. The situation is morphing into a full-blown civil war as rebels in the Oromia district join the offensive against the government. The government has adopted a macroeconomic programme that will enable foreign investment of at least US$200 000 in all industries. A particular focus in recent years has been on telecommunications, banking, and renewable energy. Gross foreign direct investment jumped to US$4.1 billion in 2016 and was broadly steady in 2017, but it has dropped gradually since 2018, falling to US$2.4 billion in 2020.

Graph 14: Higher volumes of Kenya's horticultural goods



Source: Central Bank of Kenya

Graph 15: A substantial rise in Tanzania's gold exports

Source: Bank of Tanzania

WEST AFRICA

Higher oil prices but Nigerian output falls while Ghana's rises

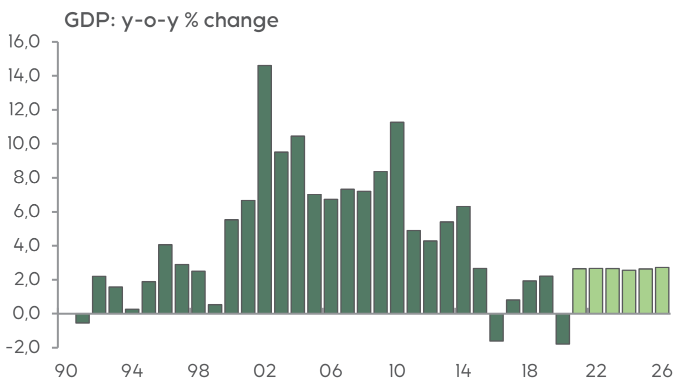
The **Nigerian** economy rebounded in the first half of 2021. However, the pace of recovery was moderate, and the latest figures show that the recovery softened in recent months. Oil production fell further to 1.27 mbpd in the third quarter of 2021 from 1.34 mbpd and 1.40 mbpd in the second and first quarters, respectively, after averaging 1.49 mbpd in 2020 and 1.74 mbpd in 2019, per OPEC figures. At the same time, the shortage of foreign currency and lockdown measures dampened the rebound of non-oil activity.

Gross foreign exchange reserves rose to US$41.7 billion in the first week of November, the highest level since 2019, on the back of the higher oil price that has lifted export earnings, and the US$3.35 billion received from the IMF's SDR allocations. The proceeds of the US$4 billion Eurobond issued in late September will help to increase the official reserves further, albeit marginally. The Central Bank of Nigeria (CBN) continues to enforce tight restrictions on the supply of foreign exchange for imports of selected essential goods and foreign payments. Consequently, outstanding foreign payments are estimated at between US$2 billion and US$4 billion. The foreign payments backlog is unlikely to be cleared until the government implements a devaluation that will be large enough to boost foreign exchange inflows through official channels. Inflation eased marginally to 16.6% in September after averaging 18% in the second quarter but remains well above the CBN's 6% to 9% target band, as a low agricultural harvest and bans on imports of some foodstuffs keep food inflation at more than 20%. Despite high inflation eroding the purchasing power of the local currency, the CBN is unlikely to devalue the naira significantly or boost its supply of foreign currency as it strives to keep the exchange rate and foreign exchange reserves stable.

The upturn in **Ghana** is accelerating after real GDP growth slumped to 0.4% in 2020 from an annual average of 6.5% between 2010 and 2019. However, the recovery is unbalanced, with export earnings the key driver while power shortages dampen domestic demand. A still favourable gold price, higher oil volumes against the backdrop of rebounding prices, and a record high cocoa harvest will boost growth to close to 5% in 2021 and more than 6% in 2022. Crude oil exports were scheduled to increase to 184 000 barrels per day (bpd) in October from 127 000 bpd in September as several wells expanded. The country's output is projected to reach 420 000 bpd by 2023. Inflation has risen to the upper band of the Bank of Ghana's 6% to 10% target band, on the back of elevated food inflation. However, the central bank will remain cautious about hiking its policy rate due to weak domestic credit demand.

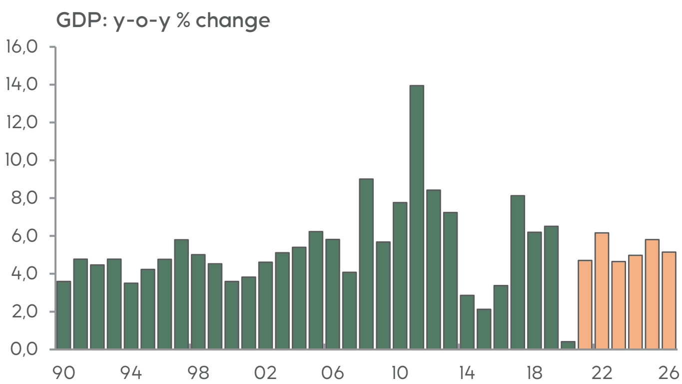
Cote d'Ivoire has benefited from a more stable domestic political environment and the moderation of political risk after the peaceful return of former president Laurent Gbagbo. The cocoa harvest remained high at 2.225 million tonnes in the 2020/21 season from 2.2 million tonnes in 2019/20. The country will boost oil and LNG exports after discovering significant offshore reserves, estimated to hold between 1.5 billion and 2 billion barrels of oil and between 1.8 trillion and 2.4 trillion cubic feet of natural gas, Eni. Oil output averaged 34 000 bpd in the first four months of 2021, a dip from the 54 000 bpd peak in 2017.

Graph 16: A weak economic recovery in Nigeria



Source: International Monetary Fund

Graph 17: Ghana's growth underpinned by firm exports



Source: International Monetary Fund

COMMODITY PRICES

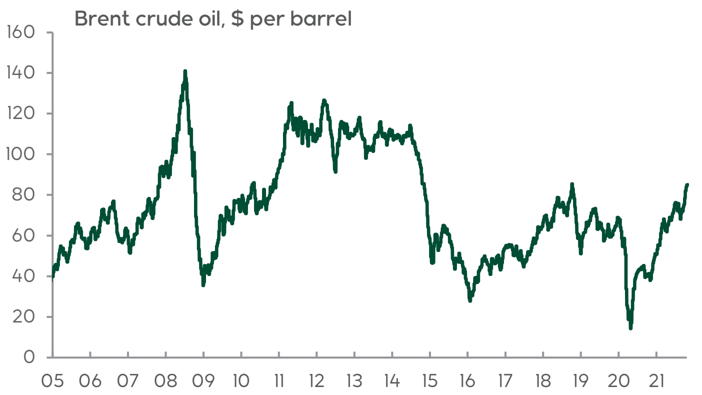
The commodity price boom has bolstered the export earnings of oil and metal exporters, but their foreign exchange reserves holdings have risen only marginally due to their elevated payments for imports and debt service obligations.

Energy and metal prices have moved in opposite directions in recent weeks. The benchmark crude oil price rose steadily to $84 per barrel, up by 66% year to date. However, prices are likely to dip as OPEC+'s higher quotas become effective and global demand normalises. Gold and platinum prices eased by 4% and 1.4% over the year to date, respectively but remained high enough to support exports of key African producers. Copper shed 3% from a record-high $10 248 per metric tonne in May but is 27.9% higher since the start of 2021, while aluminium is up by 31% year to date.

Agricultural commodities drew support from firm global demand and disruptions to global supply chains. According to the Food and Agricultural Organization, the food price index rose by 22.6% in the first 10 months of this year, as all categories experienced price gains. Prices of edible oils recorded the most gain, up by 40.9%year to date, while sugar prices increased by 36.6% despite the marginal drop in October. Dry weather conditions in Brazil, the world's largest sugar exporter, underpinned the higher prices. However, further gains will be limited by improving output in India and Thailand, the other vital exporters, and softer global demand. The supply of oils tightened further, pushing palm oil prices to a 10-year high as stricter Covid containment measures disrupted production in Malaysia. In September, soy and sunflower oil prices eased on expectations of higher output in the 2021/22 season but they got a boost after India lowered its import tariffs in October. Prices of meat and cereals were up by 18.2 and 17.8% year to date respectively, while dairy prices rose by 10.5%. World food prices face upward pressure due to generally strong demand and supply disruptions posed by dry weather, higher shipping costs and higher global fuel prices.

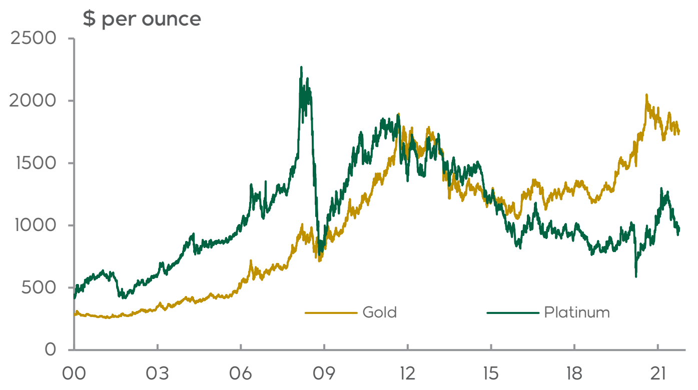
Cotton prices rose to the highest level since July 2011, benefiting from the positive manufacturing momentum against supply chain strains. New York futures prices were up by 26.1% in the third quarter and 39.5% year to date, while the Chinese Cotton Index gained 18.7% and 27.7%, respectively. Higher world prices should prompt West African governments to raise their farm gate prices. The US Department of Agriculture predicts that excess supply will decrease cotton prices as demand normalises in 2022.

Graph 18: Robust gains in oil prices



Source: Datastream

Graph 19: Precious metal prices are still supportive

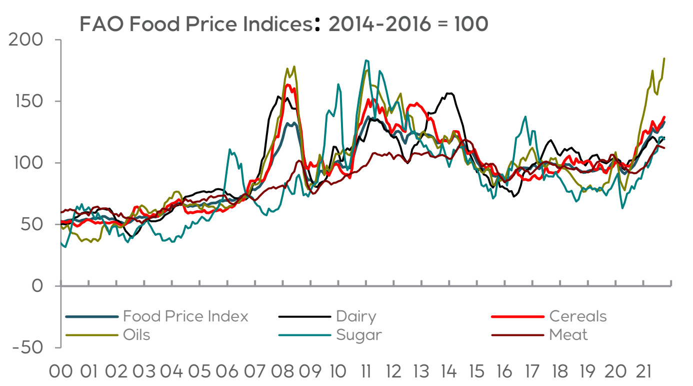


Source: Datastream

Graph 20: Industrial demand buoyed copper and aluminium

Source: Datastream

Graph 21: Food prices remain elevated



Source: Food and Agricultural Organisation

EXCHANGE RATES

Most of the SSA currencies have been broadly steady on the back of managed float exchange rate regimes. The flexible units have fluctuated in line with changes in political and economic developments.

The election victory of a pro-business political party and the shift towards prudent economic policies have boosted the **Zambian kwacha (Zam.)** to be the best performer on a year-to-date basis. In a post-election rally, the unit dipped briefly to below ZMK16/US$ in late August, but it has since surrendered some of the substantial gains to trade around ZMK17.25/US$. It is 22.6% firmer since the start of 2021. The outlook for the Zambian currency depends mainly on the outcome of the negotiations for an IMF-funded programme and debt-restructuring talks with the sovereign's commercial external creditors. The **Mozambican metical (Moz.)** has drawn support from higher foreign exchange liquidity and expectations that the construction of LNG fields will resume in 2022.

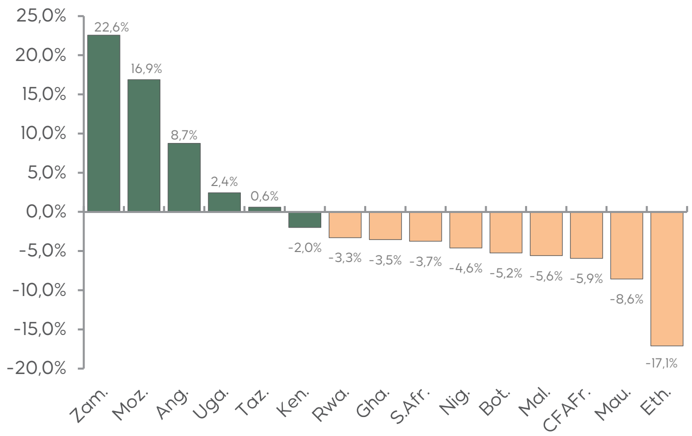
The **Nigerian naira (Nig.)** has dropped steadily to NGN413/US$ since March, after the government's announcement that it would transact at the 'Investors & Exporters' (I&E) exchange rate effectively amalgamated the official rate (NGN380/US$) and the I&E rate (NGN415/US$). However, hard currency supply pressures have not eased. In a clamp down on parallel market activity, the CBN has further restricted the supply of hard currency to foreign exchange bureaux and outlawed the quotation of parallel market rates on their websites. However, the clampdown seems to be ineffective. The parallel market premium remains wide, with the parallel market rate quoted at NGN570/US$ in late October. An official devaluation is unlikely in the foreseeable future. The higher oil price will encourage the government to maintain the current exchange rate level, and a devaluation will not be implemented ahead of the elections in early 2023. Vice President Yemi Osinbajo recent remarks were interrupted as favouring a devaluation of the naira, but his office quickly refuted the report.

In contrast to the naira's fortunes, the **Angolan kwanza (Ang.)** has been lifted by the higher oil price, temporarily halting its long-term decline.

East African currencies have mainly been steady on the back of their tightly managed exchange rate regimes, except the **Ethiopian birr (Eth.)**, which has been weighed by the shortage of foreign exchange and the security instability.

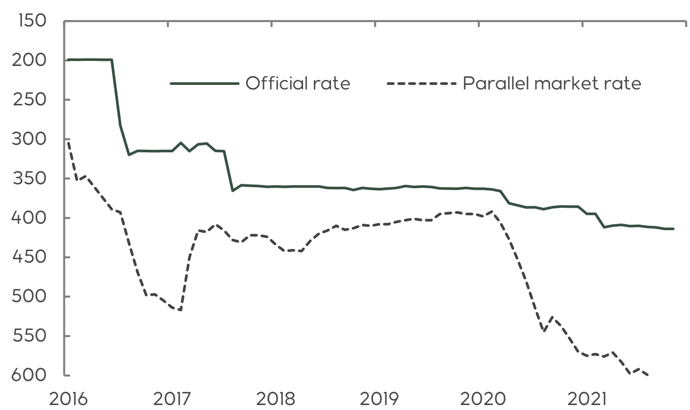
Other southern African currencies have depreciated marginally, in line with the weaker **South African rand (S.Afr.)**, to which most of them are tied.

Graph 22: Year-to-date performance, %



Source: Datastream

Graph 23: The Nigerian naira vs the US dollar



Source: Datastream, Haver Analytics

TABLE 2: ECONOMIC GROWTH FORECASTS

Annual growth rate (%)	Actual		Forecasts			
	2019	2020	2021	2022	2023	2024
Angola	-0.5	-5.4	-0.7	2.4	3.3	3.7
Botswana	3.0	-8.5	9.2	4.7	4.4	4.0
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	3.0	6.8
Côte d'Ivoire	6.2	2.0	6.0	6.5	6.4	6.3
Eswatini	2.2	-2.4	1.5	1.7	1.8	2.0
Ethiopia	9.0	6.1	2.0	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	5.0
Kenya	5.0	-0.3	5.6	6.0	5.7	5.5
Lesotho	-1.5	-5.4	2.8	1.6	1.6	1.8
Malawi	5.4	0.9	2.2	3.0	4.5	5.0
Mali	4.8	-1.6	4.0	5.3	5.0	5.0
Mauritius	3.0	-14.9	5.0	6.7	4.0	3.5
Mozambique	2.3	-1.2	2.5	5.3	12.6	3.5
Namibia	-0.6	-8.0	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	7.0	8.1	7.5
Senegal	4.4	1.5	4.7	5.5	10.8	6.2
South Africa	0.1	-6.4	5.0	2.2	1.4	1.3
Tanzania	7.0	4.8	4.0	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	-3.0	1.0	1.1	1.3	1.4
Zimbabwe	-6.1	-4.1	5.1	3.1	3.0	3.0

Source: International Monetary Fund, October 2021

TABLE 3: INFLATION FORECASTS

Annual average inflation rate (%)	Actual		Forecasts			
	2019	2020	2021	2022	2023	2024
Angola	17.1	22.3	24.4	14.9	9.9	7.9
Botswana	2.7	1.9	5.8	5.0	4.4	4.4
Cameroon	2.5	2.4	2.3	2.1	2.0	2.0
DR Congo	4.7	11.4	9.4	6.4	6.6	6.9
Congo Republic	2.2	1.8	2.0	2.8	3.0	3.0
Côte d'Ivoire	0.8	2.4	3.0	2.5	2.2	2.0
Eswatini	2.6	3.9	4.3	4.7	4.6	4.6
Ethiopia	15.8	20.4	25.2	n/a	n/a	n/a
Gabon	2.0	1.3	2.0	2.0	2.0	2.0
Ghana	7.1	9.9	9.3	8.8	8.0	6.9
Kenya	5.2	5.2	6.0	5.0	5.0	5.0
Lesotho	5.2	5.0	5.8	5.3	5.0	5.5
Malawi	9.4	8.6	9.5	9.0	6.9	5.7
Mali	-2.9	0.5	3.0	2.0	2.0	2.0
Mauritius	0.5	2.5	5.1	6.6	3.0	3.2
Mozambique	2.8	3.1	6.2	6.4	5.5	5.5
Namibia	3.7	2.2	4.0	4.5	4.5	4.5
Nigeria	11.4	13.2	16.9	13.3	11.8	11.7
Rwanda	2.4	7.7	2.4	4.9	5.8	5.0
Senegal	1.0	2.5	2.4	2.0	1.5	1.5
South Africa	4.1	3.3	4.4	4.5	4.5	4.5
Tanzania	3.4	3.3	3.2	3.4	3.5	3.5
Togo	0.7	1.8	2.7	2.5	2.2	2.0
Uganda	2.3	2.8	2.2	5.0	6.2	3.9
Zambia	9.2	15.7	22.8	19.2	13.0	9.7
Zimbabwe	255.3	557.2	92.5	30.7	20.2	17.7

Source: International Monetary Fund, October 2021

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