

Trip Notes

African Policymakers and Country Experts in Nairobi 2024

Photo: Kenya hosted African Development Bank's 59th Annual Meetings in Nairobi known also as "The Green City in the Sun"



Summary

- We participated in the African Development Bank Group's (AfDB) 59th Annual Meetings in Nairobi, Kenya, held from May 27 to 31. On the sidelines of the AfDB Annual Meetings, meetings with country officials and experts were organized.
- The theme of this year's AfDB annual meetings was "Africa's Transformation, African Development Bank Group, and Reform of Financial Architecture." Africa's structural transformation will require closing an annual financing gap of about USD 402 billion between now and 2030.
- The AfDB's flagship publication, the African Economic Outlook, projects that the continent's growth to rise to 3.7% in 2024 and 4.3% in 2025, demonstrating the strong resilience despite 2023's dip to 3.1%, from 4.1% in 2022 due to successive shocks. Average annual inflation accelerated to 17% in 2023, from 14% in 2022, expected to rise to 17.8% in 2024 before cooling down to 12.3% in 2025. The continent's 54 countries are heterogeneous economies, and the inflation picture is mixed. Examples of African countries with very high inflation include Egypt, Ethiopia, Ghana, Malawi, and Nigeria.
- In the following pages we have outlined developments in Ghana, Kenya, South Africa, and Zambia.
- **Our view:** We are more optimistic about the opportunities on the African continent than we were last year. However, country-specific developments require close monitoring. One item to watch, although impossible to predict, is extreme weather events that have been hampering African economies during the past year. It was stressed during the annual meetings that there is an urgency to mobilize financing to build climate-resilient African economies.

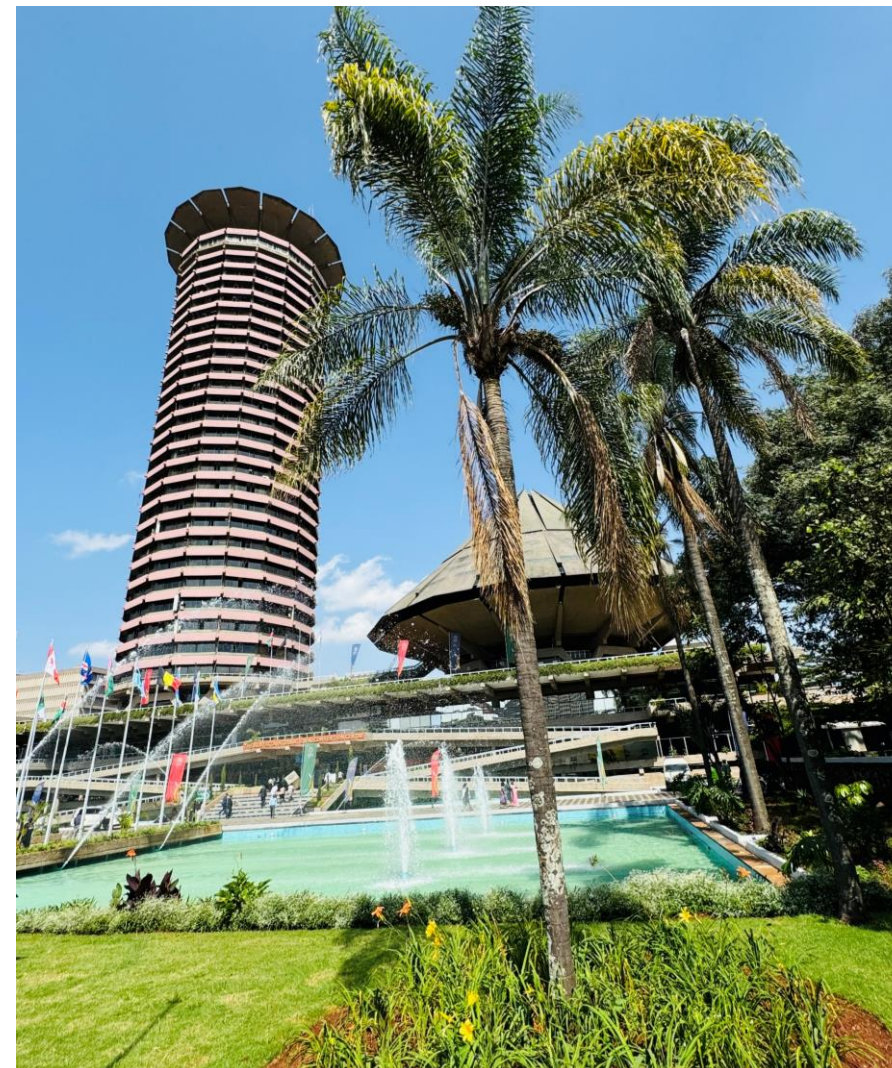


Photo: The Kenyatta International Convention Center (KICC) in the Kenyan capital Nairobi was the venue of the 59th AfDB Annual Meetings

Kenya

- This year, Kenya successfully managed its liability exercise in February, easing market anxiety over the June 2024 Eurobond maturity. The IMF augmented its programs in January to address financing gaps in the balance of payments, facilitating Kenya's market access. Debt issues will persist with the current IMF program expiring in April 2025 and other looming debt maturities following that. The IMF remains a crucial confidence anchor for Kenya, but it is likely dissatisfied with the slow pace of fiscal consolidation and revenue shortfalls. The government will present its 2024/25 budget on June 13, proposing a fiscal deficit of 2.9% of GDP, which may turn out to be overly optimistic.
- President William Ruto, elected in a tight race in 2022, is positioning himself internationally as a leading African voice on global issues like climate change. In May, he made a successful state visit to the United States, the first by an African leader in 16 years. However, domestically, discontent towards the President has grown due to increased living costs, rising taxes, high unemployment, and allegations of government corruption. The current administration has implemented many politically sensitive reforms early in its term. President Ruto plans to increase the tax-to-GDP ratio from 14% to 22% by the end of his term. Despite the growing dissatisfaction, there are few opposition candidates currently positioned to run against him in the 2027 elections. Raila Odinga is expected to re-enter the presidential race in 2027. To improve public sentiment, taxes might be reduced, and efforts to address citizens' concerns could be intensified in the few years leading up to the election.
- Kenya's fundamental strength lies in its fast-growing economy with exports. To boost stagnant exports further, the business environment needs improvement, and high custom duties require reform. The IMF projects Kenya's economy will grow 5% and over this and next year. The agricultural sector still contributes over 20% of GDP and employs over 40% of the population. Despite recent heavy rains having caused damage, economic growth is expected to be minimally affected. However, the AfDB notes that growth has been "noninclusive," with minimal structural transformation, leading to increased poverty and low job creation.
- The Central Bank of Kenya (CBK) has effectively anchored inflation with its tight monetary policy, bringing it to the midpoint of the 5%, plus or minus 2.5 percentage points, target. Annual inflation edged up slightly to 5.1% in May from 5.0% in the prior month. The Kenyan shilling has appreciated over 24% against the US dollar since January after surpassing the historical low of 160 against the dollar. After raising the monetary policy rate to 13% in early February, the CBK has held steady, with expectations of rate cuts later this year.
- Kenya's external position remains structurally weak. Despite a narrowing current account deficit last year, it was primarily financed by drawing down on reserves. Presently, gross international reserves stand at approximately USD 7 billion, equivalent to 3.7 months of import coverage. Remittances, amounting to roughly USD 400 million monthly, have been steadily increasing over the years, roughly aligning with the monthly oil import bill. An area of interest is the Kenyan government's exit from its Government to Government (G2G) oil supply deal, established with three national oil exporters from the Gulf in April 2023. The deal is set to expire in December 2024, potentially leading to increased demand for US dollars in Kenya and consequent pressure on the shilling.
- **View:** Kenya offers attractive real rates for local currency investors. In our Frontier strategy we have increased our allocation to Kenya this year by participating to February's Infrastructure Bond issuance. In our Hard Currency strategy we have opened again a very small, diversifying position.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	5.3%	5.0%	5.5%	4.8%	7.6%	4.2%
Inflation (% annual percent change)	5.2%	6.2%	6.6%	9.1%	5.7%	7.3%
Overall Fiscal Balance (% of GDP)	-3.2%	-4.0%	-5.3%	-6.1%	-7.2%	-6.4%
Government Debt (% of GDP)	70.3%	73.0%	73.3%	68.4%	68.2%	48.8%
Current Account (% of GDP)	-4.2%	-4.3%	-3.9%	-5.2%	-5.2%	-6.7%

Aktia, IMF and Macrobond

Ghana

- Ghana's debt restructuring remains a pressing issue as it attempts to reorganize nearly all of its USD 45 billion loans to meet IMF debt sustainability requirements. The IMF reached a staff-level agreement with Ghana in December 2022 for a three-year arrangement under the Extended Credit Facility (ECF) of about USD 3 billion. Following receipt of the USD 3-billion rescue package, Ghana defaulted on most external debt. Ghana requested to conduct its debt restructuring under the G20 Common Framework, excluding the Domestic Debt Exchange completed last year. The IMF reached a staff-level agreement on the second review of the ECF program with Ghana. Reaching a Memorandum of Understanding with the Official Creditor Committee of Ghana (OCC), including China and France, on USD 5.4 billion debt obligations is a condition for completing the IMF review. The IMF Board meeting in June will unlock a USD 360 million disbursement to Ghana, if approved. Negotiations continue with Eurobond holders, to whom Ghana owes USD 13 billion, with narrowing gaps observed in the latest discussions. Ensuring comparability of treatment is crucial for the OCC in negotiations with bondholders. The IMF's Debt Sustainability Analysis (DSA) is under review, reflecting positive economic developments. Debt restructuring negotiations have progressed in the past few months, yet hurdles persist before completion.
- Ghana's macroeconomic fundamentals are improving, and the medium-term outlook is brighter due to the alignment of IMF program targets with Ghana's home-grown initiatives. Officials are committed to economic growth and job creation, leading to robust growth projections for 2024. Investments in agriculture and industry are driving better prospects. Ghana's economy grew 2.3% last year, with annual inflation peaking at 54% and now trending down to 25%. The Bank of Ghana (BoG) expects inflation to be at 15% by the end of this year and 8% by the end of next year, aiming to return to its 8% \pm 2% target by the end of 2025. The BoG has stopped monetary financing to the government and fiscal policy is on track, which, combined with tight monetary policy, should reduce inflation. The BoG maintained

the benchmark interest rate at 29% at the May meeting.

- Challenging economic conditions have led to strong fiscal adjustments and aggressive revenue mobilization efforts. Despite this being an election year in Ghana, officials are committed to maintaining fiscal discipline, contrary to historical trends of increased expenditure during elections. General elections are scheduled for 7 December 2024, with President Nana Akufo-Addo ineligible to run due to term limits.
- The Ghanaian cedi has depreciated nearly 20% year-to-date by the end of May against the U.S. dollar, despite improving economic fundamentals. The depreciation appears to be a supply-demand issue driven by import demand, payments to private power producers, speculation, and uncertainty around debt restructuring. Ghana has been building up international reserves through gold purchases and IMF disbursements, now covering about three months of imports.
- **View:** Ghana's situation remains messy, with fiscal austerity concerns highlighted by the increasing size of its delegation to the AfDB Annual Meetings each year. Currently, we have no allocation to Ghana in any of our funds but will reconsider if there is solid proof of improving long-term fundamentals.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	4.4%	2.8%	2.3%	3.1%	5.1%	5.9%
Inflation (% annual percent change)	8.0%	15.0%	23.2%	52.1%	12.6%	12.0%
Overall Fiscal Balance (% of GDP)	-4.3%	-5.0%	-4.6%	-11.8%	-12.0%	-7.7%
Government Debt (% of GDP)	80.9%	83.6%	86.1%	93.3%	79.2%	51.9%
Current Account (% of GDP)	-2.2%	-1.9%	-1.7%	-2.1%	-2.7%	-5.3%

Aktia, IMF and Macrobond

Zambia

- Zambia has faced a challenging path since defaulting on its Eurobonds during the pandemic in 2020. Opting for debt restructuring under the G-20 Common Framework, it became the first test case and is now set to complete the process, marking a historic moment. This lengthy process took nearly four years. The bondholders approved the exchange of their Eurobonds in May. The Zambian government still needs to negotiate deals with bilateral commercial creditors. Effective debt restructuring under a common framework is crucial for a defaulting country's fresh start and should be swifter than negotiating agreements bilaterally. As the AfDB noted, "Zambia's experience with debt restructuring underscores the urgent need for reforms and transformation of the global financial architecture."
- This year, Zambia faced its worst drought in nearly four decades, affecting the country more widely than previous, more localized droughts. This led to a national disaster declaration in February and an appeal for international aid by President Hakainde Hichilema in April. The drought is impacting food security and hydro-generated electricity. However, loadshedding has not yet affected mining companies, and the copper production forecast remains at 790,000 metric tons. This is positive amid the crisis, as copper production is crucial to Zambia's economy and a major source of foreign exchange. Copper prices have been elevated this year, although they have declined since May highs.
- In April, Zambia announced it needs for USD 940 million to bridge the budget gap and prevent food shortages during the drought. International assistance, mostly grants, worth USD 530 million has been committed. The IMF reached a staff-level agreement on the third review under the Extended Credit Facility (ECF) program, initially set at USD 1.3 billion in August 2022. The IMF reduced its real GDP growth projection for Zambia this year to 2.3% from the previous estimate of 4.7%, citing additional fiscal and external financing needs. Zambia requested a 30% augmentation of its quota, about USD 390 million, increasing the

program to approximately USD 1.7 billion. This request will go to the IMF board for approval at the end of June. If approved, Zambia will immediately receive a disbursement of USD 578 million. A supplementary budget for drought response will be presented to parliament soon

- In May, inflation rose to 14.7% from 13.8% in April, well above the central bank's 6-8% target. The Zambian kwacha has been weak and volatile against the US dollar this year. The drought has forced Zambia to import food and electricity, worsening the current account deficit, though a sharp recovery is expected next year with increased copper mining. The Bank of Zambia (BoZ) raised rates by 100 basis points to 13.5% in May due to rising inflation expectations. The IMF highlighted the need for the foreign exchange rate to act as a buffer, suggesting the BoZ may intervene less in the FX market, potentially leading to further kwacha weakening.
- **View:** With debt restructuring nearly finalized and policy reforms aligned with the IMF program, Zambia is building a firmer economic foundation. The drought will take time to address, but once resolved, the Zambian economy can hopefully restart properly. Only our local currency frontier strategy has an allocation to Zambia through short-tenor non-deliverable currency forwards.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	4.8%	2.3%*	4.3%	5.3%	6.2%	3.6%
Inflation (% annual percent change)	7.0%	8.6%	13.0%	9.9%	16.4%	10.3%
Overall Fiscal Balance (% of GDP)	-5.4%	-6.1%	-6.8%	-7.8%	-8.1%	-7.0%
Government Debt (% of GDP)**	n/a	n/a	n/a	n/a	n/a	59.8%
Current Account (% of GDP)	5.2%	3.7%	-1.8%	3.7%	9.7%	1.3%

Aktia, IMF and Macrobond

*IMF latest growth revision

**No government debt forecast since 2020

South Africa

- South Africa continues to face several challenges, including power cuts, transport sector constraints, high unemployment, and a high crime rate. Although electricity supply was uninterrupted a couple of months before the 29 May general elections, it remains unclear whether this was a strategy to please voters or if private power generation has improved the situation. A permanent solution requires long-term investments and increased transmission capacity. Last year real GDP growth decelerated to 0.6% in 2023 due to persistent electricity issues and tightening financial conditions, but it still grew faster than expected due to high commodity prices. First quarter GDP figures, published in early June, showed a 0.1% decrease.
- Low growth has resulted in very high unemployment rates. The services sector, contributing about 63% of GDP in 2023, has failed to absorb low-skilled workers, while manufacturing's share of GDP has halved to 12% since 1990. Growth has stagnated, and job creation has slowed. The AfDB reported overall unemployment at 32.1% in 2023, with youth (25-34) unemployment at 39%. South Africa is one of the most unequal countries globally, with nearly half of its 62 million population receiving welfare grants, highlighting significant social challenges.
- Inability to generate growth has led to increasing debt. South Africa's government debt has risen from 24% in 2008 to nearly 74% in 2023. The IMF projects further increases, highlighting the need for a debt ceiling to manage rising indebtedness. Fiscal pressures come from a high public sector wage bill, support for state-owned enterprises (SOEs), and untargeted subsidies. The newly signed universal national health insurance law will require financing despite already high debt levels. Positively, most of South Africa's debt is in local currency. The IMF expects the fiscal balance to widen to -6.1% in 2024. The current account deficit is also projected to widen due to lower exports than imports, driven by transport sector constraints and power shortages. Although South Africa benefits from rising commodity prices, infrastructure bottlenecks limit potential gains.
- The South African Reserve Bank (SARB) is the strongest central bank in the region. It has maintained a tight monetary policy rate at 8.25% since last May. Inflation has been declining after peaking in 2022. Policymakers are discussing lowering the central bank's inflation target from the current range between 3% - 6%. SARB expects inflation to reach the midpoint of its target range by mid-2025, potentially leading to interest rate cuts.
- South Africa's election result was a shock as the largest party, the African National Congress (ANC), received only 40.2% of the votes. This was the first time the ANC lost its majority since the end of apartheid in 1994. The new coalition government needs to implement supply-side reforms and responsible fiscal policy to maintain investor confidence. On Sunday, June 16th, the first Parliament and Parliament Assembly will vote for the new president.
- **View:** South Africa continues to battle its numerous structural challenges, now with uncertainty surrounding the new coalition government and what the policy mix will be. In our Hard Currency strategy we hold modest (UW) position due current uncertainty around political environment after elections and relatively tight spreads in historical context. On local currency side, we are also underweight, and we have hedged a part of our rand exposure.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	1.2%	0.9%	0.6%	1.9%	4.7%	0.8%
Inflation (% annual percent change)	4.5%	4.5%	5.5%	7.4%	5.4%	5.1%
Overall Fiscal Balance (% of GDP)	-6.3%	-6.1%	-6.0%	-4.3%	-5.5%	-4.6%
Government Debt (% of GDP)	77.9%	75.4%	73.9%	71.1%	68.8%	47.3%
Current Account (% of GDP)	-1.9%	-1.8%	-1.6%	-0.5%	3.7%	-3.0%

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