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Challenges For SSA Post-Covid-19

Sub-Saharan Africa Monthly Outlook Presentation

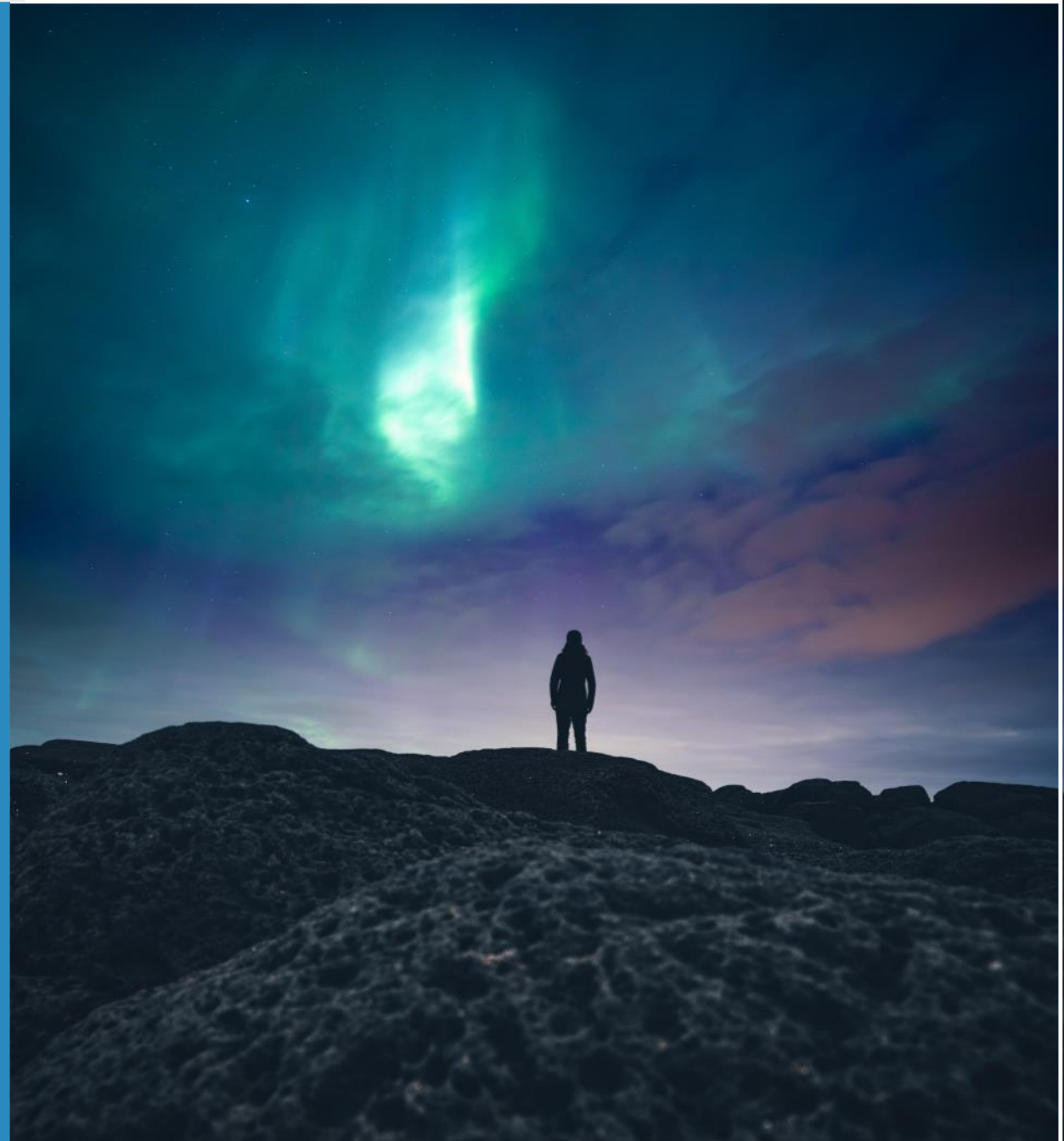
May 2020

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Contents

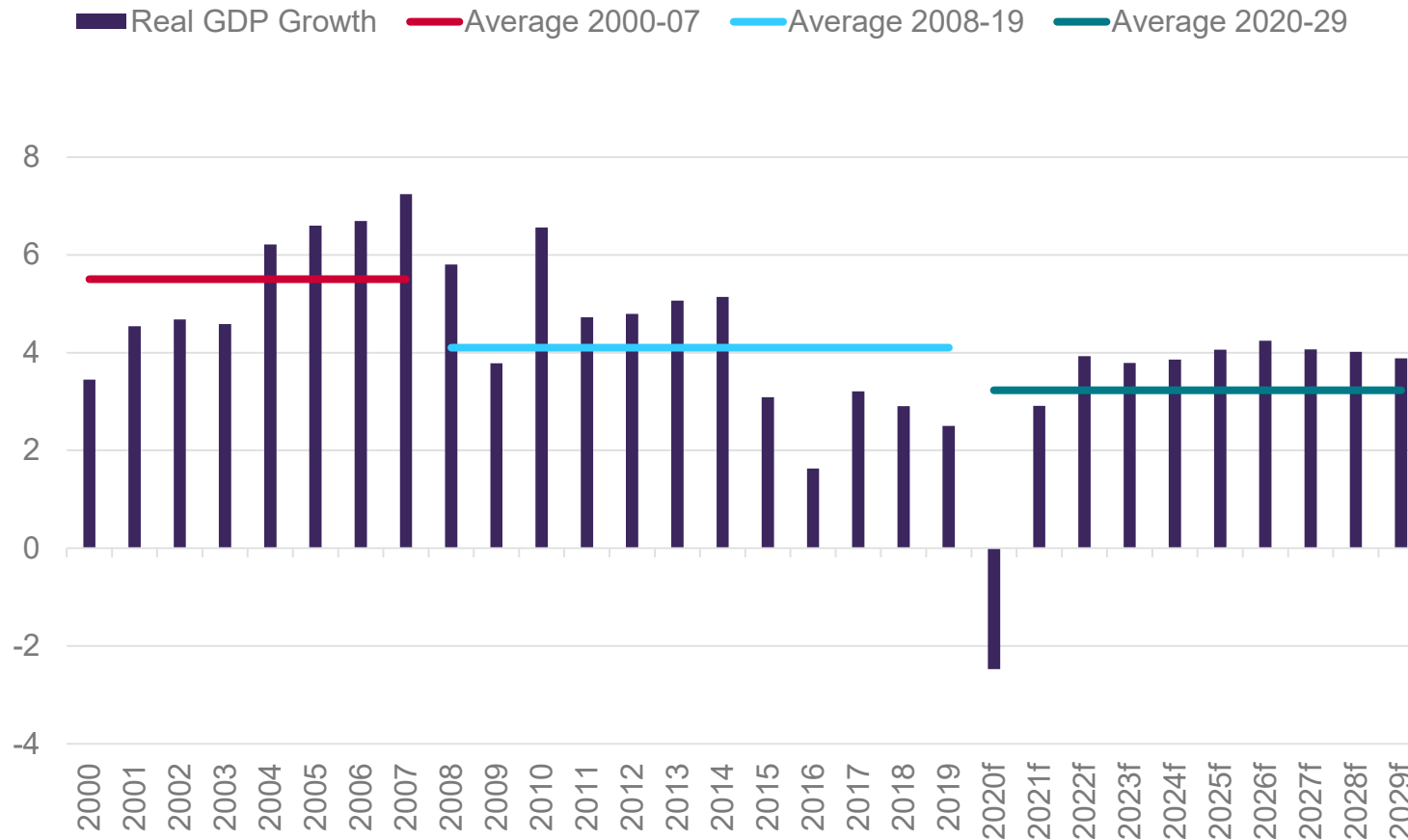
4. Slower Regional Expansion
5. Rising Debt Loads
6. Foreign Policy Dilemmas Over China
7. An Increased Focus On Supply Chains
8. Rising Political Risk
9. Unemployment Adding To Government Policy Dilemmas
10. Increased Investment In Healthcare A Potential Upside
11. Data Pack



Slower Regional Expansion

Trend Growth To Slow Further

Sub-Saharan Africa - Real GDP Growth, %



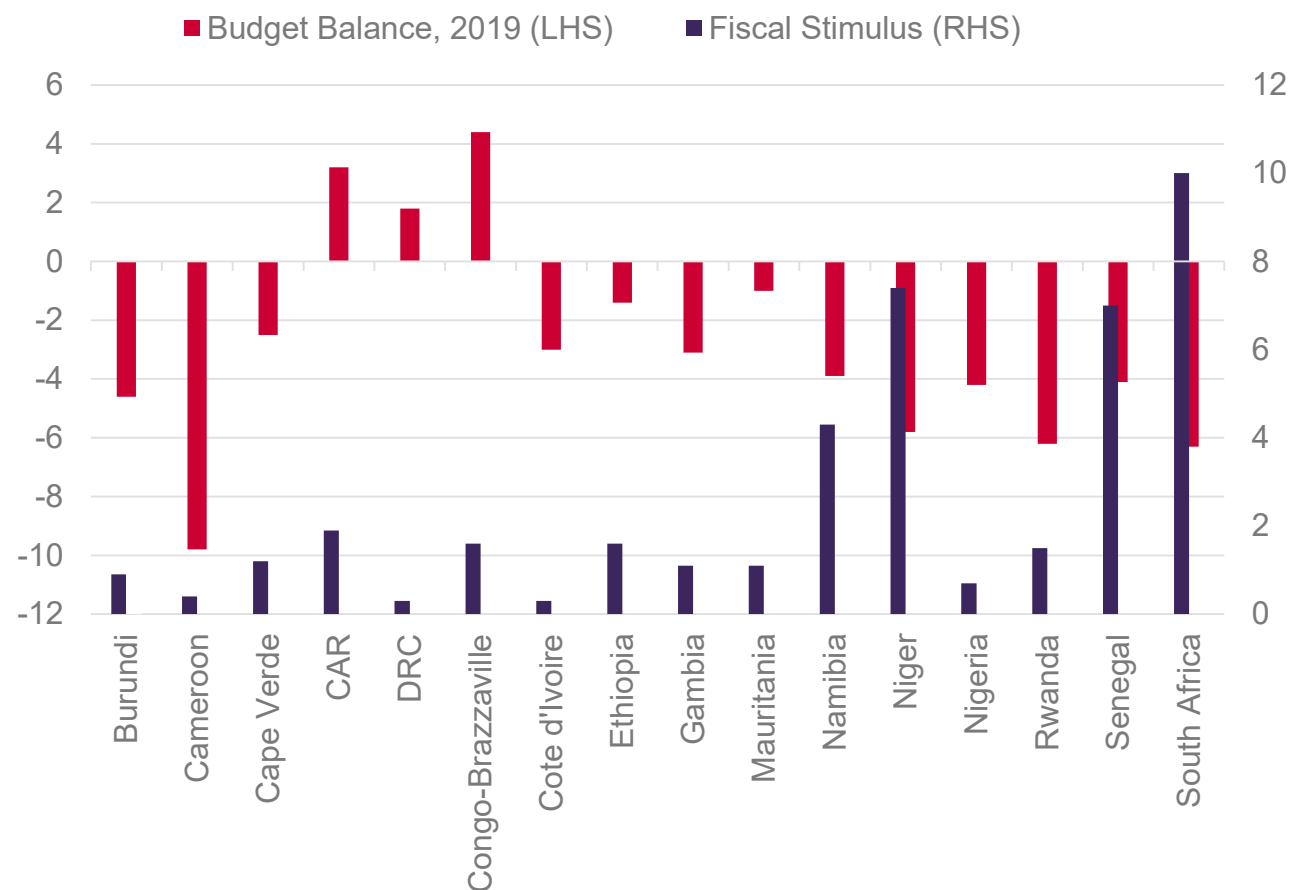
f = Fitch Solutions forecast. Source: Fitch Solutions

- We forecast that Sub-Saharan African growth will average about 3.2% over the next decade, compared with an average of 4.0% over 2010-2019, with a range of global and domestic factors weighing on growth.
- We expect global growth to slow to around 2.4% over 2020-29, and we believe that the Chinese authorities will focus on slower but more sustainable real GDP growth, with knock-on effects for commodity prices.
- In terms of regional drivers, the Covid-19 recession—we expect Sub-Saharan African GDP to decline by 2.4% in 2020—combined with rising inequality and higher unemployment will likely result in slowing reform momentum as policymakers focus on measures to support short-term economic activity, with negative implications for long-term growth.

Rising Debt Loads

Stimulus Programmes Will Add To Fiscal Pressures

SSA - Fiscal Stimulus Programmes And 2019 Budget Balances As % Of GDP, Selected States



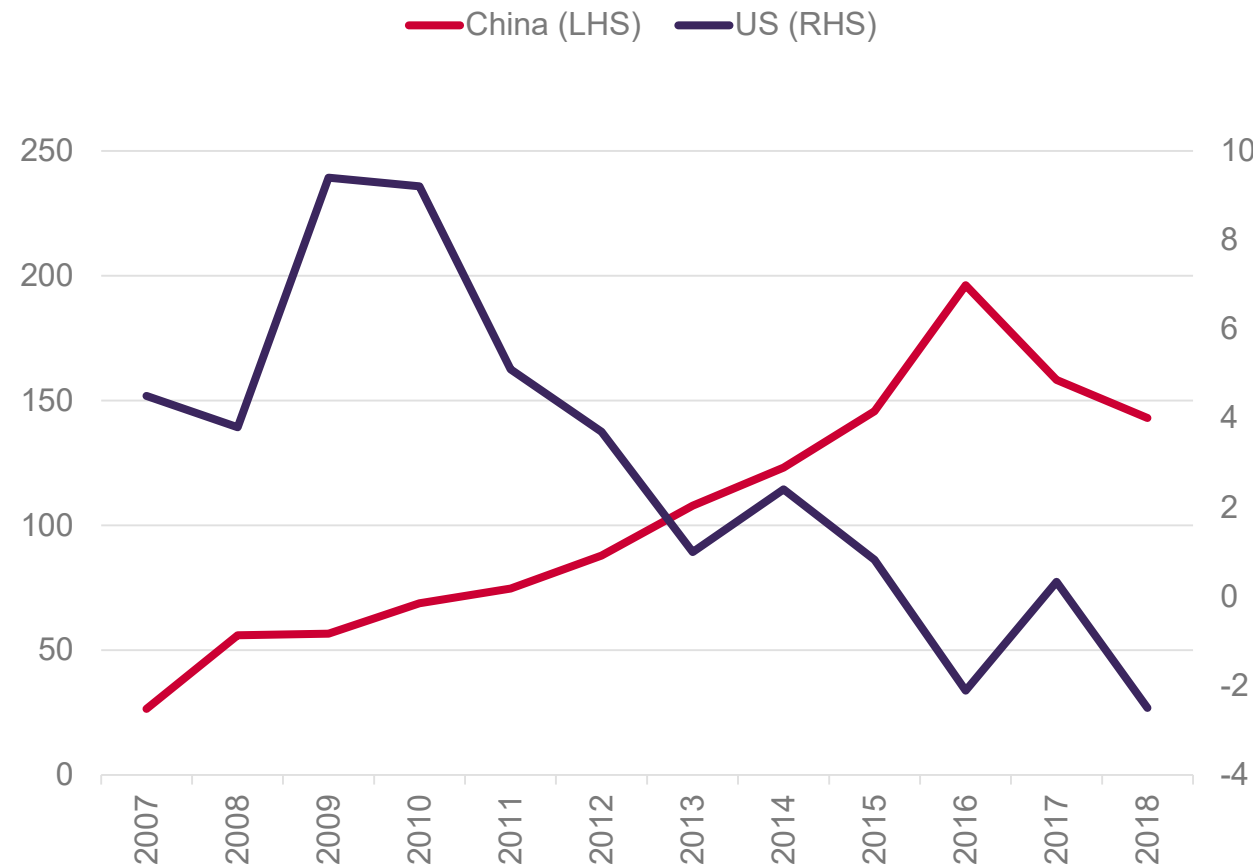
Source: Fitch Solutions

- Fiscal deficits across Sub-Saharan Africa will widen as markets launch stimulus programmes to ease the impact of Covid-19.
- While this will help counter the effects of lockdowns and border closures on private consumption and net exports, it will also lead to a sharp increase in public-sector debt levels, with potentially negative long-term implications..
- Although EM bond yields have broadly been on a downtrend in recent years, markets such as South Africa, Angola and Zambia may face limits to how much debt they can accumulate given already-high levels of public sector debt and/or contingent liabilities.
- Given the prospects of widening deficits and rising debt levels, the issue of debt sustainability—and debt forgiveness—is likely to arise again in the coming years.

Foreign Policy Dilemmas Over China

US Has A Lot Of Ground To Make Up

SSA - Foreign Direct Investment Flows From US And China, USDbn



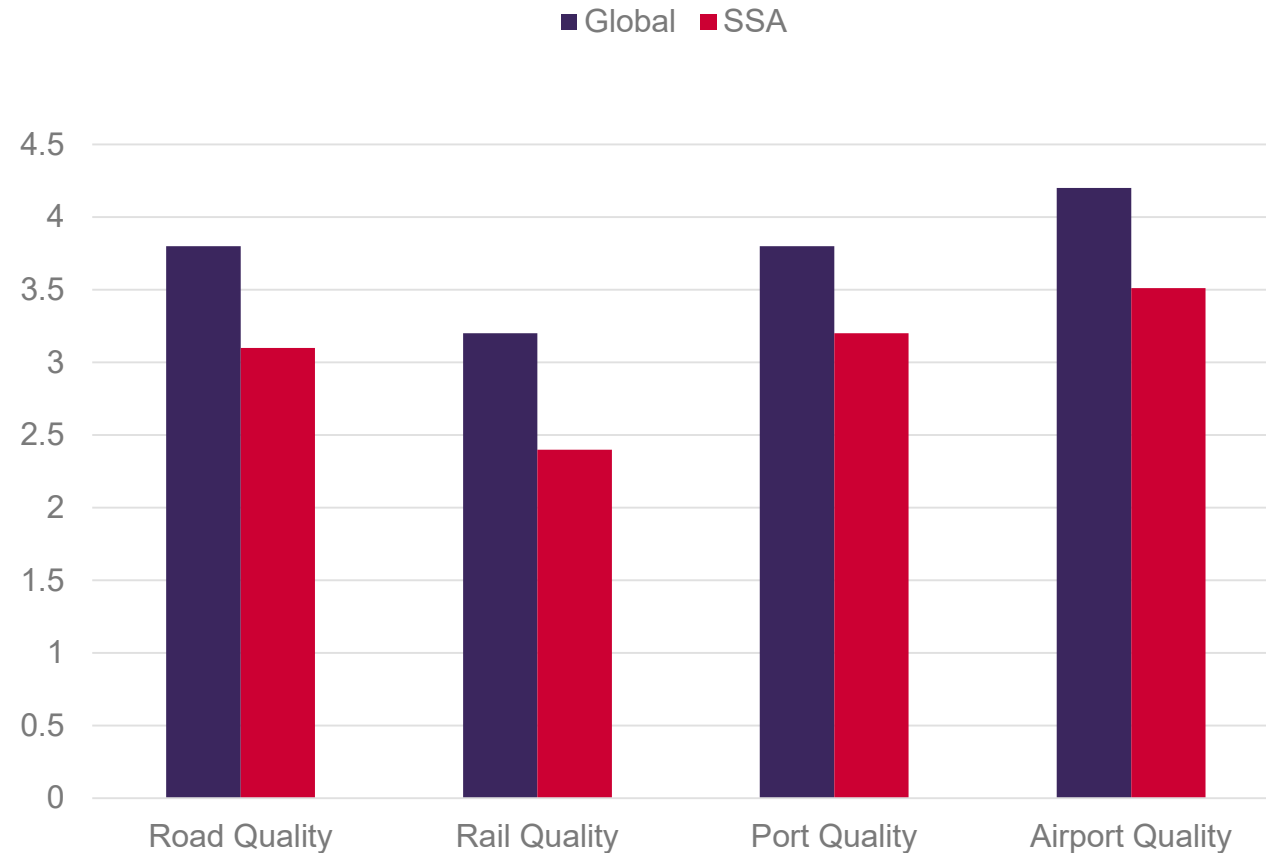
Source: China Africa Research Initiative, Johns Hopkins University, Fitch Solutions

- The pandemic has prompted a public backlash against China in some markets, and while we expect China to continue to invest in resource-extracting industries, activity around its Belt & Road Initiative (BRI) may slow. This risks fueling accusations by other global powers—notably the US—that China is merely engaging in “debt-trap diplomacy”.
- Positively, efforts to compete against BRI, and/or gain allies in the emerging West-China Digital Race could spur Western investment in regional markets.
- This will present potential foreign-policy challenges for regional governments over the longer term. Some—for example, Djibouti—may be able to play off Western and Chinese interests against each. However, many governments are already leaning on China for their digital infrastructure, potentially excluding them from US assistance.

An Increased Focus On Supply Chains

Low-Quality Infrastructure Hinders Intra-Regional Trade And Localisation

SSA and Global Average Infrastructure Quality



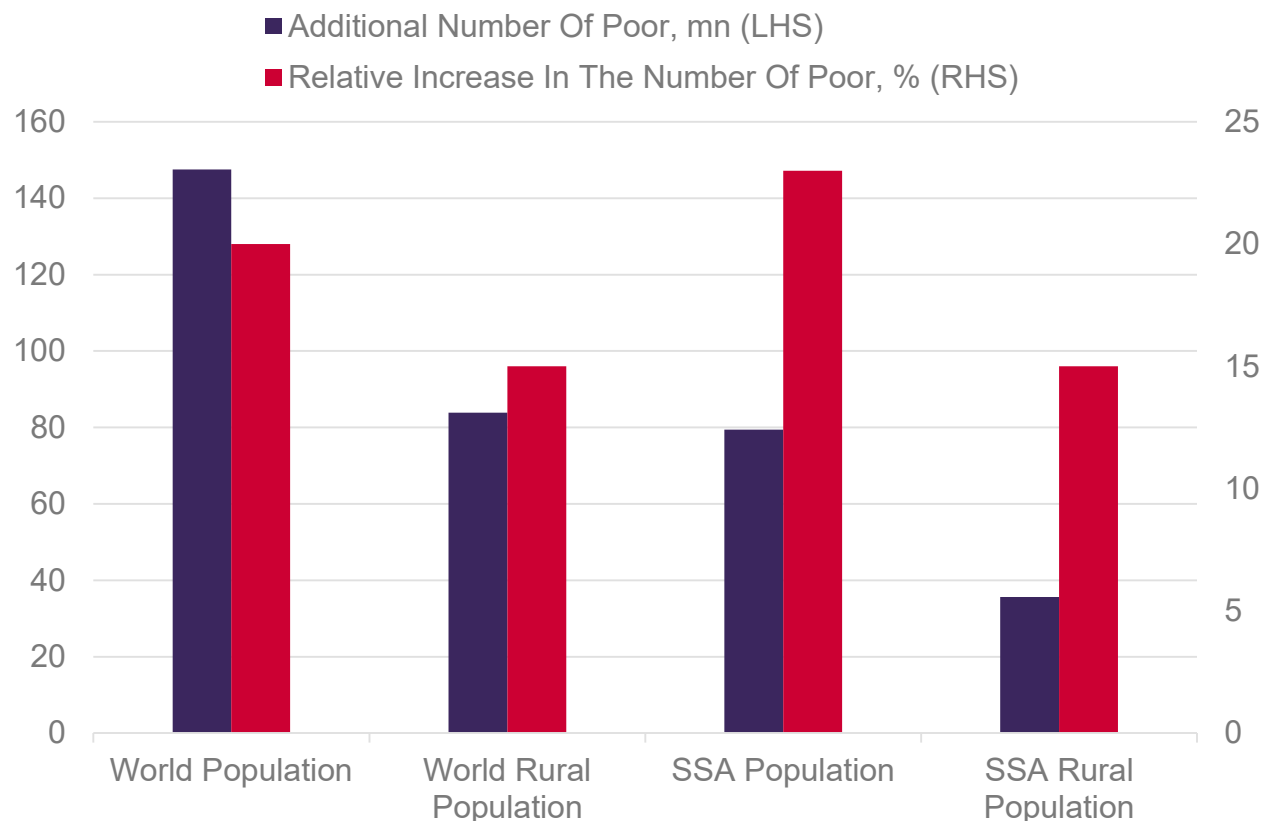
Source: World Economic Forum's Global Competitiveness Index, 2019-2020, Fitch Solutions

- Supply chain risks for machinery imports and transport abroad have been highlighted by the pandemic, inflicting damage on industries such as the time-sensitive cut flowers sector in Ethiopia and Kenya.
- This is likely to see greater focus on strengthening supply chains. For example, we expect automakers to reduce their reliance on China as a manufacturing hub and diversify supply chains post Covid-19.
- We also expect governments to promote increased near-shoring of some production—particularly as this would boost job-creation.
- However, many governments will lack the funds to make necessary investments in capacity, while existing impediments to trade, sophisticated manufacturing and infrastructure will likely hinder increased localised production and intra-regional trade.

Rising Political Risk

Covid-19 Impact Will Cause Sharp Rise In Poverty

Global and SSA - Increase In The Number Of Poor



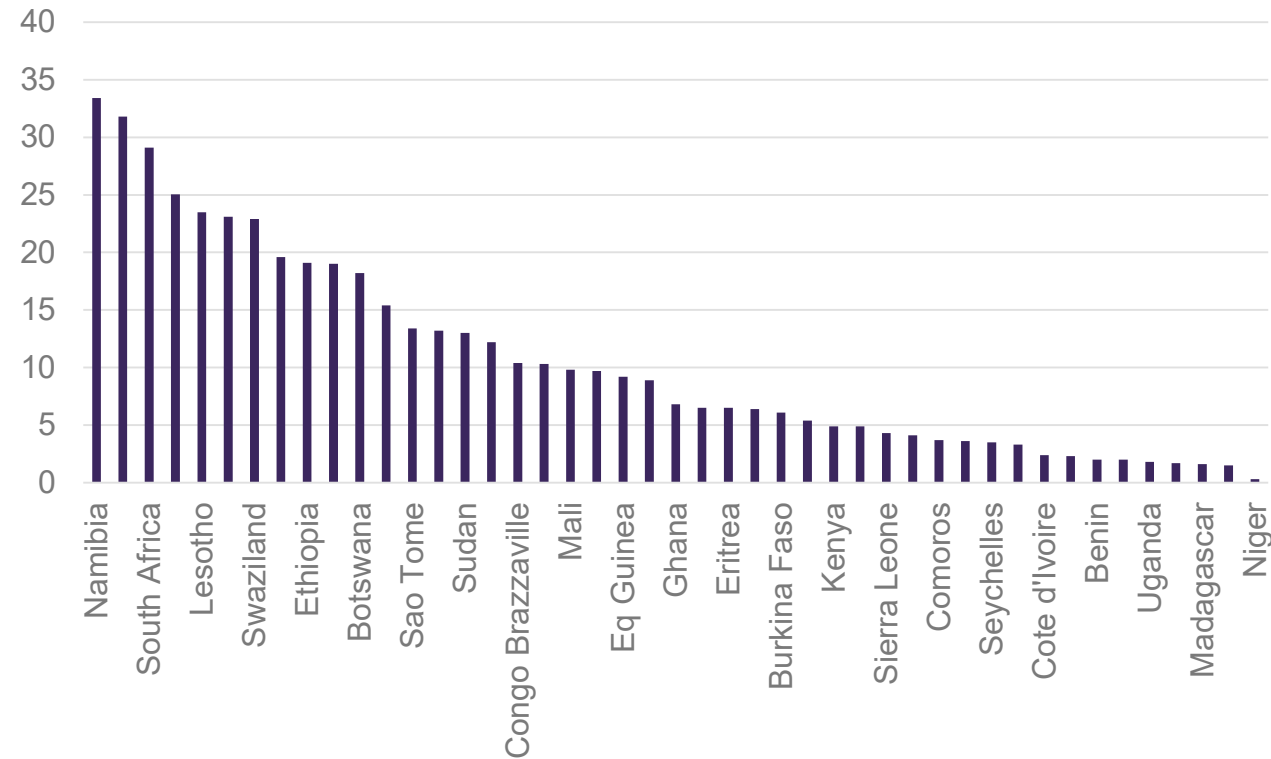
- The World Bank estimates that Covid-19 will push 23mn people in Sub-Saharan Africa into extreme poverty—that is, living on less than USD1.90/day—in 2020.
- Countries with the largest change in the number of poor include Nigeria (5mn), the Democratic Republic of the Congo (2mn) and South Africa (1mn), but across the region overall poverty is likely to rise given that low-income workers are more likely to lose their jobs as a result of Covid-19.
- Rising unemployment and higher food prices driven by the pandemic will feed into other drivers of protests, such as high youth unemployment and corruption.
- While the pandemic has temporarily placed a lid on these tensions, they are likely to re-emerge and intensify once lockdown measures are lifted.

Note: Poverty defined as those living on less than USD1.90/day. Source: International Food Policy Research Institute, Fitch Solutions 2019-2020, Fitch Solutions

Unemployment Adding To Government Policy Dilemmas

Joblessness Set To Rise Further

Sub-Saharan Africa - Official Unemployment Rates, %



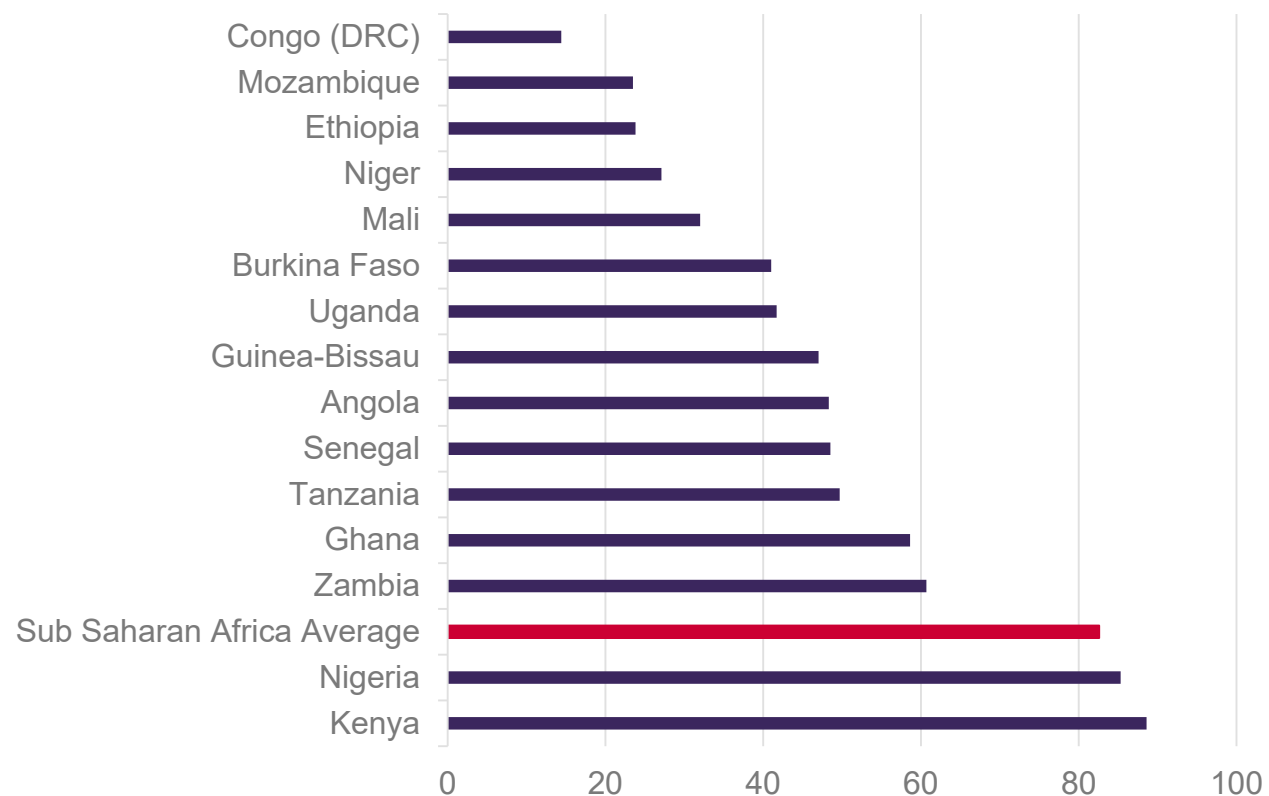
Note:: Latest available official data, usually end-2019. Source: Local Sources, Fitch Solutions

- Most non-agricultural workers are employed in the informal sector, with jobs that cannot be completed remotely. As many governments and employers are able to provide only limited support, many Africans will be forced to return to work despite infection risks.
- However, employment will likely fall sharply in industries such as tourism, and these and other jobs will be hard to replace, increasing tensions around policymaking in this area.
- Business owners are likely to press for more flexible labour market regulations and broad labour market reforms, while unions are likely to become increasingly politicised as they resist any form of job losses.
- This presents a rising risk in South Africa and Nigeria in particular, and will add to governments' policy dilemmas. . .

Increased Investment In Healthcare A Potential Upside

Low Healthcare Spending Constrains Covid Response Efforts

Sub-Saharan Africa - Health Spending 2019, USD per capita

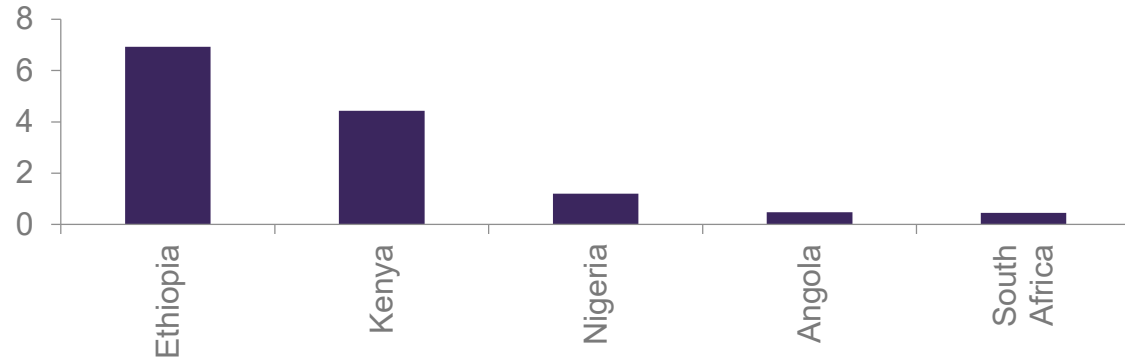


Source: Fitch Solutions

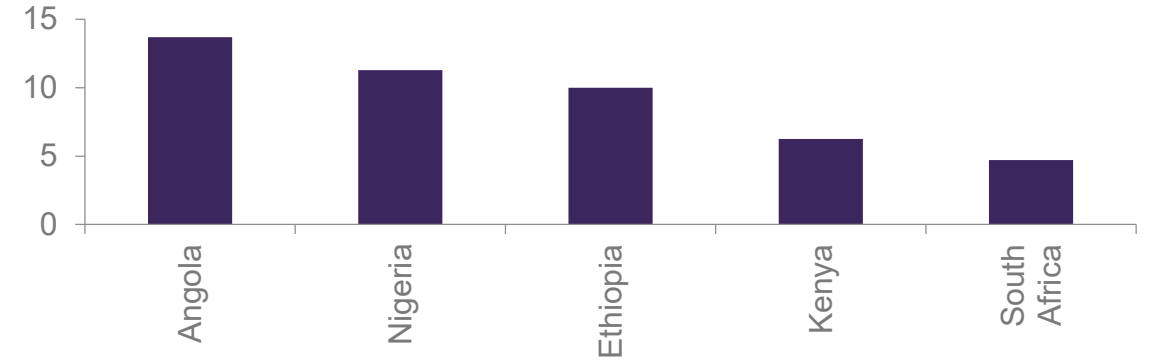
- Healthcare spending across Sub-Saharan Africa averages USD82.6 per capita—low compared to developed markets such as Western Europe, where healthcare spending is USD4,429 per capita.
- Reflecting current constraints, a wide range of regional governments are increasing spending on healthcare services as part of fiscal stimulus packages.
- Increased healthcare spending, if maintained, offers an upside risk in terms of productivity and thus growth. The World Health Organisation calculates that early death, disability and ill health wipes more than USD2.4trn from Sub-Saharan Africa's GDP each year.
- Cost of improved healthcare is likely to remain a constraint for many governments in the region, however. . .

Data Pack

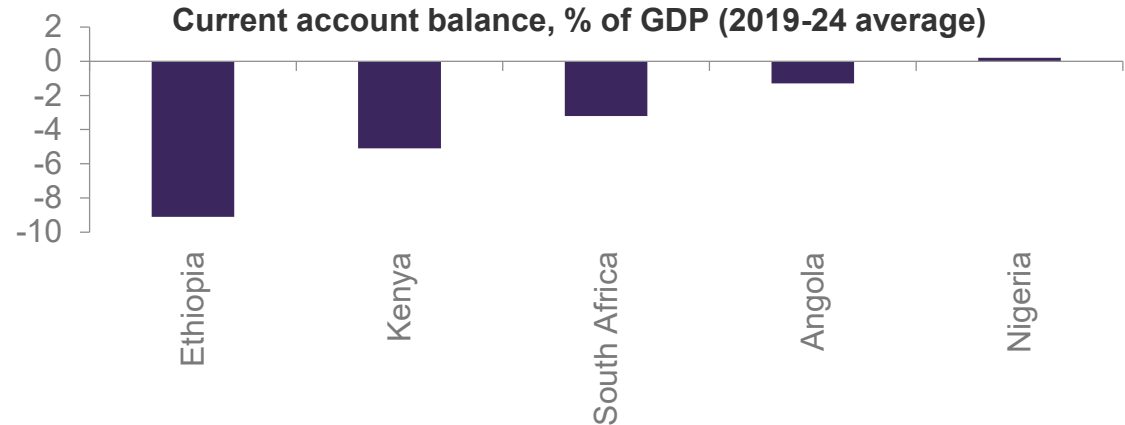
Real GDP growth, % (2019-24 average)



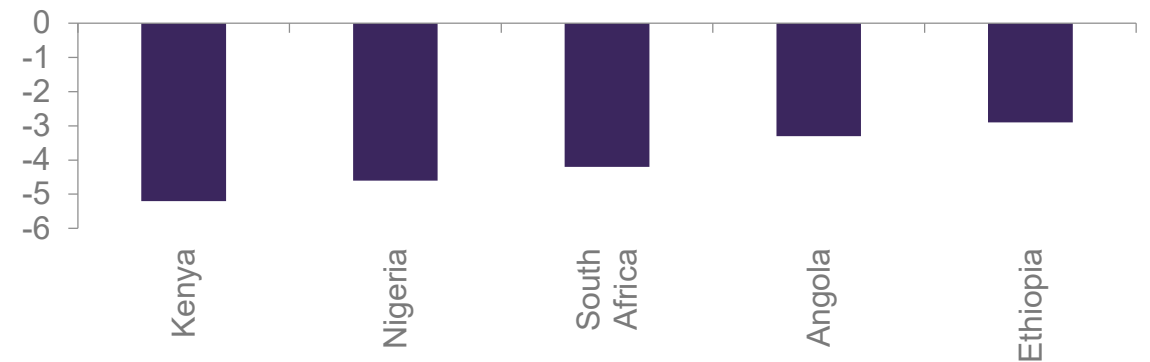
Consumer price inflation, % (2019-24 average)



Current account balance, % of GDP (2019-24 average)



Budget balance, % of GDP (2019-24 average)



Note: All figures are Fitch Solutions forecasts. Source: National sources, IMF, UN, Fitch Solutions

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