Trip Notes

African Policymakers and Country Experts

Photo: Egypt hosted African Development Bank's 58th Annual Meetings in Sharm El Sheikh, known for tourism and international congresses

Summary

- We participated in the African Development Bank Group (AfDB) 58th Annual Meetings in Sharm El Sheikh, Egypt, held on 22 to 26 May. In addition to the conference program, we attended sideline meetings focusing on nine countries.
- The theme of this year's AfDB annual meetings was mobilising private sector financing for climate and green growth in Africa, addressing the large financing gap and urgent need for more financing to combat climate change and ensuring natural assets of the continent can deliver full economic potential on sustainable basis.
- The AfDB's flagship publication, the African Economic Outlook, projects that the continent's growth will rebound to 4.0% in 2023 from an estimated 3.8%. Annual inflation is still expected to accelerate to 15.1% from an estimated 14.1% in 2022. Of course, the continent's 54 countries are heterogenous economies.
- In the following pages we have outlined developments in Ghana, Kenya, Tanzania, South Africa, Botswana, and Namibia.
- **Our view**: We continue to see opportunities on the African continent, but developments need to be followed closely. Especially in terms of local currency strategies, because convertibility issues have increased lately. However, in our Hard Currency strategy, we see value in sub-Saharan countries like Ivory Coast, Senegal, Benin and Angola.

Photo: International Convention Center in Sharm El Sheikh was the venue of the 58th AfDB Annual Meetings

Overview

We participated in the 2023 African Development Bank Group (AfDB) Annual Meetings in Sharm El Sheikh, Egypt. On the sidelines of the 58th annual meetings we met policymakers, economists, and financiers from several African sovereign states. We also learnt more of AfDB's importance on the continent by playing a countercyclical role in providing financing and guarantees in its member countries.

African economies continue to show resilience despite having faced multiple challenges and external shocks during the past few years. The AfDB published the latest edition of its annual African Economic Outlook report during the meetings. The AfDB forecasts that growth will rebound to 4.0% in 2023 from an estimated 3.8% in 2022 and climbs to 4.3% in 2024. The growth improvement is mainly underpinned by China's reopening and slowing pace of monetary tightening. Naturally, growth across the continent's 54 economies is quite heterogenous.

The AfDB sees that Africa's average consumer price inflation will not ease until 2024 at which point it is seen as declining to 9.5%. In 2023 annual inflation is expected to still accelerate to 15.1% from an estimated 14.1% in 2022. The policymakers we met on the sidelines of the annual meetings were very aware of the risk of social unrest related to the increasing cost of living fueled by the surge in food and fuel prices and sensitivities around subsidies. When policymakers of resource-intensive economies talked about diversification of their economic structures, developing agricultural value chains was often mentioned as a must as need to build domestic food supplies has become even more evident after Russia's invasion of Ukraine disrupted supply chains and dependence on imports. Inflation-targeting central banks have been raising policy rates which has impacted business conditions.

Growing impact of climate change with increased number of extreme adverse weather events is a real risk to African economies. This year's theme of the annual meetings was "*Mobilizing Private Sector Financing for Climate and Green Growth in Africa*". Many policymakers mentioned climate change and need to prepare for it in discussions. There is urgency to make right policy interventions, albeit financing might be scarcer amid tightened of global financing conditions.

In the following pages we share the notes written from the meetings with a few countries. In the text we refer to AfDB's or national macro figures which can be compared to the IMF's forecasts presented in the tables. Interestingly, we were not able to get a meeting with Egypt in Sharm El Sheikh, which is the reason for no notes on the host country of annual meetings.

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The African Development Bank forecasts growth of the continent to rebound to 4.0% in 2023 and average consumer inflation not ease to single-digits of 9.5% until 2024.

Ghana

- In mid-May the IMF's executive board approved a three-year, USD 3 billion bailout loan program to Ghana. The approval followed an immediate disbursement of about USD 600 million, which was desperately needed to support the country in its acute economic crises. The IMF program is well drafted with clear and strong structural reforms. The first review of the program will be in November.

- Ghana defaulted on its debt in December 2022 when it also launched a voluntary domestic debt exchange programme (DDEP). The DDEP was completed quickly in three months. Now Ghana will still need to get an outcome of ongoing external debt restructuring negotiations. Major external creditors gave financing assurances prior to the IMF's executive board approval which enabled immediate disbursement. China's share of Ghana's external loans is about USD 1.9 billion, which is considerably less than the USD 6 billion that Zambia owes to China. It remains to be seen how quickly external creditors can reach an agreement.

- The Ghanaian government has frontloaded its 2023 budget with fiscal adjustments and impacts of taken measures are starting to be seen, according to authorities. Inflation has decelerated, but the AfDB projects inflation to remain elevated at 44.7% in 2023 before declining to 20.4% in 2024. Growth will be negatively impacted also by the DDEP's impact on the banking sector and lending. Growth is expected to recover from 2024 onwards. The AfDB forecasts GDP growth of 1.7% in 2023 and 3.0% in 2024.

- Ghana's debt levels are not sustainable. Ghana has pledged to the IMF that it will no longer resort to borrow from the central bank, Bank of Ghana (BoG). Therefore, Ghana must find additional sources of financing in addition to the IMF. The World Bank's USD 50 million and another USD 50 million from the Ghana's Financial Stability Fund were mentioned. Also, discussions with the AfDB and discussions with bilateral development partners were mentioned. Cleary, it will be difficult for Ghana to find financing, but hopefully, multilaterals and other friendly investors are there to help out.

- General elections will be held next year in December 2024. Hopefully, the government will stick to austerity. This is an opportunity for Ghana to rebuild investor confidence, but they will need to get their act together.

- **View**: Ghana will be busy with managing its economy and negotiating with external lenders on restructuring and new lenders on trying to pursue budget support. We currently do not have any bond investments in Ghana.

Ghana	2011-19	2020	2021	2022	2023F	2024F
Real GDP (%, annual percent change)	6.5 %	0.5 %	5.4 %	3.2 %	1.6 %	2.9 %
Inflation (%, annual percent change)	11.8 %	9.9 %	10.0 %	31.9 %	45.4 %	22.2 %
Overall Fiscal Balance, incl. Grants (% of GDP)	-6.6 %	-17.4 %	-12.1 %	-9.9 %	-7.3 %	-8.4 %
GovernmentDebt (% of GDP)	49.6 %	72.3 %	79.6 %	88.8 %	98.7 %	92.8 %
External Current Account, incl. Grants (% of GDP)	-5.5 %	-3.8 %	-3.7 %	-2.3 %	-2.9 %	-2.0 %
Reserves (Months of imports)	2.8	2.5	2.4	0.6	0.8	1.7

Source: IMF April 2023

Kenya

- The new administration headed by President William Ruto is only 9 months old after winning the national elections in August 2022. The opposition party leader Raila Odinga contested the elections and since then Odinga has been inviting people to protests ignited by dissatisfaction on raising cost of living.
- Climate change is a very serious issue for the Horn of Africa considering the worst drought in 40 years which has impacted Kenya's economy severely. As a non-resource intensive economy, Kenya is dependent on oil imports and faced a higher import bill last year as commodity prices rose. These issues negatively impacted Kenya's GDP growth in 2022, which slowed to 5.5% from 7.5% in 2021. Inflation accelerated to 7.6% but was moderated by subsidies. Inflation may accelerate again this year as the new government has decided to remove fuel subsidies and plans to introduce new tax measures.
- Kenya has been facing problems with sourcing US dollars to pay for fuel imports. The Kenyan shilling has been on a weakening streak against the US dollar and locals have been hoarding dollars. Apparently, price discovery in the Kenyan foreign exchange market is poor as the shilling is kept stronger than it should be. Foreign exchange reserves have eroded to USD 6.5 billion (~3.6 months of import cover). There are expectations that the new central bank governor, Kamau Thugge, will reform the foreign-exchange market.
- Investors growing concern of Kenya's ability to get financing on the back of recent failed domestic bond auctions and rollover risk related to upcoming maturing eurobond of USD 2 billion in June 2024. Kenya is actively searching alternative ways to refinance its upcoming maturities and is pledged not to default on its public debt.
- The IMF continues to be positive on Kenya's progress. In May in connection to the third review of the two outstanding IMF programs, augmentation of USD 544 million to the program was announced. There are also discussions of a new Resilience and Sustainability Facility (RSF) of USD 544 million to Kenya. The IMF's cumulative funding commitment to Kenya is about USD 3.5 billion under the three facilities.
- Other sources of funding to Kenya have also been announced recently in May. The African Export-Import Bank (Afreximbank) signed a USD 3 billion country program with Kenya. The World Bank approved USD 1 billion loan.
- **View**: Kenya serves as an eastern African hub for companies, has developed its infrastructure for years, and has fairly diversified economy. We are quite confident that the new administration will perform, although it will be bumpy ride in the financial markets under pressure. Kenya has been one of our top five holdings in our local currency frontier fund, but amid turmoil this year we have decreased our local government bond positions. We have also decreased KENINT positioning in our Hard Currency strategy.

Kenya	2011-19	2020	2021	2022	2023F	2024F
Real GDP (%, annual percent change)	4.7 %	-0.3 %	7.5 %	5.4 %	5.3 %	5.4 %
Inflation (%, annual percent change)	7.4 %	5.3 %	6.1 %	7.6 %	7.8 %	5.6 %
Overall Fiscal Balance, incl. Grants (% of GDP)	-6.2 %	-8.1 %	-7.1 %	-6.0 %	-5.2 %	-4.4 %
GovernmentDebt (% of GDP)	46.7 %	67.8 %	67.0 %	67.9 %	66.6 %	65.4 %
External Current Account, incl. Grants (% of GDP)	-6.9 %	-4.8 %	-5.2 %	-4.7 %	-5.3 %	-5.3 %
Reserves (Months of imports)	4.6	4.5	4.7	3.7	3.0	3.3

Source: IMF April 2023

Tanzania

- Tanzania's President Samia Suluhu Hassan has given hope of economic transformation for a country with vast natural capital. She was a vice president to President John Magalufi who died while being in office in March 2021. President Suluhu has confirmed that she will run for office in the presidential election in 2025 and to become the first elected female president of the 55 million-people nation should she win.

- Tanzania is one of Africa's fastest-growing economies. In 2022 GDP growth slowed to 4.7% from pre-covid annual growth rate of 6-7%. This was due to adverse impact of Russia's invasion of Ukraine that also accelerated inflation through food and fuel prices to 4.3% in 2022, which is a low level compared to peers regionally. The outlook for Tanzania's diversified economy is promising and GDP growth is expected to rebound. Not only do Tanzanian ports offer a gateway for Tanzania's own vast natural resources, they also offer a gateway for its six landlocked neighboring countries to export. The main driver of economic growth is agriculture contributing to about 30% of GDP, which makes Tanzania also food self-sufficient. The main source of foreign exchange is tourism.

- An important sector for Tanzania to unlock is the liquified natural gas (LNG) sector. Tanzania just concluded negotiations with investors for a USD 42 billion off-shore LNG project. Tanzania's discovered natural gas reserves are estimated to be about 57.5 trillion cubic feet, of which only a fraction is currently being produced. The country is expected to be able to ship the gas in 2030.

- Despite robust economic growth, Tanzania has been struggling with the formalization of its economy and going forward it will need to work on strengthening institutions and building compliances. Also, revenue mobilisation is low, tax revenue-to-GDP is 14.8%.

- Tanzania's public debt is moderate, stabilising slightly to over 40%. The country is not facing refinancing issues because they seem to have an extremely conservative approach to liability management. The IMF approved a 40-month, about USD 1 billion program for Tanzania in July 2022. And the forecasted fiscal deficit of 3.5% of GDP in 2023 is expected to be borrowed from concessional sources.

- Tanzania has started to work towards acquiring credit ratings, which will open the possibility to tap into international capital markets when market conditions are more favourable. Tanzania has received an issuer rating of B2 with a positive outlook from Moody's.

- The capital account for foreign investors is being liberated gradually. Equity markets are already open to foreign investors, but bond markets are open only to eastern and southern Africans enabling local government bond holdings for the countries in the continent.

- **View**: As we are not able to directly access the local government bond market and Tanzania does not have eurobonds, we have investments only in our local currency frontier fund through DFI notes and FX forwards. We are actively monitoring developments of this promising frontier country and seeking opportunities when they exist.

Tanzania	2011-19	2020	2021	2022	2023F	2024F
Real GDP (%, annual percent change)	6.7 %	4.8 %	4.9 %	4.7 %	5.2 %	6.2 %
Inflation (%, annual percent change)	7.3 %	3.3 %	3.7 %	4.4 %	4.9 %	4.3 %
Overall Fiscal Balance, incl. Grants (% of GDP)	-2.7 %	-2.5 %	-3.4 %	-3.3 %	-2.9 %	-2.6 %
GovernmentDebt (% of GDP)	36.3 %	39.8 %	42.1 %	41.6 %	40.1 %	38.5 %
External Current Account, incl. Grants (% of GDP)	-7.0 %	-1.9 %	-3.4 %	-4.6 %	-4.0 %	-3.3 %
Reserves (Months of imports)	4.8	5.3	4.3	3.9	3.8	4.0

Source: IMF April 2023

South Africa

- Southern Africa's largest economy with population of 60 million people is facing several challenges. The major issue impacting South Africa's economy severely are power cuts stemming from years of mismanagement of the public utility company Eskom. During the past months, energy outages have been exceptionally severe, as units at the Kusile power station went offline in October.

- The Reserve Bank of South Africa has estimated that the negative impact of power cuts to economic growth is up to 2 percentage points. South Africa's unstable energy production also affects neighboring countries who are buying electricity from South Africa and need to consider their own energy mix again. Fixing the situation will require time. The government has taken up part of Eskom's liabilities trying to create room for the utility to do necessary investments that have been neglected in the past.

- Other challenges impairing economic activity are logistical constrains stemming from declining freight volumes at the state rail and port operator Transnet. This is impacting mining sector exports. A third hurdle for South Africa's economy is crime. South Africa has a very high unemployment rate - estimated to be at 32.7% as of December 2022.

- Due to the mentioned challenges and business conditions South Africa's economic growth is expected to be meager. The AfDB estimates a drop in South Africa's growth from an estimated 2.0% in 2022 to 0.2% in 2023.

- Geopolitical tensions are also impacting South Africa as there is a recent open question about whether arms were loaded on a Russian cargo ship or not. Investigations on the Lady R incident are ongoing, but clearly the US is monitoring South Africa's meddling with Russia, and this puts in danger duty free access to US markets.

- South Africa's Financial Action Task Force's (FATF) greylisting in February has not impacted capital flows much at least yet. South African government is making efforts to rectify deficiencies highlighted by the FATF.

- Next year will be an election year in South Africa. General elections will be held in April 2024. The governing party at the national level, the African National Congress (ANC), might not reach majority in next year's elections. This might force the forming of a coalition government, which would set a new political landscape for the country. Currently coalition governments have only been formed at the local level.

- **View:** South Africa's structural problems are not new, but the intensified energy outages and issues with the US have further eroded investor confidence and increased risk premia in South African markets. We are currently underweight in South Africa in both our hard currency and local currency funds compared to the benchmark index. On the local currency side, some downside risk still may be left, but lot of the bad news is already priced in. As a result, we think the market is cheap. Also, we believe that the central bank is credible and will most likely step in with further rate hikes if the currency pressure will pose a risk to financial stability.

South Africa	2011-19	2020	2021	2022	2023F	2024F
Real GDP (%, annual percent change)	1.6 %	-6.3 %	4.9 %	2.0 %	0.1 %	1.8 %
Inflation (%, annual percent change)	5.3 %	3.3 %	4.6 %	6.9 %	5.8 %	4.8 %
Overall Fiscal Balance, incl. Grants (% of GDP)	-4.0 %	-9.6 %	-5.6 %	-4.5 %	-5.9 %	-6.1 %
GovernmentDebt (% of GDP)	45.0 %	69.0 %	69.0 %	71.0 %	72.3 %	74.0 %
External Current Account, incl. Grants (% of GDP	-3.5 %	2.0 %	3.7 %	-0.5 %	-2.3 %	-2.6 %
Reserves (Months of imports)	5.8	6.4	5.5	5.2	4.8	4.4

Source: IMF April 2023

Botswana

- Botswana's GDP grew 5.8% in 2022 driven by mining sector growth, which constitutes over 90% of diamonds. The mining sector is important, comprising about 35% of GDP, but the government is developing other sectors to diversify the economy and to become a high-income country by 2036. Annual inflation was 12.2% in 2022, but has since decelerated to 7.9% in April.

- In the Southern Africa region deficit of electricity is a serious constraint for economic growth. Botswana imports about 70% of its electricity from South Africa and Zambia. Botswana is examining several projects to reduce its dependence on imports.

- Botswana's government budget for 2023/24 presented in February increased expenditure on development contributing to a fiscal deficit of 3.2% of GDP from the 2022/23 fiscal deficit of 1.0% of GDP. High unemployment (20.8%), particularly youth unemployment (39.9%) is an issue in Botswana.

- Foreign exchange reserves have been used to finance the fiscal deficit in the past years but are now being slowly built back. In December 2022, reserves were about USD 4.3 bn or over 9 months worth of import cover. Financing this year's fiscal deficit, the government will borrow from domestic and external development partners. According to law, total public debt cannot exceed 40%, but Botswana's debt levels are low, just above 20% of GDP.

- The government has sought assistance for development of the country's local currency domestic bond markets in order to diversify the investor base. As Botswana does not need to tap international capital markets, eurobonds are not part of near-term plans .

- Botswana is part of the Southern African Customs Union (SACU), so events in South Africa will also impact Botswana's revenue pool. The Botswanan pula is pegged to a basket of currencies, of which the South African rand comprises 25%. South Africa is Botswana's key trading partner and electricity is imported from South Africa. Therefore, Botswana being a small economy with a population of 2.6 million people, will need to follow situation in its gigantic neighbor closely.

- Botswana's agreement negotiations with the De Beers Diamond Consortium has been in the news. Botswana has learnt along the partnership which started in the late 1960s and is wanting a larger share of the pie for the benefit of its people. Apparently, progress is made in negotiations and there is confidence that a new sales agreement is reach before the current diamond sales deal expires in June. President Mokgweetsi Masisi has been adamant about Botswana securing a better deal. Botswana will hold general elections in October 2024 and president Masisi will seek re-election.

- **View:** Botswana is a small economy, but low debt levels and efforts to diversify economy are positive aspects. We have started investing in Botswana through DFI notes and FX forwards in our local currency frontier fund.

Botswana	2011-19	2020	2021	2022	2023F	2024F
Real GDP (%, annual percent change)	4.1 %	-8.7 %	11.8 %	6.4 %	3.7 %	4.3 %
Inflation (%, annual percent change)	4.6 %	1.9 %	6.7 %	12.2 %	6.5 %	5.2 %
Overall Fiscal Balance, incl. Grants (% of GDP)	-0.9 %	-10.9 %	-2.4 %	-2.0 %	-2.7 %	-1.5 %
GovernmentDebt (% of GDP)	17.6 %	18.7 %	19.0 %	19.9 %	20.6 %	19.3 %
External Current Account, incl. Grants (% of GDP)	2.0 %	-8.7 %	-0.5 %	3.1 %	3.3 %	5.4 %
Reserves (Months of imports)	11.4	6.5	6.3	6.6	6.8	7.2

Source: IMF April 2023

Namibia

- Namibia is a small economy with a population of 2.5 million people. Last year Namibia's GDP growth reached 4.6% boosted by the lifting of COVID-19 restrictions in July 2022 and mining sector. Namibia's diamond production increased by 46% due to marine-based mining.

- The Namibian government is investing in a sub-Saharan Africa's largest green hydrogen project. The USD 10 billion project is expected to export green hydrogen to Europe. The project is in early stages and, thus, not reflected in growth projections.

- Namibia has been struggling on the fiscal side, but for fiscal year 2022/23 managed to reduce fiscal deficit to 4.2%. The Namibia Revenue Agency's (NamRA) efforts to improve tax collection has succeeded bringing tax revenue of GDP back to over 30% which above African average of 16.5%. Namibia will be lowering its corporate tax rate from 32% to 30% in two years starting from next year.

- The current account turned to a deficit in 2021, being 12.5% last year because of higher oil import prices and declining the Southern African Customs Union (SACU) receipts. Higher earnings from diamonds and tourism as well as lower oil import prices will impact the current account deficit positively.

- As revenues have not been stable and expenditure, especially public sector wage, remained high, public debt has risen quickly reaching 68% of GDP. Going forward the plan is to stabilise debt-to-GDP. Namibia has been trying to direct expenditure to tackle high inequality. Unemployment is high, youth unemployment around 47%.

- Namibia established a sovereign wealth fund with an initial injection of approx. USD 16 million in 2022. The share of SACU revenue is directed to the fund as well as some of the royalties from sold mineral resources and a portion of government asset sales. Selling state owned enterprises has been a lengthy process in Namibia as privatisations started by selling stakes in state-owned telecom companies. The government is reviewing its state-owned enterprises (SOE) ownership policy.

- The Namibian dollar is pegged to the South African rand at a rate of one to one. Namibia does not see an abandoning the peg in the coming years as South Africa is Namibia's major trading partner (66% of imports; 27% of exports).

- The main risk stemming from South Africa's economic decline is dependence on power supply as the majority of electricity is imported (about 60% of total demand). The Namibian government is working on finding alternative solutions considering Namibia's potential on renewable energies, but developing will take time.

- **View:** Namibia has vast natural resources and may have potential in the future, but the expenditure side is worrying. Namibia provides our local currency frontier fund diversification, in which we are currently invested through inflation linked bonds only. We have exposure to Namibia also in our Hard Currency strategy, as we see it as good diversifier among the lower rated SSA countries.

Namibia	2011-19	2020	2021	2022	2023F	2024F
Real GDP (%, annual percent change)	2.8 %	-8.0 %	2.7 %	3.8 %	2.8 %	2.6 %
Inflation (%, annual percent change)	5.2 %	2.2 %	3.6 %	6.1 %	5.0 %	4.6 %
Overall Fiscal Balance, incl. Grants (% of GDP)	-6.1 %	-8.1 %	-8.8 %	-7.3 %	-4.1 %	-2.7 %
GovernmentDebt (% of GDP)	38.6 %	66.6 %	72.0 %	71.3 %	68.5 %	66.8 %
External Current Account, incl. Grants (% of GDP)	-8.1 %	2.6 %	-9.8 %	-13.5 %	-5.3 %	-3.7 %
Reserves (Months of imports)	3.4	4.1	4.5	4.6	4.7	4.8

Source: IMF April 2023

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