2021 AFRICA MACROECONOMIC OUTLOOK

POSITIONING FOR AN INCLUSIVE POST-COVID RECOVERY

2020 has been a challenging year, which has thrown Africa and the rest of the world into a cloud of uncertainty. The pandemic cross-border spread necessitated the adoption of stringent social distancing and lockdown measures to curb its spread. These have had severe consequences on economies around the world particularly in Africa, where many countries lack the fiscal buoyancy to provide sufficient stimuli to cushion their economies from pandemic-induced downturn.

The economic impact of the pandemic on Africa is apparent. In the context of the health impact however, the prognosis for Africa in the initial instance was quite dire based on observed weaknesses of the healthcare sector within the continent. As it turned out for reasons being studied, Africa has proven resilience as the expected doomsday scenario has not yet panned out. The challenge for Africa regardless remains that of inclusive growth.

As a continent, we need to lift the populace out of poverty and demonstrate to the world that Africa is still one of the few growth regions on the globe. To achieve this, there's a need to be more forward looking and make plans to harness our economic strengths and address our economic weaknesses. And as a region, this will help us transition from current economic lows to desired heights.

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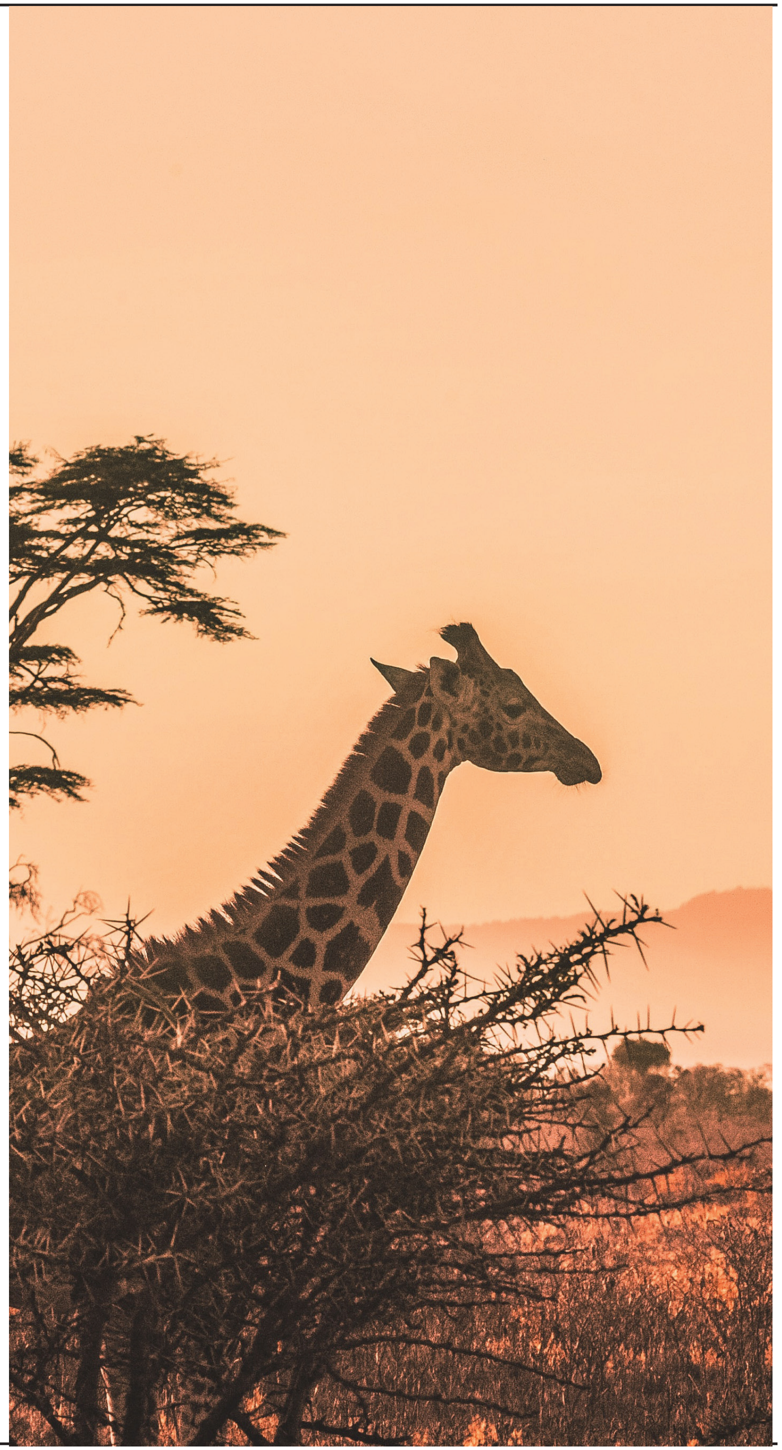
Aqib Aslam

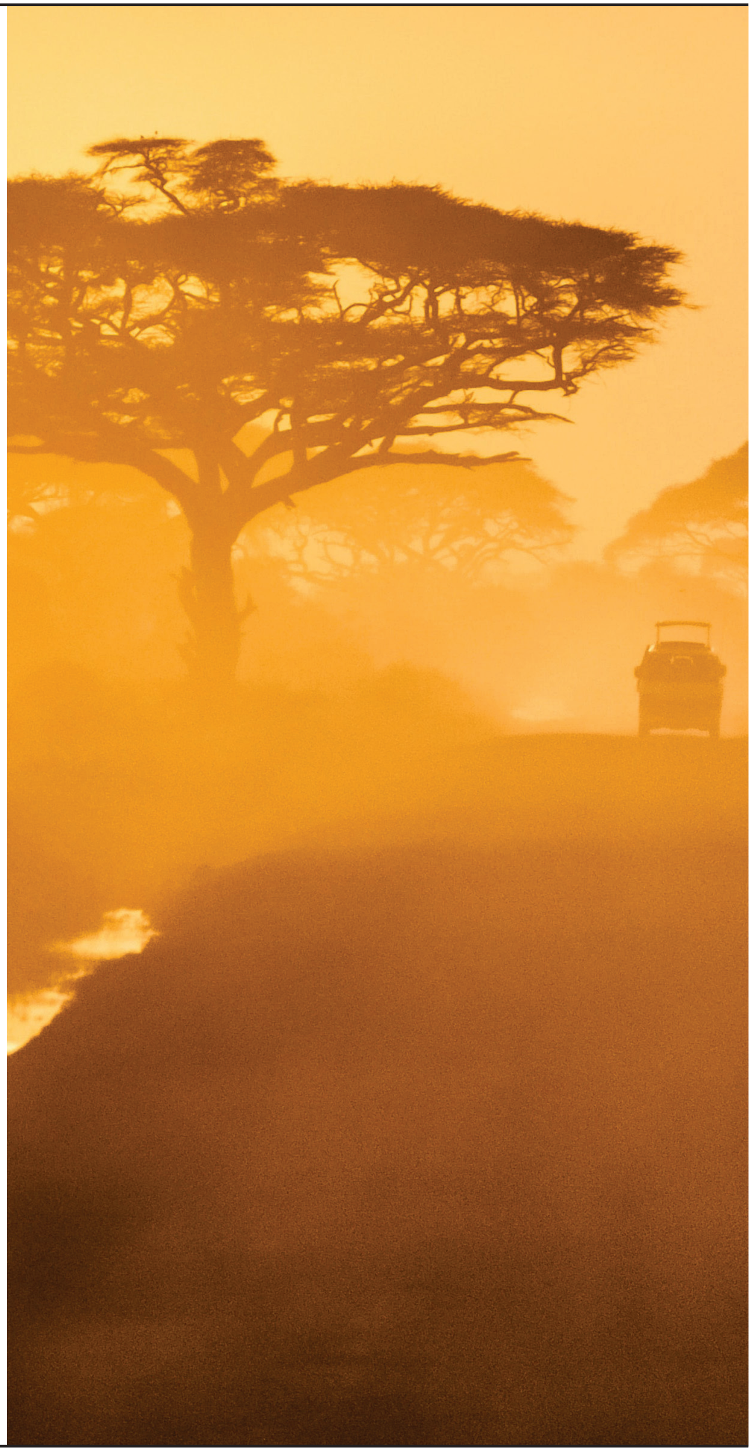
Deputy Division Chief, Regional studies Division, African Department, IMF.

How Africa can deal with the pandemic's aftershocks

- On health developments, Sub Saharan Africa had lower testing capacity and COVID-19 cases relative to other regions of the world. Within the SSA, there has been divergent COVID-19 outcomes. Countries like Angola and Cabo Verde have not left their first waves while Kenya and Uganda are experiencing their second waves.
- The pandemic has led to a disruption on economic activity specifically trade, travel and commodity prices. Nigeria recorded a 24% y/y decline in remittance inflows during the first half of 2020. Although flows slumped in Kenya and Cabo Verde, they have since recovered while Gambia has recorded strong inflows.
- Real output is expected to slide by 3.0% in SSA. Tourism-dependent economies are expected to experience the fiercest contractions, followed by oil and non-oil exporters. Growth in more diversified economies (Cote d'Ivoire and Rwanda) would slow significantly but remain positive.
- The pandemic will also result into loss in per-capita income. About 50% of population in the region will see a decrease of 6% in per capita income growth, which will take at least 5 years to recover.
- Recovery is envisaged in 2021, which will be prolonged and uneven with non-resource intensive economies in the lead while oil exporters will require a longer period of time to recover to pre-COVID levels. This is provided there are no new outbreaks or stringent recurrence of lockdowns which could delay recovery further.

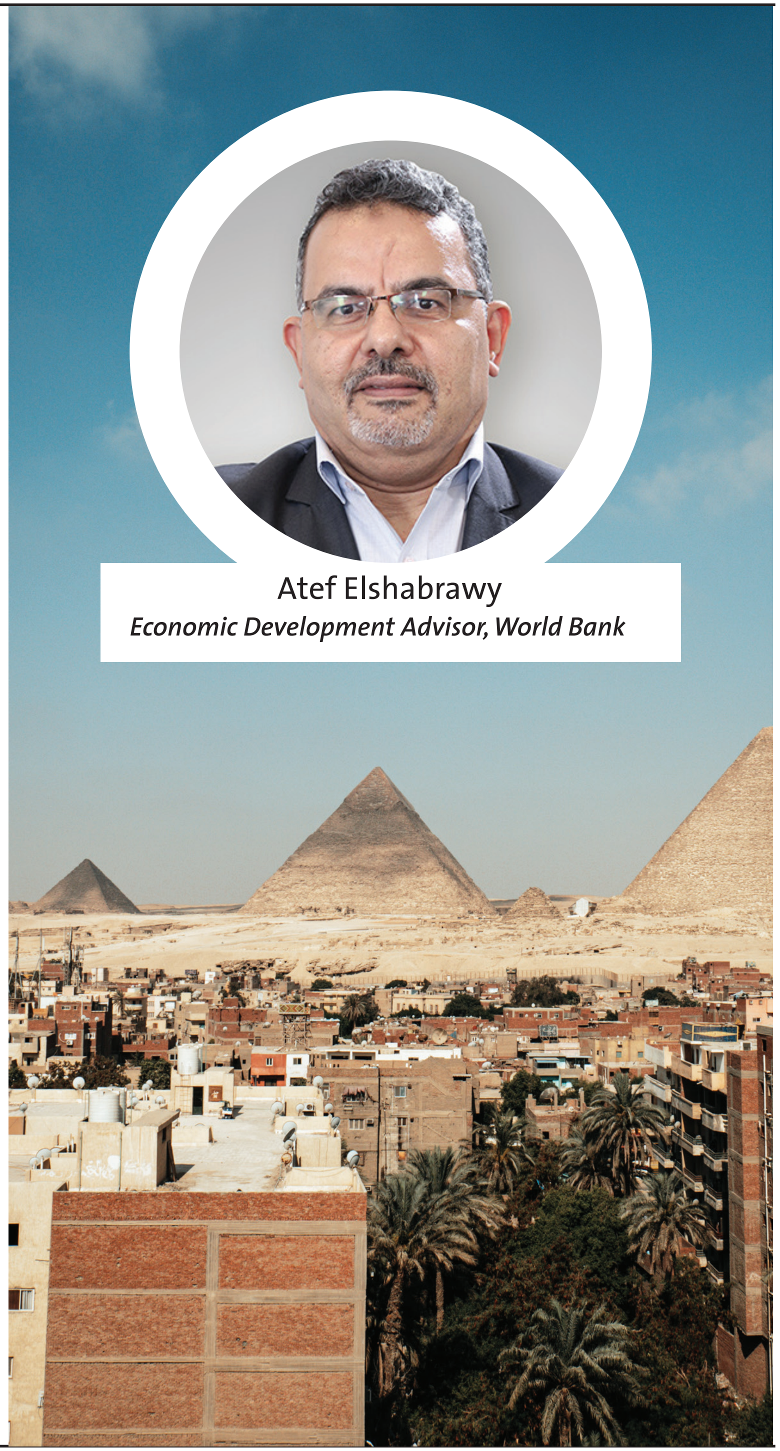


- Several SSA economies had limited fiscal space to mitigate the impact of the pandemic. Given limited capacity to take up more debt, fiscal deficits will be lower than other regions of the world.
- Meanwhile, the shape of recovery in SSA economies will depend on structural reforms – domestic revenue mobilization, developing social safety nets to address poverty and inequality, expanding connectivity to boost productivity and efficiency; as well as improving governance and accountability.
- The region will also require approximately $900bn in external financing between 2020 and 2023.
- The recovery ahead remains difficult and risks are tilted to the downside.
- Policy priority should be hinged on protecting lives and livelihoods.
- Need to return fiscal balances on a sustainable path. Reforms to drive recovery are needed now more than ever. Policy support will require external financing.
- In the short to medium term, domestic revenue mobilization, reinforcement of social safety nets and bolstering governance would be desirable policy priorities. Improving digitalization is a longer-term strategy due to infrastructure investments.



North Africa

- North African countries were shaken by political and social instabilities over the years.
- Tourism and Remittances are key sources of external flows to North African economies including Morocco, Egypt & Tunisia.
- Shutting down the economy is not like shutting down a light bulb. It's more like shutting down a nuclear reactor. You need to do it slowly and carefully or it melts down" – John H. Cochrane (Cato Institute).
- SMEs were impacted on several fronts – decline in sales, reduced inflows/collections, asset impairment, loss of customers, wholesale funding difficulties and deposit drawdowns.
- Potential losers from the pandemic are the following sectors: Oil & Gas, Education, Financial services, Manufacturing, Construction and Real estate, Automotive, Aviation & maritime and Tourism & leisure.
- Potential winners are Agriculture, E-commerce, ICT, Personal and Healthcare, Food Processing & retail and Medical services.
- There's a huge deterioration in global human development index levels for the first time in 3 decades.
- Tourism arrivals, which has fallen at a fast pace since March have shown some signs of recovery, yet arrivals remain lower than pre-pandemic levels.
- Given the long-lasting implications of the COVID-19 pandemic on the region and the world at large, many things have to be rethought, redesigned and repositioned once we are out of it.
- North African countries should seize the opportunity of building local value chains, take advantage of digitalization opportunities and develop more agile SMEs as well as the agricultural sector.
- North African economies enjoy foreign direct investment due to new government projects, progress in ease of doing business and international efforts in reducing illegal migration into Europe.



Atef Elshabrawy

Economic Development Advisor, World Bank

Southern Africa

- Southern Africa is expected to grow by 2.4% y/y in 2021. The region will be weighed down by South Africa, which will record a 2.2% growth in 2021 following an 8% contraction in 2020. The weakest performers in 2021 will be Zimbabwe , Angola, Zambia and South Africa. Mauritius and Botswana will experience the strongest recoveries in the region on the back of improving external conditions and vaccine rollouts.
- The pandemic could lead to policy trade-offs in the coming years as governments seek to balance social stability against fiscal consolidation and debt stabilization and at the same time increased investment through structural reform implementation. High fiscal deficits will continue to drive up public debt levels across the region especially in Angola, Zambia, Mozambique and South Africa in the near term.
- On monetary policy, a less dovish policy trajectory is expected moving forward. Most Central Banks are likely to hold or hike rates in 2021 as growth and commodity prices picks up including oil, of which all of the region's economies are net importers. Deterioration in asset quality will lead to cautious lending drive.
- On currencies, many currencies are undervalued. There's some modest upside for the Rand. Meanwhile Angola, Zambia, Mozambique, Zimbabwe are vulnerable to sell-offs and risk-off sentiments due to little progress on fiscal consolidation, debt transparency, reforms, foreign currency regime (Zimbabwe) and monetary policy normalization.
- There will be elevated risks of social unrest given higher unemployment and cuts to public sector jobs, social transfers and increases in taxes which will add to unrest in countries such as South Africa, Namibia, Zambia and Zimbabwe. Municipal elections in 2021 will be a key litmus test for Cyril Ramaphosa administration's reform credentials. In the case of Zambia, we could also see an uptick in unrest in response to the dire state of the economy.
- Overall, there's a downbeat outlook for the rest of the region. There's some modest upside post-2021, which will be the onboarding of Mozambique's massive LNG project.

Chiedza Madzima
Head of South Africa Research & Operational Risk, Fitch Solutions

Southern Africa

- The anchors of growth in the region will be improvement in external demand. Agriculture will be a key driver in South Africa. Pick-up in private consumption and public reforms are other growth drivers. The region would benefit from AFCFTA due to levels of industrialization in the region.
- There will be few winners across the next decade. Countries that are highly industrialized, with high transport links and less bureaucracy in trade procedures. Agro-processing would dominate trade activities for the first decade given the infrastructure gap needed to drive manufacturing.
- The African Union needs to provide a platform where cohesive cross-border policies can be established.

Francophone West Africa

- On health implications, the number of casualties is ridiculously low due to low levels of urbanization and globalization in Francophone West African countries.
- The region scaled back from a 6% real GDP growth rate in 2019 to -3% recently, indicating a loss of 9% of GDP. Poverty levels will rise from 25% to 35-40%. Poverty will lead to social turmoil, which will evolve into political trouble.
- From a microeconomic perspective, some quick recoveries have been observed in the retail space, telecoms, industrial and agricultural sectors.
- By the end of 2022, Francophone West Africa are expected to recover to pre-pandemic growth levels given over-reliance on primary exports – agriculture (cotton, nuts, cocoa, coffee, gold).
- There's a need for structural economic policies to transform the primary sector to agro-allied industries, from where industrialization can pick up.
- Social protection programs in the region is low.
- The existence of a unified currency will support regional integration efforts given the presence of common institutions in WAEMU countries. This prevents countries from competing in ways that are not acceptable.
- In addition, the coordination of political agenda make economic policies better.
- All WAEMU countries have similar economic structure with difference only in size - Ivory Coast consists 40% of the region's GDP, Senegal - 20% of GDP while the rest cumulatively make up 20%.
- It will take a longer period for Non-WAEMU countries in West Africa to converge given the different sizes of fiscal deficits, debts and other macroeconomic indicators.

Anouar Hassoune
Chairman & CEO, West Africa Rating Agency (WARA)

Anglophone West Africa

- Anglophone West Africa has felt the heat of the pandemic on multiple fronts – external, real, monetary and fiscal sectors of the region's economy
- The Naira has been the least resilient in anglophone West Africa. Meanwhile, record official remittance inflows absorbed some of the shock on the Gambian Dalasi. Higher gold prices and early Eurobond raise cushioned some of the Cedi's weakness, amid interventions from the Bank of Ghana. The appreciation of the Liberian dollar has not been fundamentally driven but fueled by the artificial scarcity of the local currency
- Economic activities have slowed to record lows across the region. Both Nigeria and Ghana saw record contractions of 6.1% y/y and 3.2% y/y in their respective GDPs in Q2. A subsequent contraction of 3.62% y/y in Q3'20 ushered Nigeria into its second recession in 5 years. In line with the growth trends in Nigeria and Ghana, the President of Gambia, Adama Barrow, also expects the country's economic growth to fall to 2% y/y in the current year from an earlier 6% projection.
- Inflation outcomes across the region have been mixed thus far with the moderation in smaller countries supported largely by lower pricing for fuels in their markets while the pass-through impact of currency pressures on consumer prices outpaced the gains from deregulated fuel prices in the region's larger economies.
- Monetary policy rates were lowered in line with space available to countries, except in Nigeria where the Central Bank looked beyond inflationary pressures to stimulate the economy.
- Reserve requirements were lowered in Gambia and Ghana to increase liquidity, Liberia restructured borrowing terms, suspended POS transaction fees and increased transfer limit on mobile money transactions while the CBN reduced the interest rate on its intervention facilities, all in a bid to increase financial liquidity and stimulate economic activities.

Mosope Arubayi
Chief Economist, Vetiva Capital Management Limited

Anglophone West Africa

- On the fiscal front, the region's governments looked beyond existing fiscal constraints and have chosen to spend their way out of the downturn, by making welfare packages available to their citizens. From subsidies reduction in Gambia and Nigeria, to cash transfers in Liberia and Sierra Leone, to slowing down on non-priority spending in Ghana and Gambia, the primary objective of fiscal authorities has been to uphold citizens' welfare.

- In 2021, a return to growth is seen on the back of 2020's favourable base and interventions by policymakers (Nigeria: 1.5%, Ghana: 2.59%). Agriculture may be constrained by insecurity and adverse weather conditions while the manufacturing sector may be held back by weaker currencies, power challenges and depressed consumer wallets. The mining sector may be held back by policy deficiencies limiting growth-stimulating investment. ICT and Financial services will be outperformers.

East Africa

Asides the harsh effects of the pandemic, East Africa has also witnessed locust infestation (Ethiopia, Kenya, Uganda)

On institutional and governance strength, there's largely weak fiscal policy effectiveness, which constrains the kinds of policies these countries can pursue in response to the pandemic.

In the face of weak domestic revenue mobilization, reforms will be needed to raise the levels of revenue to meet expanding expenditure needs and improve debt sustainability

On the susceptibility to event risk, the East African region is also threatened by political risks especially Ethiopia.

On social risks, the impact of humanitarian issues such as refugee migration from Ethiopia to Sudan could put pressure on the sovereigns.

Government financing also poses a key risk as debt relief under the Debt Service Suspension Initiative (DSSI) is relatively small because it did not capture private creditors. Thus, countries have to consider rolling over T-bills or obtaining external financing through IFIs or bilateral partners.

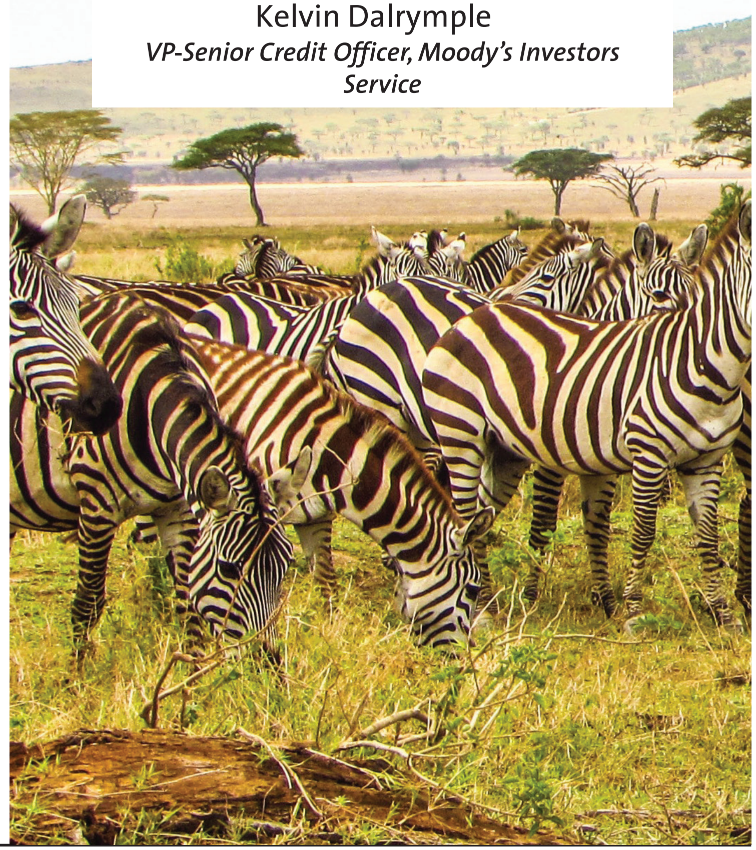
Banking sector risk is also a factor to watch out for. However, this is not a big issue for some countries except Kenya, which has a sophisticated financial services sector.

On the external sector, the pandemic broke supply chains and dampened demand for imports. However, we would see a widening of current account deficits as trade recovers. East African economies will pick-up from where they left off before, although not reaching pre-pandemic levels.

Tanzania could witness some recovery in tourism dependent on wide availability of vaccines. Elsewhere, Ethiopia is working on diversification - services, trade, telecoms, cross-border electricity sales and manufacturing. The financial sector will continue to be key to Kenya's growth. Rwanda will thrive on industrialization and export of key minerals.

With respect to the EAC, East Africa is ramping up its transport networks given establishment of an airport in Ethiopia.

Kelvin Dalrymple
VP-Senior Credit Officer, Moody's Investors Service



We would like to thank the following speakers for their contributions:

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Aqib is the Deputy Division Chief of the Regional studies Division, African Department at the IMF. He worked previously in the European and Fiscal Affairs Departments.

Prior to joining the IMF in 2010, he also worked at Goldman Sachs International, the Bank of England and the UK Government Economic Service, as well as studying for a Ph.D. at the University of Cambridge.

His research interests include applied macroeconomics and econometrics.

Mosope Arubayi

Mosope is an Economist with relevant work experience in analyzing major SSA countries including Nigeria, South Africa, Angola, Kenya, and Ghana.

She has practical experience in emerging economies & market research, macroeconomic analysis, and econometric modelling & forecasting.

Her areas of expertise cut across fiscal, monetary, and international economics. She previously worked as an Economist with CSL Stockbrokers Limited, a subsidiary of the FCMB Group and is currently the Chief Economist at Vetiva Capital Management Limited.

Anouar Hassoune

Anouar has more than 15 years of experience in the field of financial markets, including 12 years in international rating agencies, namely, Moody's and Standard & Poor's.

He has garnered experience covering the MENA and West Africa regions. From 2012 to 2015 he worked for The Bank of Tokyo-Mitsubishi UFJ as the head of research and strategy for the Middle East and Africa.

He was the Managing Director of Euris Group for three years before progressing to be the Managing Director of Emerging Markets Ratings Limited, in Dubai. At present, he is the Chairman and CEO of West African Rating Agency and sits on the board of Analytical Credit Rating Agency.

We would like to thank the following speakers for their contributions:

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Chiedza is the Global Head of Operational Risk Research and leads the South Africa Research team at Fitch Solutions, a Fitch Group company.

Her areas of specialization are in business environment analysis, policy risk and macro data analytics focusing on Emerging Markets.

She has been with Fitch group for five years and has featured in various regional and global news publications, including Bloomberg.

Kelvin Dalrymple

Kelvin is Vice President – Senior Credit Officer in the Sovereign Risk Group.

Kelvin is lead analyst for a portfolio of sovereign and supranational ratings in Sub-Saharan Africa, in addition to being a spokesperson on credit-relevant developments in the region.

He has over 25 years macroeconomics and public policy experience, having previously worked in senior roles with the International Monetary Fund and World Bank Group, Caribbean Development Bank, and positions earlier in his career within the Government of Barbados serving as Economic Advisor to the Minister of Finance and Economist within the Central bank of Barbados.

Dr Atef Elshabrawy

Dr Atef Elshabrawy is a global innovation and development finance leader with more than 25 years of experience in shaping and managing of entrepreneurship, MSME banking, Islamic finance, and social innovation ecosystem. His unique experience is based on his works for Government, Development Banks & Funds, Private firms, United Nations agencies and as Entrepreneur. He served as Economic Consultant at World Bank, CEO of Family Bank-Bahrain, Social Development advisor to Bahrain Government, General Manager at Bahrain Development Bank and Director at Egyptian Social Fund for development (SFD). Dr Atef is currently Professor of Innovation & Entrepreneurship at E-JUST, and WB-advisory to ministry of social solidarity, Egyptian government.

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