June 2019
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Africa Monitor

Southern Africa

South Africa: ANC To Win Again In May 2019 Election, But Hegemony Declining

Key View

- We at Fitch Solutions expect the African National Congress (ANC) to secure its sixth successive legislative election victory in the vote scheduled for May 8th.
- We expect its share of the vote to fall from the 62.2% it obtained in the 2014 legislative election, but remain above its all-time low vote share of 53.9% secured at the 2016 municipal elections, when there were high levels of dissatisfaction with the then

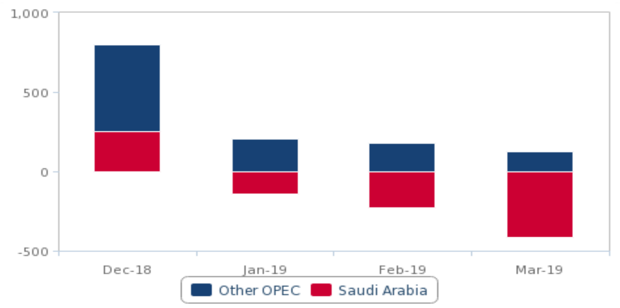
...continued on page 2

Mozambique: Cyclone Idai's Aftermath To Constrain Growth 8

We at Fitch Solutions expect the effects of Cyclone Idai to heighten downside risks to our forecast for real GDP growth of 3.7% over 2019, adding to the headwinds keeping growth below the 2006-2015 average of 7.3%.

Oil Outlook

Saudi Arabia Leading The Way
OPEC Production Cuts Versus November 2018 Reference Level ('000 b/d)



Source: OPEC, Fitch Solutions

Oil closed above USD70.0 per barrel (/bbl) in April for the first time since early December 2018, bringing its year-to-date gains to nearly 34%. Renewed concerns over supply disruption emerged in Libya as the Libya National Army moved to occupy Tripoli. Better numbers from China's leading indicators and no further escalation in trade tensions with the US have provided additional upside. However, the International Monetary Fund's downward revision of the global outlook has tempered gains. Overcompliance at 135% of OPEC+ production cut targets in March and continued impact on supply from sanctions in Iran and Venezuela have supported price appreciation. We at Fitch Solutions expect the overall demand growth to remain positive within emerging markets, excluding China. The US will boost overall demand as China and the eurozone will continue to drag on consumption. The supply-side constraint has tightened markets while outweighing concerns about the health of the global economy. We hold to our current forecast for Brent at an annual average of USD73.0/bbl for 2019 *(see 'Brent: Strong Fundamentals To Drive H2 Gains', April 2).*

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SOUTHERN AFRICA RISK INDEX

Our Country Risk Index scores countries on a 0-100 scale, evaluating short-term and long-term political stability, short-term economic outlook, long-term economic potential and operational barriers to doing business. For a detailed methodology, visit fitchsolutions.com or contact us using the details on page 1.

RISK INDEX TABLE

	Short Term		Long Term		Operational	Country
	Political	Economic	Political	Economic	Risk	Risk
Mauritius	77.9	57.1	81.4	59.6	59.9	65.8
Botswana	71.3	65.4	71.4	54.6	50.5	60.6
South Africa	65.4	52.9	61.3	58.9	52.0	56.8
Namibia	66.3	34.2	64.5	39.8	47.6	50.0
Zambia	52.7	36.5	52.2	41.9	39.6	43.7
Mozambique	53.1	32.9	50.4	34.4	33.5	39.8
Angola	67.5	47.5	55.9	41.6	32.0	45.8
Madagascar	44.8	36.3	45.6	38.4	33.1	38.9
Zimbabwe	45.4	28.1	44.7	28.0	32.2	35.1
Regional Average	**60.5**	**43.4**	**58.6**	**44.1**	**42.3**	**48.5**
Global Average	**63.1**	**52.8**	**62.0**	**54.2**	**49.8**	**55.1**

Source: Fitch Solutions

SOUTH AFRICA – POLITICAL OUTLOOK

...continued from front page

president, Jacob Zuma.

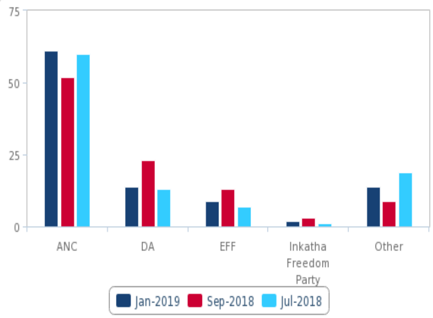
- A solid working majority for the ANC and its leader, President Cyril Ramaphosa, will insulate the government from rebellious factions within the ruling group, or the dictates of potential coalition partners. This should enable Ramaphosa to pursue his reform agenda.
- However, major constraints on economic growth will persist, posing a potential threat to the ANC's overall majority in 2023, and to social stability in the country over the longer term.

We at Fitch Solutions expect the African National Congress to secure its sixth successive legislative election victory in the vote scheduled for May 8th. In the latest (mid-March) survey of voting intentions, by Ipsos, 61.0% of respondents said that they would vote for the ruling African National Congress (ANC) if elections were to be held the following day. Meanwhile, the moderate Democratic Alliance (DA) would secure 18.0% of the national vote, and the left-wing Economic Freedom Fighters (EFF) 10.0%, with the remainder split between around 45 smaller parties. These figures, which assume a medium-sized turnout (in line with recent elections), compare with a vote share of 60.0% (ANC), 13.0% (DA) and 7.0% (EFF) in Ipsos's July 2018 poll. In contrast, a September opinion poll conducted by the South African Institute of Race Relations showed support for the ANC at 52.0%, as against 23.0% for the DA and 13.0% for the EFF.

If the survey results translate into actual share of the votes in the May 8th vote, this would mark a slight ebbing of support for the ANC in national elections – the ANC obtained 62.2% of the vote in 2014. However, it would be well above the level secured in the most recent elections, the 2016 municipal vote, in which the party achieved a share of just 53.9%, largely because of high levels of popular dissatisfaction with the then president, Jacob Zuma. As well as President Cyril Ramaphosa's much higher levels of popularity vis-à-vis Zuma, the ANC could also potentially benefit from divisions in the main opposition DA: an intra-party dispute over alleged wrongdoing by Patricia de Lille, former DA mayor of Cape Town,

ANC Set To Win Again

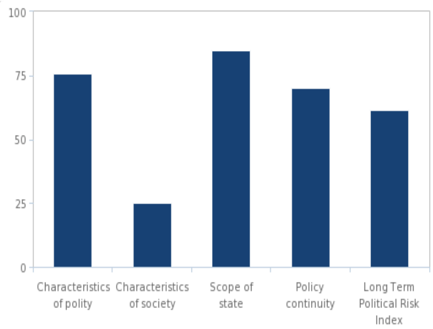
South Africa – Voting Intentions In May 2019 Election, % Of Respondents



Note: Other category includes other parties, don't know, and will not vote. September 2018 poll by South African Institution of Race Relations, others By Ipsos. Source: Ipsos, South African Institution of Race Relations, Fitch Solutions

Social Characteristics Present Potential Long-Term Threat

South Africa – Long Term Political Risk Index



Note: Scores from 0 to 100 with higher score indicating lower risk. Source: Fitch Solutions continues, and has damaged the party's efforts to portray itself as being strong on governance. In the face of allegations, de Lille has established her own party in the area, potentially eroding DA support.

A share of around 60.0% would give the ANC a solid working majority in parliament, but would be below the two-thirds majority required to make any constitutional alterations. (Under South Africa's proportional voting system, the composition of South Africa's 400-seat parliament is heavily linked to national vote share.) This is potentially significant given that constitutional amendments would be required to pass some legislative measures sought by more radical elements of the ANC, including altering the mandate of the South African Reserve Bank *(see 'South African Reserve Bank Set To Err On Side Of Caution Despite More Neutral Tilt', March 19)* or allowing for the expropriation of land without compensation. A comfortable majority and a personal electoral mandate for Ramaphosa – who was elected unopposed by parliament following Zuma's resignation – offers the prospect of greater tailwinds for reforms, including efforts to tackle corruption, inefficiencies at state-owned enterprises (which will likely necessitate substantial retrenchments and potentially asset sales) and greater use of public-private partnerships. It could also lead to efforts by Ramaphosa to entrench support within the ANC – and potentially reduce the influence of the (broadly less pro-business) Zuma faction – as well as reform of government structures.

Our core forecast is that the ANC will secure around 55.0-60.0% of the vote, facilitating reasonable (if still patchy) progress with reforms. However, there is a clear possibility that the ANC will secure a much lower share of the vote. Recent load-shedding by energy parastatal **Eskom**, weak economic growth and concerns about the inclusion of former officials linked to corruption in the ANC's list of potential candidates could all undermine support for the ruling group. Although this would be a positive development in terms of a competitive democratic landscape, a narrow win for the ANC could leave Ramaphosa vulnerable to party rebellions, and lead to increased policy uncertainty.

In any event, internal party divisions will persist after the elections, making it harder for the government to tackle already substantial challenges in terms of boosting economic growth *(see 'South African Economic Growth To Remain Weak Over The Long Term', March 29)*. The ANC's hegemony is already declining – its credentials as a liberation movement during apartheid are not particularly important to younger voters, while parties such as the EFF have eroded its young support base. Ramaphosa has considerable personality popularity, but may not be able to stand again in 2023, since there is a two-term limit (although Ramaphosa could argue that he did not serve a full initial term). These factors, particularly if combined with continued concerns about corruption and sluggish economic growth, could see the ANC fail to secure a majority at the next election. There are already signs of voter disillusionment – Ipsos has suggested that more than 10m people eligible to vote have not registered to do so, and only around half of those aged between 18 and 30 have registered. Over the longer term, there is a risk that such alienation will lead to the development of a radical, populist and extra-parliamentary movement, with a negative impact on overall stability and broad investor sentiment. This is reflected in South Africa's relatively poor score in terms of characteristics of society in our Long-Term Political Risk Index.

SOUTH AFRICA – ECONOMIC OUTLOOK

ZAR: Low Growth And High Inflation Will Continue To Weigh On Rand

Key View

- We see the South African rand as set for further volatility in the months ahead.
- Slow domestic growth and policy uncertainty in the run-up to the May 8th legislative elections will weigh on the rand, as will the risks associated with fiscal slippage. However, a more neutral US monetary policy stance and short-term risk-on sentiment – following a return to growth in Chinese factory activity and continued signs of progress in US-China trade talks – will provide some support.
- Over a multi-quarter time horizon, we forecast the rand will depreciate modestly, as a combination of structurally high inflation and low growth weigh on the unit.

Short-Term Outlook (three-to-six months)

The South African rand (ZAR) is likely to display considerable volatility over the coming three-to-six months, although we expect the currency to appreciate modestly over the period. The unit has strengthened somewhat – by 0.4% – over the first quarter of 2019, but is nevertheless some 26.2% weaker year on year (y-o-y), reflecting the ZAR's strong position in early 2018 before its subsequent depreciation during bouts of risk-off that specifically hit emerging markets after February 2018 and affected broader markets from October. Short-term market sentiment is broadly positive, however, reflecting an unexpected return to expansion in Chinese manufacturing activity in March, coupled with on-going signs of progress in US-China trade negotiations, as well as expectations that the US Federal Reserve (Fed), will pursue its neutral monetary policy stance through 2019, or even turn more dovish. These factors will collectively contribute to risk-on sentiment, providing support for EM currencies including the ZAR.

Long-Term Outlook (six-to-24 months)

Over a multi-quarter time horizon, we believe the South African rand is likely to resume its depreciatory trajectory given domestic and global headwinds. We at Fitch Solutions expect the currency to average ZAR14.20/USD in 2019, and ZAR14.59/USD in 2020, down from an average of ZAR13.24/USD in 2018. Even though we expect Ramaphosa will press ahead with reform efforts, policy challenges including slow domestic growth and structurally high inflation will not be easy to solve *(see 'South African Economic Growth To Remain Weak Over The Long Term', March 29)*, while the balance of payments on the current account will remain in deficit. These factors will likely weaken investor perceptions.

Moreover, inflation is set to head higher in 2019 as electricity tariffs increase more rapidly, higher global oil prices push up fuel costs and the beneficial effects of a strong harvest in 2017/18 fade. We expect average annual inflation to rise to 5.2% in 2019 and 5.5% in 2020, from 4.6% in 2018. Although we expect the South African Reserve Bank to increase its benchmark policy rate by a cumulative 25 basis points in 2019 *(see 'South African Reserve Bank Set To Err On Side Of Caution Despite More Neutral Tilt', March 19)* still muted growth is likely to limit policymakers' appetite for more substantial rate hikes this year. Rising inflation thus threatens to erode the attractiveness of South African assets over coming quarters, reducing demand for the rand.

Risks To Outlook

The risks to our view are broadly to the downside. While our view on the USD is broadly neutral, the balance of risks is now tilted to the upside, with negative implications for EM currencies and notably the rand, which is used as a proxy play for broader EM risk aversion. On the one hand, an upside surprise to the US economy could renew expectations of further rate hikes, which would boost the USD and exert downside pressure on EM assets. On the other, unexpected weakness in the US would fuel concerns that the global economy is slowing more rapidly than expected. This could result in greater risk-off sentiment, a flight to safe-haven assets such as the USD and thus downward pressure on the ZAR.

Otherwise, notable downward pressure on the ZAR could occur if the ANC performs poorly in the elections, prompting a shift to the left in economic policy, or if ratings agency **Moody's** revises its outlook on or rating of South Africa's sovereign debt. Moody's is the only one of the three main international credit rating agencies to maintain South Africa's credit rating at investment grade (Moody's puts South

SOUTH AFRICA – DATA AND FORECASTS

	2015e	2016e	2017e	2018e	2019f	2020f	2021f
Population, mn	55.29	56.02	56.72	57.40	58.07	58.72	59.37
Nominal GDP, USDbn	317.4	295.8	349.5	370.6	370.5	390.5	420.3
GDP per capita, USD	5,740	5,281	6,162	6,456	6,380	6,649	7,079
Real GDP growth, % y-o-y	1.3	0.6	1.3	0.8	1.2	2.1	2.3
Consumer price inflation, % y-o-y, ave	4.6	6.3	5.3	4.6	5.2	5.5	5.2
Consumer price inflation, % y-o-y, eop	5.2	6.8	4.5	4.5	5.4	5.3	5.0
Central bank policy rate, % eop	6.25	7.00	6.75	6.75	7.00	7.50	7.50
Exchange rate ZAR/USD, ave	12.76	14.71	13.31	13.24	14.20	14.59	14.64
Exchange rate ZAR/USD, eop	15.48	13.74	12.38	14.39	14.25	13.80	14.50
Budget balance, ZARbn	-152.2	-171.4	-212.9	-222.9	-243.4	-259.3	-270.8
Budget balance, % of GDP	-3.8	-3.9	-4.6	-4.5	-4.6	-4.6	-4.4
Goods and services exports, USDbn	96.4	90.8	104.1	105.1	100.8	101.0	103.0
Goods and services imports, USDbn	99.8	89.0	99.3	103.5	99.6	100.3	103.5
Current account balance, USDbn	-13.9	-8.2	-8.6	-12.8	-12.4	-12.5	-14.0
Current account balance, % of GDP	-4.4	-2.8	-2.5	-3.5	-3.3	-3.2	-3.3
Foreign reserves ex gold, USDbn	40.7	40.8	42.9	42.3	43.1	44.0	44.9
Import cover, months	4.9	5.5	5.2	4.9	5.2	5.3	5.2
Total external debt stock, USDbn	138.1	146.0	176.3	192.8	191.9	198.9	211.9
Total external debt stock, % of GDP	43.5	49.4	50.5	52.0	51.8	50.9	50.4
Crude, NGPL & other liquids prod, 000b/d	123.0	120.0	119.0	116.6	116.6	119.5	122.3
Total net oil exports (crude & products), 000b/d	-472.5	-529.8	-538.4	-551.4	-562.2	-578.5	-590.0
Dry natural gas production, bcm	1.2	0.7	0.7	0.7	0.6	1.1	1.6
Dry natural gas consumption, bcm	4.6	4.7	4.9	5.1	5.3	5.4	5.6

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Africa's long-term foreign-currency issuer rating at Baa3, while **Fitch Ratings** assigns it BB+ and **S&P Global Ratings** BB), and while we at Fitch Solutions do not speculate on the actions of credit ratings agencies, such a reassessment of South Africa's local debt would see the country fall out of investment-grade debt gauges including **Citigroup**'s World Government Bond Index, leading to substantial outflows of funding from South African bonds, and increased depreciatory pressures on the ZAR.

ANGOLA – POLITICAL OUTLOOK

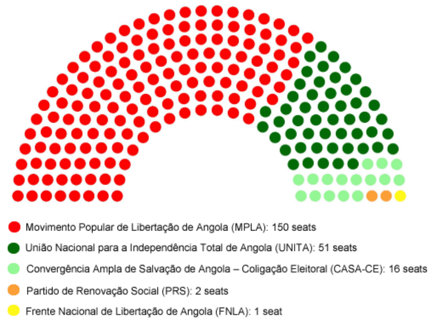
Concerns Over Corruption Hampering Gains From Reforms

Key View

- Angola's ruling MPLA party under President João Lourenço remains in a strong position to implement structural reforms over the coming years.
- We expect the government to continue taking measures with the aim of improving Angola's macroeconomic stability and business environment to stimulate investment.
- However, investor confidence in Angola's governance remains weak given a long history of cronyism, with more action being required to elevate the country's attractiveness for investment.

Ruling Party's Dominance Supporting Implementation Of Reforms

Angola – Party Breakdown Of The National Assembly (220 Total Seats)

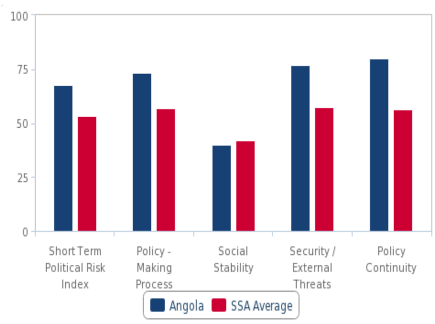


Source: Angola Press News Agency, Fitch Solutions

We expect the ruling Movimento Popular de Libertação de Angola (MPLA) party, led by President João Lourenço, to largely maintain momentum in its reform drive over the coming years. The government's willingness and capacity to implement business-friendly policies has surprised to the upside since Lourenço succeeded former President José Eduardo dos Santos in September 2017 after his 38 years in power. 2018 saw Lourenço's control over the MPLA strengthen while implementing measures to streamline investment procedures in the oil and non-oil sectors *(see 'Angolan President's Consolidation Of Power Will Help Support Reform Momentum', September 10)*. Most recently, on March 19 2019 Angola's parliament approved a draft bill for Public-Private Partnerships (PPPs) with support from 118 out of 220 MPs. This compared to seven MPs voting against the bill and 43 abstaining, according to the Angola Press News Agency. The MPLA proposed and voted for the bill with the intent of improving the efficiency of the public sector, while attracting the private sector to assist in objectives such as the development of infrastructure and promoting economic diversification that the government has struggled with amid fiscal constraints. The ruling party's ingrained political dominance has allowed it to pass legislation relatively swiftly compared to other major economies in the region *(see 'Reform Momentum Facing Resistance In Sub-Saharan Africa', November 12)*, and bodes well for reform momentum prior to the next legislative elections in 2022. This is reflected in Angola's high scores in the 'Policy-Making Process' and 'Policy Continuity' sub-components of our Short Term Political Risk Index, giving Angola a score of 67.5 out of 100.0 compared to the average of 52.7 for Sub-Saharan Africa.

A Regional Bright Spot For Stability But Downside Risks Remain

Angola And Sub-Saharan Africa – Short Term Political Risk Index Scores



Note: Scores out of 100. Higher Score = Lower Risk.
Source: Fitch Solutions

Despite the Lourenço administration having made a series of high-level dismissals as part of its anti-corruption drive, structural issues that have allowed for cronyism and mismanagement in the past will remain deterrents to investors over the coming years. Lourenço's willingness to oversee the dismissals of allegedly corrupt officials, including high-profile dos Santos allies and family members, has been well received domestically and internationally. Notable among these were the removal of the former president's daughter Isabel dos Santos as head of the state oil company Sonangol, as well as the sacking of his son José Filomeno dos Santos as chairman of Angola's sovereign wealth fund. The latter still faces criminal charges over an attempted illegal transfer of USD500mn from the central bank to a UK bank account. The anti-corruption drive has continued in 2019 signalling further action ahead, with February seeing Higino Carneiro, former governor of Luanda (2016-2017) and a senior MP of the MPLA, and Manuel Rabelais, another MPLA MP, being put under investigation and barred from leaving the country by the attorney general's office, following charges of embezzlement and abuse of power.

However, investors are likely to remain wary of Angola over the coming years due to its reputation for elites being involved in allegedly illegal activities and a lack of proper oversight. In Transparency International's 2018 Corruption Perceptions Index, Angola's score of 19/100 was unchanged from the previous year, ranking 165th out of 180 countries. Moreover, opposition figures such as Raul Danda, vice-president of the União Nacional para a Independência Total de Angola (UNITA) party, have criticised the government for only targeting enemies of Lourenço instead of reforming institutions, and uncertainty remains over how reform-minded the figures being appointed by the new government truly are.

While reform momentum in Angola will be relatively robust, we do see potential for resistance and public discontent towards its policies increasing. Lourenço's government has so far managed to implement a broad range of measures with little hindrance from within the MPLA or from the other parties. However, though yet to materialise significantly, continued actions taken against the interests of Angola's political and business elite, such as the government's plans for the privatisation of several state-owned enterprises, have the potential to increase tensions among the ruling party regarding Lourenço's leadership.

Moreover, we believe the continued weakness of the economy poses downside risks to social stability, weighing on Angola's overall score in our Short Term Political Risk Index. 2018 marked a third consecutive year of recession, and we expect real GDP growth to rise only moderately from -2.0% over 2018 to 1.6% over 2019 *(see 'Angola's Economic Growth Prospects Remain Constrained', March 21)*. On March 21 the government decreed that the national minimum wage would increase nominally by 30% to AOA21,545.1 (USD67.5) per month from the level previously set in 2017 under President dos Santos, in our view likely to pre-emptively quell discontent. However, unemployment remains high, while inflation, though slowing, will remain above the central bank's single digit target over the coming years amid the ongoing depreciation of the kwanza and the planned implementation of a Value Added Tax in July *(see 'Reform Momentum And Social Stability Facing Downside Risks In Angola' January 3)*. With risks to Angola's growth prospects being tilted to the downside due to the oil sector's inherent volatility, an unexpected continuation of the economic downturn could see an uptick in public unrest and resistance to fiscal consolidation measures over the short term.

ANGOLA – DATA AND FORECASTS

	2015	2016e	2017e	2018e	2019f	2020f	2021f
Nominal GDP, USDbn	116.1	99.7	133.1	110.3	98.9	105.6	118.2
Nominal GDP, EURbn	104.7	90.1	117.8	93.5	83.5	85.5	94.2
Real GDP growth, % y-o-y	0.9	-2.6	-0.1	-2.0	1.6	2.2	2.4
GDP per capita, USD	4,166	3,460	4,468	3,583	3,111	3,215	3,486
GDP per capita, EUR	3,756	3,128	3,954	3,036	2,625	2,603	2,778
Population, mn	27.86	28.81	29.78	30.77	31.79	32.83	33.89
Consumer price inflation, % y-o-y, ave	10.2	30.4	30.4	19.7	16.6	14.0	13.3
Lending rate, %, ave	16.9	15.8	15.8	18.3	17.3	16.0	15.5
Central bank policy rate, % eop	11.00	16.00	18.00	16.50	15.00	14.00	14.00
Private final consumption, % of GDP	52.7	56.0	55.7	53.5	53.9	53.8	54.7
Private final consumption, real growth % y-o-y	3.0	5.9	2.5	1.0	2.5	4.0	5.5
Government final consumption, % of GDP	16.4	13.9	13.1	12.0	11.5	11.4	11.5
Government final consumption, real growth % y-o-y	-8.8	-10.5	-2.5	-4.0	-2.0	3.0	5.0
Fixed capital formation, % of GDP	34.2	27.2	25.7	23.8	23.9	24.1	24.7
Fixed capital formation, real growth % y-o-y	-1.9	-19.5	-2.5	-3.0	2.5	5.0	6.5
Exchange rate AOA/USD, ave	120.18	165.96	167.32	253.81	335.67	373.75	392.50
Exchange rate AOA/EUR, ave	133.29	183.62	189.07	299.50	397.77	461.58	492.59
Budget balance, USDbn	-3.4	-3.8	-7.6	-4.2	-3.7	-3.4	-3.4
Budget balance, % of GDP	-2.9	-3.8	-5.7	-3.8	-3.8	-3.2	-2.9
Goods and services exports, USDbn	34.4	28.3	35.6	40.7	42.6	45.5	46.7
Goods and services imports, USDbn	38.0	25.7	28.3	28.9	32.1	34.2	36.0
Balance of trade in goods and services, USDbn	-3.5	2.6	7.3	11.8	10.5	11.3	10.7
Balance of trade in goods and services, % of GDP	-3.0	2.7	5.5	10.7	10.6	10.7	9.1
Current account balance, USDbn	-10.3	-3.1	-0.6	2.5	0.7	-0.4	-1.1
Current account balance, % of GDP	-8.8	-3.1	-0.5	2.2	0.7	-0.4	-1.0
Foreign reserves ex gold, USDbn	23.8	23.7	17.5	15.4	16.0	16.0	15.5
Import cover, months	7.5	11.1	7.4	6.4	6.0	5.6	5.2

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

MAURITIUS – ECONOMIC OUTLOOK

Bank Of Mauritius Key Policy Rate To Remain Unchanged

Key View

- We at Fitch Solutions expect that the Bank of Mauritius (BoM) will keep its key policy rate of 3.50% on hold through end-2019 on balanced risks.
- Inflation will accelerate sharply in the final three quarters of the year fueled by the negative base effects of an inflation rebasing in Q218 and rising oil prices.
- There remains a moderate downside risk to our policy rate forecast if oil prices come in lower than currently anticipated. This could see inflation remain low, and the BoM undertake moderate easing to support the financial services and sugar sectors.

Inflation will rise gradually from April 2019 onwards, reducing the likelihood of easing. Price growth averaged -0.6% y-o-y in Q119, but we believe that this disinflation has been due to the impact of a rebasing of price growth in Q218. Statistics Mauritius rebased its inflation data from 2012 to 2017 in April 2018, which saw inflation fall from an average of 6.6% in Q118 to 2.1% in the rest of 2018, resulting in annual average inflation of 3.0%. Price growth in Q119 has been in negative territory in part due to positive base effects, but also because of a sharp decline in oil prices in Q318. Notwithstanding robust oil price growth thus far in 2019, this has seen oil prices in Q119 average 5.1% below their year-earlier level.

These factors will reverse as 2019 progresses, driving inflation upwards. From April 2019 the negative base effects of low inflation in the last three quarters of 2018 will reverse the trajectory of price growth. Moreover, following relative oil price weakness in Q318-Q119, oil prices are set to rise this year. Indeed, Brent crude prices have risen by 29.8% since January 2 2019 and our Oil & Gas team believes that Brent prices will rise by an average of 1.8% in 2019. This will add to imported price pressures as oil is Mauritius' largest import – accounting for 20.1% of total goods imports in 2017 – and prices in the transport and fuel subcomponents of the CPI basket will rise. We expect annual average inflation to rise from 3.0% in 2018 to 3.3% in 2019, which combined with a fairly strong US dollar, will likely deter the BoM from monetary easing.

The BoM will likely continue to keep its key policy rate on hold to balance rising inflationary pressure with weakness in some economic sectors. Though there will be an increase in inflation in the latter quarters of 2019, we do not believe that price growth will be sufficient

MAURITIUS – DATA AND FORECASTS

	2015e	2016e	2017e	2018e	2019f	2020f	2021f
Nominal GDP, USDbn	11.7	12.2	13.2	13.2	13.5	14.4	17.3
Nominal GDP, EURbn	10.5	11.1	11.7	11.2	11.4	11.6	13.8
Nominal GDP, MURbn	409.9	434.8	457.2	482.6	497.5	532.7	571.7
Real GDP growth, % y-o-y	3.4	3.7	3.8	3.7	3.5	3.7	4.0
GDP per capita, USD	9,268	9,690	10,461	10,423	10,604	11,270	13,572
GDP per capita, EUR	8,356	8,758	9,258	8,833	8,948	9,125	10,815
Population, mn	1.26	1.26	1.27	1.27	1.27	1.27	1.28
Unemployment, % of labour force, eop	7.2	7.3	7.3	7.3	7.3	7.3	7.3
Consumer price inflation, % y-o-y, ave	1.3	1.0	3.7	3.0	3.3	3.2	3.3
Lending rate, %, ave	6.6	6.8	9.0	9.3	9.5	9.8	10.0
Central bank policy rate, % eop	4.40	4.00	3.50	3.50	3.50	3.50	3.50
Private final consumption, % of GDP	74.7	73.6	74.8	75.6	78.6	78.5	78.3
Private final consumption, real growth % y-o-y	2.9	2.9	2.9	2.9	3.7	3.7	3.7
Government final consumption, % of GDP	14.9	15.4	15.2	15.3	15.9	16.0	16.0
Government final consumption, real growth % y-o-y	3.0	2.1	2.1	2.1	4.0	4.2	4.3
Fixed capital formation, % of GDP	17.4	17.2	17.4	18.7	19.5	19.6	19.7
Fixed capital formation, real growth % y-o-y	-3.7	3.3	3.3	3.3	4.2	4.0	4.5
Exchange rate MUR/USD, ave	35.12	35.55	34.54	36.50	36.90	37.10	33.00
Exchange rate MUR/EUR, ave	38.95	39.33	39.03	43.07	43.73	45.82	41.42
Budget balance, USDbn	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6	-0.7
Budget balance, % of GDP	-2.2	-3.7	-3.4	-4.1	-4.5	-4.0	-3.9
Goods and services exports, USDbn	5.5	5.2	5.4	5.5	5.9	6.4	6.9
Goods and services imports, USDbn	6.8	6.5	7.2	7.6	7.9	8.3	8.8
Balance of trade in goods and services, USDbn	-1.2	-1.2	-1.8	-2.1	-2.1	-2.0	-1.8
Current account balance, USDbn	-0.4	-0.4	-0.7	-0.9	-0.9	-0.8	-0.7
Current account balance, % of GDP	-3.2	-3.2	-5.3	-6.5	-6.6	-5.6	-4.1
Foreign reserves ex gold, USDbn	4.3	5.0	6.0	5.8	5.7	5.8	6.0
Import cover, months	9.3	11.4	13.4	12.6	11.6	10.9	10.3

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

to warrant monetary tightening. Furthermore, several economic sectors will face headwinds in 2019, acting as a deterrent to any monetary tightening. Though real growth in Mauritius has been healthy in 2018 – coming in at 3.7% – we note that the manufacturing and agricultural sectors are being affected by problems in the sugar sector. Agriculture and manufacturing both contracted in Gross Value Added (GVA) terms in Q318, to a large degree because of the problems facing sugar producers and processors. We also note that from April 2019 the financial services sector will be hit by the full implementation of the revisions to a double tax treaty with India, which we believe will have a dampening effect on lending *(see 'Loan Growth To Slow In 2019 As Foreign Capital In Mauritius Declines', February 11)*. Monetary tightening would adversely affect these sectors, likely deterring tightening and leading to a neutral policy stance in 2019.

There is a downside risk to our policy rate forecast if inflation remains below our expectations. If price growth underperforms our expectation due to an unforeseen decline in oil prices in 2019 – for example due to OPEC+ production cuts ending sooner than expected or if global growth disappoints, weakening global demand – then there would be scope for monetary easing. In this situation we believe the BoM would be emboldened to undertake a moderate cut of 50 basis points (bps) to support the sugar and financial services sectors.

MOZAMBIQUE – ECONOMIC OUTLOOK

Cyclone Idai's Aftermath Will Further Constrain Growth

Key View

- We expect the effects of Cyclone Idai to heighten downside risks to our forecast for real GDP growth of 3.7% over 2019, adding to the headwinds keeping growth below the 2006-2015 average of 7.3%.
- Large-scale destruction of farmland will weigh on output in the crucial agricultural sector, increasing food insecurity and reducing consumers' purchasing power by increasing inflation.
- Damage to infrastructure will further hamper Mozambique's growth with damaged transport links and power outages weighing on productivity, while also posing downside risks to regional trade.
- The government's ongoing fiscal constraints leave it in a weak position to respond to the crisis, and we expect its budget balance to deteriorate further over the coming quarters.

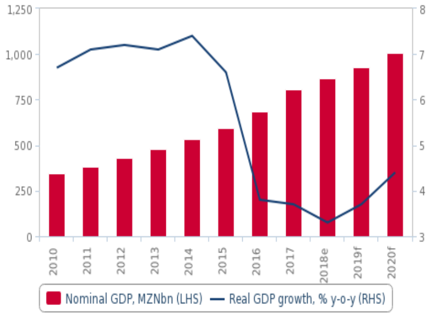
We expect that Cyclone Idai's negative impact on the Mozambican economy will be pronounced over the short term. Strong winds, torrential rains and flooding have led to over 700 casualties in Mozambique, Zimbabwe and Malawi, and the UN estimates that around 1.85 million people have been affected in Mozambique alone. At present, we maintain our expectation for foreign investment into the developing hydrocarbon sector in the country's north to combine with the effects of the central bank's aggressive monetary easing to help buoy economic growth. However, we now see increased downside risks to our already low real GDP growth forecast for 2019 in the wake of Idai's impact *(see 'Mozambique's Economic Growth Rising But Still Muted', March 4)*.

Flooding of large areas of farmland in central Mozambique will contribute to lower-than-anticipated agricultural output, with higher food prices likely to weigh on private consumption. Damaged crops in the flooded provinces of Manica, Sofala and Zambezia, which account for around 40 to 50% of Mozambique's total cereal production, will see national agricultural output underperform over the short term. This will exacerbate the risks of food shortages that were already rising due to overly dry weather in southern Mozambique in late 2018 and early 2019. As the agricultural sector employs around 73.1% of Mozambique's labour force, its underperformance will weigh on incomes and consumer demand over the short term. Moreover, we believe the impact of adverse weather across large areas of the country will provide increased upward pressure on food prices, raising risks of inflation exceeding our average forecast for 6.6% over 2019 and further constraining purchasing power.

The destruction of energy and transport infrastructure will further hamper Mozambique's productivity and economic growth, while also posing downside risks to regional peers. According to the Economic Commission for Africa (ECA), over USD1.0bn worth of infrastructure was destroyed across Southern Africa due to Idai. Beira, Mozambique's fourth largest city with a population of half a million, bore the brunt of the impact with over 90% of its buildings being demolished according to local media. Power lines are being reconnected gradually, but residents still face power supply shutdowns as the government aims to conserve energy. Moreover, The city's port is a key hub for regional trade via the Indian Ocean, with its rail links allowing central Mozambique as well as landlocked neighbouring countries, such as Zimbabwe, Zambia and Malawi, to export and import goods. For Mozambique, the earlier submersion of railway lines saw Vale temporarily halt coal exports from its key Moatize mine in Tete province, though the firm has since been able to resume its exports via a port in the Nampula province. Flooding and damage to transport infrastructure has so far delayed rescue efforts and the delivery of aid, and uncertainty remains over how disrupted trade flows for the region will be.

The government's capacity to respond to the crisis is limited due to budgetary constraints, and we expect its ability to support economic growth to deteriorate further over the coming quarters. Revelations of previously hidden debt in 2016 saw the IMF and other key donors begin withholding budgetary support. We expect the impact of the cyclone to further weaken the government's revenue generation over the coming quarters. In a statement issued on March 26, the IMF said that it would 'consider the authorities' request for emergency financial assistance under the IMF Rapid Credit Facility (RCF)'. Overall though, we expect a lack of revenue, coupled with the expenses of addressing Idai's aftermath, will likely drive the budget deficit beyond our prior forecast of 6.7% of GDP in 2019, which we will look to revise as the situation develops *(see 'Mozambique's Budget Deficit To Widen Over 2019', November 23)*. This will keep the government's capacity to stimulate economic activity low, as the trend of suppressed capital expenditure that has seen growth slow sharply compared to the years prior to the 'hidden debt crisis' continues. Additionally, government resources currently dedicated to tackling security risks tied to an insurgency in Cabo Delgado province will also likely become more strained, raising risks of greater instability spreading further south *(see 'Mozambican Peace Talks Resuming A Positive Sign, But Risks Remain', March 1)*.

Cyclone's Impact Raises Downside Risks To Already Weak Growth
Mozambique – GDP



e/f = Fitch Solutions estimate/forecast. Source: UN, Fitch Solutions

Destruction Of Farmland And Infrastructure Will Weigh On Productivity
Mozambique – Map Showing Areas Most Impacted By Cyclone Idai

Note: Yellow – Provinces where flooding has been reported to have caused significant damage by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). Source: OCHA, Fitch Solutions

MOZAMBIQUE – DATA AND FORECASTS

	2016e	2017e	2018e	2019f	2020f	2021f	2022f
Nominal GDP, USDbn	10.9	12.7	14.5	14.4	14.3	14.9	17.6
Nominal GDP, EURbn	9.9	11.2	12.1	12.0	11.6	11.9	13.9
Real GDP growth, % y-o-y	3.8	3.7	3.3	3.7	4.4	5.8	6.9
GDP per capita, USD	379	426	474	459	442	448	514
GDP per capita, EUR	342	377	395	383	358	357	408
Population, mn	28.83	29.67	30.53	31.41	32.31	33.23	34.17
Consumer price inflation, % y-o-y, ave	19.8	15.4	3.9	6.6	6.5	6.1	6.6
Lending rate, %, ave	21.2	27.8	23.6	19.5	18.5	17.5	17.0
Central bank policy rate, % eop							
21.00	14.25	14.25	12.00	10.00	8.00		
Private final consumption, % of GDP	71.1	67.2	68.5	72.5	77.5	80.9	77.8
Private final consumption, real growth % y-o-y	2.8	3.5	3.5	4.3	5.5	6.0	6.0
Government final consumption, % of GDP	28.3	25.5	25.0	26.5	28.3	29.0	27.5
Government final consumption, real growth % y-o-y	4.8	4.3	2.5	5.0	5.5	5.0	5.0
Fixed capital formation, % of GDP	22.5	24.6	25.6	28.2	31.9	34.5	34.0
Fixed capital formation, real growth % y-o-y	-23.1	13.9	8.8	9.0	12.0	11.0	9.0
Exchange rate MZN/USD, ave	62.83	63.54	60.35	63.81	68.00	71.00	71.00
Exchange rate MZN/EUR, ave	69.51	71.80	72.42	76.58	83.98	89.11	89.46
Budget balance, USDbn	-0.7	-0.6	-0.8	-1.0	-1.0	-1.0	-0.8
Budget balance, % of GDP	-6.3	-4.4	-5.5	-6.8	-6.7	-6.4	-4.5
Goods and services exports, USDbn	3.8	5.4	5.7	6.1	6.5	7.2	8.5
Goods and services imports, USDbn	7.9	8.2	9.1	10.5	12.3	14.0	15.5
Balance of trade in goods and services, USDbn	-4.1	-2.8	-3.4	-4.5	-5.8	-6.8	-7.0
Balance of trade in goods and services, % of GDP	-37.5	-22.3	-23.8	-31.1	-40.3	-45.6	-39.7
Current account balance, USDbn	-3.8	-2.6	-3.1	-4.2	-5.5	-6.6	-6.8
Current account balance, % of GDP	-35.2	-20.4	-21.7	-29.1	-38.4	-44.0	-38.5
Foreign reserves ex gold, USDbn	2.0	3.2	3.3	3.4	3.6	3.9	4.1
Import cover, months	3.1	4.6	4.3	3.9	3.5	3.4	4.0

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

NAMIBIA – POLITICAL OUTLOOK

Ruling Party's Dominance Ensures Policy Continuity

Key View

- We at Fitch Solutions expect Namibia's incumbent SWAPO party to remain dominant in the November 2019 general elections, with President Hage Geingob winning a second five-year term enabling him to continue his broadly business-friendly policy agenda.
- Though unlikely, there is potential for SWAPO's historically strong majority in Namibia's parliament to notably weaken should discontent following a two-year recession result in more votes for opposing parties. A large enough loss of seats could see increased factionalism in the ruling party hinder future policy formation.

We expect the ruling South West Africa People's Organisation (SWAPO) party to remain in power following Namibia's November 2019 general elections, with President Hage Geingob winning a second five-year term. SWAPO has remained in power since Namibia gained independence in 1990, with strong victories in successive presidential and parliamentary races. The 2014 election saw the ruling party win 77 of the 104 seats in the National Assembly, with none of the parties within the highly fragmented opposition garnering more than five. The 2019 race is set to be similarly crowded. Indeed, February 2019 saw the Landless People's Movement (LPM) formally register as an additional political party running in the elections, with a focus on the contentious issues of high inequality and ancestral land restitution. We expect SWAPO's ingrained advantages from long-term incumbency and access to greater campaign resources to grant the party and Geingob victories, facilitating broad policy continuity. This is reflected in our Short Term Political Risk Index (STPRI), with Namibia's score of 66.3 out of 100.0 outperforming the Sub-Saharan Africa regional average with high scores in the 'Policy-Making Process' and 'Policy Continuity' sub-components.

With Geingob and the ruling party likely remaining in control of policy, we expect the President will maintain a broadly business-friendly policy agenda. Geingob's landslide victory at a 2017 SWAPO party conference granted him the political capital needed to pare back on some of the more hard-line components of the New Equitable Economic Empowerment Framework (NEEEF) *(see 'Geingob's Victory At Party Congress Signals More Moderate Reforms', December 6 2017)*. Of note was the scrapping of a clause in April 2018 that required businesses in Namibia to devote 25% of shares to black 'previously disadvantaged citizens' (PDCs). The clause had previously been criticised by The Namibia Chamber of Commerce and Industry, and Geingob argued the policy would not effectively see a broad-based empowerment of those it aimed to better.

Additionally, although the government has taken a tougher stance on the issue of land reform, aiming to address inequality that has persisted since colonial rule, the revisions to legislation following the second national land conference in October 2018 were less radical than many observers had previously anticipated *(see 'Stronger Stance On Expropriation Will Not Undermine Long-Term Investment In Namibia', October 9)*. We maintain our expectation for the government to not change the constitution to allow for land expropriation without fair compensation. As such, although uncertainty remains over future policy action, we expect Geingob to oversee an overall business-friendly agenda over coming years, contributing to Namibia's above average score in our Operational Risk Index.

However, there is potential for SWAPO to see a reduced majority following an economic downturn amid long-term social issues. The previous elections in 2014, 2009 and 2004 all saw SWAPO win over 75% of the vote, and Geingob's first term was won in 2014 with 87%. These victories were gained despite Namibia suffering from issues such as a lack of housing and one of the highest degrees of inequality in the region, which remain prevalent in 2019. However, under Geingob's first term, Namibia saw negative real GDP growth in 2017 and 2018, the first years of recession since 1993. Moreover, the government has implemented austerity measures to cut the fiscal deficit since 2015, while the unemployment rate has remained high at 33.4% *(see 'Mining Sector Leading Namibia Out Of Recession But Broader Weakness Persisting', April 8)*. These factors risk seeing discontent translate into public unrest weighing on stability, giving Namibia a lower score in the 'Social Stability' sub-component of our STPRI.

We see scope for opposing parties to capitalise on public discontent, partially eroding SWAPO's near dominance of the Assembly. Parties such as the LPM, led by Geingob's former Deputy Minister for Land Reform Bernardus Swartbooi with a focus on the sensitive issue of land redistribution, may garner greater support in the wake of the two-year recession and SWAPO's continued lack of progress in land reform. Our core expectation is for SWAPO to remain dominant and cohesive as a party. However, though unlikely, losing a notable number of seats in parliament under Geingob's leadership could see a rise in factionalism within the ruling party, which had been an issue ahead of the President's victory at the 2017 party conference. Such a scenario could see policy implementation slow down or lead to SWAPO shifting to more populist measures sought by its hardliners.

NAMIBIA – DATA AND FORECASTS

	2015	2016e	2017e	2018e	2019f	2020f	2021f
Nominal GDP, USDbn	11.8	11.3	13.6	14.5	14.7	15.9	16.9
Real GDP growth, % y-o-y	6.1	1.1	-0.9	-0.1	1.2	1.7	2.1
GDP per capita, USD	4,847	4,552	5,355	5,605	5,568	5,885	6,132
Population, mn	2.43	2.48	2.53	2.59	2.64	2.70	2.75
Consumer price inflation, % y-o-y, eop	3.7	7.3	5.2	5.1	5.8	5.0	6.5
Consumer price inflation, % y-o-y, ave	3.4	6.7	6.2	4.3	5.6	5.4	5.8
Central bank policy rate, % eop	6.50	7.00	6.75	6.50	7.00	7.50	7.50
Exchange rate NAD/USD, ave	12.76	14.71	13.31	13.24	14.10	14.22	14.64
Exchange rate NAD/USD, eop	15.48	13.74	12.38	14.38	14.22	13.80	14.50
Budget balance, NADbn	-12.4	-11.4	-8.9	-7.6	-9.2	-9.6	-10.2
Budget balance, % of GDP	-8.3	-6.9	-4.9	-3.9	-4.4	-4.2	-4.1
Goods and services exports, USDbn	4.2	4.0	4.4	4.8	5.3	5.7	6.1
Goods and services imports, USDbn	7.0	6.4	6.1	6.2	6.5	6.8	7.3
Current account balance, USDbn	-1.7	-1.7	-1.0	-0.8	-0.7	-0.6	-0.7
Current account balance, % of GDP	-14.6	-14.6	-7.3	-5.8	-4.6	-4.0	-4.2
Foreign reserves ex gold, USDbn	1.7	1.8	2.4	2.1	2.3	2.4	2.7
Import cover, months	2.5	3.1	4.6	4.0	4.3	4.1	4.2
Total external debt stock, USDbn	4.7	4.5	5.8	6.9	7.9	9.0	9.6
Total external debt stock, % of GDP	40.0	39.7	42.7	47.4	53.4	56.5	56.7

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

ZAMBIA – ECONOMIC OUTLOOK

Fiscal Deficits Unlikely To Fall Significantly

Key View

- Zambia's fiscal deficit will narrow slightly in 2019 as revenues are boosted by higher mining receipts.
- Deficits will remain large by historic standards due to expenditure growth, driven by high debt servicing costs, capital spending projects and a large public sector wage bill.
- There is a long-term risk that taxes on the mining sector result in a decline in production which would weaken revenues and impede the progress of fiscal consolidation.
- We forecast the fiscal deficits will decline from 7.1% of GDP in 2018 to 6.8% in 2019, before averaging 5.7% between 2020 and 2028 – compared to an average of 4.6% between 2009 and 2017 and above government forecasts for 2019-2021.

An uptick in mining revenues will help drive a moderate narrowing of Zambia's fiscal deficit in 2019. In the FY2019 budget – released in September 2018 – Zambia announced that it would increase the taxes and duties it imposes on the large mining sector. Among others, these changes included:

- An increase of 1.5% on existing royalties on minerals.
- A 15.0% duty on manganese ores and concentrates.
- A 15.0% duty on gold and precious metals exports.
- A 5.0% import duty on copper and cobalt concentrates.

These duties will likely boost revenues in the near term, as our Mining team expect that production of key metals such as copper will rise in the coming years. Indeed, royalties from mining made up 7.5% of total revenues in the first three quarters of 2018 suggesting that as revenues from this sector grow it will be supportive of revenue growth.

We stress that Zambia's fiscal deficits will remain elevated however because of limited non-mining revenue growth and elevated spending. We expect that non-mining related taxes will only see tepid growth, weighed down by relatively sluggish real GDP growth. We expect that the output of the agricultural sector will be relatively weak in 2019, which will weigh on revenues from the sector. Moreover, as one of Zambia's largest employers, tepid growth in the agricultural sector will weigh on income tax – the largest source of government receipts – and thereby limit revenue growth. Furthermore weak agricultural growth will lead to sluggish consumer demand – reinforced by above target band inflation *(see 'Gradual Monetary Tightening Ahead For Bank Of Zambia', February 22)*. This will reduce the scope for major increases in VAT receipts – 34.7% of total revenues in Q318. Finally, we expect that grant payments are also likely to underperform given the government's ongoing failure to secure assistance from the IMF. Indeed, in Q318 grants fell short of government expectations by 66.2%.

Expenditure will remain elevated due to numerous spending commitments that the government is unwilling or unable to reduce. In the 2019 budget the government announced plans to reduce expenditure but the government's Medium Term Expenditure Framework still shows forecasted spending to spending to rise from 24.7% of GDP in the 2018 budget to 24.9% in 2021. Commitment to finance or part-finance a series of ongoing infrastructure projects will likely see capital expenditure rise, with capital spending projects making up 14.0% of total spending in the FY2019 budget. We also note that spending on public sector salaries – 32.2% of total spending for the first three quarters of 2018 – is unlikely to fall given upcoming elections and persistent threats of social unrest stemming from high unemployment and political tensions between the government and opposition. In this environment salaries are unlikely to be cut and will likely have to increase in line with rising inflation. Meanwhile efforts to pay down elevated domestic arrears, at ZMW12.7bn as of end-2017, will further temper the pace of consolidation.

Finally, rising interest expense will be an increasing burden, limiting room to pare back spending. Zambia's total public debt has risen in recent years, contributing to interest payments becoming the largest component of expenditure – 43.9% of total spending as of January 2019. This is only going to be exacerbated by elevated borrowing costs. Indeed, yields on the government's 2024 eurobond stood at 13.8% at the time of writing (March 5) and we believe that a gradual further tightening of monetary policy in the US and EU in late 2019 and 2020 coupled with elevated investor concerns over Zambia's weak fiscal position will limit scope for a significant reduction in borrowing costs. With 53.9% of Zambia's debt denominated in foreign currency, a further sell-off in the kwacha – which we see as fairly likely – will only further increase the cost of repaying debts.

Over the long term, Zambia's fiscal and growth dynamics will remain challenging in the absence of more significant reforms. While we expect the government to succeed in narrowing the fiscal deficit modestly in FY2019, this will come largely on the back of increased tax hikes to increase revenue. This could threaten the country's mining sector growth – we have already seen the Zambian Chamber of Mines (which represents firms such as Glencore, First Quantum Minerals, Vedanta Resources and Barrick Gold) warning that their operations would be scaled back due to higher taxes – in turn potentially undercutting longer-term revenue generation capacity. While we believe that elevated borrowing costs will eventually impel the authorities to make more significant cutbacks to expenditure in a bid to rebuild investor confidence, the longer these reforms take the more painful the eventual fiscal consolidation will likely be.

ZAMBIA – DATA AND FORECASTS

	2015	2016e	2017e	2018e	2019f	2020f	2021f
Population, mn	16.10	16.59	17.09	17.61	18.14	18.68	19.23
Nominal GDP, USDbn	21.2	21.1	26.3	27.4	25.7	27.5	29.8
GDP per capita, USD	1,318	1,269	1,540	1,555	1,416	1,470	1,549
Real GDP growth, % y-o-y	2.9	3.8	3.5	3.7	3.4	3.6	3.0
Consumer price inflation, % y-o-y, ave	10.0	18.2	6.6	7.5	8.3	7.9	7.3
Consumer price inflation, % y-o-y, eop	21.1	7.5	6.1	7.9	8.6	7.2	7.4
Central bank policy rate, % eop	15.50	15.50	10.25	9.75	10.25	11.25	11.25
Exchange rate ZMW/USD, ave	8.64	10.31	9.54	10.48	12.34	12.90	13.15
Exchange rate ZMW/USD, eop	11.00	9.94	9.98	11.88	12.80	13.00	13.30
Budget balance, ZMWbn	-17.3	-12.4	-16.7	-20.4	-21.4	-21.3	-28.4
Budget balance, % of GDP	-9.4	-5.7	-6.6	-7.1	-6.8	-6.0	-7.2
Goods and services exports, USDbn	8.2	7.4	9.1	9.0	9.8	11.0	11.9
Goods and services imports, USDbn	8.9	7.9	9.4	10.0	10.9	12.0	12.9
Current account balance, USDbn	-0.8	-1.0	-1.0	-1.6	-1.7	-1.6	-1.6
Current account balance, % of GDP	-3.9	-4.5	-3.8	-5.9	-6.5	-6.0	-5.5
Foreign reserves ex gold, USDbn	3.0	2.4	2.2	1.6	1.6	1.7	1.8
Import cover, months	5.9	5.5	4.2	2.8	2.7	2.5	2.4
Total external debt stock, USDbn	11.8	15.5	16.3	16.7	17.8	19.3	21.0
Total external debt stock, % of GDP	55.4	73.7	62.0	60.8	69.4	70.4	70.4

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

ZIMBABWE – INDUSTRY OUTLOOK

Liquidity Issues To Sustain Challenges For Banks

Key View

- Zimbabwe's fraught fiscal position will see the government bond portfolios of domestic banks remain elevated in the coming quarters, keeping private sector lending stunted.
- The introduction of a new monetary framework will pose further headaches for the banking sector, given uncertainty surrounding the multiple-currency regime.
- In the meantime, banks' main source of earnings will likely come from transaction charges, given that severe liquidity challenges and high lending to the government will constrain private sector lending.

Private sector lending will remain highly constrained in Zimbabwe, as the government's heavy reliance on domestic borrowing continues to crowd out the private sector. Treasury bills as a share of total assets have risen significantly in recent years from around 5.3% of total assets at the start of 2015 to 24.3% in November 2018 as a result of the government's heavy domestic financing needs and a lack of access to foreign financing *(see 'Ncube Faces Significant Challenges Paring Back Spending In Zimbabwe', March 7)*. Indeed, the government remains largely locked out of international markets on the back of significant arrears to multilateral lenders, forcing it to tap the domestic banking sector. While the government has announced plans to rein in the use of domestic financing in 2019, we believe that elevated political risk will limit the extent to which the government can consolidate its fiscal accounts. This reflects our view that asset growth will expand by 15.0% y-o-y in 2019, even as loan growth stagnates at around 5.0% y-o-y.

Banks will continue to see fairly strong profits from transaction fees in the months ahead. In recent quarters, income from fees and commissions on card and internet transfers has become the largest source of revenue for banks as the population has had to increasingly rely on electronic money in the dollar-starved economy. Meanwhile, as of September, banks were charging up to 2.0% for withdrawal fees, up to 40 cents for withdrawing money under USD10, and up to 50 cents for withdrawing money over USD10 *(see 'Zimbabwean Banks To Remain Processors Of Payments Rather Than Allocators Of Capital', June 12)*. After the banking sector posted a 76.7% y-o-y rise in aggregate net profit for the January-September 2018 period (largely due to a rise in non-interest income from transaction fees and t-bill interest payments), we believe that these charges are likely to continue to boost profits for the sector across our short-term outlook.

However, the strong bank profits belie the economic challenges facing Zimbabwe. Indeed, rather than an indication of the good health of the banking sector, we believe that the headline numbers are a result of a dearth of hard currency in circulation, which is preventing banks from fulfilling their traditional role of allocating capital to productive activities. While the introduction of a new exchange rate system in February was meant to address the insufficient access to hard currency in the Zimbabwean economy, this issue will continue to undercut growth and lending to the private sector. In an attempt to lessen the impact of the country's ongoing liquidity crisis on the Zimbabwean economy, on February 20 authorities announced that a new exchange rate regime *(see 'New Monetary System To Offer Limited Tailwinds In Zimbabwe', March 7)*. The RTGS dollar was floated to the market at an initial value of 2.5 per dollar (after initial concern that it would be introduced at a 1:1 rate). However, movement toward a market determined exchange rate has been gradual. While it has steadily depreciated on the parallel market to RTGS3.80/USD, movement toward a free market-determined exchange rate has been limited, with official rate for the RTGS recorded at RTGS2.70/USD at the time of writing. The new exchange rate regime will not only fail to rapidly boost liquidity in the economy, but will heighten the challenges for the banking sector. We believe that the banks have little bargaining power with regards to which currency the loan principal will be serviced in and there is a high risk that government could eventually decide to pay back loans in RTGS rather than US dollars. As such, banks will continue to suffer from cash flow issues, sustaining the economy's liquidity crisis. This, combined with ongoing uncertainty over government policy, will severely weigh on their capacity to lend to the private sector.

Asset Quality

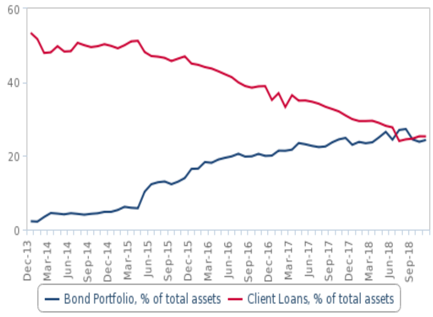
While the ratio of NPLs fell to 7.1% by December 2017 from a peak of 20.5% in June 2014, this is largely due to the publicly funded Zimbabwean Asset Management Company (ZAMCO) absorbing much of the sector's bad debt over recent years rather than improving risk management. Furthermore, the NPL ratio is not fully reflective of the low quality of assets on banks' balance sheets, as they do not cover T-Bills that are looking increasingly illiquid.

Funding Structure

At the end of November 2018, the loan-to-deposit ratio stood at 0.35, having fallen from 0.73 three years before. This is representative of the sharp decline in loans since the onset of the economic recession and liquidity crisis. It is also important to note that while deposits are showing strong levels of growth, very little is actually underwritten in hard cash, offering little support to funding. Furthermore, a significant portion of deposits are short-term in nature.

Bond Portfolio Will Remain Elevated

Zimbabwe – Loan & Bond Portfolio, % Of Total Assets



Source: Reserve Bank of Zimbabwe, Fitch Solutions

Capital Adequacy

Capital adequacy continues on its upward trend, reaching 27.6% by December 2017, up from just 13.1% in December 2012. However, this figure is misleading as very little of the banks' capital structure is supported by reserves of hard cash, leaving the sector ill-prepared to meet withdrawal demands from depositors.

Sovereign Support Capacity

The Zimbabwean government's constrained fiscal position leaves virtually no room for support to the banking sector. While the creation of ZAMCO has helped alleviate banks of NPLs, any beneficial effect has been offset by the lack of cash repayments of outstanding T-Bills, which now form a substantial part of banks' asset sheets. The government is increasingly reliant on the banking sector for its borrowing, aggravating the issue of limited sovereign support capacity.

ZIMBABWE – DATA AND FORECASTS

	2015	2016e	2017e	2018e	2019f	2020f	2021f
Population, mn	15.78	16.15	16.53	16.91	17.30	17.68	18.06
Nominal GDP, USDbn	20.0	20.5	22.0	24.4	32.0	38.5	42.8
GDP per capita, USD	1,265	1,272	1,333	1,443	1,847	2,176	2,369
Real GDP growth, % y-o-y	1.8	0.8	4.7	1.9	2.2	3.6	2.8
Consumer price inflation, % y-o-y, ave	-2.4	-1.6	0.9	10.5	35.0	18.0	8.0
Consumer price inflation, % y-o-y, eop	-2.5	-0.9	3.5	42.1	28.0	8.0	8.0
Exchange rate USD/USD, ave	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Exchange rate USD/USD, eop	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Budget balance, USDbn	-0.2	-1.4	-2.5	-2.9	-2.6	-2.5	-2.3
Budget balance, % of GDP	-0.8	-6.6	-11.4	-11.7	-8.3	-6.4	-5.4
Goods and services exports, USDbn	4.0	4.1	4.7	4.9	5.1	5.3	5.7
Goods and services imports, USDbn	7.5	6.4	6.6	7.1	7.8	8.5	9.3
Current account balance, USDbn	-1.1	0.2	1.0	-0.6	-0.9	-1.3	-1.5
Current account balance, % of GDP	-5.6	1.2	4.6	-2.6	-2.9	-3.3	-3.6
Foreign reserves ex gold, USDbn	0.4	0.2	0.2	0.2	0.2	0.2	0.3
Import cover, months	0.7	0.4	0.4	0.4	0.4	0.3	0.3
Total external debt stock, USDbn	8.7	8.8	9.3	9.8	10.5	11.1	11.9
Total external debt stock, % of GDP	43.8	43.0	42.3	40.3	32.8	29.0	27.7

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

AFRICA – INDUSTRY OUTLOOK

SSA Capex To Grow On The Back Of Mozambican LNG

Key View

- Capital expenditure (capex) in Sub-Saharan Africa (SSA) is set to increase by 12.5% in 2019, reaching USD21.5bn from an estimated USD19.1bn in 2018.
- Capex should increase further in 2020 and 2021, with the bulk of this growth poised to be driven mainly by large-scale LNG projects in Mozambique, which will attract significant investment in the context of LNG demand growth gaining momentum on a global scale.
- Spending will likely prove insufficient to offset mature asset declines in legacy producers such as Nigeria and Angola, leading to a bearish long-term hydrocarbons production outlook.
- Higher oil prices will progressively feed through into higher capital spending in SSA, underpinning a surge of exploration in frontier areas, particularly in the West African deep offshore and the promising East African Rift as international oil companies will be increasingly looking for new frontier targets.

Capital expenditure among SSA National Oil Companies (NOCs) and SSA-focused international oil and gas companies (IOCs) is set to register a 12.5% growth in 2019, with combined spending reaching up to USD21.5bn, from an estimated USD19.1bn in 2018. This spending growth will largely be driven by the development of large-scale LNG projects in Mozambique, as well as by a promising reserves base both offshore West Africa and within the East African Rift. Higher oil prices should contribute to the development of more robust spending plans in attractive yet largely under-explored frontier areas of SSA.

Mozambique LNG Projects At The Forefront Of SSA Capex Growth

The **Eni**-operated Coral South floating liquefied natural gas (FLNG) project reached FID in June 2017 and carries with it an estimated capex of USD8.0bn. The terminal will have a capacity of 3.4mtpa and first gas is expected in 2022, securing Mozambique's future as an LNG exporter. Attention is now turning to the larger onshore facilities, for which timing is slightly less certain as they have yet to reach FID.

The first terminal ('Mozambique LNG) will be built by a consortium led by Texas-based Anadarko, and will involve two liquefaction trains with a total capacity of 12.88mtpa. The consortium has now secured a total of 9.6mtpa of long-term gas sales agreements. This figure is without taking into account the agreement signed in November with Thailand's PTTEP, for the purchase of 2.6mtpa of LNG over 20 years, still awaiting approval by the Thai government. Should it be converted into a binding SPA, it would bring the long-term sales total to some 12.2mtpa, or nearly 95% of the project's total nameplate capacity *(see 'Mozambique Area 1 LNG SPAs Confirming Asia's Growing LNG Demand Market Status', February 27).* The most recent agreements were signed with India's Bharat Gas Resources (1.0mtpa of LNG for a term of 15 years) and Indonesia's Pertamina (1.0mtpa of LNG over 20 years). We now estimate that there is a good chance that the USD20bn project remains on track for FID in H1 2019 with 2024 as a target date for first LNG.

The Rovuma LNG project, which will aim to monetise gas resources from the offshore Area 4 operated by ExxonMobil in partnership with Eni and China's CNPC, positions itself in direct competition with Anadarko's project. The facility will include two 7.5mtpa-capacity liquefaction trains. We estimate that it is not unlikely that the project reaches FID as scheduled in 2019, bearing in mind Mozambique's strategic location to export towards energy-hungry Asian markets that will continue to drive the bulk of global LNG demand growth *(see 'Global LNG Demand To Outperform', October 11 2018).*

Between these three major projects, we therefore anticipate over USD55bn of capex spending in Mozambique. This will both secure the country's position as a major player within the LNG industry, and underpin capital expenditure growth in SSA over the coming years.

Spending Insufficient To Offset Bearish Long-Term Production Outlook In Nigeria And Angola

Capital spending in Nigeria is set to be mostly directed towards maintenance of already-producing fields rather than towards the large-scale exploration or development projects that would be necessary to offset field declines. The oil-rich country continues to hold considerable potential, with an extensive backlog of pre-FID projects that have yet failed to progress due to security issues and fiscal uncertainty. Our outlook for Nigerian crude oil output remains quite bearish in the long term though, as we do not anticipate many of these projects will reach FID soon, as instability in Nigeria's regulatory and fiscal environment remains problematic.

This is illustrated by the country's poor performance in terms of Industry Risks across our SSA Upstream Oil & Gas Risk/Reward matrix. Nigeria receives a low score of 24.9 out of 100 (compared to a regional average of 35.9), ranking above only Chad and Equatorial Guinea on a regional scale. The country is dragged down by its unfavourable bureaucratic environment, high legal environment risks and high level of income tax.

Major downside risks to the completion of projects stem from a challenging business environment, illustrated by the rejection of the Petroleum Industry Government Bill (PIGB) by President Muhammadu Buhari in late August 2018. We foresee a bleak outlook for reform momentum in the country as, in our view, the PIGB was the less controversial part of the Petroleum Industry Bill that has been trying to pass through parliament for over a decade. Other, more contentious parts – such as fiscal regulations – are likely to be rejected as well, leaving little hope for enhanced operational clarity in the country. We see this as a significant limit to the momentum for project FIDs in the short term, threatening Nigeria's crude oil production profile in the long term. The re-election of incumbent President Buhari in February 2019 confirms this trend *(see 'Buhari Victory Signals Slow Progress On Reform In Nigeria', February 27)*.

In a similar perspective, slow but positive progress in reforming and streamlining regulatory processes of Angola's state oil company **Sonangol** and a more favourable tax environment for marginal oil fields poses upside risk to foreign investment flows. In early 2019, Angola launched a new agency, the National Agency of Petroleum and Gas, which will oversee the sale of oil concessions. Added transparency should be well received by foreign companies and generally improve the attractiveness of Angola's business environment *(see 'Angolan Reforms, Brownfield Focus To Help Stem Declines', October 15 2018)*. However, we do not anticipate this to be enough to counteract heavy decline rates seen across several Angolan oil fields, as a serious lack of development activity and exploratory investment will limit Angola's long-term potential.

Capex Growth To Feed Through Into Increased Frontier Exploration In SSA

Following a multi-year slump, investment in SSA is picking up alongside the recovery on a global scale, as higher oil prices put companies in a better position financially. This will support appetite for risk and drive up drilling activity in high-risk, largely under-explored frontier areas. Higher oil prices also make the business case for more technical and expensive deepwater (and ultra-deepwater) wells stronger, especially for IOCs, which have both the necessary technical expertise and the funds needed to drill such wells. Such companies are poised to be increasingly looking for new frontier targets as rising oil prices progressively feed through into higher spending in the region. This is partly being evidenced by the flurry of licensing rounds taking place across SSA, with countries such as Ghana, Gabon, Congo (Brazzaville) and Somalia opening up investment opportunities with additional acreage *(see 'Five Trends Shaping The Oil & Gas Industry In Africa', March 11)*. This trend is also translating into increasing drilling activity in the region, with the number of oil and gas rigs in Africa reaching a three and a half-year high of 113 in February 2019.

We forecast continued interest in under-explored basins in SSA's deep waters, with a particular focus on Senegal and Mauritania, where **BP** and its partner **Kosmos Energy** have taken a final investment decision on the offshore cross-border Greater Tortue/Ahmeyim gas development in December 2018; **Cairn Energy** is also due to sanction its SNE oil field offshore Senegal in the near future. These developments are set to strategically position Senegal as an important hydrocarbons exporter in West Africa, attracting significant investment in the future *(see 'Senegal Revises Hydrocarbons Code As Upstream Sector Takes Off', February 4)*.

Major projects are also underway in the East African Rift. Tullow Oil expects to make an FID on the development of reserves in Kenya's South Lokichar Basin in 2019, with the hope of producing first oil in 2021 or 2022. Ugandan upstream development is focused on three major projects (Kingfisher, Buliisa and Kaiso Tonya) on the shore of Lake Albert, with Tullow, Total and China's CNOOC as partners, with a combined capex of around USD8.6bn. Although downside risks are likely, mostly because the full equation includes the challenging development of the East African Crude Oil Pipeline and of an oil refinery which still has to move past early stages of development *(see 'Uganda-Tanzania Pipeline Project Stalemate Poses Downside Risk To Oil Production', January 8)*, we expect these projects to significantly contribute to capital spending in SSA over the coming years.