EMERGING AFRICA

AFRICA CAPITAL MARKETS REPORT

2023 Review
2024 Outlook

A Tightrope Walk

Your goals should be achieved.

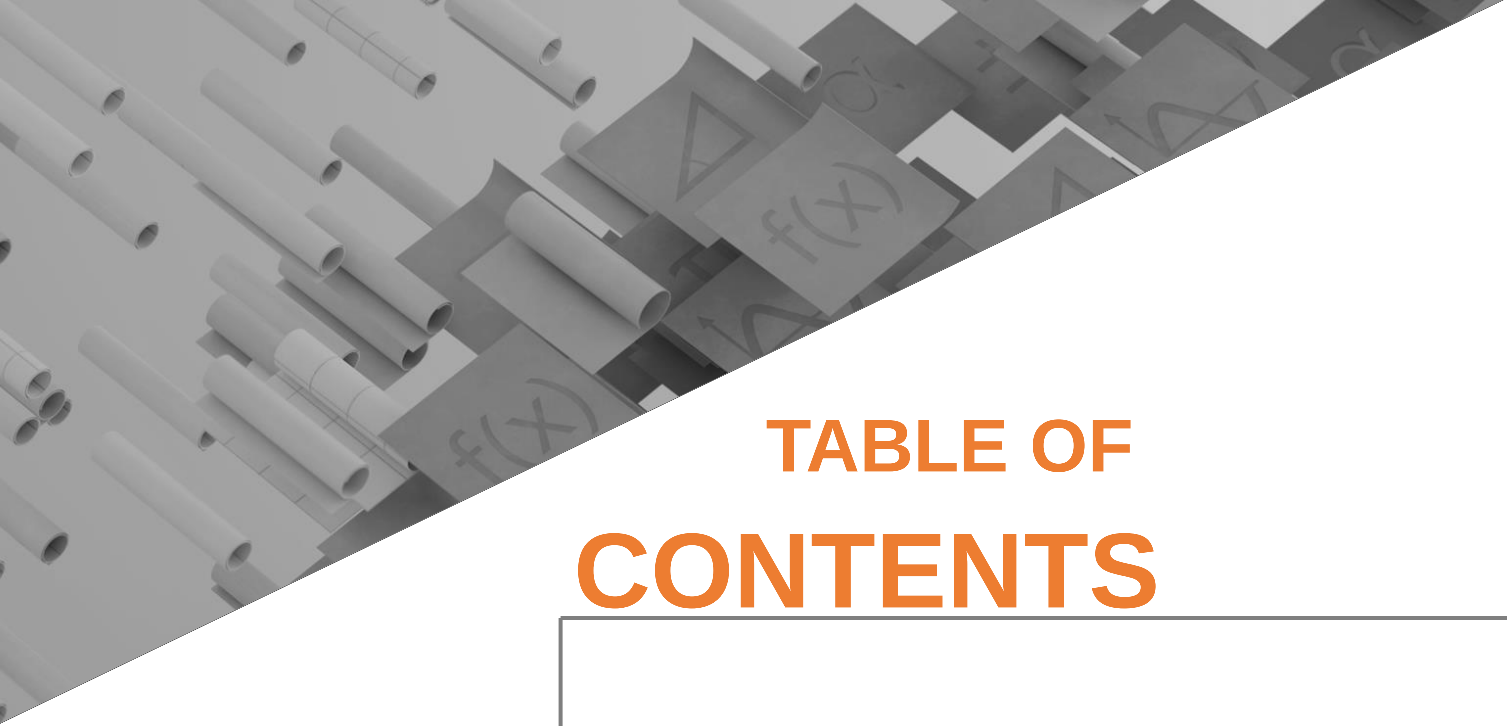


TABLE OF CONTENTS

MESSAGE FROM OUR GROUP CEO

I am thrilled to present the third edition of our Emerging Africa Capital Market Report, a testament to our commitment to providing in-depth insights into the ever-evolving global and African financial landscapes. Reflecting on 2023, a year of global rebound after the Russia-Ukraine Crisis, we witnessed the resilience of economies worldwide despite muted growth. While central banks responded with monetary tightening, the effects are gradually dissipating, and inflation is on a downward trajectory. Climate change has also continued to cause havoc in the global space, with 2023 being the warmest year on record, emphasizing the urgent need for environmentally conscious finance. Africa, as one of the most vulnerable continents to its impact, presents both challenges and opportunities for sustainable development.

A challenging path to recovery awaits the world in 2024, as it faces multiple risks from geopolitical conflicts, environmental crises, and the aftermath of several interest rate increases that could dampen the global economic outlook.

Despite these challenges, some African economies are expected to perform well in 2024, according to the IMF's projections, with 12 African countries among the top 20 fastest-growing economies in 2024. Nevertheless, structural challenges, currency fluctuations, and high fiscal pressures are among the obstacles that will cap Africa's growth and recovery in 2024. Our unwavering vision is to be the catalyst for Africa's emergence as a global investment hub. We are not just a source of information; we are your partners in navigating the intricate landscape of Africa's capital markets. Beyond the data presented in this report, we see potential waiting to be harnessed.

At the Emerging Africa Group, we are fully dedicated to our mission of being the leading catalyst for Africa's emergence as a key global investment origin and destination. We are committed to providing insightful and valuable information for investors looking to capitalize on the opportunities in Africa's capital markets. We believe that Africa's capital markets have the potential to generate attractive returns for investors, and we are committed to helping them navigate this complex and dynamic environment.

Our report is an essential guide for investors looking to gain a deeper understanding of the African economy and capitalize on the opportunities in the region's capital markets.

Dr. Toyin F. Sanni
Executive Vice Chair/Group CEO
Emerging Africa Group

CONTRIBUTORS TO THE REPORT

Omolola Adeniyi
Team Lead, Research
omolola.adeniyi@emergingafricagroup.com

Promise Obasohan
Research Analyst
promise.obasohan@emergingafricagroup.com

Livinus Etim
Research Analyst
Livinus.Etim@emergingafricagroup.com

Key Events in 2023

Russia-Ukraine War Spills into second year

On February 24, 2023, the world observed the one-year anniversary of the Russian invasion of Ukraine. Russian President Vladimir Putin, meanwhile, has maintained that the war will continue unless Kyiv agrees to a deal that takes Moscow's security concerns into account.

Despite setbacks, President Zelenskyy declared no victories for Russia, emphasizing Ukraine's resilience. Both sides incurred significant casualties, with a U.S. report estimating 315,000 Russian troops affected. Territorial gains and losses were recorded, and Western allies provided military support. The war continued with Ukrainian President Volodymyr Zelenskyy scrambling to mobilize a continuous supply of soldiers and weapons as key allies, Europe and America, slowed down funding due to changes in internal politics.

Diplomatically, Ukraine made progress with the EU in accession talks. With the U.S. presidential election approaching in 2024, anxiety looms in Ukraine and Europe about potential shifts in U.S. policy. Russia's presidential elections may also impact the war strategy, with Putin seeking military successes for political gain. The overall outcome remains uncertain, with Ukraine's fate intertwined with broader geopolitical considerations.

Israel-Hamas War

On October 7th, a surprise attack by the Palestinian militant group Hamas breached the Gaza-Israel barrier and resulted in hundreds of Israeli casualties and captives. Israel retaliated with airstrikes and a blockade of Gaza, and later launched a ground invasion and a siege of Gaza City. The conflict has inflicted massive damage, death, and displacement on both sides and sparked violence in neighboring countries.

The conflict has reshaped the region, altering the political, economic, and social landscape of the Middle East. Moreover, Israel has denied access to food, electricity, and fuel for the over 2.3 million inhabitants of the Gaza Strip. Several attempts to negotiate a ceasefire have been made, but none have endured for more than a week.

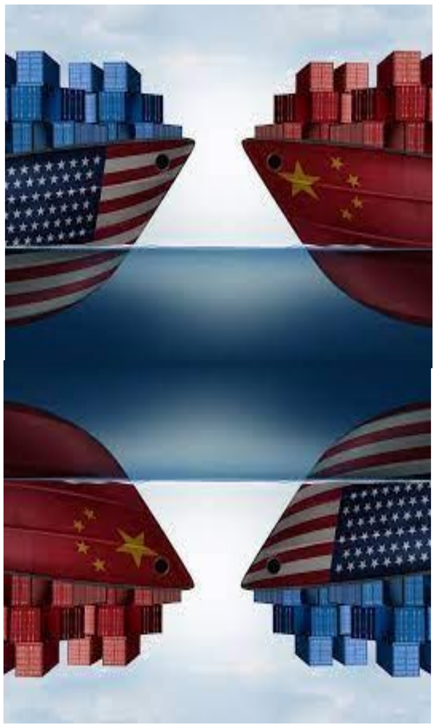
India became the world most populated country

In April 2023, a historic demographic shift occurred as India surpassed China to become the world's most populous country, according to UN population estimates. This marks the most significant change in global demographics since record-keeping began. The UN's projections, incorporating factors such as census data, birth rates, and death rates, reveal that India's population now stands at 1,425,775,850, eclipsing China for the first time in history. This event also marks the first instance since 1950 when the UN began recording global population data that China relinquished its position as the most populous nation.

China’s population decline follows decades of strict laws aimed at bringing the country’s booming birthrate under control, including the introduction of a one-child policy in the 1980s. This policy included fines for having extra children, forced abortions, and sterilizations. While initially highly effective in controlling the population, these policies became a victim of their own success, and the country is now grappling with an aging population, which could have severe economic implications.

China and US rift continued

Tensions between the US and China worsened in 2023, despite renewed diplomatic engagement. A Chinese spy balloon traversing the United States for a week in February 2023 dominated global headlines for several days. The balloon, detected over Alaska on January 28, crossed over some of the critical military facilities of the world's most powerful military, including the Malmstrom Air Force base in Montana, a location housing nuclear assets.



Responding to security concerns, President Biden ordered the U.S. Air Force to take down the Chinese-operated balloon off the southeastern U.S. coast. China maintained that the balloon was a civilian weather-monitoring craft that accidentally entered U.S. airspace. This incident prompted the cancellation of a planned trip by U.S. Secretary of State Antony Blinken to Beijing.

Despite the setback, Blinken eventually embarked on a trip to Beijing in June for what State Department officials described as "constructive" talks. However, these discussions did not prevent the US from imposing further trade restrictions on China nor convince Beijing to ease tensions concerning Taiwan, the Philippines, and U.S. military forces in Asia.

In November, President Biden and Chinese President Xi Jinping met on the sidelines of the 2023 APEC Leaders' Forum in San Francisco. While a few minor agreements were reached, there were no significant breakthroughs, and a comprehensive understanding between the two most powerful nations in the world remains elusive.

BRICS Expansion

The 2023 BRICS summit marked the fifteenth annual gathering of the heads of state or government from the member states, namely Brazil, Russia, India, China, and South Africa. The summit witnessed a significant shift as the BRICS expanded into a BRICS+ format. This expansion, coupled with the establishment of guiding principles, standards, and procedures has positioned the BRICS as a more appealing institution for consensus-building and dialogue within the developing world.

The inclusion of new members suggests a departure from traditional "acceptable" partners according to Western standards.

Over twenty countries expressed formal interest in joining the BRICS, prompting the Group of Seven countries to enhance their outreach efforts. In August 2023, BRICS accepted applications from six additional countries: Saudi Arabia, Iran, the United Arab Emirates, Egypt, Ethiopia, and Argentina.

These new members are set to achieve full membership status on January 1, 2024, increasing the total number of member countries to 11, consisting of 5 democratic and 6 autocratic states. With the inclusion of these six new members, the BRICS collaboration now commands 30% of the world economy, boasting a combined GDP of US$30.76 trillion and representing 40% of the global population. The summit leaders stressed the imperative of expanding trade and investment among BRICS member states to strengthen their relations, with a collective goal to account for 50% of the world's GDP by 2050, fundamentally reshaping the economic landscape.

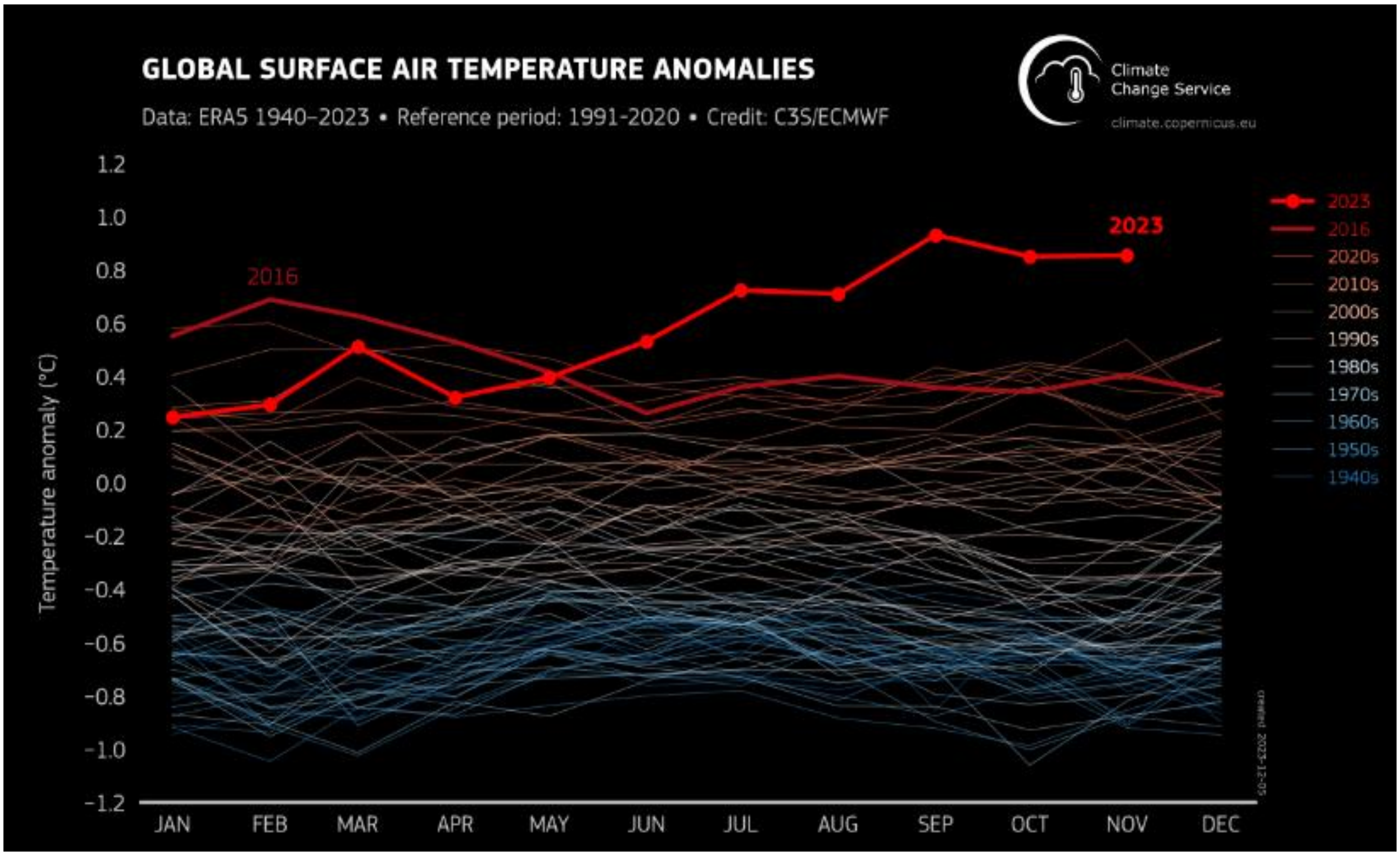
At the summit, BRICS members expressed their intention to reduce dependency on the US dollar, advocating for an accelerated de-dollarization in global commerce. Discussions included the exploration of currency alternatives, potentially leading to the development of a shared currency. The BRICS New Development Bank emerged as a tangible step away from the dollar, with plans to extend loans in South African Rand and the Brazilian Real. Additionally, the summit members pledged support for the African Continental Free Trade Agreement (AfCFTA), highlighting the importance of political stability in Africa for market certainty. Leaders explored strategies to enhance communication and cooperation to further expand AfCFTA. The inclusion of Egypt and Ethiopia, the second and third most populous countries in Africa, strengthens the continent's influence. Furthermore, Saudi Arabia and the United Arab Emirates, along with Iran, are poised to contribute increased financial influence within the BRICS framework.

2023 saw a rise in worldwide temperatures.

In 2023, the Earth experienced an unprecedented temperature rise, marking it as the hottest year on record since the inception of climate data collection. According to the European Union’s Copernicus Climate Change Service, the global temperature for the year surpassed pre-industrial levels by more than 1.4 degrees Celsius, nearing the critical 1.5-degree threshold outlined in the Paris climate agreement. This threshold signifies a point beyond which humans and ecosystems may face challenges in adapting.

Remarkably, each month from June onwards set a record for being the hottest of its kind. November stood out as it was approximately 1.75 degrees warmer than pre-industrial levels, with two days reaching temperatures beyond 2 degrees. This has raised concerns among scientists about the potential implications for the planet in the years ahead. The extraordinary warmth of 2023 has been attributed to the combined effects of El Niño and human-induced climate change.

Key Events in 2023



Source: *Copernicus climate service, EAG Research*

Throughout the year, deadly heatwaves and unprecedented high temperatures have impacted various continents, accompanied by widespread ocean heat. Fall, in the Northern Hemisphere during the same year has been declared the warmest on record globally, significantly surpassing previous records, according to Copernicus.

As temperatures continue to escalate into 2024, there is a growing likelihood that the world will surpass the 1.5-degree warming threshold on a sustained basis in the coming years. While the temporary breach of this temperature is concerning, scientists are particularly alarmed at the prospect of the planet remaining above 1.5 degrees for an extended period, emphasizing the urgency of addressing climate change.

COP28: The Way Forward?

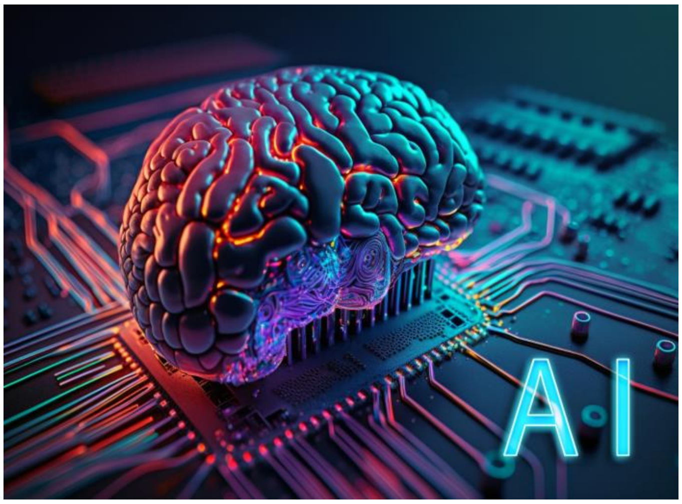
The December 2023 COP28 climate talks kicked off with the establishment of a novel fund to address the escalating losses and damage faced by vulnerable countries due to climate impacts. The landmark conclusion saw the inception of the first-ever international agreement aimed at addressing the primary driver of climate change: fossil fuels.

Notably, the decision to transition away from "fossil fuels" marked the first instance of this term appearing in a COP's formal outcome since the initiation of UN climate negotiations three decades ago. Despite considerable pressure from oil and gas interests, key country negotiators held firm and secured a groundbreaking deal that signals the initiation of the end of the fossil fuel era—an apt conclusion to the hottest year on record.

The outcomes further encompassed an agreement to triple the world's renewable energy capacity and double its energy efficiency by 2030, aligning with the commitments made by 130 countries at the commencement of COP.

Beyond the formal climate negotiations, substantial progress was achieved, including new commitments to reduce methane emissions, establish more sustainable food systems, and protect forests, among other significant developments.

AI becomes the most prominent word in 2023



In 2023, the public and policymakers directed considerable focus towards AI as it gained widespread popularity. Collins dictionary crowned AI as the standout word of the year. In terms of user adoption, ChatGPT achieved an unparalleled milestone in the history of technology by amassing an estimated 100 million users within two months.

The launch of ChatGPT in 2022 marked the culmination of decades of AI advancements, dating back to 1956. The progress gained momentum In the past decade with the convergence of probabilistic AI, big data, and significantly enhanced computational power.

Despite the excitement surrounding these advancements, technology leaders and researchers are urging a pause in the development of highly advanced AI systems due to perceived profound risks to society and humanity. This cautionary sentiment comes at a time when the rapid adoption of AI, coupled with its potential to impact jobs, has instilled fear in humans, resulting in over 100 AI-related lawsuits currently navigating through the legal system. These lawsuits cover a spectrum of issues, from intellectual property disputes to concerns about the amplification of dangerous content and issues of discrimination. Experts predict that the pace of AI litigation will only intensify in the years ahead.

Despite challenges, the AI landscape appears promising in 2024 as enterprises commit to substantial new investments aimed at significantly diminishing the time and costs linked to customer and employee productivity. iShares reports that 70% of executives anticipate a boost in AI resourcing in the coming year, driven primarily by a strategic focus on cost reduction. Additionally, the expectation is that AI will maintain its momentum, surpassing legislative measures intended to regulate its usage.

The Global Economy

Global economic growth fell short of expectations in 2023, amid the backdrop of monetary policy tightening, geopolitical tension, risk of recession, and climate change havoc. Nevertheless, the global economy defied expectations and displayed resilience as efforts of central banks to curb inflation started to yield positive results. However, this apparent resilience masks both short-term risks and structural vulnerabilities.

The notable highlight amidst these developments was the robust growth in the US, driven by a robust labor market and increased private consumption, serving as a silver lining in the overall economic landscape. The economy encountered several challenges, including a prolonged period of elevated interest rates, banking crises in the first half of the year, IMF growth downgrades, a downgrade on its long-term credit rating (Fitch, Moody's, and S&P Global), and the uncertainties surrounding its debt ceiling.

China on the other hand experienced a drag on its economy on the back of the ongoing property sector crisis. This led to a raft of stimulative measures announced by various levels of government. However, growth remains below its pre-pandemic level.

Global trade also experienced its slowest growth outside of global recessions in the last five decades, as goods trade contracted amid weak global industrial production. World Trade declined to 0.8% in 2023 from 2.7% according to an estimate from the World Trade Organization.

Global growth is expected to moderate in 2024 reflecting the lagged and ongoing effects of tight monetary policies, geopolitical tension, weak demand, China's weak growth prospect, and weak global trade and investment. According to the IMF, the world will grow by 2.9% in 2024 from 3% in 2023.

The World Bank's estimate shows a more pessimistic growth rate of 2.4%. Advanced economies are poised to grow by 1.4% in 2024, a decline from the 1.5% projected for 2023. Likewise, emerging market and developing economies are anticipated to experience a modest growth dip from 4.1 % in 2022 to 4.0% in both 2023 and 2024.

Table 1: Real GDP Growth (%). 2022-2024

Real GDP Growth (%)	2022	2023F	2024F
United States	2.1	2.1	1.5
Euro Area	3.3	0.7	1.2
United Kingdom	4.1	0.5	0.6
China	3.0	5.0	4.2
India	7.2	6.3	6.3
Russia	-2.1	2.2	1.1
Brazil	2.9	3.1	1.5
South Africa	1.9	0.9	1.8
Nigeria	3.3	2.9	3.1

***Source**: IMF, World Bank, EAG Research*

Global Inflation and Interest Rates

Inflation in 2022 reached historic highs following the COVID-19 pandemic and the Russia-Ukraine war. However, in numerous economies so far, global inflation has declined significantly following the decline in food and energy prices, weak consumer demand, and recovery of global supply chain, although core inflation remains sticky. Global central banks have made progress in stabilizing inflation through a series of interest rate hikes. However, inflation remains above the target level of most Central Banks.

The global inflation trajectory is expected to continue its steady decline, decreasing from 6.9 % in 2023 to 5.8 % in 2024. This decline will be aided by the tight monetary policy measures and lower international commodity prices. Likewise, core inflation is projected to decrease more gradually. The return to target inflation levels is not anticipated until 2025. Geopolitical risks and extreme climate issues could potentially increase inflation in 2024. However, we predict that Central Banks will start to ease monetary tightening activities in 2024, as they try to balance inflation, growth, employment, and financial stability. Central banks may still impose some restrictions in the first half of 2024, as core inflation is expected to remain above the target level. We do not expect a quick cut in monetary policy rate, and unless a major economic shock occurs, we believe most central banks will adopt a more accommodative stance in the second half of 2024.

The monetary policies of most Central Banks will be influenced by the policy direction of the Federal Reserve and the European Central Bank.

2024, the biggest global election year in History

The year 2024 will witness elections in more than 60 countries representing over half of the global population participating in the electoral process. This electoral wave will traverse the political landscapes of various nations, involving an estimated 4 billion people in the casting of ballots for presidential, legislative, and local elections. Commencing with Bangladesh on January 7, the polls includes seven of the world's 10 most populous nations, namely India, the United States, Indonesia, Pakistan, Russia, and Mexico and others. 2024 will be an election year unlike any other and this will bring unprecedented challenges to online platforms who will be working to protect the integrity of elections online.

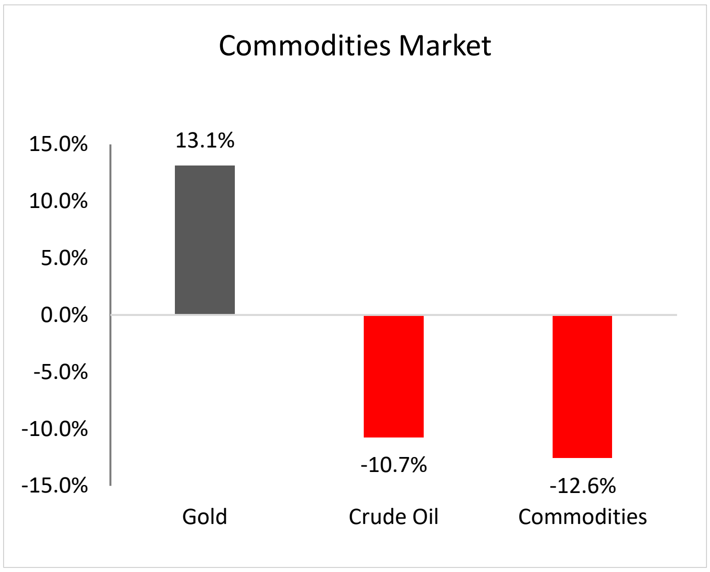
As the world stay glued to the possible showdown of President Joe Biden and former President Donald Trump, other countries are also preparing for possible incumbent ousting, raucous public protests and populist movements with the potential to destabilize larger regions.

The United States' elections will be pivotal for the world, but it will also be the most closely watched. Also, In Asia, the choice of Taiwan's next president will play a crucial role in determining China's stance toward the self-governing island it has repeatedly targeted with invasion threats.

Commodities

The commodities market in 2023 was a challenging one and this is on the back of rising interest rates, recession fears, and China's disappointing reopening. A close look at selected commodities showed that while Gold was up by 13.1% in 2023, the crude oil market declined by -10.73%, while the general commodities index was down by 12.55%.

Chart 1: **Commodities prices (2023)**



Source: *IMF, EAG Research*

Expectations point to a continued moderation in commodity prices, spurred by subdued global demand and ample supplies. The ongoing global economic slowdown, marked by weakened private consumption, reduced business spending, and diminished capital investment, is poised to restrain commodity demand and limit price growth. Nevertheless, the outlook remains uncertain, primarily due to elevated geopolitical risks that have the potential to disrupt supplies and heighten price volatility, particularly in energy markets.

Energy

In the first half of 2023, crude oil prices experienced a decline due to weak demand particularly from major consumers, and concerns about a potential recession. A shift occurred in the third quarter with OPEC+ announcing reductions in crude oil supply. This included voluntary cuts by Saudi Arabia and Russia, leading to a price upswing (Brent rose above $90). However, since September 2023, crude oil prices have undergone multiple increases due to ongoing oil output cuts by the OPEC+ alliance and mounting concerns over supply associated with the Israel-Hamas conflict. Despite a retreat from the peak levels observed in September and October, heightened geopolitical risks, including the potential escalation of the war, could amplify volatility in global energy supply and prices. We anticipate global energy prices to trend downwards into 2024, driven by slowing global energy demand.

Global oil demand is still expected to grow by around 1 MMbbls/d next year, which would be a decrease from the approximately 2 MMbbls/d of growth seen in 2023. Asia, particularly China, is anticipated to be the primary driver of demand growth next year. We believe that OPEC+ policy will continue to influence the market, providing support and reducing market surplus. However, discord over production quotas presents a challenge to the cartel's authority. Additionally, tensions in the Middle East and the possibility of more rigorous enforcement of US sanctions against Iran pose a significant risk factor that could tighten the oil market more than expected.

Food

In 2023, the Food Price Index according to FAO data, declined from 131.8 to 118.5 YoY. This was despite the pressure that was experienced in the grain market, following the suspension of the Black Sea Grain Initiative. Strong supply growth from other key suppliers offset concerns over lower Ukrainian exports.
We project that average prices of food commodities will continue to moderate in 2024, supported by a more positive outlook for grain supply, particularly in soybean and corn. However, notable upside risks persist, given the increased frequency of extreme weather events such as heatwaves, floods, storms, droughts, hurricanes, wildfires, and worsening water scarcity. These events pose potential upward pressure on agricultural commodity prices. Also, the interplay between El Niño and global warming introduces the possibility of 2024 surpassing the extreme temperature records set in 2023, potentially unsettling food prices.

Metals

Industrial metals face headwinds from China's slowing growth, which and real estate woes are key drivers of the metal market. However, the sector may benefit from the sustained expansion of electric vehicles in 2024. Meanwhile, precious metals, especially gold, are likely to rise in value, with some analysts forecasting new all-time highs for gold in 2024. Gold gained momentum in the final quarter of 2023, as investors sought safe-haven assets amid expectations of Fed rate cuts and rising geopolitical risks from the Israel-Hamas conflict.

African markets covered

- Nigeria
- South Africa
- Egypt
- Ghana
- Kenya

Growth Performance

Africa navigated a stormy 2023, grappling with macroeconomic headwinds that dampened business activity and economic growth. The impacts of the Ukraine war, marked by an inflationary shock and subsequent global interest rate hikes, led to a slowdown in international demand, impacting Africa's export-oriented sectors.
Further compounding these challenges were climate shocks, a broader global economic slowdown, persistent exchange rate pressure, and limited fiscal strength to effectively counter these shocks and maintain economic momentum.

Despite these challenges in 2023, Africa displayed impressive resilience, achieving positive growth across all five regions. This accomplishment is a testament to the continent's inherent dynamism and adaptability in the face of adversity.

Central Africa: The African Development Bank (AfDB) forecasts a slowdown in Central Africa's economic growth in 2023, projecting a decline from 5.3% in 2022 to 4.1%. This decline is attributed to the persistent security and political instability plaguing the region, particularly in Chad, the Central African Republic, and the Democratic Republic of Congo. The brief political standoff in Gabon earlier this year added to the already fragile political environment in the region.

While Central Africa outperformed other regions in terms of growth, it also faced higher inflation in 2023. The AfDB estimates an average inflation rate of 6.5% for the region, compared to the African average of 5.5%.

Rising global food and energy prices, along with supply chain disruptions, contributed to inflationary pressures.

Countries like the Democratic Republic of Congo and the Central African Republic grappled with double-digit inflation, posing significant challenges for vulnerable populations.

Southern Africa: Southern Africa's economic landscape in 2023 was a mix of contrasting outcomes, with some countries enjoying vibrant growth while others remained entangled in structural struggles. Despite outperforming the continent's average on various metrics, stark disparities among individual countries persisted, alongside lingering issues such as high unemployment and inequality.

According to the African Development Bank (AfDB), the growth outlook for Southern Africa remains underwhelming, with a projected rate of 1.6% in 2023, down from the 2.8% recorded in 2022. This subdued growth is primarily attributed to enduring weaknesses in South Africa, the region's largest economy, where severe electricity challenges have adversely affected overall productivity.
In parallel with many other regions, Southern Africa faced the challenge of escalating inflation in 2023. The average inflation rate for the region reached 6.8%, surpassing the continental average of 5.5%. Notably, global increases in food and energy prices emerged as significant contributors to the inflationary pressures experienced in the region.

Africa

West Africa: West Africa in 2023 presented a complex picture of modest economic recovery overshadowed by persistent challenges. While growth was not as strong as in previous years, it showcased the region's resilience. In West Africa, the slowdown in Nigeria in 2023, the largest economy in the region and the continent impacted the overall growth of the region. According to the African Development Bank (AfDB), West Africa's growth is expected to decline to 2.8% in 2023 from 3.6% in 2022.

Nigeria's bold but bumpy path of reform, marked by fuel subsidy cuts and exchange rate adjustments, cast a long shadow over West Africa in 2023. The resulting currency depreciation and inflationary surge exposed deep structural weaknesses not just within Nigeria, but across the region. West Africa’s economic challenges have also been amplified by Ghana’s debt challenges and the negative impact of terrorism on the agriculture sector in Sahel countries. Like other regions, Inflation spiked in many West African countries throughout 2023, reaching double digits in some cases. High energy and food prices, currency depreciation, and domestic supply chain bottlenecks contributed to inflationary pressure.

North Africa: In 2023, North Africa navigated a nuanced economic terrain characterized by moderate growth, persistent inflation, and an increasing focus on sustainable development. While the region exhibited superior performance in certain aspects compared to other African regions, variations between countries and underlying issues such as political instability and climate change persisted, presenting substantial challenges. As projected by the African Development Bank (AfDB), North Africa's anticipated growth is poised to decrease from 4.7% in 2022 to 4.0% in 2023. Negative terms-of-trade shocks, substantial currency devaluations in Egypt, and a heightened inflationary environment have collectively impacted economic activities in the region.

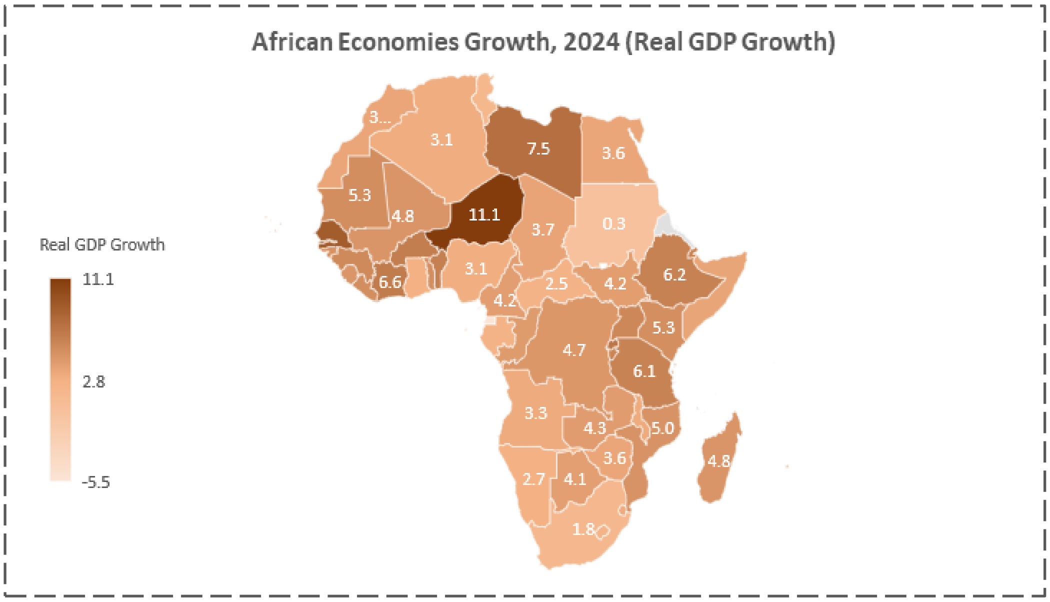
The prevalence of high inflation remained a significant concern, with an average of 6.5% for the region. Inflationary pressures were fueled by mounting global food and energy prices, compounded by supply chain disruptions. Egypt faced the most severe inflationary challenge, surpassing 20%, presenting formidable difficulties for its citizens.

East Africa: In 2023, East Africa defied the continent's overall economic slowdown, showcasing a regional growth rate surpassing 5%, in contrast to the African average of 4.1%. This robust performance was propelled by substantial growth in countries such as Rwanda, Uganda, Ethiopia, Kenya, Djibouti, and Tanzania. Countries endowed with abundant resources, such as Kenya and Tanzania, reaped the benefits of ascending commodity prices. Meanwhile, landlocked nations like Uganda and Rwanda experienced growth driven by robust domestic consumption and the flourishing service sectors. However, the ongoing conflict in Sudan, coupled with escalating debt vulnerabilities and high debt service costs in Ethiopia and Kenya, cast shadows over the economic outlook in the region's high-growth achievers – Rwanda and Tanzania.

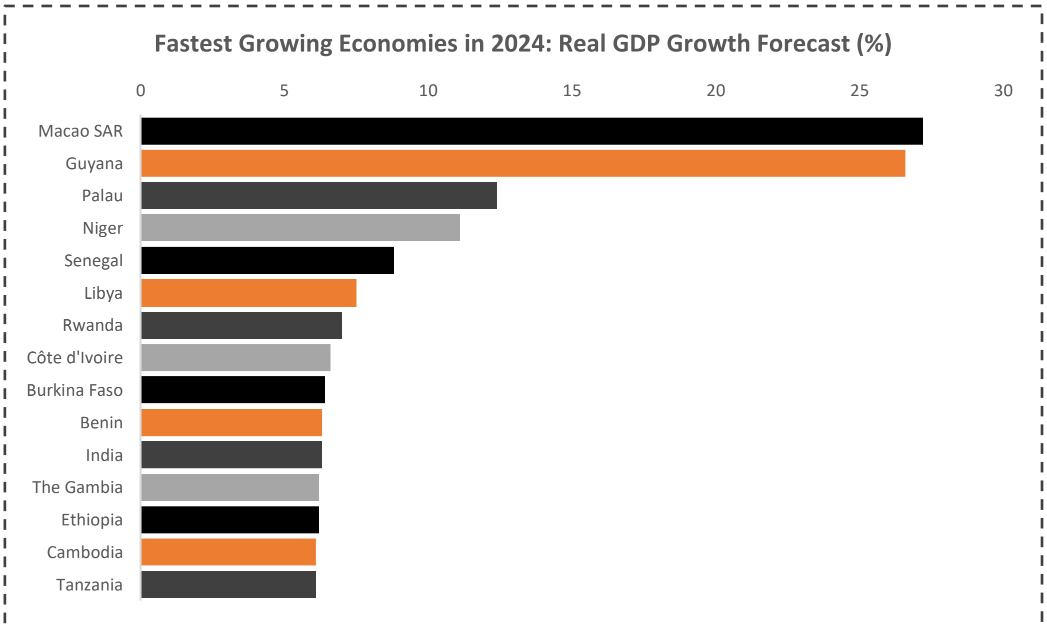
Many African economies poised for positive growth in 2024

Looking ahead, the outlook for 2024 remains positive, with growth projections expected to stabilize or even increase in some regions. Continued focus on structural reforms, fostering entrepreneurship, and harnessing technological advancements will be key to sustaining this positive trajectory.

According to IMF's projections, out of the 20 economies that will grow the fastest in 2024, 12 will come from Africa. East Africa will account for the fastest growing economies in 2024 with Rwanda recording the fastest growth of 7% in 2024.



Source: *IMF, EAG Research*



Source: *IMF, EAG Research*

Inflationary Pressure

Inflation in Africa remains elevated, largely fueled by rising food prices and imported inflation due to weak local currencies and relatively high commodity prices. These factors have amplified systemic sources of inflationary. Average consumer price inflation is now estimated to have reached 18.5% in 2023, up from 14.5% in 2022, the highest rate in more than a decade.

In Egypt, Nigeria, and Ethiopia, three of the six largest African economies by nominal GDP in 2023, inflation is now above 20% due to the sharp rise in prices across the continent along with limited effectiveness of monetary policy in taming rising inflation, despite large measures of interest rate increment.

Central banks in Africa have repeatedly raised interest rates in a bid to tame inflation, but their efforts have yielded limited results. Deep-seated structural issues within the continent continue to fuel price pressures, leaving inflation stubbornly high despite the policy tightening.

Inflationary pressures are expected to ease from the elevated levels recorded in 2024 for all but a small handful of African countries. However, double-digit inflation will continue to afflict countries like Angola, the Democratic Republic of Congo (DRC), Ethiopia, Egypt, Ghana, Nigeria, Sudan, and Zimbabwe.

Political Environment

Africa's political landscape vibrated with change in 2023. High-stakes elections in Nigeria, Sierra Leone, and Gabon saw not just potential democratic gains but also the injection of fresh energy through new coalitions and independent candidates. Despite the risks, these elections showcased the growing demand for transparency, accountability, and responsive leadership across Africa. Ongoing issues like militant activity in the Sahel, political instability in the Horn of Africa, and resource-fueled conflicts in central Africa continue to pose significant security challenges.

The African continent saw a significant rise in coups in the last three years, with military figures carrying out takeovers in Gabon, Niger, Burkina Faso, Sudan, Guinea, Chad and Mali. These nations share common features such as a unitary system of government, underdevelopment, elevated poverty rates, problematic elections, and attempts to extend political tenures, contributing to low democracy ratings.

Table 2: **Coup Attempts Globally**

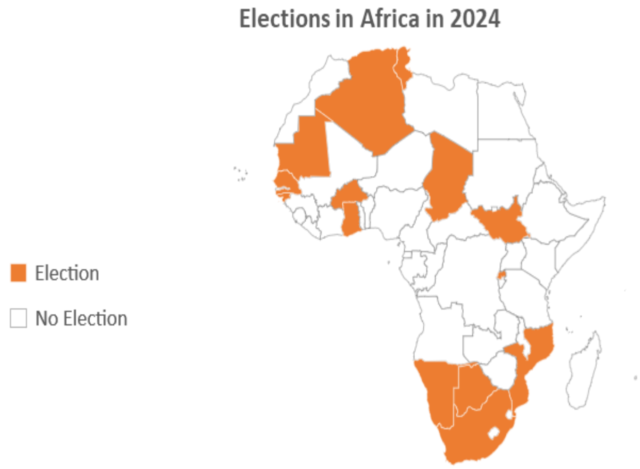
Region	Coup Attempt	Successful	Failed
United States	220	109	111
Euro Area	146	27	76
United Kingdom	49	27	22
China	44	21	23
India	17	8	9
Russia	16	10	6
Global	**492**	**245**	**247**

Source: Powell and Thyne, EAG Research

Table 3: Attempted Coups over the years

Decade	Total Coup Attempt	Successful	Success rate
1950-1959	6	3	50.0%
1960-1969	41	25	61.0%
1970-1979	42	18	42.9%
1980-1989	39	22	56.4%
1990-1999	22	16	41.0%
2000-2009	22	8	36.4%
2010-2019	17	8	47.1%
2020-2023	**14**	**9**	**64.3%**

Source: Powell and Thyne, EAG Research



Source: Wikipedia, EAG Research

Out of the 486 attempted or successful military coups carried globally since 1950, Africa accounts for the largest number with 214, of which at least 106 have been successful.

Uprisings against long-serving dictators, endemic corruption, and poverty have provided an opportunity for the return of coups in Africa. These coups are threatening to overturn the democratic gains African countries have made in recent decades

Elections could elevate political risk in 2024

Several African countries will hold elections in 2024, including countries like Namibia, Algeria, Botswana, Ghana, Mauritius, Mozambique, Rwanda, South Africa and Tunisia. Incumbent governments are expected to win in most of the elections, but there is a heightened risk of reduced parliamentary majorities and much more challenging governing conditions. However, in other corners of the continent, the tide might turn. Countries simmering with widespread disapproval of their current leadership could witness historic power shifts.

African nations will navigate a complex global and domestic landscape in 2024. On the global front, African countries will continue to seek partnerships with rising powers while asserting their voices on issues like climate change and food security. On the domestic front, balancing resource competition, fostering intra-African cooperation, and confronting security threats as well as structural issues will be the core focus for most countries in 2024.

Africa's Debt Dilemma

Public debt in African economies has increased significantly over the last decade, as Countries' fiscal and public investment plans to meet development needs, low revenue base, fiscal wastages, and a series of shocks including the COVID-19 pandemic, climate-related events and natural disasters, and high global inflation has all led to rising debt.

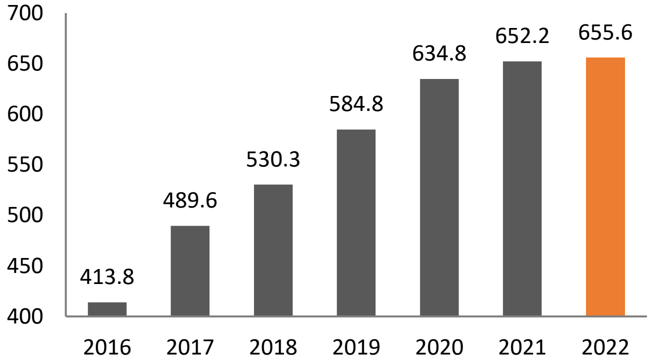
Data from the IMF has shown that 18 countries in Africa recorded a debt-to-GDP ratio of over 70% in 2023, with many a facing heightened risk of debt distress.

Africa

The proportion of debt servicing to GDP has surged rapidly in nations such as Kenya, Ghana, Zambia, and Malawi, with these countries allocating more than 20% of their tax revenue to cover interest payments. Even before the pandemic, more than 30 African countries spent more on debt service than on essential Infrastructure projects.

Several African countries suffered at least one downgrade from international credit rating agencies in 2023, which further reversed investor's optimism on the path to recovery of the continent. To mitigate the harsh and what it termed “erroneous rating”, the African Union is working on establishing an independent credit rating agency that will provide balanced and comprehensive risk evaluations for African countries to lower their borrowing costs in international financial markets. Ethiopia in 2023 became the third African country to default on its international loans, following Zambia and Ghana. The country failed to make a $33m “coupon” payment on its only international government bond in December 2023, which significantly raises the risk of an external debt default.

Chart 2: External debt owed by African countries ($'bn)



Source: *International Debt Statistics, World Bank, EAG Research*

We expect financing challenges to persist, and most African sovereigns will have limited affordable access to international capital markets without credit enhancements. We forecast gradual fiscal consolidation due to financing constraints and fiscal reform efforts, which, in many cases, are linked to IMF programs. This consolidation will help government debt/GDP to broadly stabilize. We expect Ghana and Zambia to emerge from default on their foreign-currency debt in 2024, although, in both cases, the debt restructuring process under the Common Framework is vulnerable to further delays. The scramble to meet external debt payments in 2024 has intensified default concerns for some African nations, particularly those with high debt-to-GDP ratios and limited fiscal space.

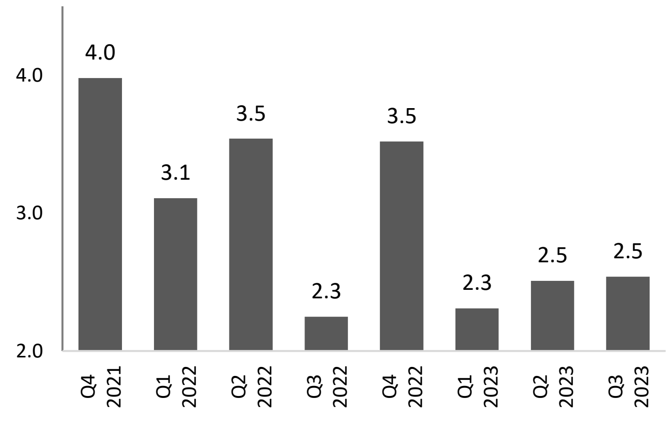
The Nigerian Economy

In 2023, Nigeria's economic landscape witnessed a dynamic interplay of fiscal and monetary policy initiatives that significantly influenced its growth trajectory.

The year started with the dynamics of an election year, as investors and business owners approached with caution, uncertain about the outcomes and policy directions of the incoming administration. This resulted in a reluctance to make long-term investment decisions. To compound matters, the business landscape grappled with an artificial cash scarcity at the start of the year which was compounded by the poorly executed currency redesign, and fuel scarcity, casting hardship on citizens and businesses alike.

Business activities were severely affected by this move, as a result, Nigeria experienced its first contraction in private sector business activities in over two years, ending a 31-month consecutive expansion.

Chart 3: Nigeria's Real GDP Growth (%)

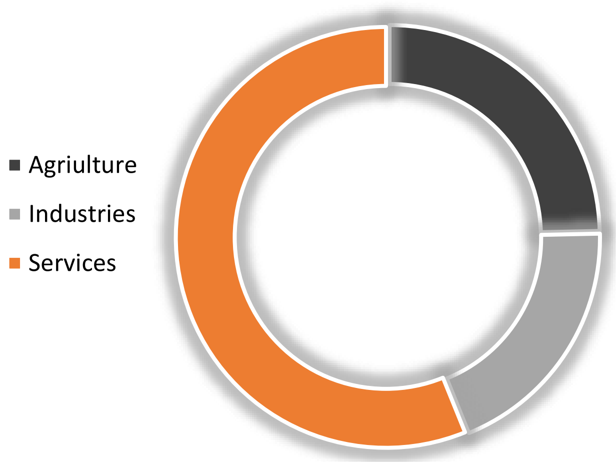


Source: *National Bureau of Statistics, EAG Research*

The severe cash and fuel scarcity caused a slowdown in economic activities, as a result, Q2 2023 GDP declined significantly to 2.3%, from 3.5% in Q4 2022, and 3.1% in Q1 2023. The economy picked up in Q2 2023 to 2.51%, and 2.54% in Q3 2023, however, growth has remained subdued and pressured due to macroeconomic challenges and the impacts of the recent policy reforms in the country.

The non-oil sector remained the driver of growth with an average growth of 3.03% in the first 9 months of 2023, showing a decline when compared to the average growth of 5.04% in the first 9 months of 2022. Conversely, the oil sector has remained in recession, declining by an average of 6.16% in the first 9 months of 2023—a marked improvement from the corresponding period in 2022, which recorded a decline of 20.16%. As the economy rebounded in the second quarter, then came the twin reforms of fuel subsidy removal and the unification of the foreign exchange market which pushed inflation on an upward spiral and the naira losing over 50% of its value.

Chart 4: Share of GDP Jan-Sep 2023



Source: *National Bureau of Statistics, EAG Research*

The persistent macroeconomic challenges of recent years, coupled with the unfavorable business climate through 2023, led to the exit of several companies from the country. Among those exiting were notable names such as Unilever, GlaxoSmithKline, Sanofi, and MABISCO Biscuit, alongside other businesses, both prominent and less well-known. The divestment trend was also evident in the oil industry, a crucial sector for Nigeria's economy. No less than 26 oil companies over the years have withdrawn their investments and sold their stakes to domestic investors.
These companies are exiting mainly because of heightened insecurity in the Niger Delta and the inability of the Nigerian government to provide their counterpart funds to enable the joint venture agreements to explore and exploit new oilfields.

Nigeria's Election

The first quarter of the year was mostly characterized by activities surrounding the 2023 Presidential election. Unlike previous elections dominated by two primary political entities, the All-Progressives Congress (APC) and the People's Democratic Party (PDP), the 2023 electoral contest featured a notable departure. For the first time, the inclusion of the Labor Party (LP) expanded the political spectrum to encompass three major contenders.
This electoral evolution gave rise to a campaign marked by intense competition, coupled with divisive elements. The run-up to the 2023 election vividly demonstrated the polarized state of Nigerian politics, notably evident in the divisions along ethnic, religious, and regional lines.

In a closely contested election, Bola Ahmed Tinubu, the candidate of the ruling party, secured victory with 36.61%. Following closely, Atiku Abubakar of the PDP garnered 29.07%, and Peter Obi of the LP secured 25.4%. The election outcome was challenged at both the Appeal and Supreme Court levels, it was ultimately dismissed at the Supreme Court. The dismissal was on the grounds that the petitions from the presidential candidates of the leading parties (PDP & LP) were deemed incompetent and lacked merit.
Since assuming office, President Bola Ahmed Tinubu has initiated a series of bold reforms, aiming to attract foreign investors and set the tone for his tenure in office.

Fiscal & Monetary Reforms

The federal government of Nigeria finally removed subsidy on fuel in 2023. This was announced immediately the new president was inaugurated. Since 2007, the government has consistently attempted to remove petrol fuel subsidies, but each announcement has sparked extensive protests. These protests have always been significant, that the government has been compelled to retreat and discard the subsidy removal plan.

Following the announcement, the price of fuel increased from N185 ($0.40) to over N500 ($1.07). The government has said that the funds channeled into subsidy payment will be re-channel into better investment in public infrastructure, education, health care and jobs that will materially improve the lives of millions. The government also implemented other fiscal reforms during the year, some directed towards easing the burden from the new reforms and policies that will set its trajectory for its tenure in office. Under the new administration, significant changes were implemented in monetary policies, starting with the immediate replacement of the former CBN governor and the appointment of an acting CBN Governor, Mr. Folashodun Shonubi. This was followed by the appointment of a new CBN governor in September 2023.

To restore stability to the foreign exchange market, various measures were undertaken:

- In June 2023, the CBN announced the consolidation of all segments in the FX into the I & E FX Window.
- For the first time since 2015, the CBN released financial reports for the years 2016 to 2022.
- The CBN discontinued the RT200 Rebate Scheme and the Naira4Dollar Remittance scheme.
- The exchange rate for government transactions shifted from a fixed rate to a market-reflective rate (I&E FX Rate).
- The CBN reintroduced Bureau de Change (BDC) operations and established new operational guidelines.
- The CBN lifted the FX ban on 43 items to alleviate demand pressure in the parallel market.
- The CBN commenced the settlement of matured FX forwards.

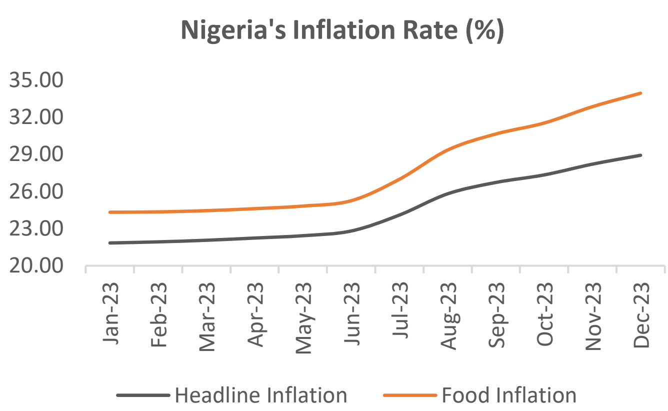
These drastic measures are expected to bring about macroeconomic stability in the medium-to-long term; however, the short-term effects have been severe on Nigerians and the general business environment. Supporting policies and implementations of existing policies are expected to drive sustainable growth for the country.

Inflation & Monetary Policy Rate

Inflation trended higher year-on-year for all the months in 2023. This is despite the decline in inflationary pressure globally, as economies responded to rate hike actions by their apex bank. The year started with a severe cash and fuel scarcity which caused the prices of goods and services to increase. Following the economic pick up after the end of the cash and fuel scarcity, the federal government of Nigeria removed the subsidy on fuel prices in May 2023. This caused the, the in price of petroleum motor spirit (PMS) popularly called fuel has increased from N185 ($0.40) to over N500 ($1.07) per liter. Since the subsidy removal and exchange rate reformulation rate has continued to increase on a year-on-year basis, only easing for the first time in October 2023 on a month-on-month basis. Nigeria's inflation has moved from 21.82% in January 2023 to 28.92% as of December 2023.

Food inflation has continued to rise faster than headline inflation, touching a 33.93% high in December 2023, the highest food inflation rate since August 2005. Likewise, Core Inflation (inflation rate that excludes farm produce and energy) crossed 20% in April 2023, the first time since May 2004.

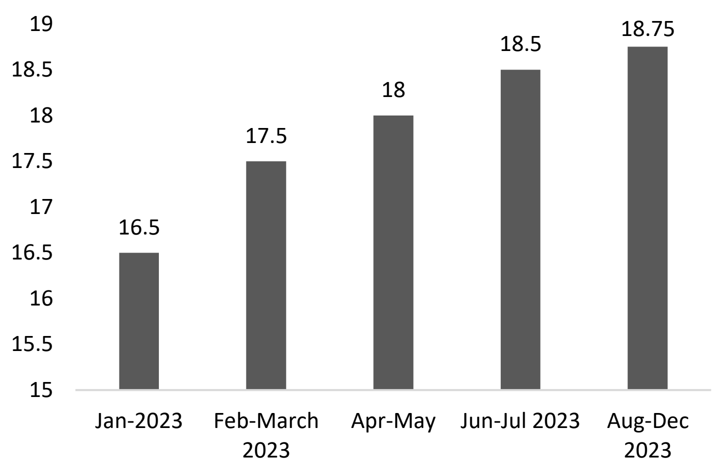
Chart 5: Year-on-Year: Nigeria's Inflation Rate (%)



Source: *National Bureau of Statistics, EAG Research*

The Central Bank of Nigeria's Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) four times in 2023 from 16.5% at the start of the year to 18.75% in July 2023, implying a 230bps rate hike in 2023. However, the rate hikes in 2023 was less aggressive compared to the 500bps hike that was implemented in 2022. The last rate hike in July 2023, was the lowest at 25bps of the eight consecutive rate hike action since May 2022. Despite the several rate hikes, inflationary pressure in Nigeria has persisted.

Chart 6: Monetary Policy Rate (%)



Source: *Central Bank of Nigeria, EAG Research*

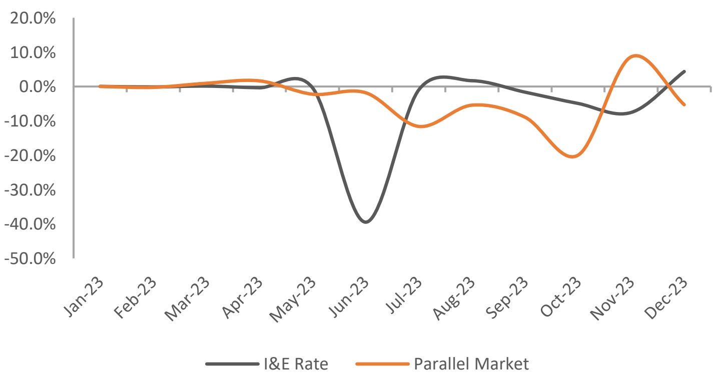
Foreign Reserves & Foreign Exchange Market

Nigeria's foreign exchange market was turbulent in 2023, particularly in the second half of the year, as the market responds to the new reforms by the new administration. The official and parallel market rates converged following the announcement of the unification of multiple exchange windows, however, the naira has since drifted apart due to increased speculation and shortages in forex supply.

Controversies around the true value of the gross external reserves also contributed to the volatility in the market in the second half of the year. Likewise, several announcements caused the market to correct; such as the news of NNPC's $3bn emergency crude oil repayment and the partial settlement of matured FX forward. However, most of these were short-lived as demand pressure and speculation persisted.

In September, the naira reached a low point, crossing the N1000/$ threshold in the parallel market. The official market (I&E FX rate) also witnessed volatility, closing at an all-time low of N1099.05/$ in December 2023. The naira depreciated by 83% at the official window and 62.7% at the parallel market in 2023.

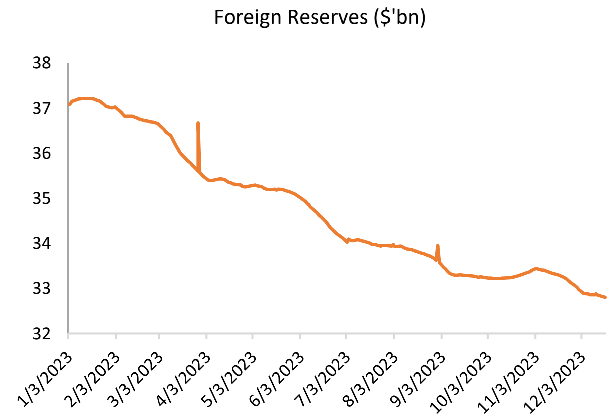
Chart 7: FX Rate: Month-on-Month Performance



***Source:** Central Bank of Nigeria, EAG Research*

Nigeria recorded an 11.2% decline in its external reserves in 2023, reflecting a persistent shortage of foreign exchange (FX) supply. This decline occurred despite the observed current account surplus in the year. Capital inflow remained restrained, with Foreign Portfolio Investment plummeting by 60.9% to $843.2 million in the first nine months of 2023, compared to $2,156.98 million in the same period of 2022. Additionally, the limited crude oil production during the year further hampered the expansion of the country's reserves.

Chart 8: Foreign Reserves ($'bn)



***Source:** Central Bank of Nigeria, EAG Research*

Stock Market

The Nigerian equities market trended upward and recorded renewed investor participation in 2023 as the market responded to the pro-market policies (subsidy removal and the forex reform) that were implemented by the new administration. In a significant milestone, the NGX All-Share Index (NGXASI) surpassed the 60,000 mark for the first time since 2008, concluding the year 2023 at 74,773.9 points. The local bourse closed 2023 up by 45.90%, with all sectoral indices closing the year positive. This remarkable achievement can be attributed to a confluence of factors, including a renewed interest from local investors who engaged in strategic bargain-hunting to safeguard the value of their investments.

Additionally, pro-market policy reforms, impressive financial reports from listed companies, and the noteworthy merger announcement involving Dangote Sugar, Rice, and Nascon Limited all contributed to the stellar performance of the market.

Chart 9: NGX-ASI Performance Trend

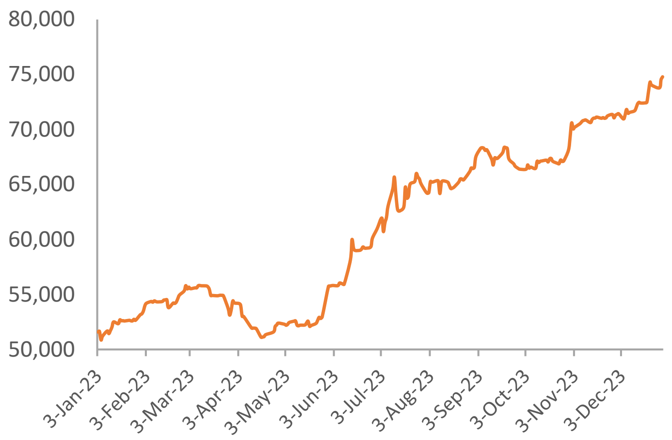
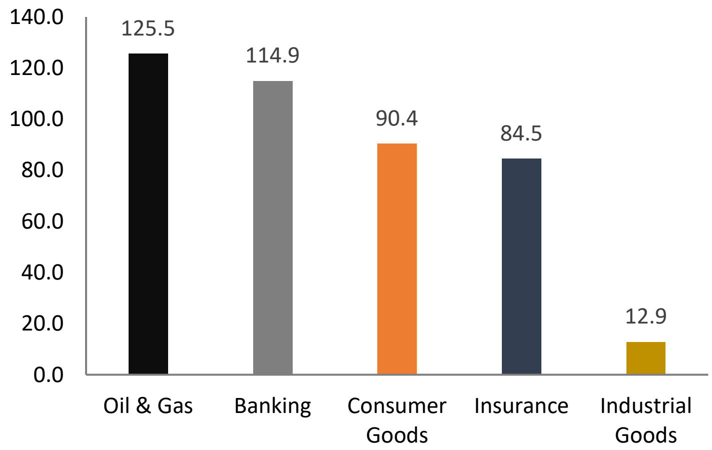


Chart 10: NGX Sectorial Indices Performance (%)



Source: *Nigeria Exchange, EAG Research*

However, despite the performance, it was quite a tumultuous landscape as there was a flurry of exits on the Nigerian bourse, starting with Ardova Petroleum finally delisting in July. In total, a total of 11 companies worth N515.15bn in market capitalization were delisted from the Nigerian Exchange Limited (NGX) in 2023. Recent data from the Nigerian bourse highlights that, between 2002 and 2022, a total of 121 quoted companies have been delisted from the official list of the NGX.

This surge in delisting reflects a dynamic shift in the landscape of Nigerian securities trading and corporate positioning within the market. However, this dynamic has been overshadowed by the market's resilience displayed in share price growth. Some companies are in the process of delisting, and this process is expected to be finalized in 2024. These include PZ Cussons Nigeria Plc, Coronation Insurance, Oando, and GSK Consumer Nigeria Plc.

Adding to the array of challenges, Nigeria experienced a downgrade from a frontier market to an unclassified market in the aftermath of FTSE Russell's annual equity country classification review. The subsidiary of the London Stock Exchange Group had initially placed Nigeria on its watch list, monitoring the country for potential reclassification, and the demotion came into effect in September. Similarly, MSCI is set to remove all Nigerian securities from the MSCI Frontier Market Indexes at a virtually zero price, effective February 2024. Both actions by FTSE Russell and MSCI stem from the absence of improvement in the capacity of international institutional investors to repatriate capital. MSCI specifically attributed the decision to reclassify Nigeria's market to persistent foreign exchange liquidity issues, which significantly hinder Nigeria's equity market and the repatriation of capital by foreign investors.

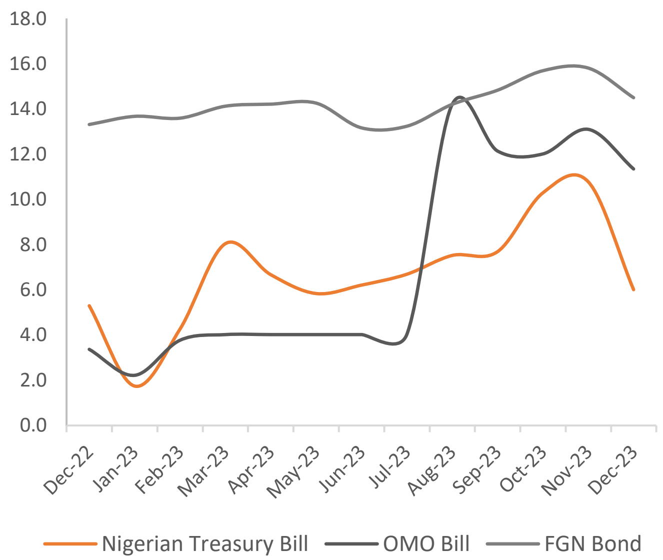
Fixed Income

The fixed-income market experienced a notable increase in activity in 2023, driven by the substantial budget deficit and implemented reforms. The federal government approved a budget of N21.3 trillion for 2023, with a revenue of N10.49 trillion, resulting in a deficit of N11.34 trillion.

System liquidity remained robust throughout the year, evident in the significant uptick in auction subscriptions at the NTB (up by 155% to N23.51 trillion) and a 59% increase in the FGN bond market to N7.4 trillion. To address excess liquidity and curb rising inflation, the Central Bank of Nigeria (CBN) actively managed liquidity by issuing OMO bills totaling around N658 billion.

The average yield on the FGN bond, Nigerian Treasury Bill, and OMO Bill increased by 119bps, 71bps, and 799bps to close the year at 14.5%, 6.0%, and 11.4% respectively.

Chart 11: Secondary Market: Average Yield Trend (%)



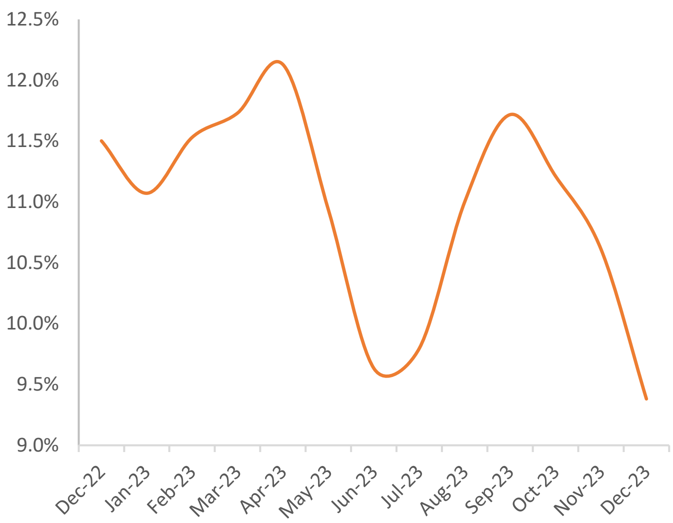
Source: *FMDQ, EAG Research*

Eurobonds

The Eurobond market showed positive trends in 2023, benefiting from optimism stemming from fiscal and monetary reforms. Nevertheless, concerns around the country's low external reserves, reversal of fuel subsidy removal, and the rapid depreciation of the currency against the dollar, led to selloffs on the instruments.

The impact of the selloffs was limited as the government took bold steps to restore investors' confidence including the successful redemption of its $500 million 2023 Eurobond that matured in July, despite the heightened defaults in emerging markets. Average yields on Nigeria Eurobond declined by 2bps to 9.38% at the end of 2022.

Chart 12: Eurobond Yield Trend



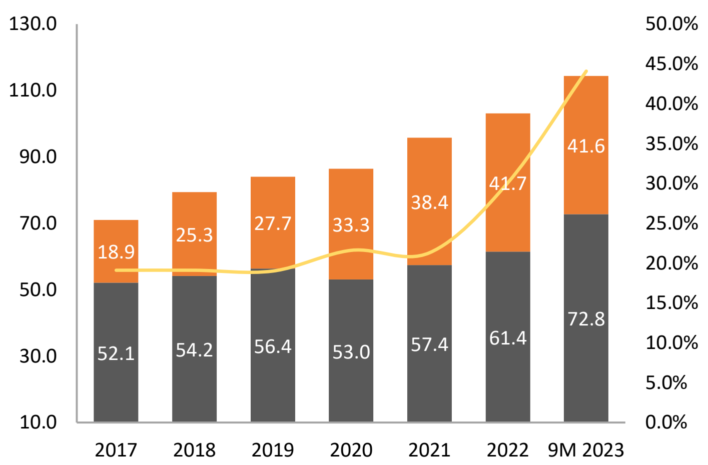
Source: *Debt Management Office, EAG Research*

Public Debt

According to data from the Debt Management Office (DMO), Nigeria’s total public debt has risen to N87.9trn from N46.3trn as of September 2023, implying an increase of 90% on a year-to-date basis. The big jump can be attributed to the addition of the N22.7trn Ways and Means Advances at the CBN for which the approval of the National Assembly (NASS) to securitize it was received in May 2023, the negative effect of naira devaluation on external debt, and the inclusion of new borrowings by the government during the second quarter of the year.

Nigeria’s debt-to-GDP officially breached the DMO’s debt-to-GDP ratio target of 40%, reaching 44.1%, however, it is still below the World Bank's limit of 55% for countries in Nigeria's peer group. Despite the mounting debt level, sustainability worries are still limited as debt remains below the World Bank’s limit.

Chart 13: Public Debt ($' bn)



Source: *Debt Management Office, EAG Research*

Outlook

Nigeria's economy is expected to maintain its upward trajectory in 2024, but growth will face headwinds from structural issues, domestic hurdles, and a volatile global macroeconomic landscape. The International Monetary Fund (IMF) projects growth to ease from 3.1% in 2023 to 2.95% in 2024.

The non-oil sector is expected to continue to be the driver of growth in Nigeria. However, 2024 promises a welcome boost from the oil sector, barring unforeseen disruptions. Government initiatives to accelerate production are expected to push output beyond 1.7 million barrels per day. This, coupled with the launch of the Dangote and Port Harcourt refineries, which will significantly reduce import dependence and widen the trade surplus, further fueling economic expansion.

The introduction of the new "Nembe" oil grade on the international market and continued efforts to combat oil theft are additional factors underpinning the oil sector's positive outlook. However, Nigeria’s domestic demand will remain subdued in 2024, due to high inflation, tight monetary policy, and fiscal constraints.
Inflation is expected to continue as the impact of the twin reforms in 2023 lingers. External shocks to global food supply, climate change issues, and the continued decline in the value of the naira, pose an inflationary pressure on Nigeria’s economy in 2024. Nevertheless, we expect inflation to start to ease in the second half of 2024, barring any unexpected shock as the government initiative to tackle food security and base year effect aid decline in inflation.

Outlook

In line with the expectation for an inflationary environment in 2023, we expect the CBN to continue to reign on inflation in 2024, particularly in the first half of the year. We also expect more OMO auctions in 2024, as the CBN will continue to launch sterilization operations to mop up excess liquidity.

The Nigerian capital market is poised for a vibrant 2024, fueled by investor resilience in an inflationary and high-interest-rate environment. 2023 saw record highs for Nigerian Exchange stocks and domestic investor participation exceeding 80%. This momentum is expected to continue in 2024, supported by increased corporate activity and its cheaper valuation compared to relative peers. Yield levels, however, are projected to remain elevated, particularly in the first half of the year.

This anticipation primarily stems from the Central Bank of Nigeria's (CBN) tighter liquidity management strategy. Nigeria's N28.7 trillion approved budget for 2024 forecasts a significant deficit of approximately N9 trillion. This gap between income and expenditure is expected to drive an increase in government debt as it seeks funds to cover its shortfall. We anticipate revenue performance falling short of budget projections, leading to a wider-than-expected fiscal deficit.

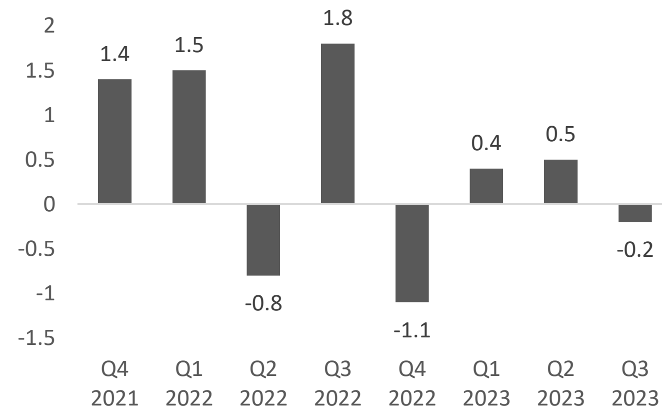
Mirroring the trend in 2023, the government is likely to heavily rely on domestic borrowing to finance the funding gap, as the international debt market remains marked by high interest rates. The government will also draw down on multilateral and bilateral loans, which would help augment its financing needs.

South Africa

South Africa's 2023 growth sputtered, hampered by persistent power outages, logistical bottlenecks, and a turbulent global environment. After two-quarters of modest growth, South Africa's economy stalled in Q3 2023, shrinking by 0.2%. This slowdown followed a wider trend, with overall growth averaging just 0.23% in the first nine months of 2023, marking a significant deceleration compared to 0.83% in the same period of 2022.

South Africa's power sector crisis deepened in 2023, with the country recording a total of 332 days of load shedding in 2023 (compared to 205 in 2022 and 75 in 2021), implying an increase in frequency and intensity in 2023.

Chart 14: Real GDP Growth Rate (%)

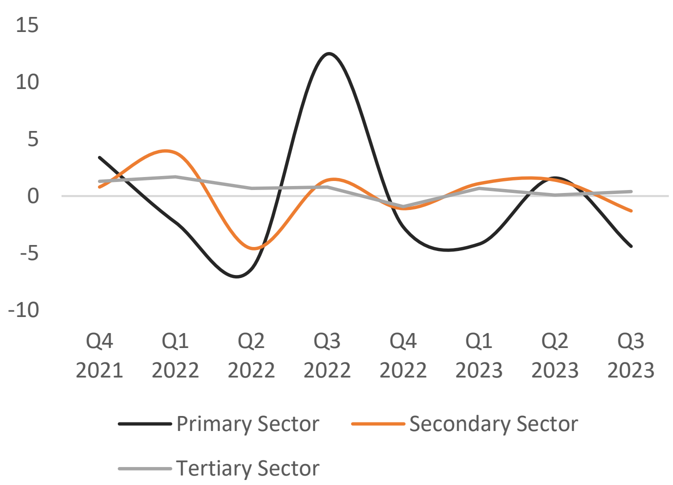


Source: *Statistics South Africa, EAG Research*

This resulted in a sustained decline in private sector activity, with nine out of twelve months registering contraction below the 50 expansion thresholds on the S&P Global PMI.

This performance was evenly distributed across various industries such as agriculture, construction, manufacturing, and mining experiencing the largest declines ranging from -0.3 to +0.1 %age points. Consequently, Africa's most industrialized economy only saw a meager 0.23% growth in the first nine months of the year, indicating a sluggish recovery from the COVID-19 pandemic.

Chart 15: Sectorial Growth (%)



Source: *Statistics South Africa, EAG Research*

The primary sector of South Africa, which includes agriculture and mining, shrank by an average of -2.3% in the first three quarters of 2023. This is a significant drop compared to the same period in 2022. The secondary sector (manufacturing and construction) and the tertiary sector (services) both expanded by an average of 0.4%. The low growth across all sectors reflects the reduced economic activity in South Africa.

Inflation and Monetary Policy Rate

In 2023, South Africa's inflation rate eased to 6.0% from 6.9% in the previous year, reflecting the lower pressure from the Russia-Ukraine conflict and the effective monetary policy of the Reserves Bank of South Africa. Headline inflation moderated for four consecutive months up to July 2023, whereafter it gradually accelerated again to 5.9% in October 2023. The acceleration reflected higher goods prices amid higher fuel prices and elevated food prices. Nevertheless, inflation eased to 5.5% in November, aided by downward pressure from fuel price cuts and rand strength for other commodities prices, as well as base effect support the decline in Inflationary pressure at the end of 2023.

Chart 16: Average annual inflation (%)

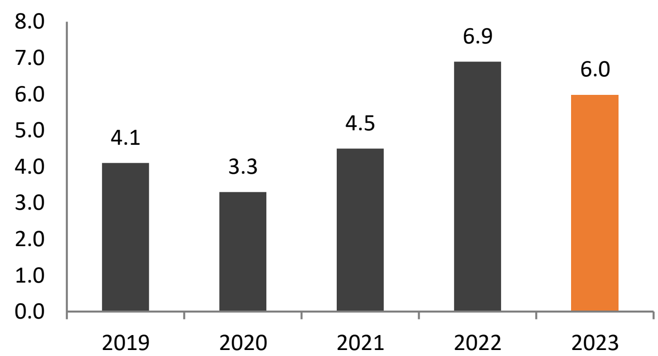
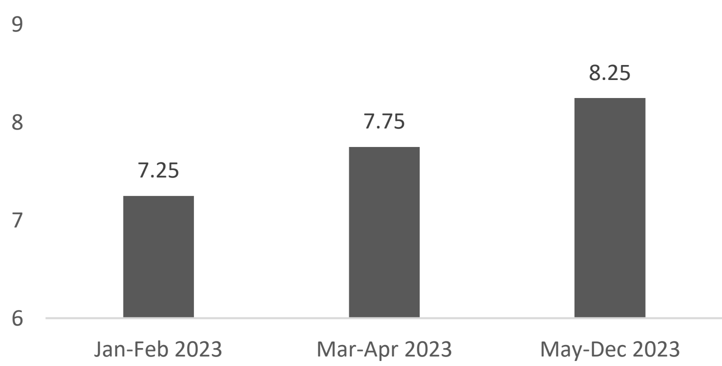


Chart 17: Key Interest (Repo) Rate(%)



Source: *Statistics South Africa, South African Reserves Bank, EAG Research*

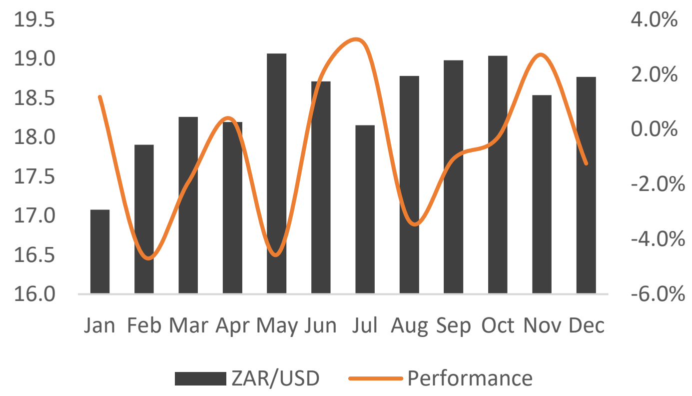
Following a period of monetary easing in 2020-2021, the South African Reserve Bank (SARB) has reversed its course and raised interest rates substantially in 2022 and 2023. The aim of this shift is to counteract the inflationary effects of its previous policy and restore price stability. The higher interest rates have adversely affected the financial situation of households in South Africa, leading to higher debt servicing costs, lower disposable income, and increased debt-to-income ratios.

In 2023, the South African Reserves Bank increased interest rate by a cumulative 125bps, a relatively moderate increase compared to the 300bps hike in the same period of 2022. This indicates a similar policy orientation as that of advanced central banks.

Foreign Exchange and External Reserves

The South African Rand (ZAR) faced a turbulent year in 2023, swinging between highs and lows amid various challenges. The rand lost 7.9% of its value against the dollar in 2023, dropping from an average of 17.28/$ in 2022 to 18.8/$ at the end of 2023. The main factors weighing the rand were power outages, port disruptions, fiscal pressures, and global risk sentiment. Diplomatic spat arising from the Russia-Ukraine crisis, particularly regarding arms supply to Russia, nearly saw South Africa expelled from trade agreements and threatened with sanctions. In reaction, the local currency depreciated from R18.8/$ on May 10 to R19.3/$ by May 18. Likewise, Eskom faced its worst load shedding crisis in 2023 which dragged down the rands performance. The frequent power cuts and the poor infrastructure outlook eroded investor confidence and the currency's value.

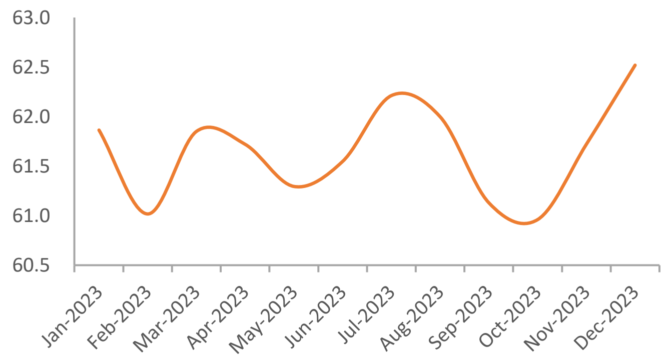
Chart 18: Foreign exchange rate(USD/ZAR)



Source: *South African Reserves Bank, EAG Research*

South Africa's gross foreign exchange reserves reached an all-time high of $62.518 billion in December 2023, up from $60.57 billion in December 2022. This upturn, the second since July, was driven by a surge in the US dollar gold price and valuation adjustments due to currency and asset price fluctuations. This information is according to data from the South African Reserve Bank, which reported that the total gross reserve position of South Africa improved by 3.2% year-to-date. Reserves in foreign currency, gold, and SDRs all posted gains, while the forward position held steady at $0.508 billion.

Chart 19: Gross foreign reserves ($'bn)



Source: *South African Reserves Bank, EAG Research*

Stock Market

The Johannesburg Stock Exchange (JSE) All Share Index has remained relatively stable in 2023 despite global economic uncertainties and rising interest rates in South Africa. The index closed the year at 76,893.15 points, bringing the year-to-date performance to 5.3%. The resource and financial sectors continue to be the top performers, while some other sectors like IT and consumer goods have also shown promising growth. Load shedding remains a concern for investors, as it disrupts business operations and impacts economic activity. Currency fluctuations also add a layer of uncertainty, but the Rand has held steady against major currencies lately. The combined value of turnover in the secondary share market of the South African stock exchanges was R5.1 trillion in the first 11 months of 2023, representing an 8.4% decrease compared to the same period in 2022. Lower volumes were also traded over this period.

The performance of the bourse also mirrored declines on international exchanges due to the moderation in global economic growth amid monetary policy tightening by most central banks.

Chart 20: FTSE/JSE All Share Performance

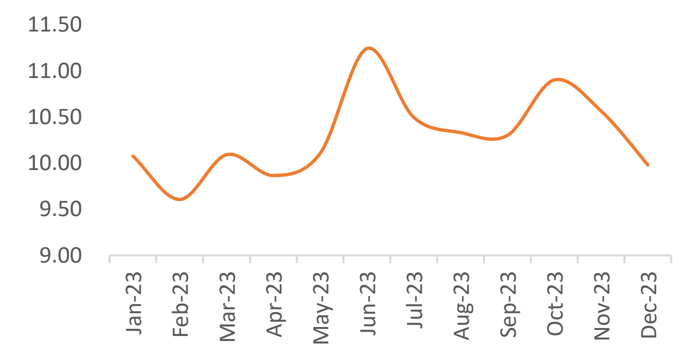
Source: *Investing.com, EAG Research*

Fixed Income Market

The South African fixed income markets have faced a significant impact from macroeconomic conditions over the past 12 months. We observed a decline in the net issuance of rand-denominated debt securities in the domestic primary debt market by financial corporations. The R106 billion decrease in the first 10 months of 2023 was 28.2% lower than in the corresponding period of 2022, reflecting lower investor demand for credit within a weak economic environment.

Elevated inflation levels and proactive measures to raise interest rates, combined with domestic challenges like load-shedding and heightened geopolitical tensions, exerted pressure on the rand and South African rates, introducing uncertainty to the fixed income market. The yield on 10-year South African rand-denominated government bonds experienced fluctuations, rising from 10.29% in February 2023 to 12.23% in October. This reflected concerns over South Africa's fiscal outlook, deteriorating revenue collection, rand depreciation, and higher international bond yields. Subsequently, the yield declined, tracking the appreciation in the exchange value of the rand and lower international bond yields.

Chart 21: South African 10-Year Bond Yield

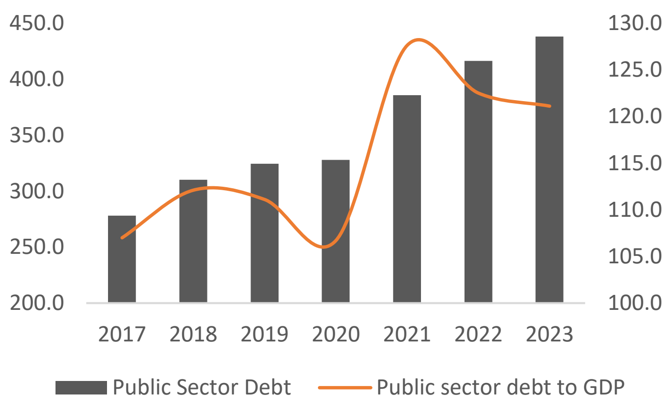


Source: *Investing.com, EAG Research*

Public Debt

South Africa's debt pressure increased further in 2023 as total public sector debt (both foreign and domestic) rose to $440 billion (120.4% of GDP) as of June 2023, which was $28.5 billion more than a year earlier. The resolution of South Africa's energy crisis is intricately linked to the country's public debt trajectory. Following years of mismanagement, Eskom has accrued a debt amounting to 6% of South African GDP, rendering it financially strained. To sustain Eskom's operations, the government, in February, committed to assuming 60% of this debt stock. This debt relief strategy, involving zero-interest loans and a direct debt transfer, will unfold gradually over the next three years, concluding in the fiscal year 2025/26. Consequently, the medium-term outlook anticipates a significant increase in public debt.

Chart 22: Total Public Sector Debt ($'bn)



***Source**: South African Reserves Bank, EAG Research*

South Africa's yearly debt service costs are relatively high compared to peer countries. This is because of the higher interest rates demanded by investors, a decline in demand for financial assets from emerging economies, and a large share of relatively more expensive long-term debt.

Outlook

Going forward, we expect the economy to continue experiencing a slowdown in economic activities as weaknesses in revenue collection, problems with power generation, and freight rail persist, constraining economic activity. The IMF has projected that South Africa's economy will expand by just 0.9% in 2024, down from a growth estimate of 1.8% in 2023. Inflation is now well within the SA Reserve Bank's inflation target range of 3%-6%; however, the risk of an upside in headline inflation persists (climate change issues, an uptick in global oil prices). The nation's credit profile remains supported by a favorable debt structure, with long maturities and denominated mostly in the local currency, as well as a credible monetary policy framework. The sustained increase in South Africa's gross government debt, together with the tightening of financial conditions, means that financing risks have risen.

Also, South Africa is faced with a high level of political uncertainty as it prepares for the 2024 elections, which could result in a major shift in the balance of power. For the first time since the end of apartheid, the ruling party is in real danger of losing a national vote as latest polls shows that voters are turning away from the ANC due to its failure to fight the economic downturn, high unemployment, and deliver on promises made to the people.

The heightened black out recorded in 2023 is likely to pave way for improvement in power supply in 2024, as private investments in the sector could increase power supply in 2024. The positive outlook on power supply has the potential to revive and improve economic activities in 2024.

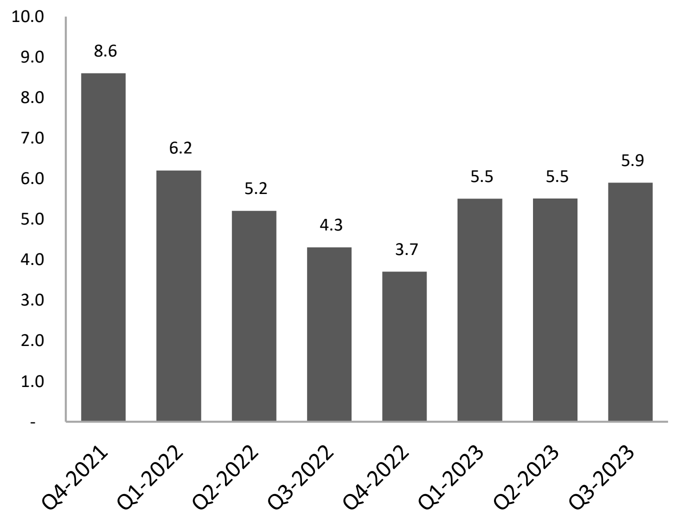
Kenya

The Kenyan economy grew by an average of 5.6% in the first nine months of 2023 compared to the 5.2% growth recorded in the corresponding period in 2022. The key factor that contributed to Kenya's revival of economic performance in 2023 was the robust rebound observed in agriculture. This sector, which had grappled with a prolonged and severe drought, managed to overcome these challenges, displaying remarkable resilience.

In the first nine months of 2023, the agriculture sector grew by an average of 7% against the -1.8% decline recorded in the corresponding period in 2022. The period was characterized by abundant rains exceeding historical averages throughout the March to May 2023 rainy season, resulting in substantial water availability for agricultural activities.

This favorable weather condition contributed to a remarkable upswing in producing key crops, such as tea and coffee, particularly evident in the second quarter of 2023. The services sector also contributed to the improved growth performance, registering moderate expansion.

Chart 23: Real GDP Growth (%)



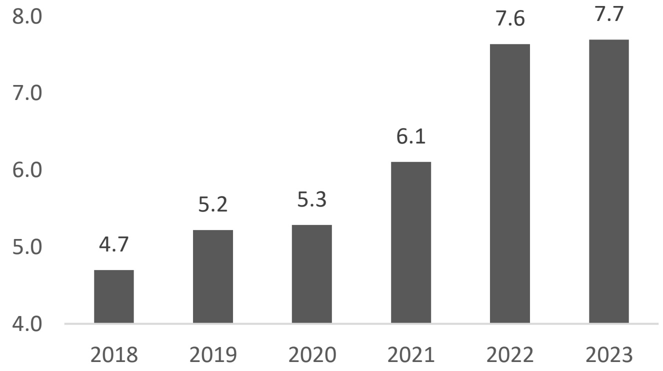
Source: *Central Bank of Nigeria, EAG research.*

Inflation and Monetary Policy Rate

In 2023, inflation exhibited a different trajectory, notably moving in a downward direction. The Kenya National Bureau of Statistics reported that Inflation edged down to 6.6% in December 2023 from a 9.1% high in December 2022 remaining within the central bank's preferred range of 2.5 to 7.5%. This was largely due to easing food prices
.

Food inflation declined to 7.7% in December 2023 from a high of 13.4% in March 2023, supported by domestic seasonal factors, and easing international food prices. The declining food prices were also supported by improved weather supply. Fuel Inflation was mostly inflated in 2023 due to the unwinding of the fuel subsidy removal. Nevertheless, fuel inflation has eased to 13.7% in December 2023, after peaking at 15.5% during the year. The decline was aided by a downward adjustment in pump prices by the Energy and Petroleum Regulatory Authority. (EPRA).

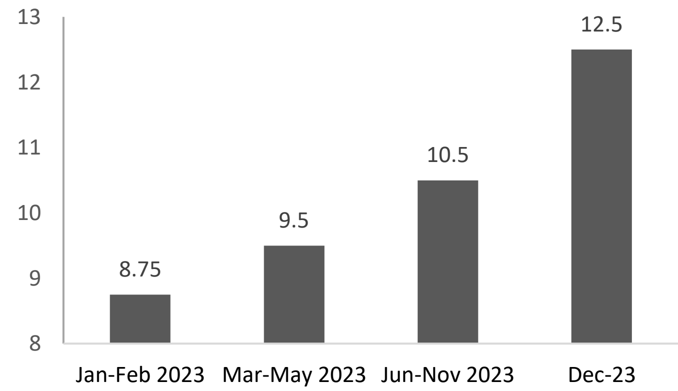
Chart 24: Average Annual Inflation (%)



Source: *Central Bank of Nigeria, EAG research.*

In 2023, the Central Bank of Kenya implemented a cumulative increase in interest rates, totaling 375 bps. We noted that the rate hikes exercise was more aggressive in 2023, compared to the 175bps increases recorded in 2023, which was a deviation from stance observed generally.
We believe the aggressive rate hike was directed at maintaining price stability and manage exchange rate pressures.

Chart 25: Kenya's Interest Rates



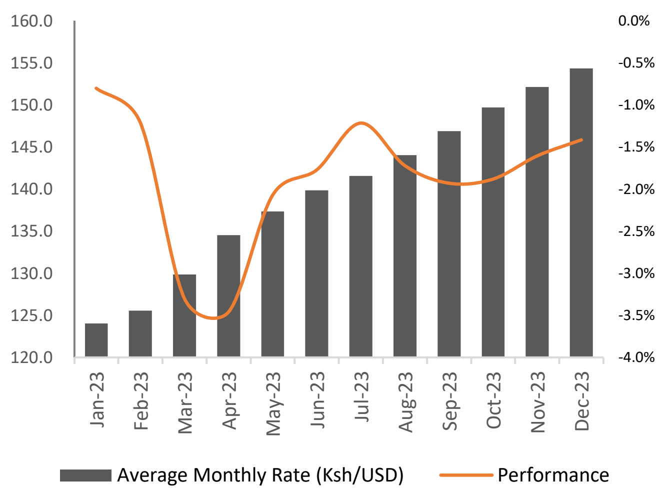
Source: *Central Bank of Nigeria, EAG research*

The final rate hike in 2023 was another 200bps, elevating them from 10.50% to 12.50%, contrary to market expectations of leaving it unchanged. The decision was underscored by the observation that inflation has consistently hovered at the upper limit of the targeted range of 2.5–7.5% since July 2023, coupled with recent depreciation of the national currency.

Foreign Exchange and External Reserves

The Kenyan shilling recorded its biggest annual depreciation since 1993, sliding by 27% against the US dollar, implying its fourth consecutive year of decline. The continual decline in the value of the shilling is predominantly linked to the capital flight by international investors and reduced inflow of FX due to low export value. The shilling closed the year at Ksh156.9 in 2023 from Ksh123.5 in 2023.

Chart 26: Foreign Exchange Performance (Ksh/USD)

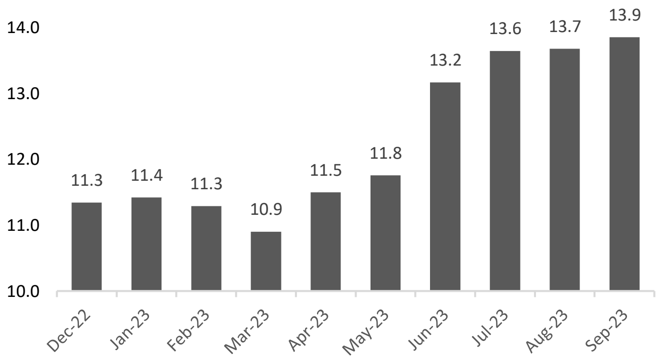


Source: *Central Bank of Kenya, EAG research.*

Pressures on Kenya's external reserves started to ease in April 2023 as government measures to increase reserves liquidity yielded result. The accretion on the external reserves can be attributed to the agreement reached by Kenya's government with oil suppliers from the Middle East to import fuel on credit, with a grace period running to the end of September 2023. Also, the government received the first tranche of a syndicated loan of $500mn, as well as a disbursement of $1 bn from the World Bank.

Thanks to this support, Kenya's foreign exchange reserves increased to over $13bn beginning of June, rising slightly above the 4-month import threshold. Based on data from the Central Bank of Kenya, the country's external reserves have grown from $11.3 billion in December 2022 to $13.9 billion in September 2023, implying a 23% increase.

Chart 27: Gross External Reserves ($'bn)



Source: *Central Bank of Kenya, EAG research.*

Stock market

In 2023, Kenya's stock market ranked as the second-worst performer in Africa, recording a significant decline of 27.7% in its all-share index. The performance of the market was a result of the high inflationary measures, interest rate hikes, weakening of local currency, and geopolitical tensions globally.

Chart 28: NSE-ASI Performance Trend (%)

Source: *Nairobi Stock Exchange, EAG research.*

All these combined resulted in heavy foreign exits from Kenya’s domestic equities market as investors went in search of better investment havens. Foreign investors’ share of the market declined to 50.6% in 2023 from 54.1% in 2022, however, foreign investors' activities still heavily influence the market performance.

Kenya's stock market performance hinges heavily on a handful of prominent players, with Safaricom, the country's telecommunications giant and a magnet for foreign investors, accounted for a whopping 41% of the index. This concentration led to significant distortions this year, as foreign investors, lured by greener pastures elsewhere, dumped their holdings, causing Safaricom's value to plummet by 42.4%. Other heavily capitalized, foreign-dominated stocks also suffered heavy losses. Kenya’s market capitalization, hence, fell to $10.3 million at the end of 2023 from $16.8 million in 2022.

Fixed Income

Activities in Kenya's fixed-income market was mixed in 2023. While deal volume surged 3.6% to 27,389 transactions, driven by increased activity from retail investors, the total value traded plunged 13.2% from KES741.85 billion to KES644.0 billion. This decline can be attributed to tight market liquidity, which also pushed yields on secondary market bonds higher. The tight market liquidity drove yields in the secondary market bonds high.

The yield on Kenya's 10-year bond rose by 380bps in 2023 from 13.9% in 2022 to 17.7% in 2023. The infrastructure bond was the most traded bond in 2023, recording a total of KES332.22bn from 21,895 deals representing 51.6% and 79.9% of the total bonds market value and transactions.

Chart 29: Kenya's10-Year Bond Yield (%)

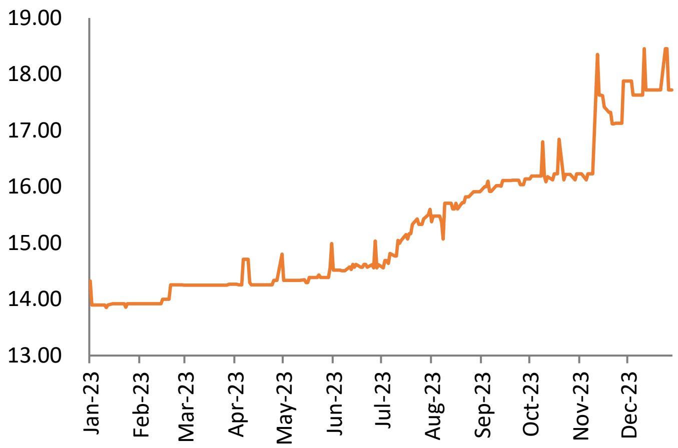
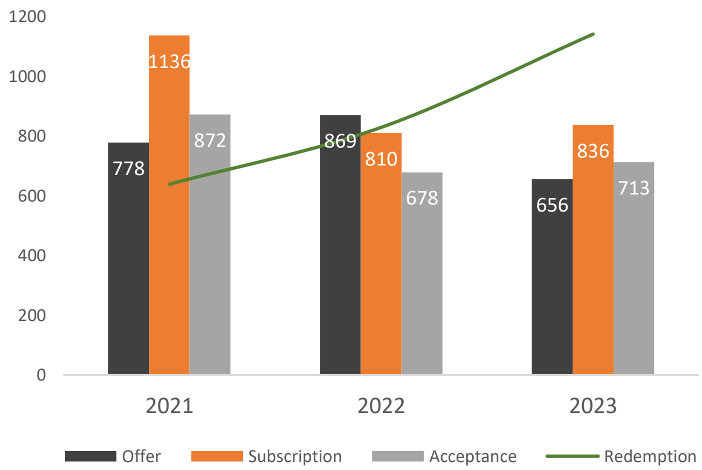


Chart 30: Primary Market Activities (Ksh' billion)



***Source**: Central Bank of Kenya, EAG research.*

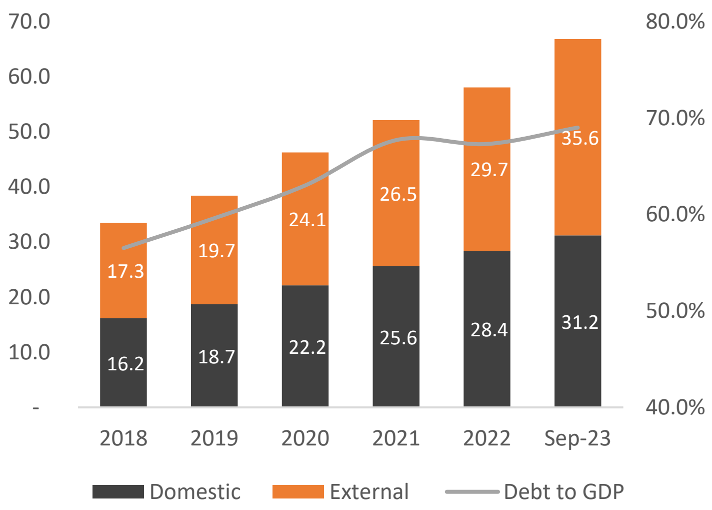
Negative sentiment around Kenya's external financing in 2023 hammered Eurobond yields, causing them to surge over 200 basis points. Major credit rating agencies like S&P, Moody's, and Fitch waned investor confidence, citing concerns about high government debt, tight funding needs with the looming $2 billion Eurobond maturity, shrinking forex reserves, rising borrowing costs, tax hikes, and a shaky fiscal path. A dollar shortage and a depreciating Shilling further exacerbated the yield climb.

Public Debt

Government Debt in Kenya increased to $67.19bn (10582.40 KES Billion) in September from $55.24bn (10523.86 KES Billion) recorded in September 2022. The debt figure reached an all-time high of $67.19trn in September of 2023. This rate of debt accumulation has exceeded earlier projections provided by the National Treasury, which had estimated the country's debt stock to be around $69bn in June 2024, indicating a faster-than-anticipated accumulation of public debt and borrowing. The composition of Kenya's public debt leans towards external borrowing, amounting to $37.1 billion, compared to $32.2 billion in the domestic account.

The increase in the public debt is attributed to external loan disbursements, exchange rate fluctuations and the uptake of domestic and external debt. The repayment expenses for loans, predominantly to China, have surged due to the local currency trading at historic lows hence increasing the debt outstanding.

Chart 31: Public Debt Stock(USD'bn)



***Source**: Central Bank of Kenya, EAG research.*

Outlook

Kenya's economy is poised for growth in 2024 as the service sector of the economy is expected to continue to drive growth. The IMF has forecasted that Kenya's growth will ease to 5% in 2024 from an estimated 5.3% in 2023, implying a 0.3% decline. Nevertheless, the economy remains exposed to the global macroeconomic challenges and harsh climate change issues in 2024. Given the central bank's proactive stance in raising rates in 2023, it is anticipated that inflationary expectations will be effectively anchored, fostering a resolute trajectory towards the 5% mid-point within the targeted range. However, factors such as extreme weather events, a spike in oil prices and further currency depreciation and the monetary policy stance are factors to continue to watch out for.

The focal point of the capital market will be centered around the Kenyan Eurobond of $2bn maturing by June 2024. We believe the performance of the capital and foreign exchange market will mostly be anchored around this in the first half of 2024.
In contrast, the fixed-income market is primed for significant activity, particularly in short-term instruments needed for debt repayment. Yields are expected to rise, fueled by this impending debt obligation, the government's increased focus on the domestic market, and the Central Bank of Kenya's monetary policy stance. We expect that the Kenyan Shilling will be pressured in the first half of 2024, till the government meets its Eurobond obligation. Kenya’s current fiscal plans geared towards domestic borrowing will become more important in budget financing for 2024.

Ghana

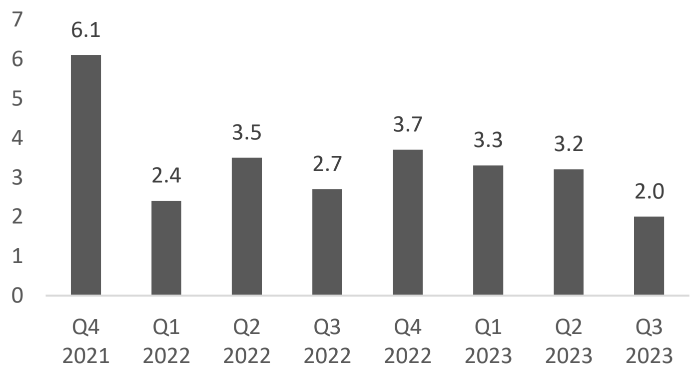
Following a challenging 2022 marked by a government default on external debt,

Ghana is now actively striving to revitalize its economy. Surprisingly, GDP growth is proving resilient, and inflation, while still elevated, has begun to decrease, exceeding initial expectations.

According to the latest data from Ghana Statistical Service (GSS), Ghana's economy grew by an average of 2.83% in the first three quarters of 2023, a marginally lower growth when compared to the 2.86% growth recorded in the corresponding period of 2023.

The resilience of Ghana's economy is also shown by the Purchaser Manager's Index which measures the performance of private sector in the country has remained in the expansion zone (above 50%) for ten consecutive months in 2023.

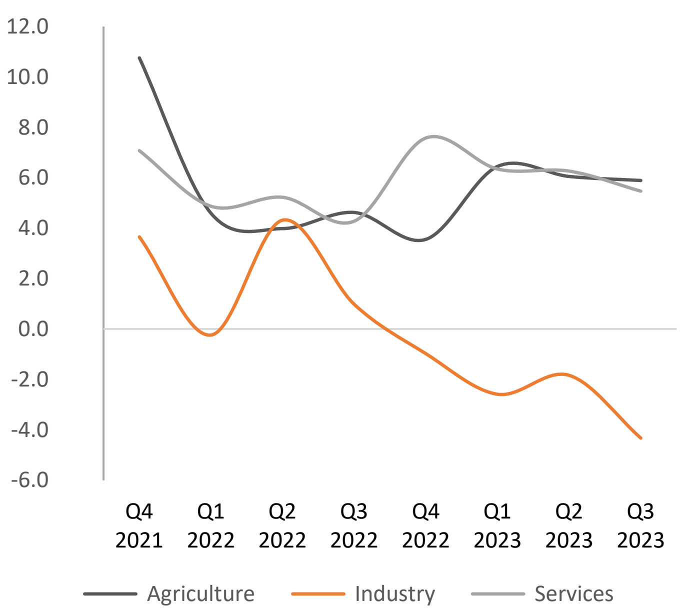
Chart 32: Ghana's Real GDP Growth (%)



Source: *Ghana Statistical Service, EAG research.*

The growth observed in the reviewed period was primarily driven by the services and agriculture sectors. Notably, the agriculture sector experienced the most rapid expansion, surging from 4.4% in the first nine months of 2022 to 6.1% during the same period in 2023. This notable growth can be attributed to significant advancements in the Crops and Livestock subsectors, both posting growth rates of 6.8%. In contrast, the respective figures for the first half of 2022 were 3.8% and 5.7%. The services sector also contributed significantly to the overall growth, registering a 6.0% increase in the first nine months of 2023 compared to 4.8% for the same period in 2022. In contrast to the positive trends in the services and agriculture sectors, the industry sector contracted by 2.9% in the first nine months of the year. This decline was primarily driven by contractions in all subsectors except Mining and Quarrying.

Chart 33: Sectorial GDP Growth Rate (%)

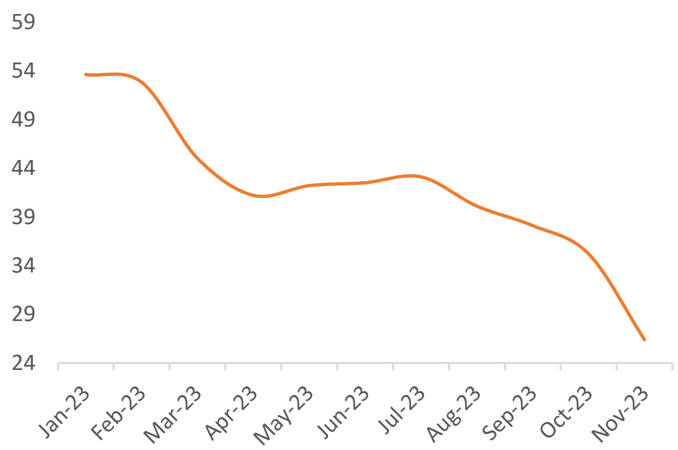


Source: *Ghana Statistical Service, EAG research.*

Inflation and Monetary Policy Rate

Ghana's Inflation trended upwards, significantly affected by the Russia-Ukraine crisis and was further triggered by its debt woes and severe currency depreciation in 2022. Inflation peaked at over 50% and reached more than a two-decade high. However, since January 2023, Ghana's inflation started to ease and has dropped to 26.4% in November 2023 from 53.6% in January 2023. The significant disinflation observed in the latter half of the year was driven by favorable base effects, decreasing food and energy prices, reduced impact from tax hikes, and a deceleration in the depreciation of the cedi. A notable deceleration was particularly evident in food inflation, which eased from 61% in January 2023 to 32.2% in November 2023.

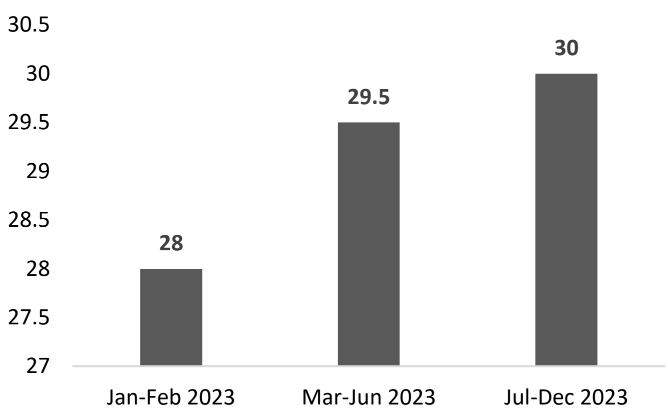
Chart 34: Inflation



Source: *Ghana Statistical Service, EAG research.*

The Bank of Ghana (BOG) in a bid to rein in inflation has resorted to monetary policy tightening. The BOG raised its rate from 27% in December 2022 to 30% in December 2023. Notably, the rate hike in 2023 was less pronounced, with the Bank of Ghana increasing rates by a total of 300 basis points, compared to the more substantial 1000 basis points hike in the previous year. The monetary committee of the Bank of Ghana adopted a more moderate approach in 2023, aiming to strike a balance between rate hikes and maintaining economic stability. This decision reflects the committee's intention to avoid an overly aggressive stance. Looking ahead, the committee is anticipated to sustain its monetary policy tightening until inflation is securely anchored on a downward trajectory.

Chart 35: Ghana 's Monetary Policy Rate (%)



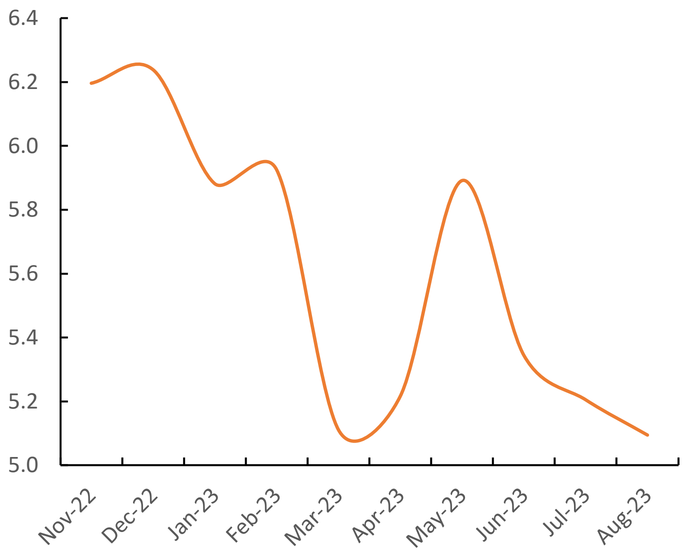
Source: *Bank of Ghana, EAG research.*

Foreign Exchange and External Reserves

According to data released by the Bank of Ghana, Ghana's external reserves experienced a notable decline of -18.3% on a year-to-date basis, reaching $5.1 billion (equivalent to 2.3 months of import cover) as of August 2023, in contrast to the $6.22 billion recorded in December 2022. Despite a trade surplus in the initial half of the year, a $600 million bailout from the IMF, and the deferment of external debt servicing payments, there has been a reduction in gross international reserves.

The government of Ghana has indicated its intention to concentrate on bolstering external reserves sufficiently to cover at least 3.5 months of imports. External risks to this outlook include potential challenges such as diminished commodity prices and volatility in the domestic foreign exchange market.

Chart 36: Gross International Reserves ($ 'bn)

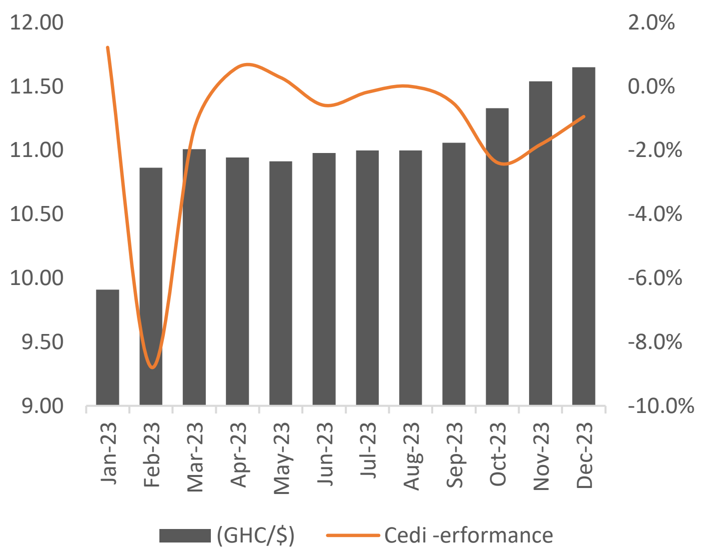


Source: *Bank of Ghana, EAG research.*

The Ghana Cedi (GH¢) was relatively stable against the dollar in 2023 compared to 2022. The Cedi depreciated by 13.9% in 2023, this is an improvement from the 40.2% depreciation that was recorded in 2023.

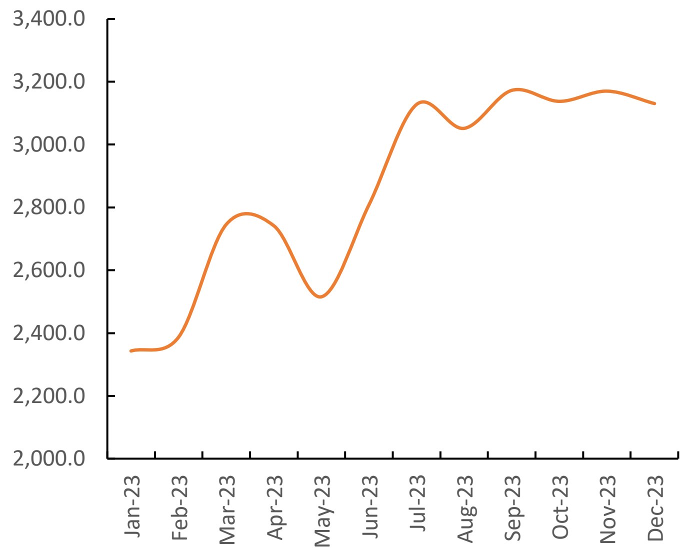
The debt repayment pauses saved Ghana from making significant interest payments in debt servicing in 2023. The depreciation of the Cedi can be attributed to factors such as the unattractive sovereign rating stemming from a prior downgrade in Ghana's Sovereign bond and substantial portfolio reversals influenced by monetary policy tightening by advanced economies.

Chart 37: Foreign Exchange Performance (GHC/$)



Source: *Bank of Ghana, EAG research.*

Chart 38: GSE Composite Index Performance



Source*: Ghana Stock Exchange, EAG research.*

Stock Market

The Ghana Stock Exchange (GSE) closed the year (2023) at 3130.23 points, marking a YTD gain of 28.1%. It closed the year as the fifth best-performing stock market in Africa. This is largely due to the improved investor sentiments towards equities and the minimal interest in the fixed income markets. This is despite the challenging macroeconomic backdrop and the decline in trading volume in 2023.

The $3bn IMF-supported Programme reignited selective risk-taking amidst impressive 9M2023 financial results, reforms such as the reduction of withholding tax on dividends from 8% to 3% and the allowance for PFAs to invest over 20% of assets in equities have been the catalyst for the positive performance of the exchange amid economic downturns. The dearth of activity in the bond market, propelled pension funds increased their stock market participation in 2023.

Fixed Income

According to data from the Bank of Ghana, the performance of the Ghana fixed-income market in 2023 was notably subdued. Trade volumes in the first ten months of the year dwindled to 68.8 billion Ghana cedis ($5.79 billion), a stark decline from the 196.3 billion Ghana cedis ($16.5 billion) recorded in the corresponding period of 2022. Likewise, there has been a reduction in liquidity in the government securities (notes and bonds only) portfolio on the secondary market, which has gone down from 99.8% in October 2022 to 22.3% in October 2023.

This lackluster performance is primarily attributed to the domestic debt restructuring carried out in 2023, causing investors to steer clear of the domestic debt market. Following the successful implementation of its domestic debt exchange program, Treasury bills emerged as the focal debt instrument for Ghana, given the expensive nature of the International Capital Market (ICM) for emerging economies.

According to data sourced from S&P Global on the 10-year government bond, yields experienced a notable surge, rising by 18.40% from 14.5% to 32.9%. This underscores the impact of the prevailing market conditions on the yields of Ghana's long-term government bonds.

Chart 39: Fixed Income Trading Volume (GHC'bn)

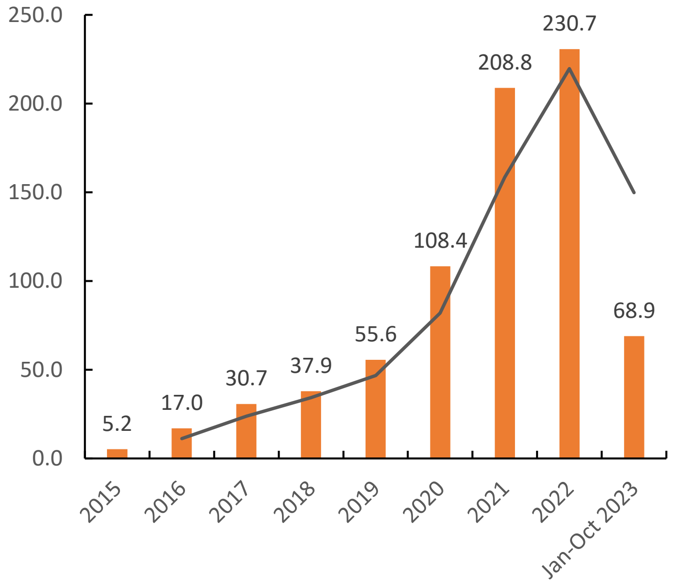
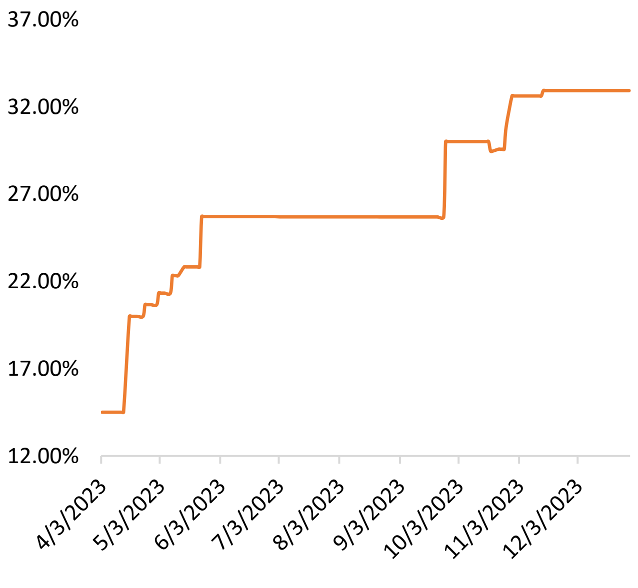


Chart 40: Ghana's 10-Year Bond Yield (%))



***Source**: Bank of Ghana, Investing.com, EAG research.*

Ghana and the IMF

Ghana finally reached a staff level agreement with the International Monetary Fund (IMF) in December 2022. This has led the country to implement some of the contingencies for IMF's bailout which paved way for the disbursement of $600 million in May. The three-year extended credit facility is contingent on domestic and external debt restructuring, spending cuts, and other fiscal adjustments.

Ghana successfully executed its Domestic Debt Exchange Programme (DDEP), targeting local bondholders. The program achieved notable success, with an impressive 85% participation rate among eligible bondholders. Its objective was to exchange the government's existing domestic bonds for four new bonds maturing in 2027, 2029, 2032, and 2037. For international bondholders, Ghana has presented potential debt restructuring scenarios, encompassing a 30% to 40% reduction in principle, a coupon rate not exceeding 5%, and a final maturity period of no more than 20 years. The country aims to restructure $20 billion of its total external debt, which stood at approximately $30 billion at the end of 2022.

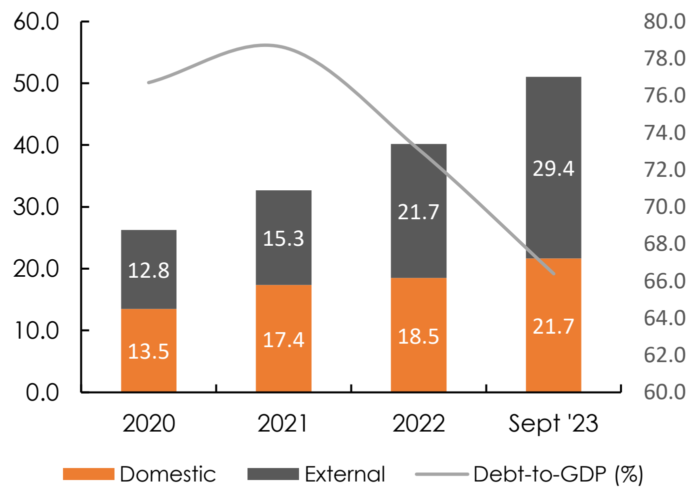
Ghana is optimistic about reaching an agreement with foreign bondholders in early 2024. The objective of this program was primarily to reduce the excessive burden created by Ghana's debt on its economy and reach the debt sustainability targets defined by the IMF staff for the period through 2028 and beyond.

Public Debt

Ghana’s public debt has increased by 27.1% to $51mn as of September 2023 from December 2022 $40.2mn to September 2023. External debt now account for 57.6% of total debt, up from 54.0% in December 2022.

Ghana’s external debt stock includes debt owed to multilaterals such as the IMF and World Bank, bilateral loans, commercial loans such as Eurobonds, and other export credits. We note that the latest Debt Sustainability Analysis (DSA) conducted by the Ghanian government to evaluate the solvency and liquidity status of the country’s total public debt portfolio, determined that in the medium to long term, Ghana’s debt sustainability remains challenged by emerging risks and vulnerabilities.

Chart 41: Public Debt ($'mn)



Source: *Bank of Ghana, EAG research.*

The country's total public debt declined from 73.1% of GDP as of the end of December 2022 to 66.4% of GDP as of September 2023, implying a slowdown in debt expansion.

The successful restructuring of Ghana's domestic debts paved the way for upgrades by the SP Global and Moody’s to a ‘Stable Outlook’ status in May and June 2023, after previously suffering severe and multiple downgrades. The Government has made real strides in improving relations with the vast majority of its local currency creditors, evidenced by 92% participation rate in key financial instruments.

Outlook

Ghana's economy is expected to remain resilient in 2024 as we believe that the ongoing 3-year IMF-supported reforms Programme will anchor the policy environment and sustain the steadily improving macroeconomic conditions in 2024. According to projections by the IMF, Ghana will grow by 2.7% IN 2024, a significant improvement over the earlier projection of 1.2% for 2023.

The general election slated for 2024 is expected to impact the macroeconomic environment and fiscal sustainability of Ghana economy. The declining momentum on inflation is expected to continue with the prevailing tight monetary stance and the ongoing IMF programme as key policy anchors. Inflation is expected to continue to ease as the impact of the tax hike in January 2023 and currency fluctuation are declining. Ghana's November 2023 inflation recorded a massive decline from 26.4% to 35.2% in October 2023. However, seasonal food price shock, external shocks, and election spending are likely to exert inflationary pressure.

Outlook

Ghana's stock exchange's stellar performance is expected to stretch into 2024 as investors continue to take advantage of opportunities on the local burse. However, the declining investor's activities and interest might be impacted by election uncertainties. We anticipate that the debt market activities will be similar to that of 2023, which means that there will be minimal interest in that space.

We anticipate that the IMF-supported policy environment will help stabilize the performance of the Cedi. The ongoing efforts to reduce inflation, along with the recent increase in the Cash Reserve Ratio to 15.0% and the directive for banks to hold cash reserves on foreign currency deposits in Cedis, are expected to encourage investors to allocate their assets in favor of the Cedi.

Despite these encouraging developments, the potential resumption of external debt service in 2024 and election uncertainties may reintroduce depreciation pressure on the Cedi. Furthermore, the Cedi remains vulnerable to unforeseen domestic and external shocks. We expect that the growth of public debt will remain sluggish due to the consolidation of public finances, the domestic debt exchange program, and the ongoing external debt restructuring.

The Government of Ghana is expected to prioritize debt sustainability in the medium-term, leading to a continued slowdown in debt expansion by 2024. To address the challenges of issuing medium-term bonds, the government plans to continue issuing Treasury bills on the domestic market to support the 2024 budget.

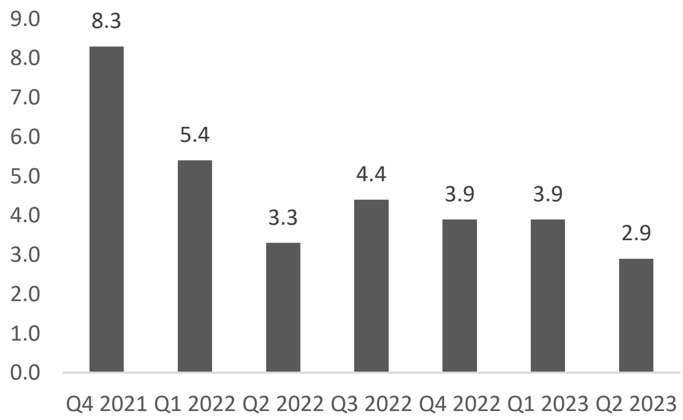
Egypt

Egypt grappled with persistent macroeconomic challenges throughout 2022, extending into 2023, as the Russia-Ukraine crisis and underlying structural issues took a toll on economic activities. In Q2 2023, Egypt reported a GDP of 2.9%, marking the lowest figure since Q1 2021 and a decline compared to Q1 2023.

This economic downturn is evident in the performance of Egypt's private sector Purchasing Manager's Index (PMI). According to S&P Global data, the private sector activity in Egypt has been in contraction for 36 consecutive months, remaining below the crucial 50-point threshold indicating expansion.

Several factors contributed to the downturn in private sector activities, including diminished demand, escalating input costs, a weakened currency, and supply shortages.

Chart 42: Egypt's Real GDP Growth (%)



***Source:** Ministry of Planning and Economic Development. EAG research.*

Egypt election: Incumbent re-elected with 89.6% of the vote

Presidential elections were held in Egypt in December 2023, as announced by the National Election Authority, after speculation that the elections might be held earlier than expected. Incumbent President Abdel Fattah el-Sisi, who initially came to power in the aftermath of the 2013 Egyptian coup d'état, was eligible for re-election. El-Sissi recorded a landslide victory, securing 89.6% of the vote, the National Election Authority said. Turnout was unprecedented 66.8% of the country's 67 million registered voters had come to the polls to cast their votes.

The President was pitted against three candidates: Hazem Omar, leader of the Republican People's Party and second in the poll with 4.5% of the vote, Farid Zahran, leader of a small left-wing party, and Abdel-Sanad Yamama of the Wafd, a century-old but now marginal party. However, President Abdel Fattah al-Sissi victory guarantees him a third term in office, starting in April 2024 and is supposed to be his last, under the Egyptian Constitution.

Inflation and Monetary Policy Rate

Inflation in Egypt rose significantly in 2023 hitting a record high of nearly 40%, as the country continues to battle price hikes and a depreciating currency. The economic crisis in the import-dependent country was catalyzed by the Russia-Ukraine war, which destabilized crucial food supplies and unsettled global markets. Inflation in Egypt rose significantly in 2023 hitting a record high of nearly 40%, as the country continues to battle price hikes and a depreciating currency. The economic crisis in the import-dependent country was catalyzed by the Russia-Ukraine war, which destabilized crucial food supplies and unsettled global markets. Food inflation was the main catalyst behind rising inflation, rising by over 73%.

Egypt, being the world's largest wheat importer, traditionally sourced much of it from Ukraine and Russia. Also, Russia Pulled out of a wartime agreement deal that allowed grain to flow from Ukraine to countries in Africa, the Middle East and Asia in July causing the global prices of grain to skyrocket despite Egypt sourcing for alternative supply. The weak Egyptian Pound further added to the woe, as Egypt paid more for imported food items. However, Inflation has started to ease, evidenced by October and November figure that eased from 35.8% to 34.6%.

Chart 43: Egypt Inflation (%)

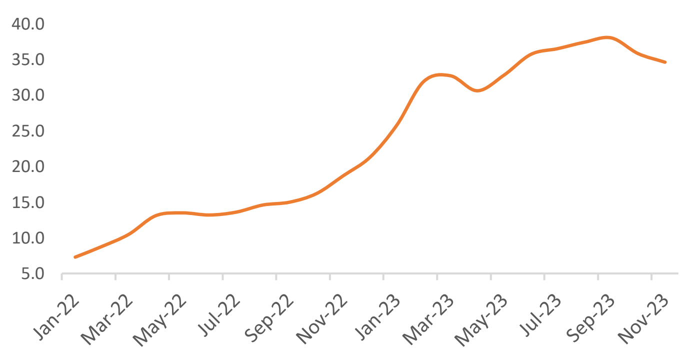
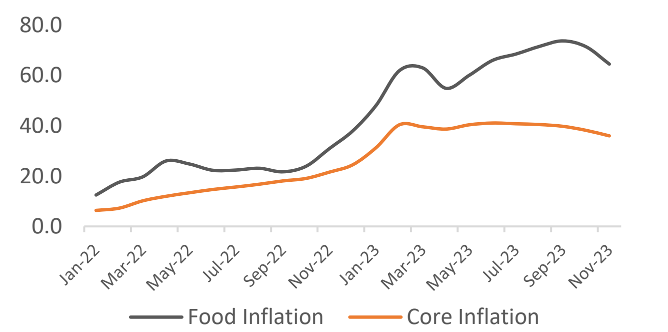


Chart 44: Food & Core Inflation (%)

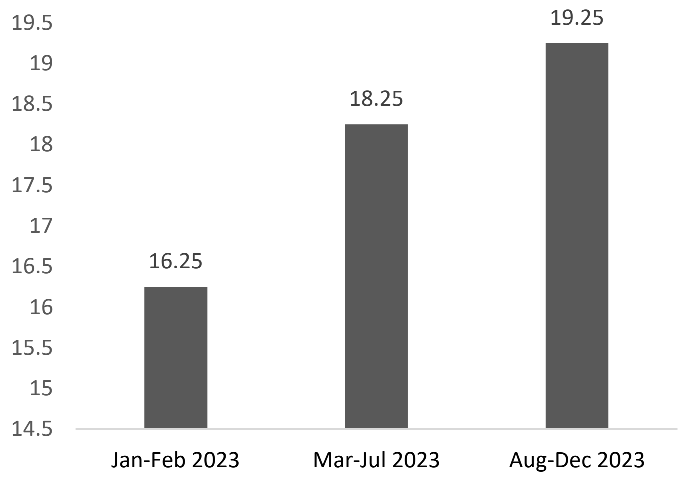


Source: *CAMPAS, Egypt, EAG research.*

Egypt

The Central Bank of Egypt continued it rate hike exercise in 2023. The bank hiked rate by a total of 300bps in 2023 as it continued to reign on rising inflation, however it was less aggressive when compared to the 700bps hike that was implemented in 2022. Despite these hikes, inflation remains above the bank's target range of 5-9% and continues to be fueled by prevalent challenges.

Chart 45: Egypt Interest Rate (%)

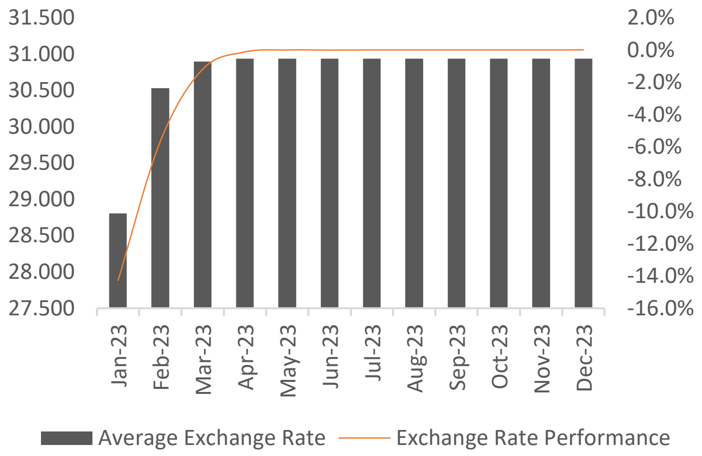


***Source**: Central Bank of Egypt, EAG research.*

Foreign Exchange and Reserves

The Egyptian pound has lost nearly 50% of its value against the dollar in a series of steep devaluations since March 2022, and has remained under pressure. Egypt's is a consumptive economy, meaning most of its industries rely heavily on imports to function. The dollar crunch and related import restrictions have crippled many industries in Egypt and raised prices of basic goods and services to unprecedented highs.
Severe foreign currency shortages have also heavily impacted the economy, limited imports and causing a parallel currency market to surge up to more than 50% of bank rates.

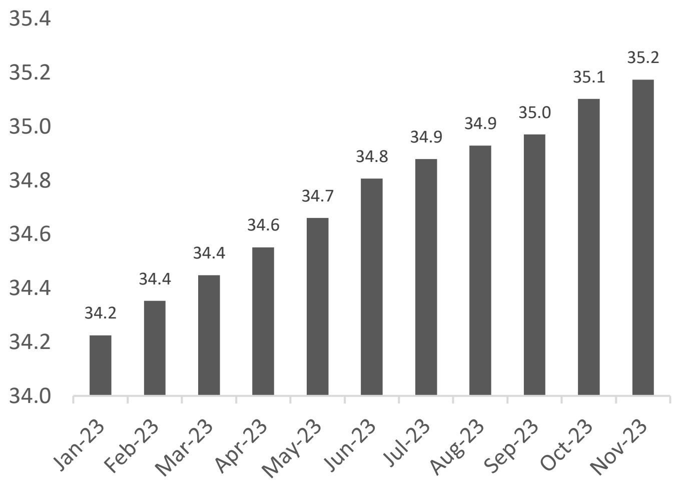
Chart 46: Foreign Exchange Rate (EGP/USD)



***Source:** Central Bank of Egypt, EAG research.*

Remittances from Egyptians abroad, the country's biggest source of foreign revenue, have been falling since the crisis began, as people turn to the parallel market to send money home. Black market rate in Egypt touched a record high of 53 EGP/USD in December, as the demand for the dollar continues to soar. The government's mounting foreign debt has increased demand for dollars because the associated debt service fees are also paid back in US dollars. Egypt's foreign reserves have slowly inched upwards, reaching $35.2 billion in November, but still remain less than before the Ukraine war.

Chart 47: Egypt's Net International Reserves ($'bn)



***Source:** Central Bank of Egypt, EAG research.*

Egypt

A $3 billion financial support package from the International Monetary Fund (IMF) signed in December has floundered after Egypt paused on its pledge to move to a flexible exchange rate regime and sell state assets.
Egypt's government has devalued its currency three times since March 2022 and its inflation rate has continued to rise.

Stock Market

The EGX-30 index, the main stock market in Egypt closed up by 69.1% on a year-on-year basis. This stellar performance follows the 22.17% gain that was recorded in 2022. Egypt has also been seriously affected by President Putin's decision to blockade Ukrainian grains, with Ukraine having accounted for over 20% of Egypt's wheat imports over the last five years. This has further pushed up the price of bread and other essentials, with inflation in Egypt nearing 40% and food inflation peaking at a new high. The economic dynamic caused local investors to increase their exposure to Egyptian stocks.

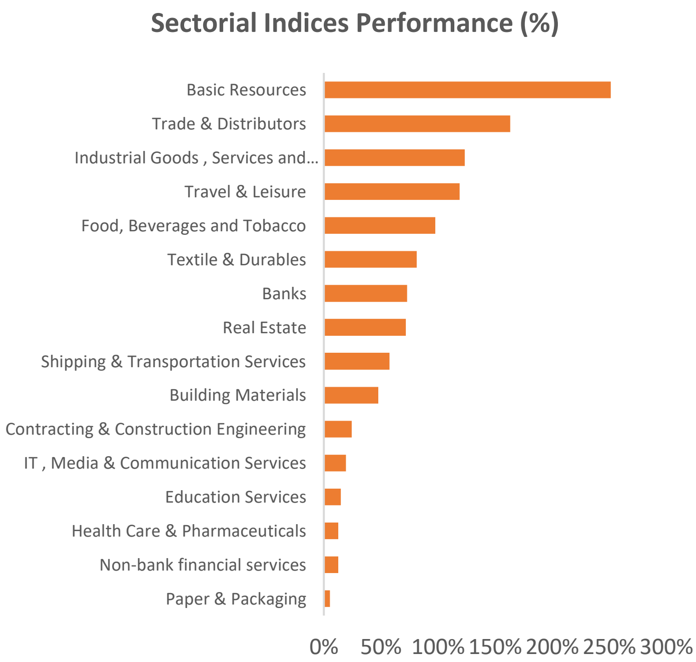
These economic dynamics could help explain why local investors are increasing their exposure to Egyptian stocks. A weakening currency and increasingly high levels of inflation have solidly eroded the value of their cash assets. Especially given the EGX 30 is performing strongly compared to emerging market peers, it makes sense that many investors are seeking to preserve the value of their assets by buying up local stocks.

Chart 48: EGX-30 Performance Trend

Source: *Egypt Stock Exchange, EAG research.*

All the sectorial indices on the Egyptian Exchange closed the year on a positive note with the basic resource sector recording the highest gain in the period under review, growing by 251% and the paper & packing sector recording the least gain in 2023, growing by 5%.

Chart 49: EGX-30 Performance Trend



Source*: Egypt Stock Exchange, EAG research.*

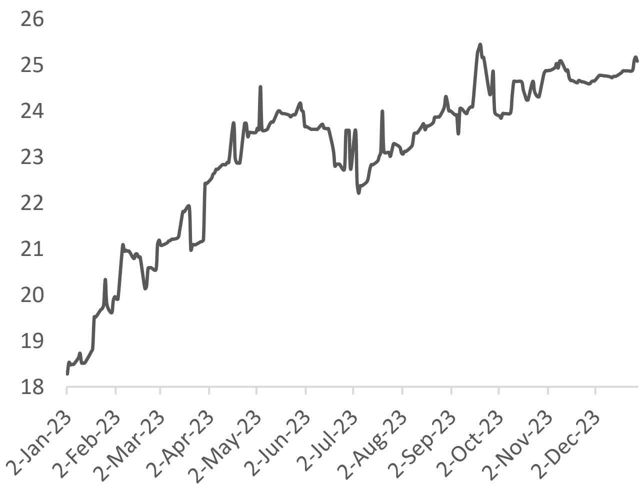
Fixed Income

Egypt’s fixed-income market showcased investors’ attitude to the country’s macroeconomic challenges in 2023, as investors sought premiums amid spiking inflation in the year.

The 10-year bond which typically measures investors’ sentiment rose by 30.7% in 2023 from 19.79% to 25.86%

The country's FX challenges, high inflation, and multiple downgrades from rating agencies all caused yields to bounce higher in the period under review.

Chart 50: Egypt's 10-Year Bond Yield (%)



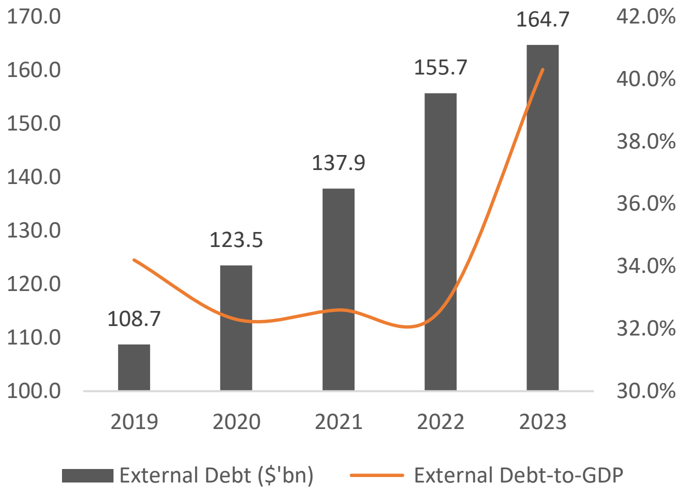
***Source**: Investing.com, EAG research.*

Public Debt

Egypt’s external debt in 2023 increased to $164.7bn from $155.7bn, implying a growth of 5.8%, as the need for capital raise has continued to increase. Egypt’s gross debt-to-GDP ratio is projected to be 92.7 % in 2023, the highest among the emerging markets and middle-income economies. This is the highest it has been since 2017, reaching nearly 98 %. Likewise, its external debt-to-GDP has also risen sharply from 32.6% in 2022 to 40.3% in 2023.

The hard currency squeeze has raised concerns about Egypt's ability to repay foreign debt. Since April, all three main credit agencies downgraded the outlook for Egyptian debt.

Chart 51: Egypt's External Debt Profile



***Source**: Investing.com, EAG research.*

Outlook

We expect that Egypt’s economy will continue to be challenged by its structural challenges in 2024. Inflation is likely going to continue to ease in 2024 as the Central Bank of Egypt continues to take steps to manage inflationary pressure. However, the risk of further inflationary pressure persists as the country remains import-dependent as well as the impact of climate change on agricultural produce, weak currency, and the expected devaluation of the Egyptian pound in 2024 poses a threat.

Projections indicate that the Central Bank of Egypt is likely to implement a rate hike in 2024, driven by the persistently high inflation rate and the projected devaluation of the Egyptian pound following the completion of elections. Such development would mark the fourth devaluation since early 2022 as official dollar exchange rates widen sharply from those in the black market. The impending devaluation is expected to align with new monetary tightening by the central bank, in line with the government's efforts to secure an expanded loan from the International Monetary Fund (IMF).

We expect that balancing public finance will be daunting for Egypt in 2024, as the country's effort to raise capital to balance its reserves, meet its expenditure for the 2024 fiscal year, and meet its medium-term debt management strategy with the IMF that aims to bring down the country's debt to below 80 % starting in 2027.

The projected external financing need for Egypt in 2024 is approximately $22 billion. As per the Central Bank of Egypt's calculations, the repayment of external debt owed to multilateral creditors and Eurobonds totaled approximately $7.6 billion in the first half of 2024. Additionally, more than $8 billion of short-term external debt is expected to be repaid in the first quarter of 2024.

This implies that Egypt will be due for debt servicing in early 2024 and any postponement of external financial support increases tensions on foreign exchange liquidity consequently. The central bank’s foreign exchange reserves are sufficient to cope with short-term debt maturities.

Egypt suffered multiple downgrades from all three major rating agencies in 2023. Likewise, the country’s main commercial bank was also downgraded. Given how strongly connected the banking sector and the government are, Egypt's private external financing is expected to deteriorate. The high-risk premium at the international capital market also puts a dent in the country's ability to raise capital.

The IMF is making its support to Egypt conditional, instigating wide-ranging reforms to privatization of public assets and the flexibility of the exchange rate system. The ongoing privatization effort seems relatively in line with the IMF requirements, with approximately $2 billion in asset sales completed in 2023 and around $6 billion slated for the 2024 fiscal year.

However, adopting a flexible exchange rate regime presents a major challenge for Egyptian policymakers, given the country's history of inflation.

We believe all of these will continue to affect business activities and as a result the economy is expected to grow in 2024, albeit at a slower pace.

EMERGING AFRICA

Emerging Africa was established in January 2018 as an Investment Banking and Financial Services Group committed to advancing the growth of African businesses and communities through Environmental, Social and Governance led solutions, leveraging talent, innovation and growth.

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- Fundall Limited
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- Treasures MFB

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- Emerging Africa Capacity Building

Awards in 2023

BUSINESS DAY — ESG Investment Firm of the Year

BUSINESS DAY — Equity Fund Manager of the year

CERTIFIED SUSTAINABLE BUSINESS — Collaboration for Excellence Award

THE PEAK PERFORMER — West African CEO of the Year

EMERGING
AFRICA

CONTACT US

25A Bourdillon Road, Ikoyi, Lagos

+234 (0) 813 354 0432

www.emergingafricagroup.com

Info@emergingafricagroup.com