RESEARCH REPORT

MACROECONOMY

JUNE 2021

SUB-SAHARAN AFRICA ECONOMIES

What behavior toward the Covid-19 shock ?

Attijari Global Research

REMINDER OF SUB-SAHARAN AFRICA'S FUNDAMENTALS

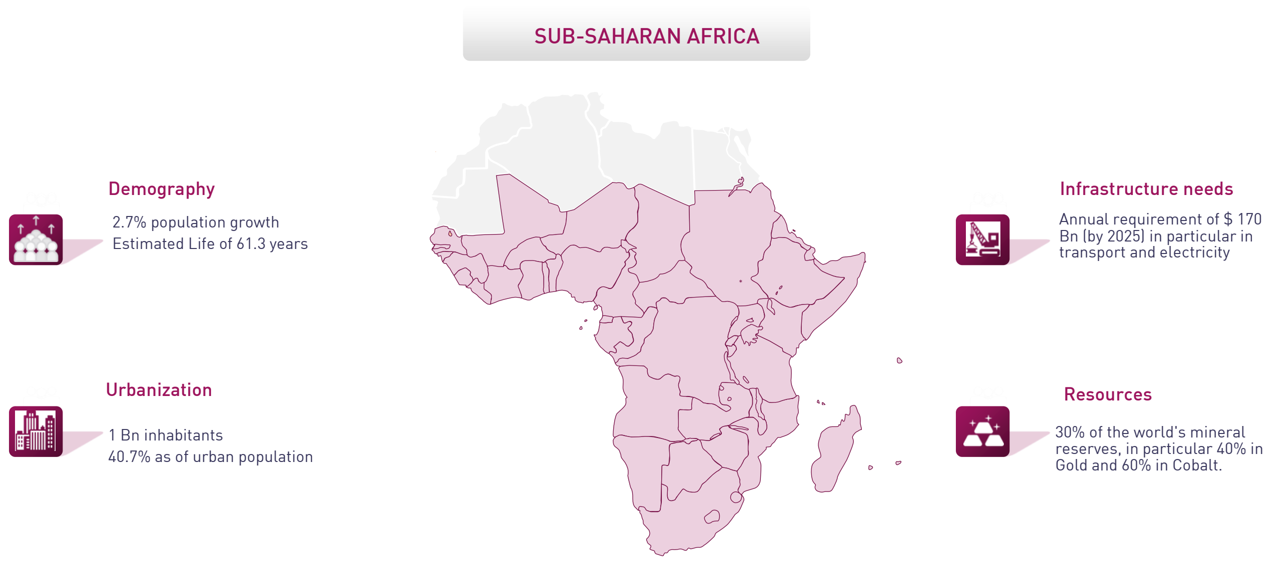
Before addressing the main topic of this report, which is a transversal analysis of the economies' behavior in the sub-Saharan Africa in the face of the Covid-19 pandemic, we would like to recall some updated fundamentals of this Region, which is not missing to stir up economists' curiosity of and investors' greed :

⇒ Demography: SSA[1] brings together around 48 countries with more than 1.0 billion inhabitants, or 13.0% of the world population. Its population growth rate is 2.7% against an international average of 1.1%. The Life estimate continues to rise and stands at 61.3 years in 2018 compared to only 56.7 years in 2010.

⇒ Urbanization : The urban population represents 40.7% in 2019 against 36.0% in 2010. The scope for progress is significant given that the world average stands around 54.0% ;

⇒ Infrastructure needs : These are estimated at $ 170 Bn per year by 2025 according to the AfDB. The needs revolves particularly around the electrical installations, transport infrastructure which would follow the progress made in telecom installations and water distribution ;

⇒ Resources: It is estimated that in SSA[1], we find nearly 30.0% of the world's mineral reserves. The Region centralizes, for instance, 40.0% of world gold reserves and 60.0% of cobalt reserves.



In terms of growth, the SSA's GDP (1) is ahead of the international average with normative growth of 3.9% against 3.3% for the World's average respectively. The size of the Region's economy is admittedly only 3.0% of the overall economy. It would be more significant if we include the large part of the underground economy.

It is clear that this growth dynamic is based on solid fundamentals. Beyond the "stereotype" of wealth in natural resources, growth in SSA (1) is based on the pillars of demography, urbanization, and infrastructure development. In the future, growth would have new relays : We cite in particular the development of upstream agriculture, the sophistication of exports, and to a lesser extent the birth of a manufacturing industry.

What is the overall behavior of SSA [1] economies in the face of this shock situation? Which countries are the most resilient? most affected by this crisis? Is this a temporary difficulty or a real weakening of these countries' growth? These points constitute so many questions to which we provide answers during this report.

Sources : World Bank; IMF

(1) Our scope of the SSA includes all African countries excluding the 6 North African countries of Morocco, Algeria, Tunisia, Libya, Egypt and Mauritania.

EXECUTIVE SUMMARY

We had three reasons to believe that the SSA[1] economies would be rather resilient facing the Covid-19 pandemic. We were referring to a foreseeable natural immunity of the Region citizens, to a pressure on the authorities to ease the barrier measures as well as to a limited exposure of SSA[1]'s countries to the tourism sector. Finally, the indicators show that, faced with Covid-19, the Region is no exception. SSA[1] would have lost 7.4% overall growth expected in 2020, going from a pre-Covid-19 growth level of + 3.0% to -4.4% 12 months later. As a matter of fact, the weight of fall in commodity prices, a narrowed leeway in the implementation of fiscal and monetary stimulus and a resumption of tensions weighed heavily on the growth indicators of SSA[1] countries.

While the Region as a whole is caught up by the effects of the pandemic crisis, diversified economies display better resilience than their resource-intensive counterparts in times of crisis. In this wake, countries belonging to the economic zones of WAEMU and COMESA stand out with growth rates of around 2.0% while the majority of countries record recessions in 2020.

On the other hand, the Covid-19 shock was virulent for economies which rely on tourism. Likewise, the pandemic battered economies which were in bad shape prior to the health crisis. The source of these difficulties lie in a context of budgetary imbalance for several countries, but also in the absence of a growth driver for certain large SSA[1] economies.

For this year 2021, the SSA[1] average growth is estimated at 3.1% after -3.0% in 2020. This level remains lower than the 2010-2019 standard rate which was 4.2%. The recovery would be felt more strongly among diversified economies. Oil-producing countries mainly would observe a lag time. Even the 3 main economic powers in the Region could only compensate for the losses suffered in 2020 starting FY2022.

In any case, we believe that this rupture could not be lasting. It is true that we would have to wait until the year 2022 to see the majority of African countries resume with an ordinary growth level, nevertheless the Region fundamentals which are based on demography, urbanization, infrastructure needs and natural resources cannot be called into question.

Sources : AfDB, IMF

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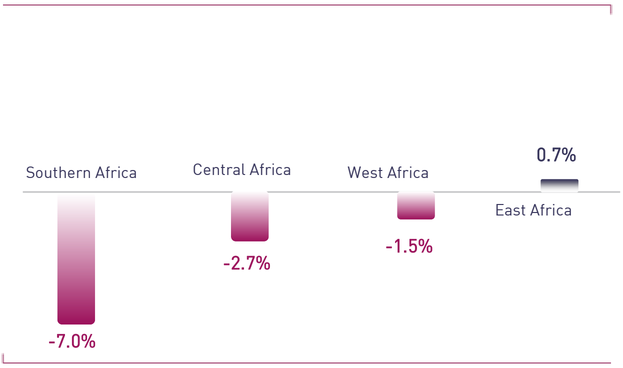
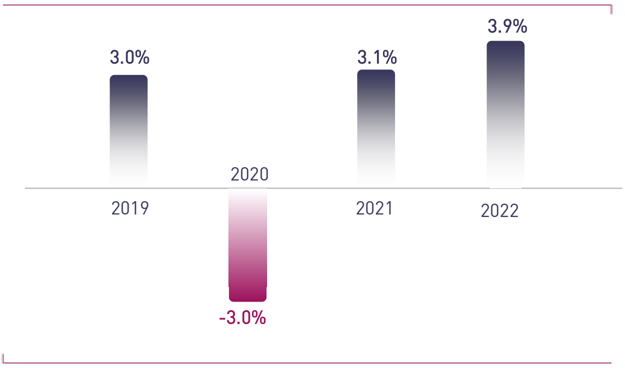
SUB-SAHARAN AFRICA CAUGHT UP WITH THE PANDEMIC CRISIS...

While it was anticipated that sub-Saharan Africa countries would be largely spared, even resilient with regard to the Covid-19 pandemic consequences, the latest forecasts reflect a completely different reality. In fact, this Region would have lost 7.4 points in GDP growth overall, going from a pre-Covid growth level of + 3.0% to -4.4% 12 months later.

REGIONAL BREAKDOWN OF THE 2020 GROWTH OF SSA[1]



EVOLUTION OF SSA[1] GROWTH



These new growth assumption leads us to ask the following two questions :

What motivated our basic assumption of SSA[1] countries' resilience ?

⇒ Possible natural immunity for the Region's citizens: Monitoring of the health situation in SSA[1] countries revealed a delay in the pandemic spread. It is difficult to attribute this situation to a natural immunity of people in view of the limited number of tests carried out regionally. Especially since South Africa, which carried out the most tests, revealed a strong Covid-19 spread ;

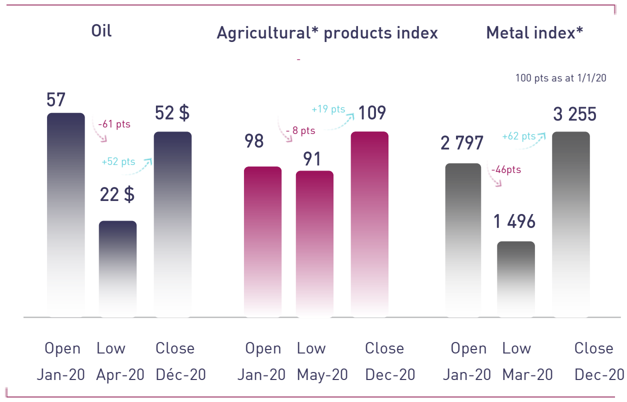
⇒ Pressure to limit barrier measures : The domination of small players, and the importance of the informal sector in SSA[1] economies are pressure factors to limit the lockdown durations ;

⇒ Exposure to the Tourism sector limited to a handful of SSA[1] countries : Contrasting with the North African Region where tourism contributes for around 10.0% to GDP , only 6 countries* have a tourist vocation in SSA[1] and which do not constitute heavyweights within this Region.

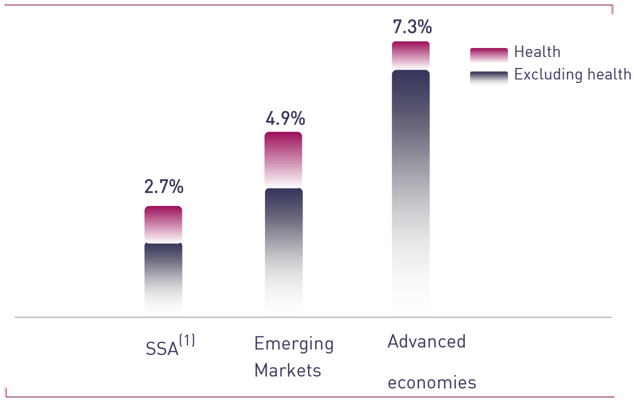
What would be the reasons for this considerable impact of SSA[1] countries ?

⇒ The weight of the decline in commodity prices : Energy prices were naturally the most affected by the pandemic, their recovery is gradual. Those of metals recovered their losses, while agricultural products and metals chained the increases since their low in March. Overall, this price recovery would not be visible on these commodities' average prices until 2021 ;

PRICE EVOLUTION OF PRODUCT FAMILIES IN 2020



SIZE OF STIMULUS MEASURES (≈ IN% OF GDP)



⇒ Limited leeway in the implementation of budgetary stimulus to support Domestic Demand ;

⇒ A resumption of concurrent tensions with the pandemic crisis (43 countries in 2020) affecting the global confidence climate.

* The FAO agricultural product price index which summarizes the price evolution of 5 main agricultural products.
** The NIFTY Metals index is an index which tracks the performance of 15 representative metals.

Sources : AfDB, IMF

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...WHILE POCKETS OF GROWTH REMAIN......

If the Region as a whole is caught up by the effects of the pandemic crisis, the individual situation contrasts from one sub-region to another. Likewise, the analysis of individual countries reveals that pockets of growth remain.

PROFILE OF THE MOST PERFORMING COUNTRIES DURING THE COVID-19 CRISIS

	Profile	Economic zone	Growth 17-19	Growth 2020	Growth 2021E
Rwanda	Diversified Economy	Common Market for Eastern and Southern Africa	7.3%	2.0%	6.3%
Benin	Diversified Economy	Southern African Development Community	6.4%	2.0%	5.0%
Tanzania	Resources-intensive	Southern African Development Community	6.9%	1.9%	3.6%
Ethiopia	Diversified Economy	Common Market for Eastern and Southern Africa	9.0%	1.9%	0.0%
Côte d'Ivoire	Diversified Economy	West African Economic and Mon-etary Union	6.9%	1.8%	6.2%

Main findings

⇒ There is a growing evidence that the pandemic's economic cost is generally 5 to 7 points of the GDP growth. Only countries with very strong intrinsic growth (superior to 6%) show a GDP increase during 2020. In any case, the latter does not exceed the threshold of 2% ;

⇒ Diversified economies display better resilience than their resource-intensive counterparts during times of shock. Tanzania, listed as a country rich in Gold and Diamonds, nevertheless has a diversified economic structure with a significant contribution from agriculture ;

⇒ Two economic zones are strongly represented among the five best growth rates within SSA[1]. We find the WAEMU which has two representations (Côte d'Ivoire and Benin). This region as a whole would post positive growth of 0.3% in 2020 against -3.2% for the CEMAC. The Common Market for Eastern and Southern Africa (COMESA) also stands out with the presence of Ethiopia and Rwanda ;

⇒ With the exception of Ethiopia and to a lesser extent Tanzania, all of the aforementioned countries would confirm their resilience capacity by returning to a level of growth in 2021 close to that displayed during the 2017-2019 triennium.

Sources : AfDB, IMF

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...OTHERS ARE SEVERELY HIT

While the Covid-19 pandemic enabled countries to demonstrate the strength of their economic model, this shock was virulent for several countries.

PROFILE OF THE COUNTRIES MOST AFFECTED BY THE COVID-19 CRISIS

	Profile	Economic zone	Growth 17-19	Growth 2020	Growth 2021E
Mauritius	Economy exposed to tourism	Common Market for Eastern and Southern Africa	3.5%	-14.2%	9.9%
Seychelles	Economy exposed to tourism	Common Market for Eastern and Southern Africa	4.0%	-13.8%	4.2%
Zimbabwe	Economy in distress	Common Market for Eastern and Southern Africa	2.6%	-10.4%	4.2%
Botswana	Economy exposed to diamonds	Southern African Development Community	3.4%	-9.6%	8.7%
South Africa	Economy going out of breath	Southern African Development Community	0.8%	-8.0%	3.0%
Republic of Congo	Oil exporter	Southern African Development Community	-3,8%	-7.0%	-0.8%

Main findings

⇒ Tourism economies are, de facto, the most affected by travel restrictions. Mauritius & Seychelles, where tourism and hotels represent nearly a quarter of GDP, saw their economies shrink by around 14% in 2020 ;

⇒ The pandemic took a toll on economies that were already in bad shape. Zimbabwe, already in recession in 2019 (-6%) due to the implementation of reforms following a default, saw its crisis deepened in 2020 by Covid-19 constraints. South Africa, previously struggling to boost growth, experienced one of the worst health conditions across the continent ;

⇒ Exposed countries which were not able to sufficiently reduce their exposure to commodities are hardest hit. The whole economic machine seems to be slowing down in these countries where income from natural resources is fueling the dynamics of other sectors ;

⇒ In any case, the year 2021 economic rebound would compensate for the decline in last year's GDP. Typically, these countries will not return to their 2019 production level until 2022-2023.

Sources : AfDB, IMF

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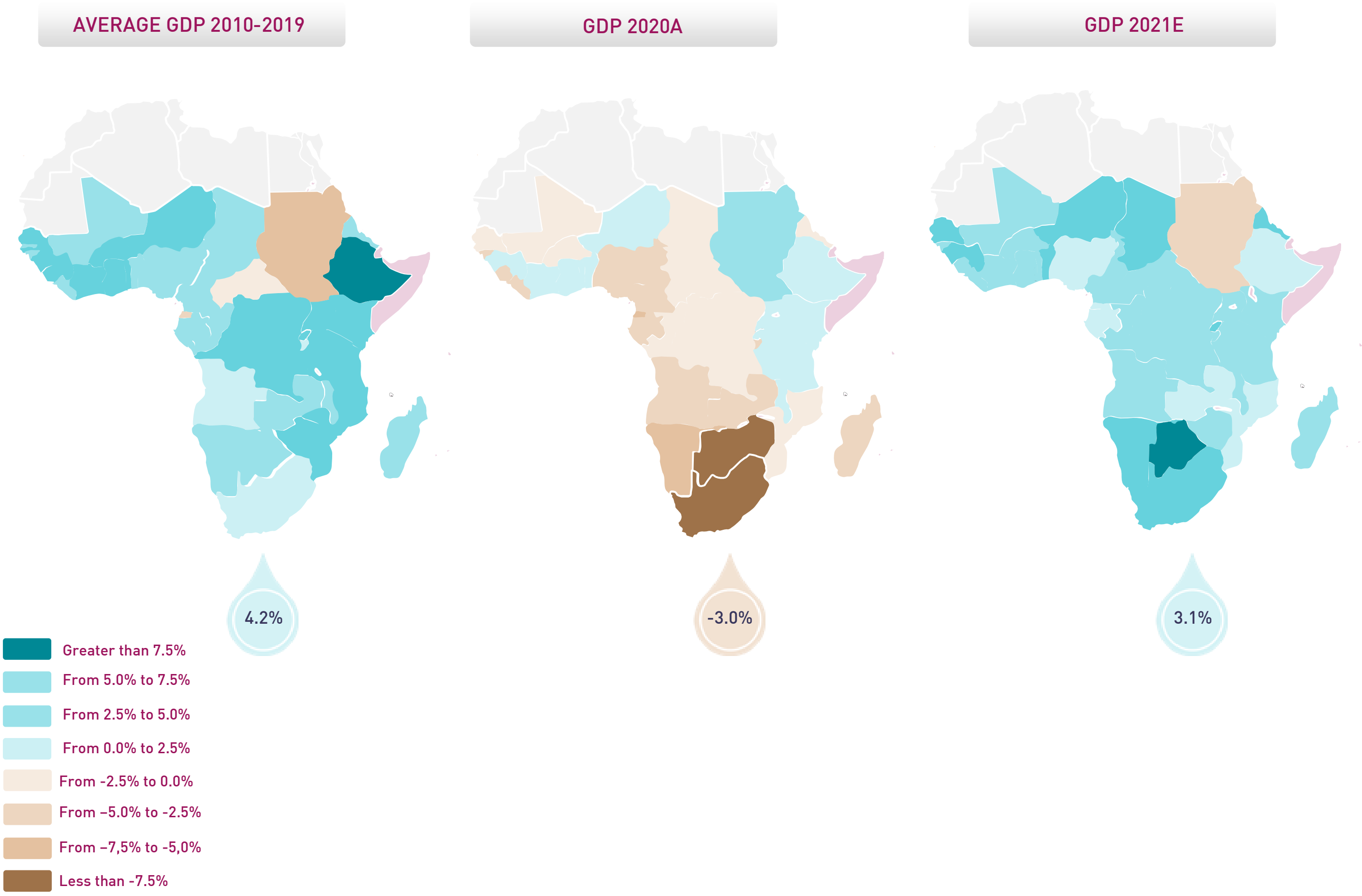
THE RECOVERY WILL NOT BE REALLY FELT UNTIL 2022...

After reviewing the main trends in SSA[1] countries in this year of shock, we now turn to the growth prospects for the year 2021 for the entire SSA region[1].

INDIVIDUAL GDP GROWTH PHYSIONOMY OF SUB-SAHARAN AFRICAN COUNTRIES



Main findings

⇒ On a collective scale, the growth of SSA[1] is estimated at an average of 3.1% in 2021 after -3.0% in 2020. This level is clearly lower than the long-term average for 2010-2019 which was 4.2%. The return to 2019 GDP levels would be observed starting 2022 ;

⇒ There would not be huge disparities among the mass of SSA countries[1]. The growth median would be close to the average of 3.0% ;

⇒ This outlook is more exposed to downside rather than upside risks depending on health trends, and to a lesser extent on the ability to access external funding to fuel the recovery ;

⇒ The ability to recover will also depend on the behavior of commodity prices as much as a revival of domestic Demand through a rebound in consumption and an investment recovery ;

⇒ The recovery would be felt more strongly among diversified economies. Oil-producing countries would observe a lag time.

Sources : AfDB, IMF

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...AS THE BIG ECONOMIES OF THE REGION

Our analysis of the recovery capacity of SSA[1] in 2021 would not be complete without a review of the major economies' outlook within the Region, in this case Nigeria, South Africa and Ethiopia.

OUTLOOK FOR THE GROWTH OF THE ECONOMIC POWER OF SSA (1) (FIGURES IN $ BN)

	GDP 2019	Profile	Growth 17-19	Growth 2020	Growth 2021	Growth 2022
Nigeria	448	Resources-intensive	1.6%	-3.2%	**1.5%**	**2.5%**
South Africa	351	Resources-intensive	0.8%	-7.0%	**3.1%**	**2.0%**
Ethiopia	96	Diversified Economy	9.0%	0.8%	**2.0%**	**8.7%**

Nigeria : By far the largest economic power in SSA[1] countries, Nigeria is expected to experience a -3.2% recession after growth peaked at 1.6% on average during the 2017-2019 triennium. This under-performance is linked to a drop in oil GDP which represents 8.0% of overall GDP, combined with the impact of lockdown measures on the service sector. High inflation levels around 12.0%, combined with high volatility in the Naira currency tend to limit the scope of the stimulus policy. The growth acceleration in Nigeria is not expected until 2022 and remains closely associated to the recovery in oil prices.

South Africa : The South African economy is fully impacted by the pandemic. The disruptions affected key areas of the economy including mining, manufacturing, construction, transportation and telecoms. The drop in GDP is expected to reach -7.0% in 2020 while it did not exceed 1.0% during the period 2017-2019. At the same time, the fiscal deficit is expected to reach 14.0% of GDP, thus limiting the public sector's support for economic recovery. The country was already engaged in a program of cutting back State spending by limiting public investment and reducing the wage bill. Overall, growth is expected to rebound in 2021 to 3.1% then to 2.0% in 2022, levels insufficient to offset the losses suffered in 2020.

Ethiopia : The only large economy to avoid recession in 2020, the ethiopian economy, and despite the fact that it capitalizes on its diversification, lost some 7.6 points of growth compared to 2019 due to the downturn in the services sector, i.e. hotel industry, transport and telecoms. As an economic stimulus, State intervention is limited by the existing strategy of fiscal consolidation. Likewise on the monetary level, inflation remains high with a level set at 20% in 2020. This level slows down all monetary expansion ambitions. Thus, Ethiopia would not return to its pre-Covid level of growth until 2022.

Main findings

⇒ The three main powerful economies of the SSA[1] could only compensate for the losses suffered in 2020 starting from year 2022. This projection is conditioned by a gradual dissipation of pandemic spread during 2021 ;

⇒ Already enshrined in budget expenditure rationing strategies, in many countries the leeway for the public sector through capital and operational spending remains limited within time and scope ;

⇒ High levels of inflation and the risk of currency slippage are also areas of concern. In this context, expansionary monetary measures remain very difficult to implement.

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