Fitch Solutions Sub-Saharan Africa Key Themes For 2022: Growth Returning Close To Trend But Vulnerabilities Persist

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As we near the end of 2021, we take this opportunity to lay out the five key themes that will shape the outlook for Sub-Saharan Africa (SSA) in 2022. While we assume a moderate pick-up in economic momentum facilitated by greater progress on Covid-19 vaccination programmes and further easing of pandemic-related restrictions on consumer and business activities, the stability of region-wide growth obscures significant shifts at the sub-regional level. We expect monetary policy tightening to accelerate despite moderating inflation, and governments to continue to prioritise fiscal consolidation. Meanwhile, we expect the political temperature to rise across the region.

KEY SSA THEMES FOR 2022

Theme	**Thoughts**
Economic Growth Will Return Close To Trend, But Vulnerabilities Will Persist	We expect that growth in SSA will remain steady at 3.6% in 2022, as greater progress on Covid-19 vaccination programmes facilitates increased consumer and business activities. However, economic vulnerabilities resulting from the pandemic will persist.
Monetary Policy Tightening Will Accelerate Despite Moderating Inflation	While inflation will ease across most SSA markets in 2022 as commodity prices moderate and supply chain issues are resolved prices will remain elevated, and a hawkish turn by DM central banks will put pressure on SSA central banks to hike.
Governments Will Prioritise Fiscal Consolidation	We expect that SSA governments will continue to prioritise fiscal consolidation. The pace at which expenditure increases will slow, while governments will lean heavily on revenue-enhancing strategies to narrow fiscal shortfalls.
Currencies Will Depreciate After Decent 2021 Performance	We believe that regional currencies will continue to depreciate in 2022, largely as a result of weakening trade dynamics.
Political Temperature Will Rise Across The Region	Social unrest and political tensions will become more prominent across SSA. Elections in several major economices are likely to trigger social unrest, while the civil war in Ethiopia will continue to destabilise the East African subregion.

Source: Fitch Solutions

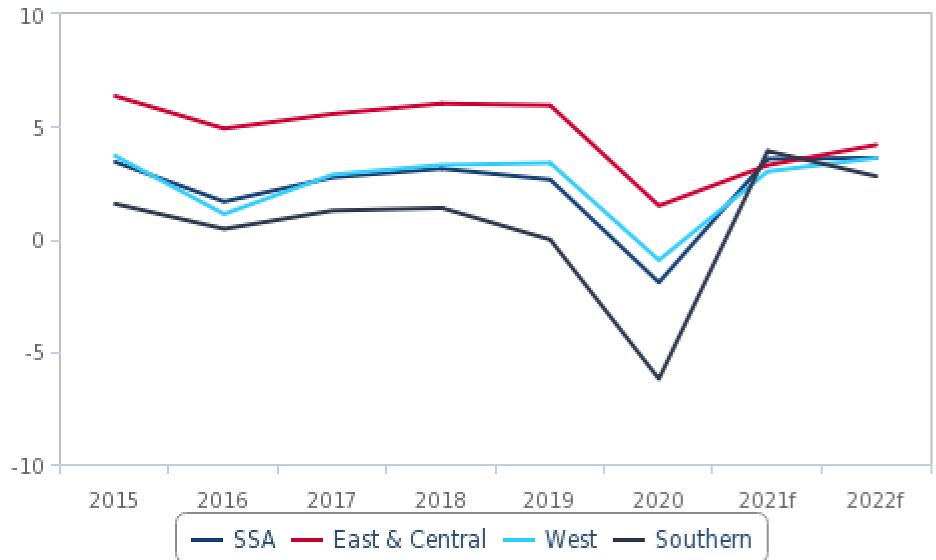
Theme 1: Economic Growth Returns Close To Trend, But Vulnerabilities Persist

At Fitch Solutions, we expect that growth in Sub-Saharan Africa (SSA) will remain steady at 3.6% in 2022. Given that growth in 2021 was flattered by base effects, our forecast for 2022 assumes a moderate pick-up in economic momentum facilitated by greater progress on Covid-19 vaccination programmes and further easing of pandemic-related restrictions on consumer and business activities. The stability of region-wide growth obscures significant shifts at the sub-regional level.

In West Africa, we expect that elevated oil prices – our Oil & Gas team forecasts that the average price of Brent crude will rise from USD71.5/bbl in 2021 to USD72.0/bbl in 2022 – will help growth accelerate from 3.0% in 2021 to 3.6% in 2022. Growth will also pick up in East & Central Africa – from a forecast 3.3% to 4.2%. The acceleration would be even stronger were it not for a slow growth in conflict-hit **Ethiopia**. We forecast growth of 5.1% for the East African Community, which excludes Ethiopia).

Economic Growth To Remain Below Trend

SSA - Real GDP Growth, % y-o-y



f = Fitch Solutions forecast. Source: Fitch Solutions

However, we forecast a slowdown in Southern African growth – from 3.9% in 2021 to 2.8% in 2022, largely as a result of lacklustre South African economic activity.

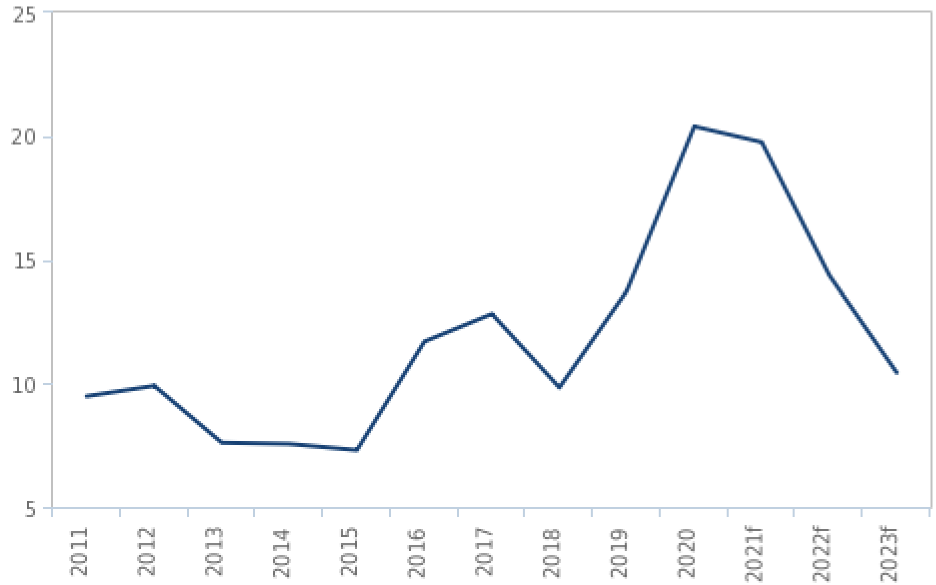
Across SSA, we think that economic vulnerabilities resulting from the pandemic – such as wide current account and fiscal deficits, and elevated levels of joblessness – to persist in the coming quarters, heightening the region's exposure to downside risks. The latest available data show that unemployment is at record highs in SSA's two largest markets, **Nigeria** (33.3%) and **South Africa** (34.9%). We expect that supply constraints apparent in H221 will likely persist into 2022, and that SSA-wide inflation will average 13.9% y-o-y, up from 8.0% in 2019. This will prevent a stronger rebound in consumer spending and exacerbating popular grievances around living costs, which in many countries will spur unrest.

Theme 2: Monetary Policy Tightening Will Accelerate Despite Moderating Inflation

We expect inflation will ease across most SSA markets in 2022. The average inflation rate will slip from an average of 20.4% in 2021 to 19.8% in 2022. After rising in 2021, commodity prices will probably ease, which will remove a major source of price pressures. We also expect that some of the temporary supply chain problems that are currently leading to shortages will be resolved. Even so, inflation will remain elevated by recent standards *(see chart below)*.

Inflation Moderating After Pandemic-Related Price Pressures

SSA – Average Annual Inflation, %



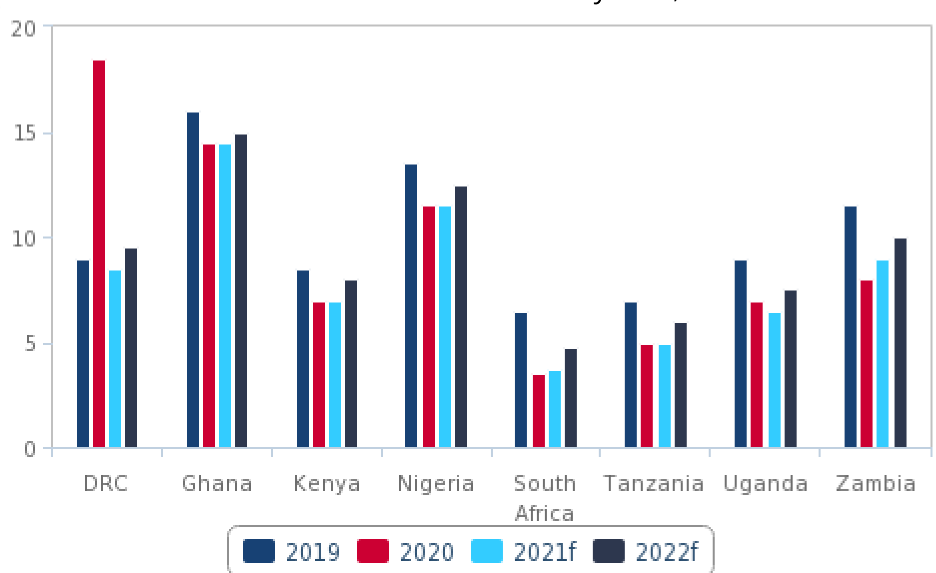
f = Fitch Solutions forecast. Source: Fitch Solutions

We think that the rollout of vaccination programmes will boost consumer confidence and thus purchases, that weakening local currencies will lead to higher import costs, and that the La Niña weather system will cause a drought that will push up food prices in East Africa. In many cases, therefore, inflation will remain above the midpoint of central banks' target range.

Moreover, a hawkish turn by developed market central banks will put pressure on SSA central banks to hike. Whereas we had previously expected that the US Federal Reserve would leave its key rate on hold until 2023, we now expect that policymakers will hike their policy rate by 25bps to 0.25% by end-2022. This will pressure EM central banks such as the South African Reserve Bank, Bank of Ghana, Central Bank of Nigeria and Central Bank of Kenya to hike in order to support interest rate differentials and thus limit downward pressures on their currencies.

Policy Rates To Be Normalised After Substantial Cuts

Selected SSA Markets - Policy Rate, %



f = Fitch Solutions forecast. Source: Fitch Solutions

Reasonably solid growth will give SSA central banks scope to start to normalise policy rates after substantial rate cuts during the Covid-19 pandemic. The South African Reserve Bank, Bank of Ghana and Bank of Zambia all implemented modest rates hikes (of between 25 and 100 basis points) in Q421, and we expect further tightening over the course of 2022. We project 100bps worth of rate hikes in **Nigeria**, **South Africa**, **Kenya**, the **Democratic Republic of the Congo**, **Tanzania**, **Uganda** and **Zambia**, and a 50bps rise in **Ghana**.

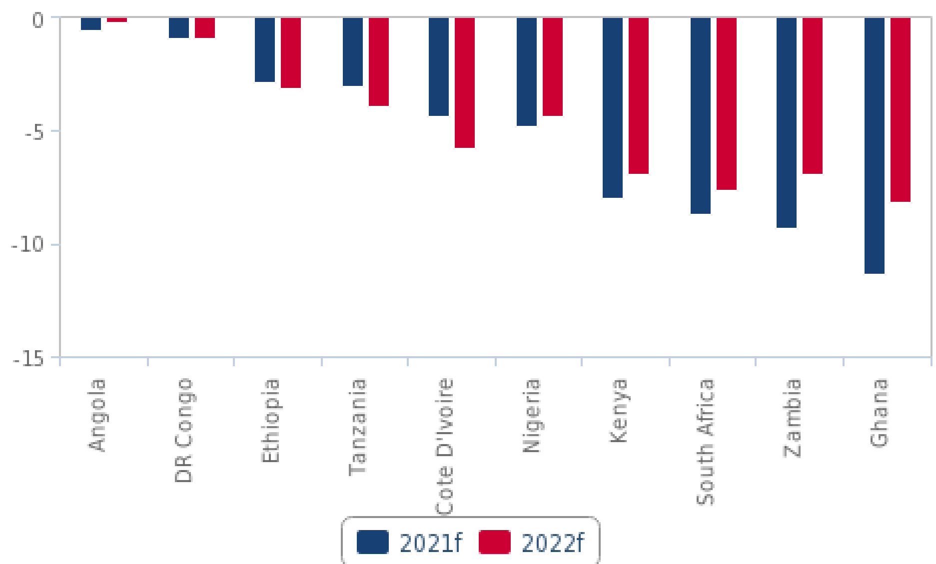
We expect that **Angola** will remain a key outlier, and project a 200bps cut in 2022. We expect that inflation in the country will moderate to 20.0%, as the impact of Angola's worst drought since 1981 fades, while a strengthening kwanza—on the back of an increase in domestic oil production—will limit imported price pressures. This will enable the central bank to shift its focus to stimulating the economy, which has been in recession since 2016.

Theme 3: Governments Will Prioritise Fiscal Consolidation

In 2022, we expect that SSA governments will continue to prioritise fiscal consolidation. There was a substantial widening of budget deficits and sharp rise in debt loads in 2020, as governments increased spending to ameliorate the socio-economic impact of Covid-19 and revenues slumped due to weakening tax receipts and falling commodity-related revenues. While there was some effort to rein in deficits in 2021, the slow Covid-19 vaccination programme necessitated ongoing economic restrictions, and continued social support. We believe that such stimulus will become less necessary in 2022. While most governments will not cut spending, the pace at which expenditure will increase will slow. As a result, growth in total government expenditure in SSA will moderate to 18.9% of GDP in 2022 from 19.6% in 2021.

Governments Prioritise Fiscal Consolidation

Selected SSA Markets - Budget Balance, % Of GDP

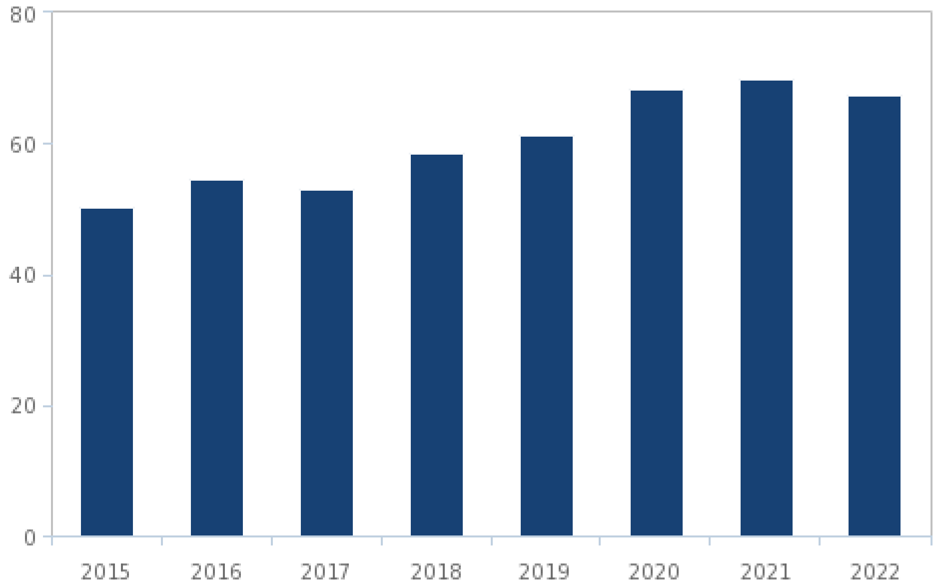


f = Fitch Solutions forecast. Source: Fitch Solutions

With expenditure still rising, governments will lean heavily on revenue-enhancing strategies in an attempt to narrow their budget shortfalls. We expect that several will continue to roll out new taxes – **Ghana** and **Tanzania**, for instance, will implement new levies on digital transactions in order to capture unrealised receipts from the large informal sector. Other governments will continue to seek to increase commodity revenues. Uganda plans to implement a new tax on gold exports, while **Mali** and the **Democratic Republic of the Congo** will continue to review mining deals in order to increase the government's share of mineral royalties. Under pressure from the IMF, countries like and **Kenya** and **Côte d'Ivoire** are also likely to continue implementing reforms to improve the effectiveness of their revenue agencies.

Public Debt Slow To Return To Pre-Pandemic Levels

SSA - Average Public Debt, % Of GDP



f = Fitch Solutions forecast. Source: Fitch Solutions

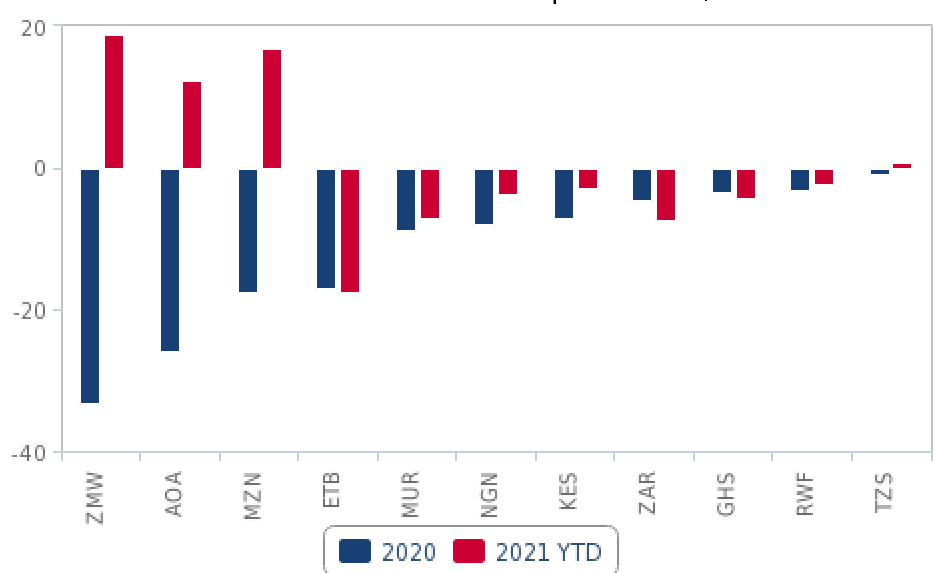
As a result of a general narrowing of fiscal deficits across SSA, we expect that government debt-to-GDP ratios will fall in 2022. We forecast that public debt to GDP in SSA will average 67.5% in 2022, down from 69.8% in 2021. However, this is still some 12 percentage points higher than the pre-pandemic five-year average. Moreover, several key markets buck the regional trend; we expect that government debt will continue to rise as a percentage of GDP **Nigeria**, South Africa and Ghana in 2022, and only begin to fall in the mid-2020s.

Theme 4: Currencies To Depreciate After Decent 2021 Performance

After a strong performance in H121, downward pressures resumed on most SSA currencies in H221, and we expect that currencies will continue to depreciate in 2022. This will largely be the result of weakening trade dynamics.

Depreciatory Trend In 2022 After Decent 2021 Performance

Selected SSA Currencies - Spot Returns, %



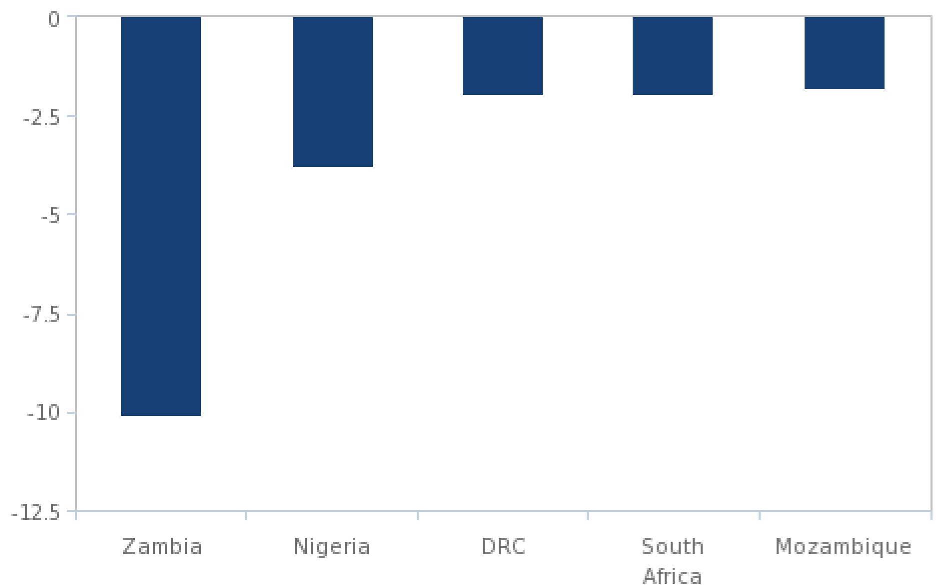
Source: Bloomberg, Fitch Solutions

We expect that many SSA commodity exporters' terms of trade will worsen. Our Commodities team forecasts that average prices of copper, aluminium, nickel, zinc, steel, and iron ore will fall in 2022, after sharp increases in 2021.

South Africa will be particularly exposed given its heavy reliance on metal exports, and we expect that the South African rand will depreciate from a forecast 2021 average of ZAR14.7/USD to ZAR15.2/USD in 2022. Falling copper prices will similarly act as a drag on the **Zambian** kwacha and the **Congolese** franc, which we also expect will weaken over the coming quarters. Sharp declines in aluminium and thermal coal prices will cause the **Mozambican** metical to depreciate slightly from end-2021 levels in 2022, thus offsetting the positive impact of increasing gas exports. Meanwhile, our Oil & Gas team sees Brent crude prices remaining largely flat over 2022, rising by a forecast 0.7% after a 65.5% rise in 2021, and thus providing less support to oil exporters such as **Nigeria**.

Commodity Exporters To See Currency Depreciations

Selected SSA Markets - Loccur/USD Exchange Rate (2022 ave), % Change From 2021 eop



Note: 2022 = Fitch Solutions forecast. Source: Bloomberg, Fitch Solutions

Strengthening import demand will put additional pressure on external accounts, contributing to currency depreciations. As regional economic growth accelerates, we forecast that goods imports will rise by an average of 7.6% in USD terms in 2022, weighing on SSA countries' current account balances. This will both compound the impact of falling commodity prices and weaken exchange rates less affected by worsening terms of trade (for example the cedi in **Ghana** – a gold, oil and cocoa exporter – and the naira in Nigeria).

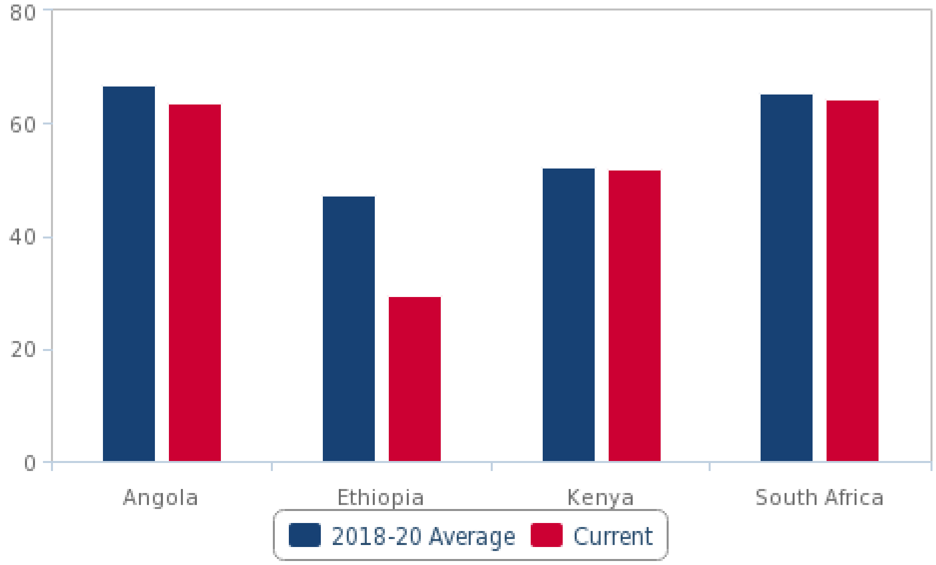
Theme 5: Political Temperature To Rise Across The Region

We expect that social unrest and political tensions will become more prominent across SSA in 2022. Slow progress in inoculating populations—as of December 3, 11.1% of the population in continental Africa had received at least one dose of vaccine—suggests a high risk that Covid variants will continue to emerge, forcing governments to implement at least some lockdown measures.

This in turn will hamper the economic recovery and add to social discontent. Meanwhile fiscal consolidation following slippage to the pandemic will likely lead to increased levels of taxation—and in some markets cuts to subsidies and social transfers. This will fuel public dissatisfaction over service delivery—a key underlying cause of the widespread violence that occurred in South Africa in H221, for example.

Risk Elevated In Many Markets

Selected Countries - Short-Term Political Risk Index



Note: Score out of 100 (higher score indicates less risk). Source: Fitch Solutions

In addition to this, we expect that elections in several major economies to trigger social unrest. In **Kenya**, for example, ethnic tensions are likely to resurface ahead of the August 2022 general elections. In H121 the High Court declared proposed constitutional amendments that would have diluted and partitioned executive power – potentially reducing flare-ups of ethnic violence during elections – unlawful. Meanwhile, an electoral alliance between incumbent President Uhuru Kenyatta (an ethnic Kikuyu) and opposition leader Raila Odinga (a Luo) has alienated parts of the Kikuyu voter base. The country has a history of ethnic violence around elections, and political tensions will be exacerbated by headwinds to economic recovery arising from the country's sluggish Covid-19 vaccination programme.

Equally, while general elections in **Nigeria** are not due until February 2023, much of the campaigning will take place in 2022, and we expect increasing ethnic, religious and geographic tensions. Under the long-standing tradition of alternating presidents between the predominantly Muslim north and the largely Christian south, both major parties would be expected to nominate Southern candidates. However, in September 2021 an association of governors of northern states rejected the practice, claiming that it contradicts the constitution. This position will likely exacerbate rifts with southern political leaders from both parties who believe that it is their turn to control the presidency. The dispute comes as Islamist militant activity spreads, and as struggles for key resources including land and water intensify given more frequent extreme weather events. These will also be factors in East Africa, compounded by the fallout from the de facto civil war in **Ethiopia**.

While the Ethiopian government has claimed recent territorial gains, the Tigray Defence Forces (TDF) are believed to control most of Tigray and parts of neighbouring Amhara and Afar. Meanwhile the Oromo Liberation Army (OLA), a TDF ally, was as of December 2021 said to be advancing on the capital, Addis Ababa. Our core view is that the capital, and government, will not fall, since TDF/OLA supply lines are stretched, while the Tigray People's Liberation Front (TPLF) knows that it would struggle to attract sufficient backing to form a new federal government. However, even in a best-case scenario we assume that fighting will persist over much of 2022, leading to population displacement and disruption to economic activity. While not our core view, we also note the possibility that the government will be overthrown, with serious implications for stability, since the TPLF's inability to form a government would lead to escalating social unrest and ethnic violence, potentially leading to the fragmentation of the Ethiopian state.