

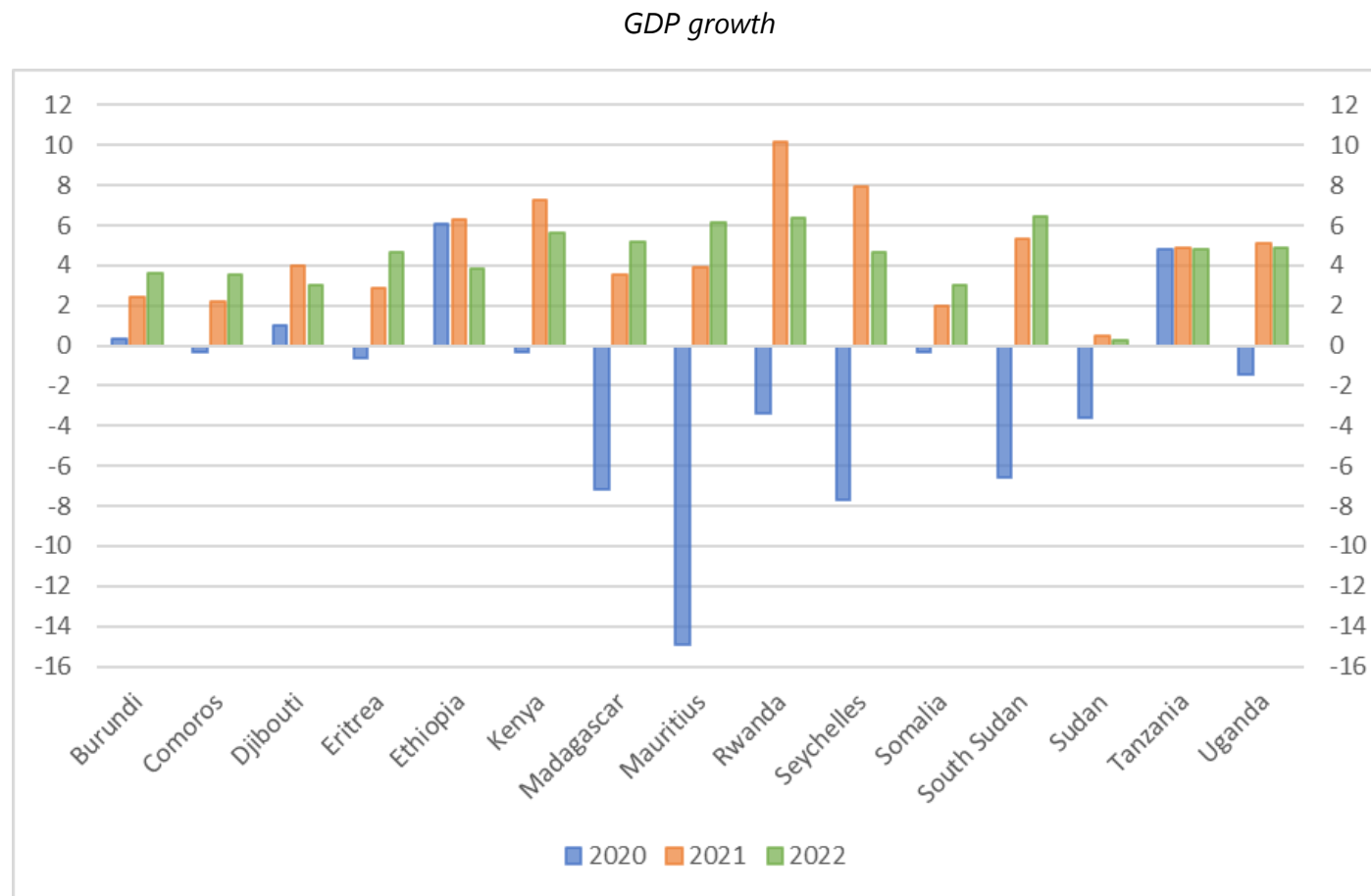
Regional Economic Perspectives in East Africa and the Indian Ocean

Economic slowdown in 2022

The IMF (WEO – April 2022) forecasts a **slowdown in GDP growth in 2022 in the EAIO (+4,5% in 2022 vs +5,5% in 2021)**, except for Burundi, Eritrea, Somalia, South Sudan, Tanzania, Madagascar, Mauritius, Comoros

➤ **Downward revisions of growth in EAIO in 2022 (+4,5% vs +6,1% WEO October)**

Since then, several downside risks (War in Ukraine)



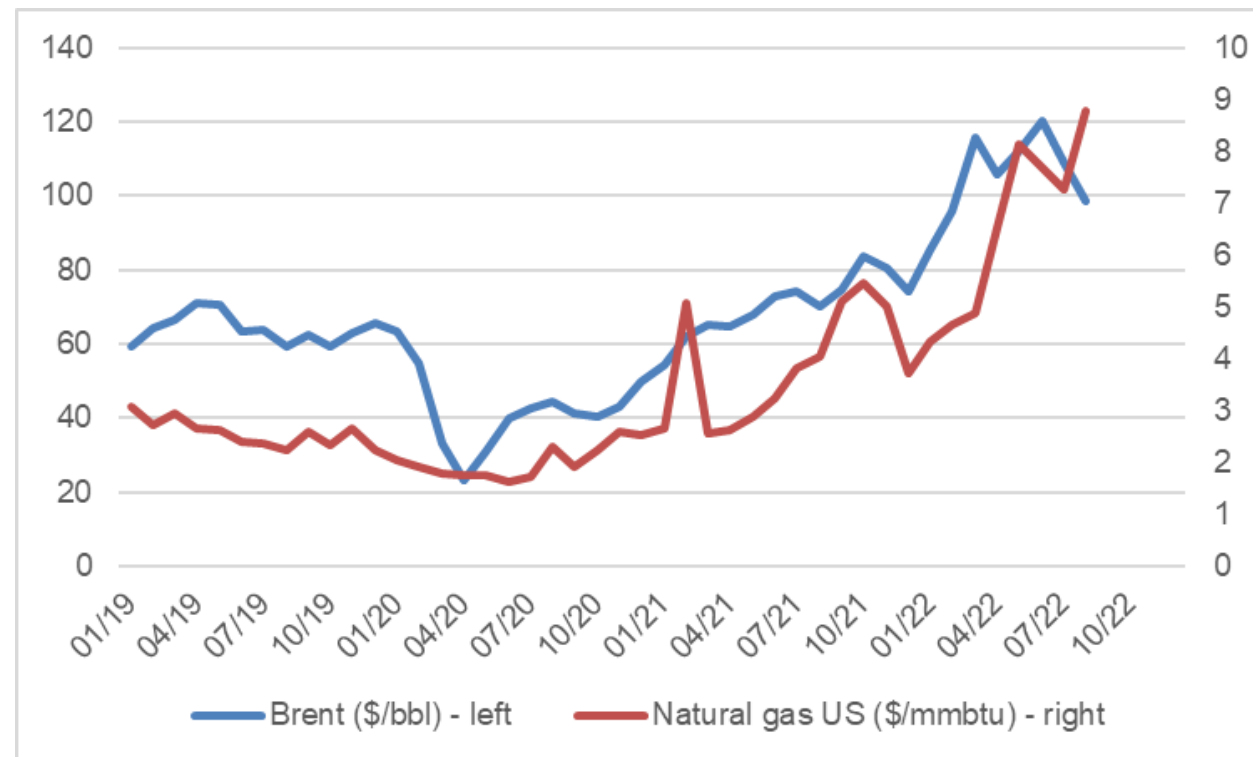
Source: IMF – WEO April 2022

Commodity prices rising because of the Ukraine war

Rising oil and natural gas prices

- **Brent crude oil** is expected to reach an average of **\$100 per barrel in 2022**: an increase of **+42%** compared to 2021 (the highest level since 2013).
 - Impact on production prices.
 - Implementation of subsidies by some governments in the region to keep prices stable (Kenya, Tanzania...).
- **Natural gas index** in August: 453, or **+249%** YoY
- **US natural gas price** in August: \$8.79/mmbtu, **+117% YoY**; +21% vs. July; +89% vs. February

Evolution of Brent oil and natural gas (US)



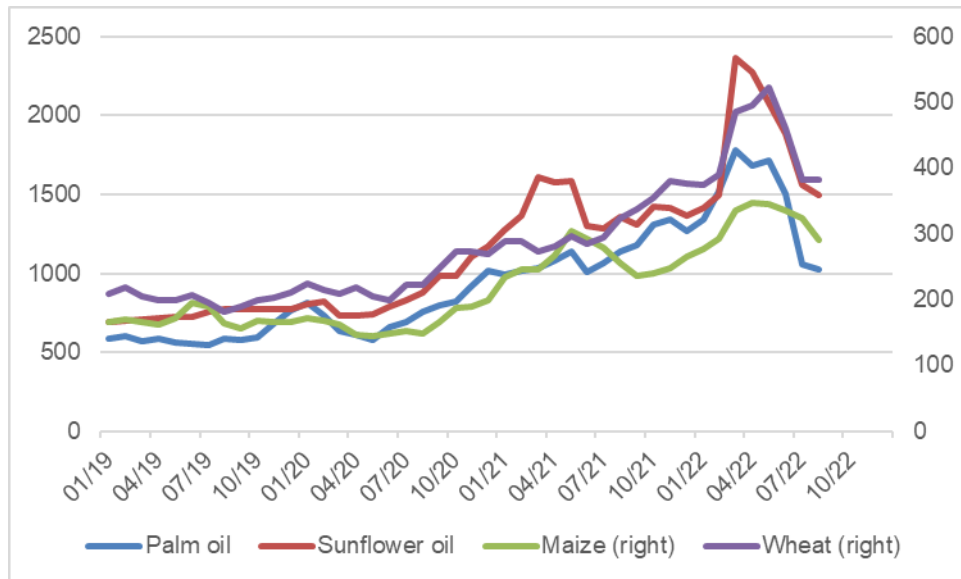
Source: World Bank

Commodity prices rising because of the Ukraine war

A fall in the price of food and fertilizers, but still above their historical average

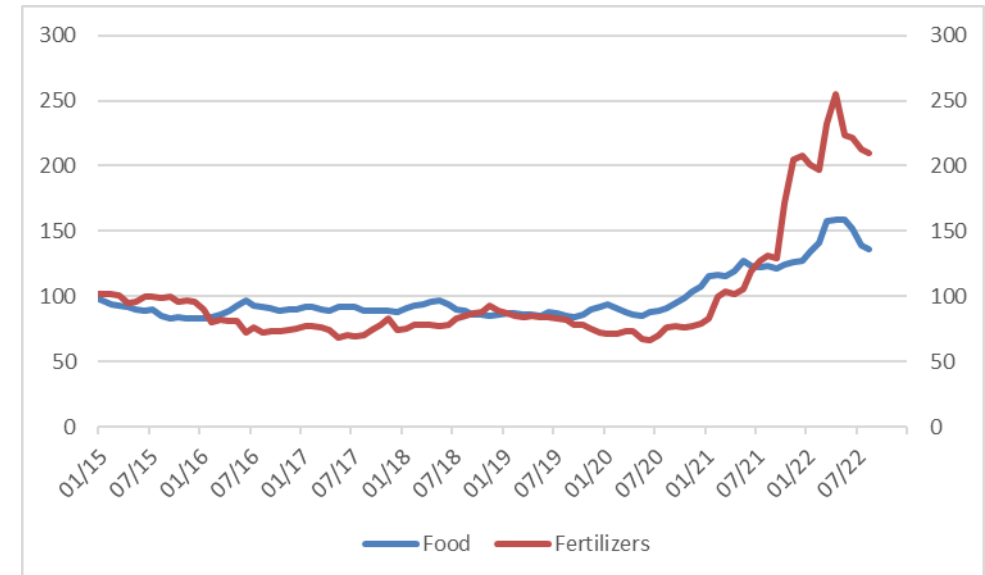
- According to the World Bank, **wheat prices** will increase by **+43%** in 2022.
- This increase has already begun with the **Covid-19 crisis**, the **disruption of supply chains**, and is fueled at the local level by **droughts** and **floods**.
- Food price index in 08/2022: **136 (+11% YoY)**
- Fertilizers price index in 08/2022: **210 (+61% YoY)**

Evolution of edible oils and cereals (\$/mt)



Source: World Bank

Evolution of indices of food and fertilizers prices (Base 100 = 2010)



Source: World Bank

A global rise in inflation in 2022

- Advanced economies: **+5,7%**
- Emerging economies: **+8,7%**

Acceleration in the 2nd semester in EAIO

Kenya: +8.5% yoy in August

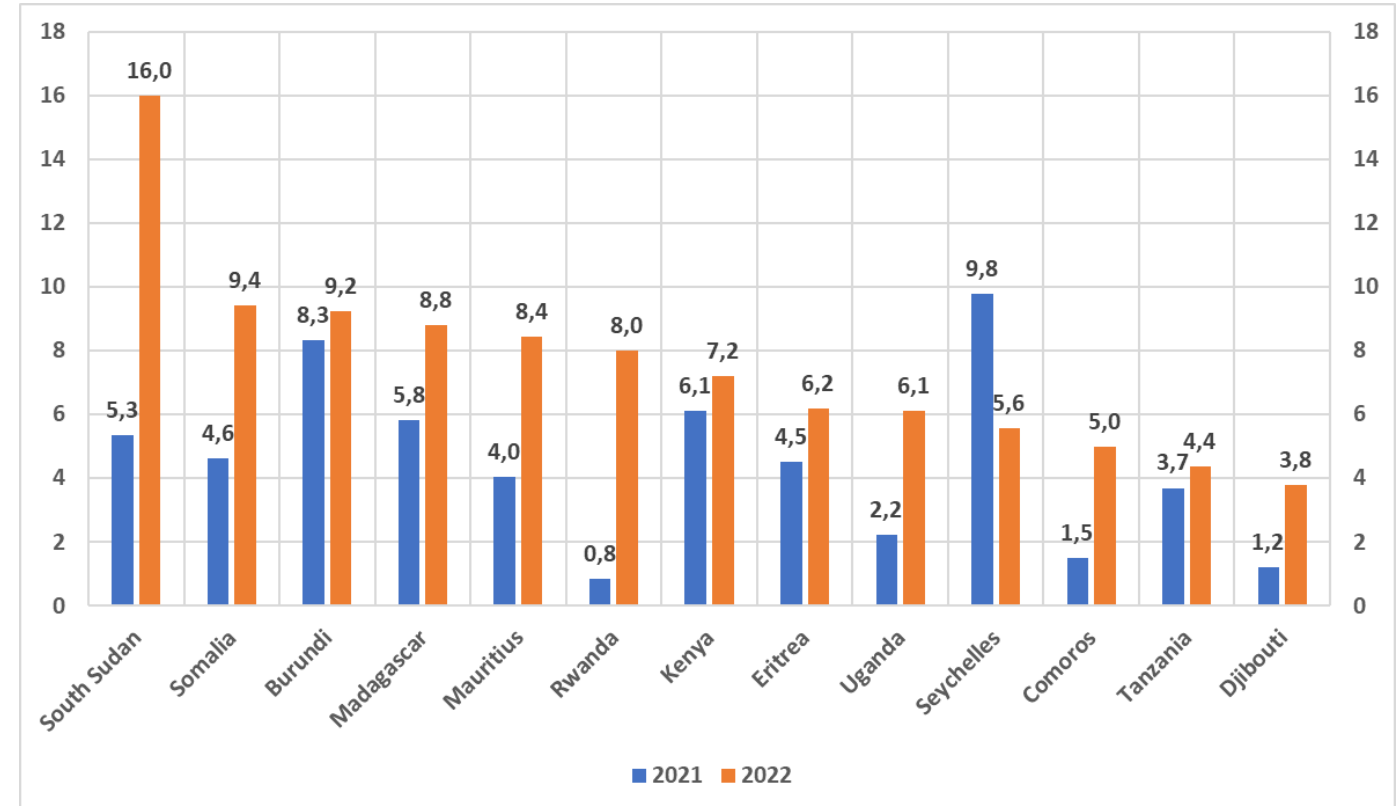
Rwanda: +15.9% yoy in August

Uganda: +9.0% yoy in August

Ethiopia: +32.5 yoy August – stable / July

Sudan: +117.4% yoy August vs +125% July

Inflation (yearly average)

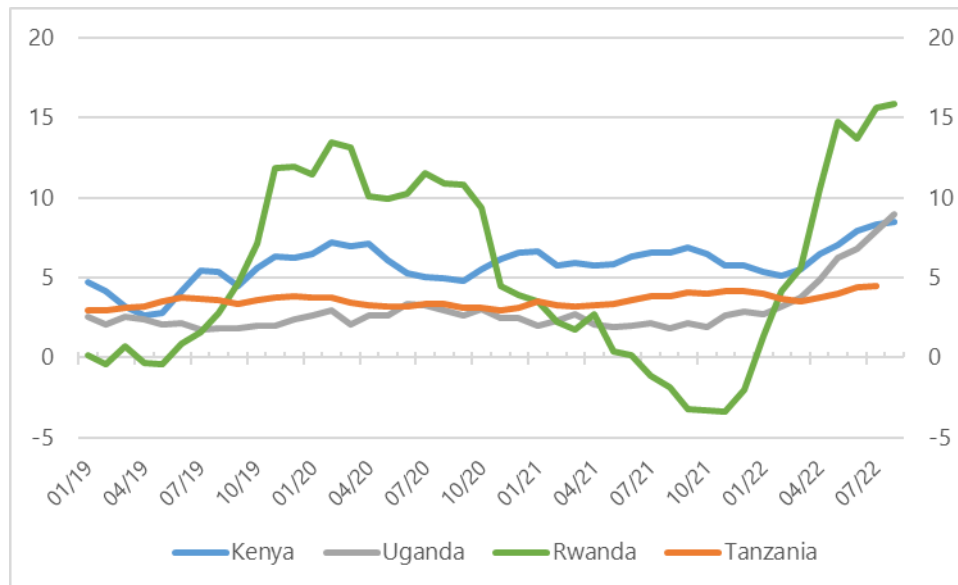


Source: IMF – WEO April 2022

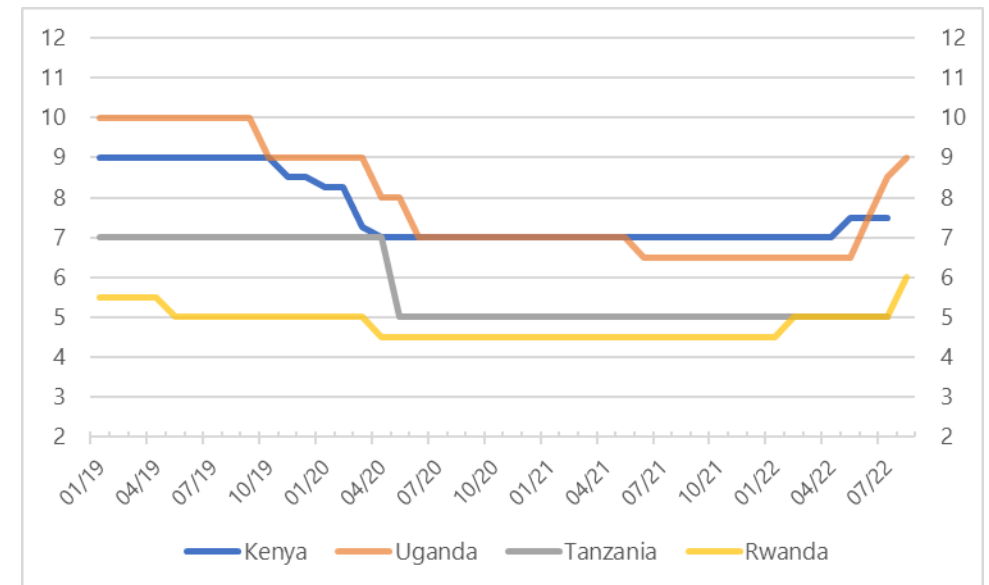
What are the impacts?

- **Economic slowdown:** contraction of the consumption, even more if local monetary policies tighten (tradeoff between prices and growth)
- **Rising debt:** subventions on fuel (Kenya, Ethiopia, Djibouti) and fertilizers increase public debt – higher interest rates
- **Rising poverty:** inflationary pressures on vulnerable populations, already affected by the pandemic
- **Risk of famine and social tensions:** rising food prices + drop in agricultural production (droughts) + decrease in imports

Inflation (YoY, %)



Central Bank rates (%)



A depreciation trend against the USD since the pandemic, which could increase in 2022

Depreciation of other currencies against USD (08/2022 vs 01/2020):

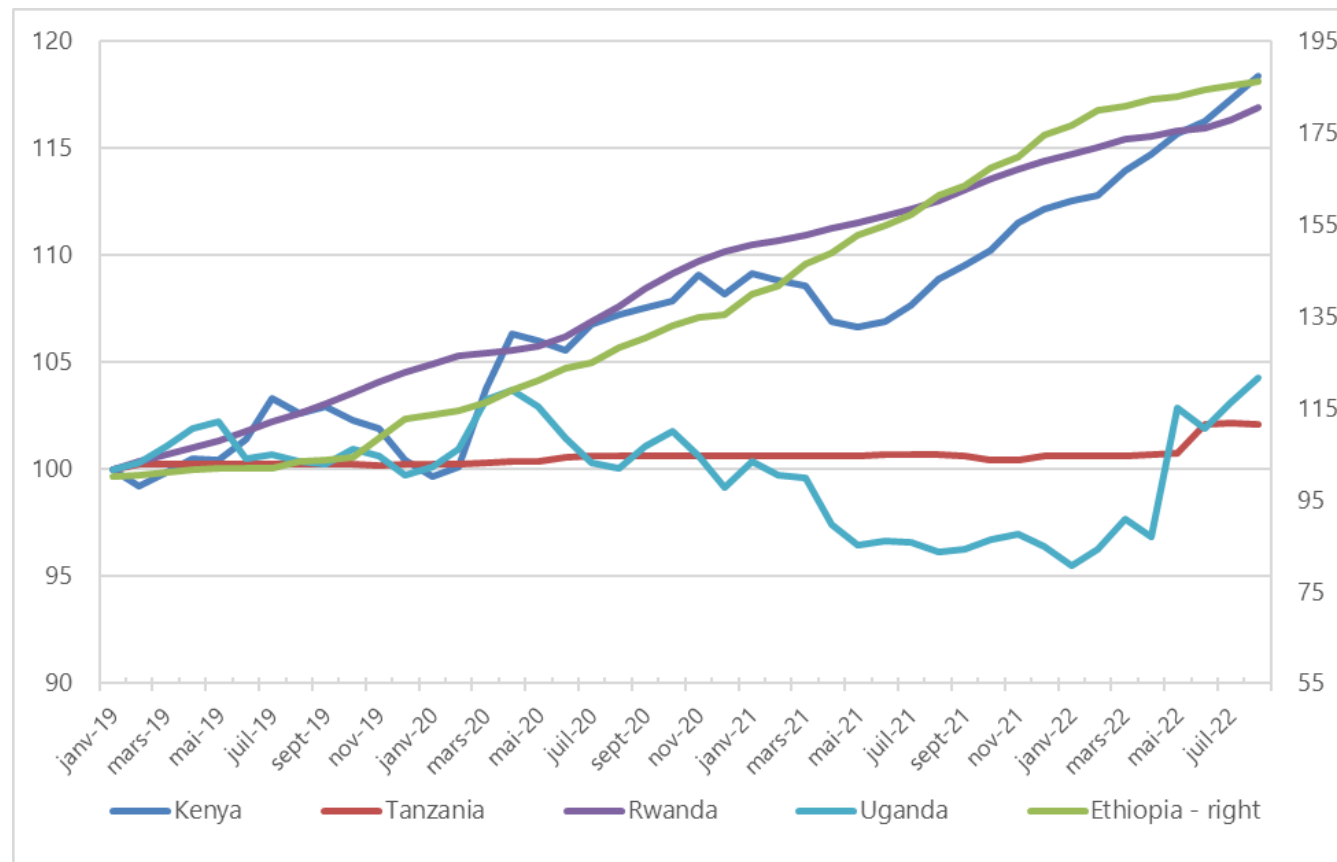
- **Kenya:** -18.8%
- **Tanzania:** -1.8%
- **Ethiopia:** -63.9%
- **Rwanda:** -11.4%
- **Uganda:** -4.1%
- **Mauritius:** -22,5%
- **Comoros:** -9.3%

Between January and August 2022, only the Seychelles rupee appreciated against the USD (+5.5%)

Tension on foreign exchange reserves for fixed exchange regimes (Sudan before, Ethiopia, Burundi...).

US inflation → Tightening of FED monetary policy → USD appreciation → More depreciation of emerging currencies

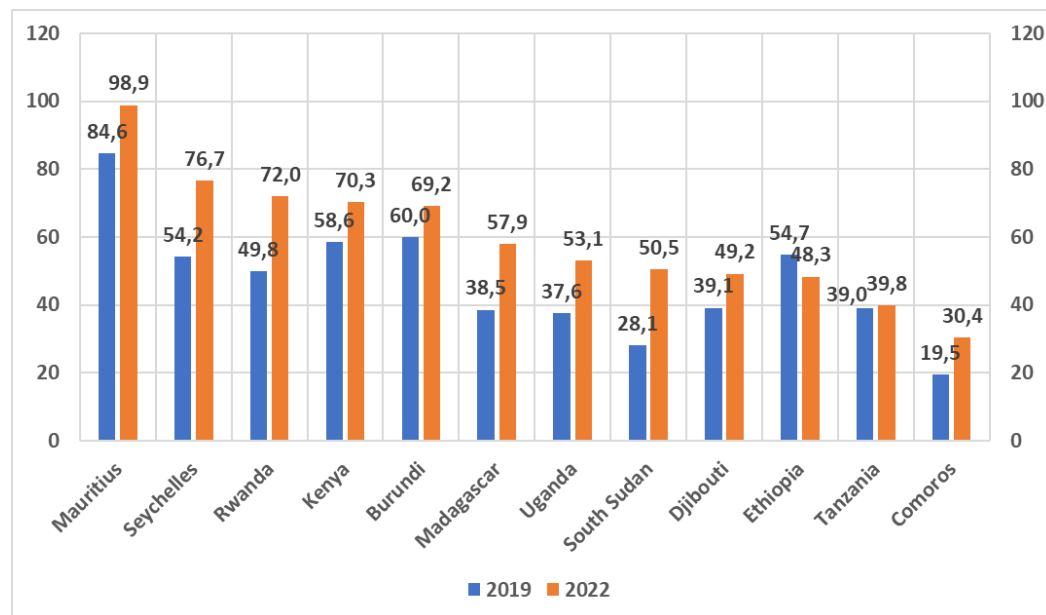
Evolution of the exchange rate against the USD (B100 = 2019/1)



The war will affect already deteriorated debt situations

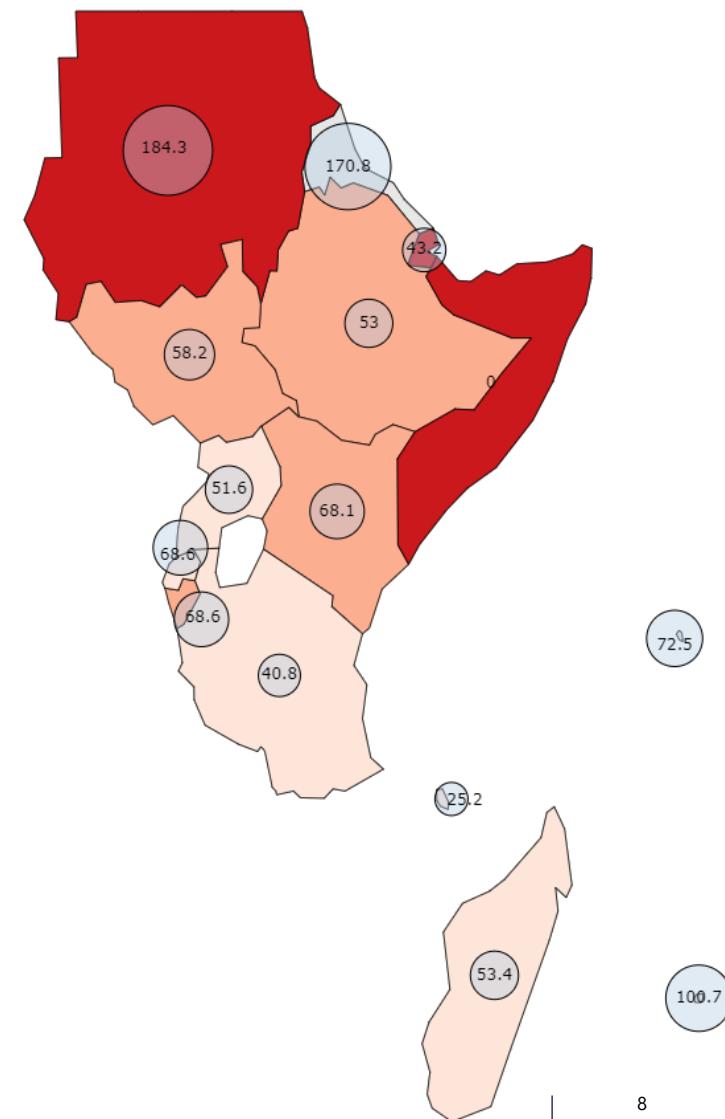
Rises in general government gross debt in 2022 (% of GDP)

- **Eritrea:** 151.9% (-19.0pp)
- **Sudan:** 248.1% (+99.8pp)



Source: IMF – WEO April 2022

Debt sustainability in EAIO



What are the risks on the external debt?

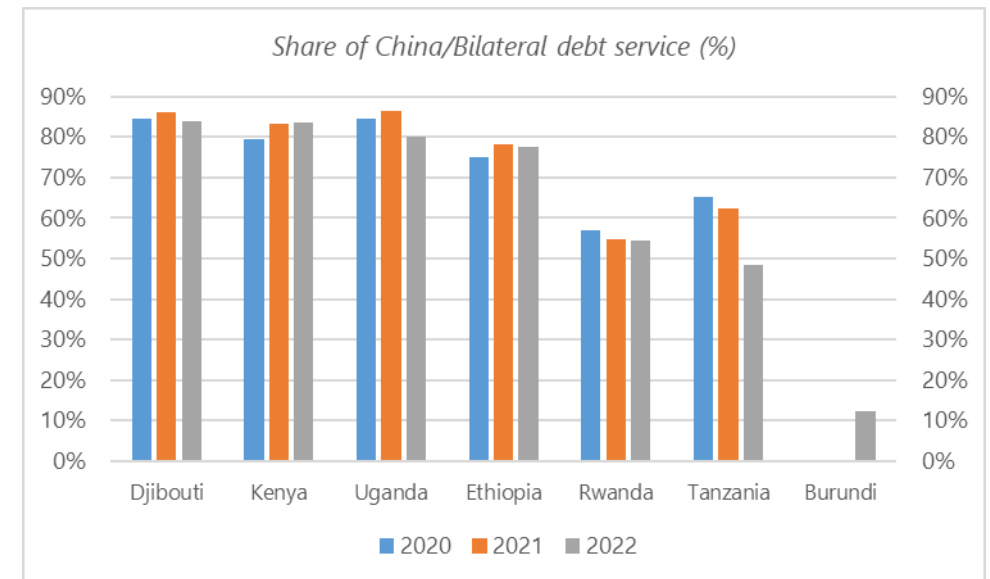
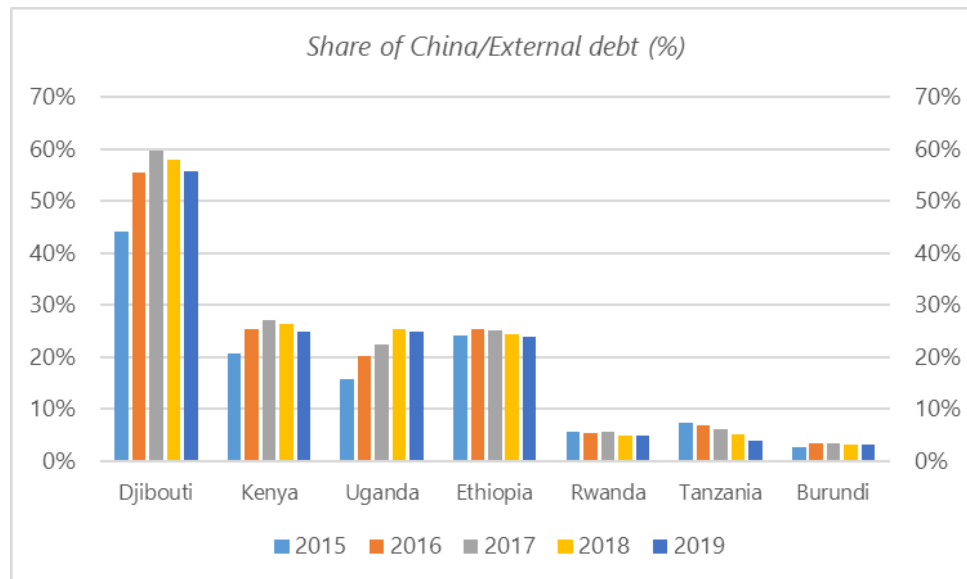
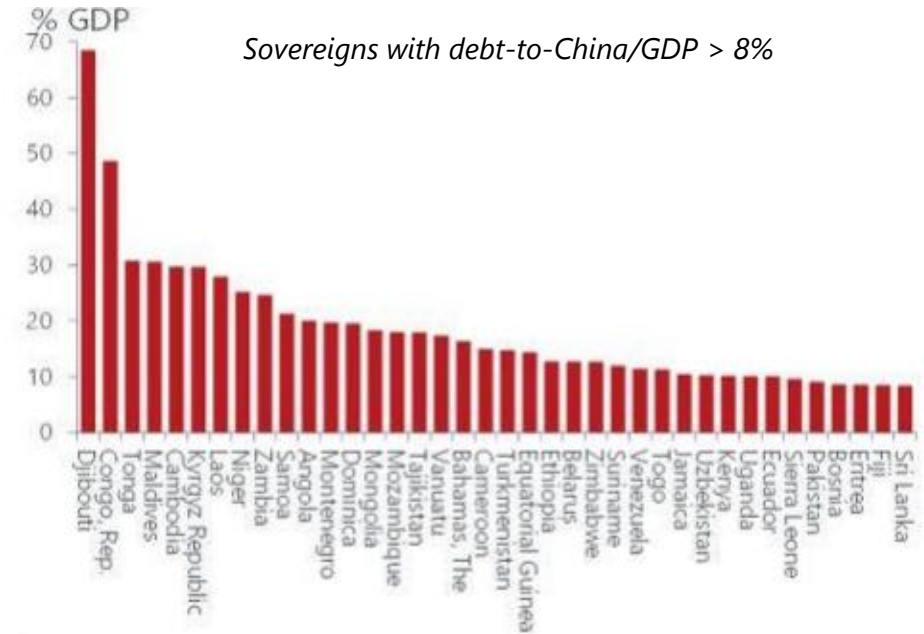
- **Reallocation of international assets** → global **monetary tightening**
- Increase in the **risk premium** on the bond markets → increase in the **cost of commercial debt**
- **Risk of depreciation of emerging currencies** against the USD → rise in **debt service**

China represents a **significant share of the external debt** of Djibouti (56%), Kenya and Uganda (25%), Ethiopia (24%), and debt-to-China exceeds the 8% of GDP in these countries.

The **share of China in debt service exceeds the 50%:**

- **Djibouti:** USD111 mln
- **Ethiopia:** USD527 mln
- **Kenya:** USD1035 mln
- **Uganda:** USD179 mln

China claimed to have cancelled 23 loans for 17 African countries and announced a transfer of USD10 bns of Chinese IMF reserves to Africa. But, it seems that the alleviation amounts to only \$45 mln to \$610 mln, or about 1% of what the continent owes China.



There are many global or localized risks:

- Rising **social tensions**, fueled in particular by **inflationary pressures**. Aggravating factors:
 - Kenya (cut in subsidies fuel and flour)
 - Ethiopia (conflict in Tigray / Common Framework)
 - Sudan (political situation bogged down)
 - Somalia (post election tensions)
 - Djibouti (renegotiation of the Chinese debt?)
- **Economic slowdown worsening in China after the 0 covid policy** (regular lockdowns), including in manufacturing hubs. A Chinese slowdown would reduce demand for exports from many middle and low income countries and could disrupt their supply of goods.
- **New export restrictions that would fuel higher food prices**. For example, Indonesia, the world's largest producer of palm oil, has announced an export ban on this product. Indonesia provides nearly 70% of Kenya's palm oil imports.
- While the pandemic has exacerbated the upward trend in external indebtedness of emerging countries, a faster than expected tightening of monetary policy in advanced economies, coupled with non-credible fiscal frameworks, could lead to a crisis of market confidence, widespread capital outflows and simultaneous debt crises in different countries.
- The effects of climate change on crops, productivity, destruction of infrastructure...

Kenya – High risk of (external) debt: The new President under pressure

A resilient economy despite the crisis

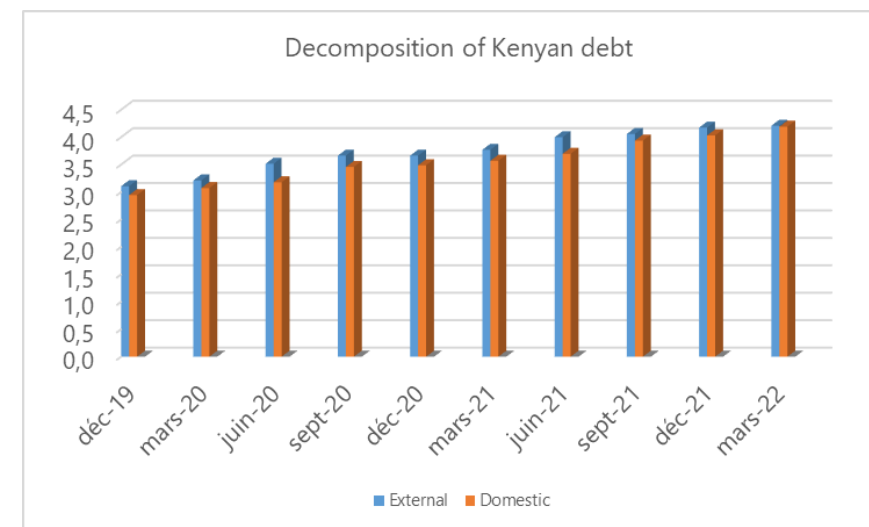
- Main economy in the EAIO region and strong rebound in 2021 (+7.2% GDP growth). Economic recovery should go on in 2022 (+5.7%).
- High inflation but temporary and monetary tightening (7.5%; +50bp yoy)
- Depreciation of the KES vs USD but appreciation vs EUR
- Rising unemployment rate (5.7% in 2021 vs 5% in 2019)

William Ruto's program to tackle the country's challenges...

- End of subventions on fuel and electricity, re-introduction of subventions on fertilizers (cost estimated at USD50 mls)
- Implementation of the « *hustler fund* »
- End of the restriction of customs clearance in Nairobi that will be allowed in Mombasa → Reduction of the SGR use (and revenues) for transporting goods

... and the debt burden.

- Public debt has exceeded 70% of GDP; more than half is external debt (36%), despite strong fiscal performance and tax revenues
- **Increase in debt service**, which accounted for 58% of revenue in FY2021/22 and would reach **60% of revenue in FY2023/23 (≈ USD11bns)**
- **China: 18.8% of external debt and 21.7% of external debt service**
- **Rising spread:** eurobonds yields +47.2bp (week ending 22 sept.) and 2024 maturity +83.2bp (15.7% vs 11% in May 2022).



Economy		2019	2020	2021	2022
GDP growth	%	5,0	-0,3	7,2	5,7
GDP	Bns USD	100,5	101,3	109,8	114,7
GDP/capita	USD	2111,4	2080,0	2204,7	2252,0
Inflation	Average %	5,2	5,3	6,1	7,2
Public finances					
Fiscal Balance	% GDP	-7,4	-8,1	-8,1	-6,9
Primary Balance	% GDP	-3,8	-4,2	-3,9	-2,5
Revenue	% GDP	17,0	16,6	16,8	17,4
Expenditure	% GDP	24,4	24,7	24,9	24,3
Public debt	% GDP	58,6	67,6	68,1	70,3
External situation					
Current account	% GDP	-5,3	-4,7	-5,4	-5,8
Export G&S	delta	-0,7	-14,0	9,5	12,4
Import G&S	delta	3,2	-5,9	12,1	2,0

The economic activity has stagnated since the pandemic

- GDP growth has lost **-2pp** since 2019 and stagnates just below the +5%, because of the lack of tourism, fuel and food inflation and disruptions in the fertilizers market.
- Inflation rises progressively (+4.4% in 2022;+5.4% in 2023).

But, the fiscal situation improves with post-pandemic recovery

- The fiscal deficit widened in FY2020/21 by 2 GDP points as a result of lower revenues (-1.3pp) and higher expenditures (+0.7pp).
- In FY2021/22, fiscal deficit is **expected to narrow** from -3.9% of GDP to -2.8% of GDP: revenues up of 1.1 GDP point and spendings up of 0.2 GDP point

Still moderate risk on the public debt

- In August, the IMF has approved the 40-month arrangement under the extended credit facility (USD 1,05 bln) – USD 151.7 mln to be disbursed immediately for macroeconomic recovery and reforms implementation
- Public debt could reach 42.2 % of GDP in FY2021/22 (39.7 % of GDP FY2020/21)
- **Moderate risk of external debt** distress and **moderate risk of overall public debt** distress, with some space to absorb shocks.

<i>Economy</i>		2019	2020	2021	2022
GDP growth	%	7,0	4,8	4,9	4,8
GDP	Bns USD	60,8	64,4	70,3	77,5
GDP/capita	USD	1079,7	1110,4	1176,6	1260,1
Inflation	Average %	3,4	3,3	3,7	4,4
<i>Public finances</i>					
Budg. Balance	% GDP	-2,0	-2,5	-3,3	-3,3
Primary Balance	% GDP	-0,3	-0,9	-1,7	-1,7
Revenue	% GDP	14,6	14,6	14,6	15,4
Expenditure	% GDP	16,6	17,1	17,9	18,7
Public debt	% GDP	39,0	40,5	40,8	39,8
<i>External situation</i>					
Current account	% GDP	-2,6	-1,8	-3,3	-4,3
Export G&S	delta	13,0	-0,9	-0,4	4,7
Import G&S	delta	6,2	0,7	5,5	6,5

Rwanda – Despite its attractiveness for investors, the country remain sensitive to external shocks

Strong economic recovery...

- Between 2008 and 2018: **highest growth in the EAC at +7.4%**, estimated at +6.0% in 2022, thanks to rapid progress in vaccination (>60% of the population vaccinated by mid-April) and progressive lifting of sanitary restrictions, accommodating policies and external demand increase.
- **Growing interest from French companies** / Emmanuel Macron's visit to Kigali on May 27, 2021 + reopening of the AFD agency: 500 MEUR in 5 years.

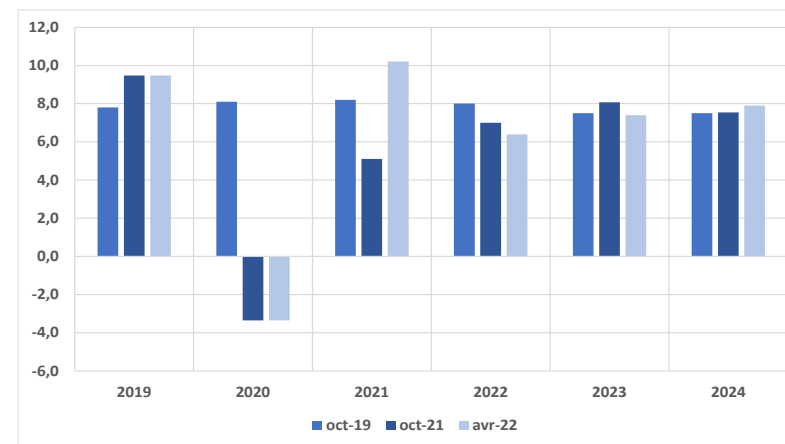
... challenged by external shocks,

- **Inflation is expected to reach +9.5% in 2022** > +5% BNR's target → BNR rate rose by +50bp in February (5%).
- **Public debt rising sharply**: 72.0% of GDP in 2022 (49.8% in 2019).
- To encourage private investment: Rwanda Development Board, KIFC, SEZ...

and internal fragilities.

- **National poverty rate down from 59% in 2000 to 38% in 2017**; GDP/capita up from USD 200/capita in 1995 to USD 860/capita in 2021.
- Resilience driven by **agriculture** and **public investment**, although willing to develop PPPs.

Evolution of GDP growth forecasts



Source: IMF – WEO April 2022

Economy		2019	2020	2021	2022
GDP growth	%	9,5	-3,4	10,2	6,4
GDP	Bns USD	10,4	10,3	11,1	12,1
GDP/capita	USD	835,2	815,8	859,1	909,9
Inflation	Average %	2,4	7,7	0,8	8,0
Public finances					
Budg. Balance	% GDP	-5,1	-9,4	-6,9	-6,8
Primary Balance	% GDP	-3,8	-7,8	-5,0	-4,3
Revenue	% GDP	23,1	23,6	24,4	25,7
Expenditure	% GDP	28,2	32,9	31,3	32,4
Public debt	% GDP	49,8	64,6	68,6	72,0
External situation					
Current account	% GDP	-11,9	-11,9	-10,5	-11,4
Export G&S	delta	-5,1	-15,3	24,3	10,3
Import G&S	delta	8,5	2,8	1,9	8,8

Strong rebound in 2021, but slowdown in 2022

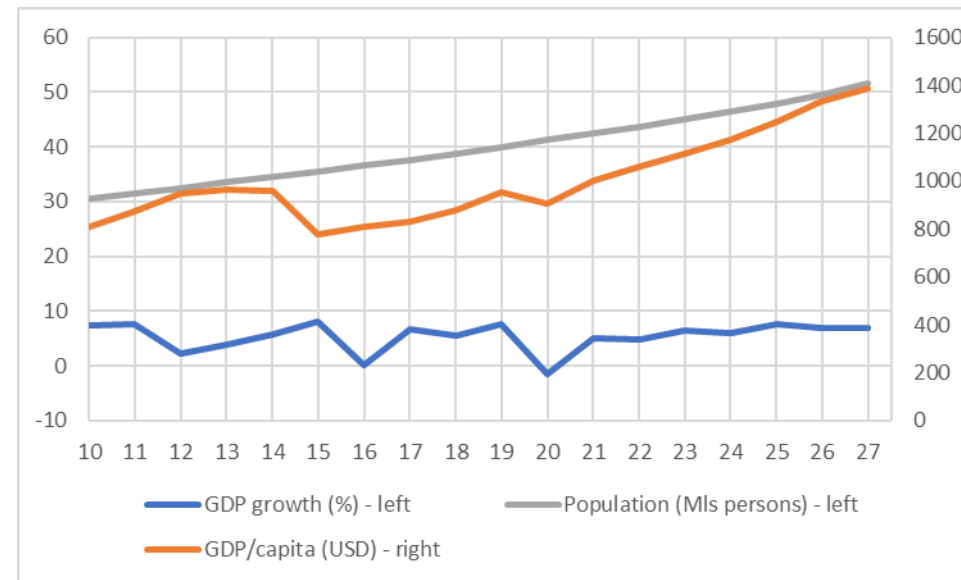
- GDP growth at 4.9% in 2022, below the medium-term average (6.5%). Impact of the crisis in Ukraine: inflation at +8.0% in August.
- PMI downgraded from 54.9 in January to 50.5 in July
- Economic impact of the oil project (tax revenues of +5.0% from 2023, FDI of USD 10 billions).

External balance

- Depreciation of 7.5% against USD between 01/22 and 09/22.
- 4 months of IMF imports (just barely, thanks to BoU foreign exchange purchases).
- Strong increase of CB rate to 9 %.
- Current account deficit at -10.2%PIN in FY21/22. External debt at 51.6% of GDP (moderate risk of debt distress).

Public finances

- 10-year spreads up +20.4% between May and September.
- Ongoing IMF program: 3 structural benchmarks have not been completed (register of beneficial owners, upgrade of the national social register, and introduction of a penalty regime for unauthorized expenditures).



Economy		2019	2020	2021	2022
GDP growth	%	7,7	-1,4	5,1	4,9
GDP	Bns USD	38,1	37,4	42,5	46,4
GDP/capita	USD	955,7	908,4	1000,5	1060,4
Inflation	Average %	2,3	2,8	2,2	6,1
Public finances					
Budg. Balance	% GDP	-4,8	-7,5	-7,8	-5,6
Primary Balance	% GDP	-2,7	-5,2	-4,8	-2,6
Revenue	% GDP	13,5	13,9	14,4	14,8
Expenditure	% GDP	18,3	21,4	22,1	20,4
Public debt	% GDP	37,6	46,4	51,6	53,1
External situation					
Current account	% GDP	-6,2	-9,3	-7,9	-7,0
Export G&S	delta	8,4	-12,2	-2,2	24,2
Import G&S	delta	17,1	-1,7	-10,6	13,6

Economic slowdown in Ethiopia because of multiple shocks...

- Resumption of the war in Tigray at the end of August comes on top of the sanitary, meteorological and geopolitical shocks that already affected Ethiopian economy
- Economic rebound in 2021 (+6.3%) but almost twice as low in 2022 (+3.8%)
- 20 mls people suffering food insecurity level IPC 3 (WFP)

... that fueled inflation

- **Inflation rate has doubled** since 2019 (+34.5% in 2022 vs +15.8%), and more particularly food prices inflation. **Inflation will continue rising in the short/medium term**
- **Structural lack of reserves that constrain food supply:** in August 2022, reserves represented 3 weeks of imports

Debt and common Framework

- Debt service and China: in 2022, the Chinese debt service amounted to USD527.1mls (77.7% of public debt)
- Suspended to the adoption of an IMF programme

Economy		2019	2020	2021	2022
GDP growth	%	9,0	6,1	6,3	3,8
GDP	Bns USD	92,6	96,6	99,3	105,3
GDP/capita	USD	968,3	994,2	995,7	1039,8
Inflation	Average %	15,8	20,4	26,8	34,5
Public finances					
Budg. Balance	% GDP	-2,5	-2,8	-2,8	-4,0
Primary Balance	% GDP	-2,0	-2,4	-2,2	-2,9
Revenue	% GDP	12,8	11,7	11,0	10,5
Expenditure	% GDP	15,4	14,5	13,8	14,5
Public debt	% GDP	54,7	53,7	53,0	48,3
External situation					
Current account	% GDP	-5,3	-4,6	-3,2	-4,5
Export G&S	delta	8,6	-8,1	3,1	-3,9
Import G&S	delta	-8,8	-4,5	-1,2	0,6

Public investments have driven economic growth before pandemic...

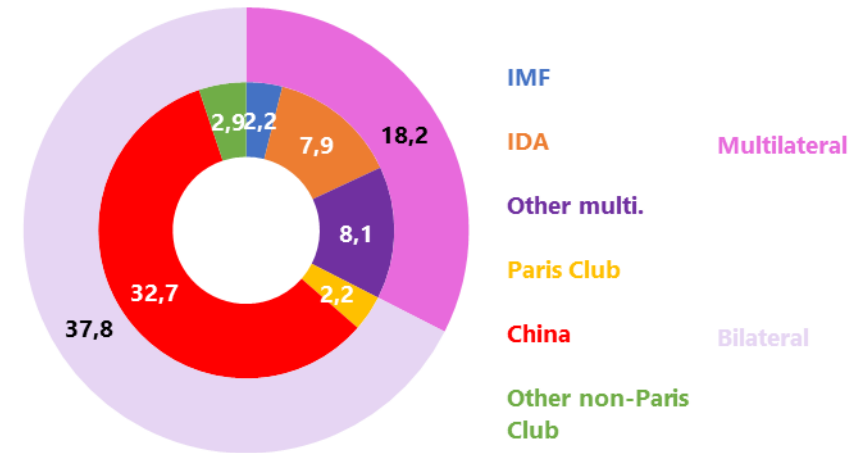
- Investments in **port infrastructures** (new multi-purpose terminal, railroad to Addis Ababa, aqueduct and free zones) leading to **+7% annual growth** between 2013 and 2019 and cost-effective SOEs (gross sales = 35% of GDP). But, the **external shocks have constrained port activity** and GDP growth is expected at **+3% in 2022** (-1pp/ 2021).
- But, **growth inclusive enough**: few job creation and still high **unemployment** (28.4% in 2021), in particular amongst the youngsters (80% in 2021); high **poverty** headcount (22.5% of the population living with less than \$1.90/day).
- Financial inclusion still low**: 30% of adults have access to financial services.

... but, have also increased Djibouti's dependence on Ethiopia...

- Ethiopia = 60% of the port traffic → ↑ exposition to external shocks → ↓ investments → ↓ imports demand → trade surplus in 2020
- But, escalation of conflicts in Tigray → economic slowdown in 2022 (+3%)

... raising financial pressures (external debt = 99.5% of public debt)

- Public external debt up from 34% of GDP (2013) to 70.4% (2020) → high risk of over-indebtedness but sustainable to unsustainable
- In a context of global inflation, commodity prices rise put the public budget under pressure; debt service is set to triple this year with the recent expiration of the G20 Debt Service Suspension Initiative (DSSI).



<i>Economie réelle</i>		2019	2020	2021	2022
Croissance du PIB	%	6,6	1,0	4,0	3,0
PIB	Mds USD	3,3	3,4	3,6	3,8
PIB/hab	USD	3407,6	3451,6	3580,8	3775,0
Inflation	Moyenne %	3,3	1,8	1,2	3,8
<i>Finances publiques</i>					
Balance budgétaire	% PIB	-0,9	-1,6	-1,9	-4,0
Balance primaire	% PIB	0,4	-1,5	-1,8	-3,2
Recettes	% PIB	21,9	21,9	20,2	18,2
Dépenses	% PIB	22,7	23,5	22,1	22,1
Dette publique	% PIB	39,1	41,0	43,2	49,2
<i>Situation externe</i>					
Balance courante	% PIB	17,0	10,7	-1,0	-4,7
Export B&S	delta	9,2	-29,5	6,4	-16,1
Import B&S	delta	10,1	-29,4	18,2	-12,3

Merci de votre attention !

Pour plus d'information :

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