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On the cusp of recovery

H2’21 Macroeconomic Outlook

June 2021

Executive Summary

On the cusp of recovery

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Vetiva Research

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2021 was the year everyone looked forward to; a year of increased vaccine rollouts as the world begins its countdown to herd immunity. While advanced economies have begun the race on a strong note, resurging outbreaks have placed emerging economies on the back foot. Sitting on an armoury of fiscal and monetary stimulus, advanced economies have more than enough to tackle both the health and economic crises. As a result, many of these countries have more vaccine supplies and policy support than they need, leading to labour shortages in some, as stimulus checks keep wallets alive, while emerging economies grapple with rising unemployment and weak purchasing power.

Amid the uneven availability of vaccines, infectious variants are springing up in emerging and developing economies, raising the risk of severe virus spread. As more people are being vaccinated, the world is at a cusp of recovery, and concerted efforts would be required to avoid infectious variants from slipping the world into a double-dip recession. Nevertheless, recovery is underway, anchored by favourable base effects, ample fiscal support, ultra-dovish monetary policy, and infrastructural commitments.

As the world emerges from pandemic troughs, inflation has been revived by reflationary measures and a renewed commitment to a global greener economy. Despite the conspicuous inflationary threat, monetary authorities in advanced economies are not batting an eyelid, as they are convinced on the transitory trajectory of the current inflationary path. Amid the accommodative stance on the global stage, many emerging economies have had the leeway to adjust their policy rates. While rate hikes have been delivered to respond to inflationary pressures, most Central Banks have remained accommodative.

In Sub-Saharan Africa, the path to recovery is rather gloomy, as new waves of virus spring up and containment measures are reinstated. While South Africa and Kenya had to deal with such waves in the first half of the year, Nigeria has not seen severe waves. Nonetheless, the region could require more support as fiscal slippage risks rise, given the run-up to elections in the second half of the year. While some economies depended on their central banks to run their economies in 2020, the region could consider multilateral support to cushion the impact of the pandemic on their economies and wade off the risks of monetary deficit financing.

In Nigeria, growth prospects are already visible. Following a minor recovery in the first quarter of the year, we see low base effects spurring growth in the second quarter of the year, recovery in high contact sectors in the third quarter, and an oil sector rebound in the final quarter. Notwithstanding, a resurgence of lockdowns could hamper recovery, alongside possible social unrest from resistance to reforms. As fiscal authorities navigate their multiple dilemmas, economic recovery could remain the prime monetary objective. While we have seen reforms in the external sector, extended weakness in the Naira could persist unless appropriate measures are implemented to check arbitrage and boost investors’ confidence.

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Global Economy

Virus, vaccines, and variants

2020 is a year to be remembered, not only for the outbreak of the COVID-19 pandemic but also for the swift health and economic responses which aided timely vaccine developments. By year-end, vaccines were already approved setting the pace for rollouts. Currently, 10 out of over 230 vaccine candidates have been approved for use in at least one country with over 2 million doses administered across the world. While the progress is laudable, the fight against the pandemic is still on as the timeliness of vaccine availability has not been matched with equity. Vaccine nationalism could slow global progress against the pandemic, especially as more infectious variants of the virus emerge.

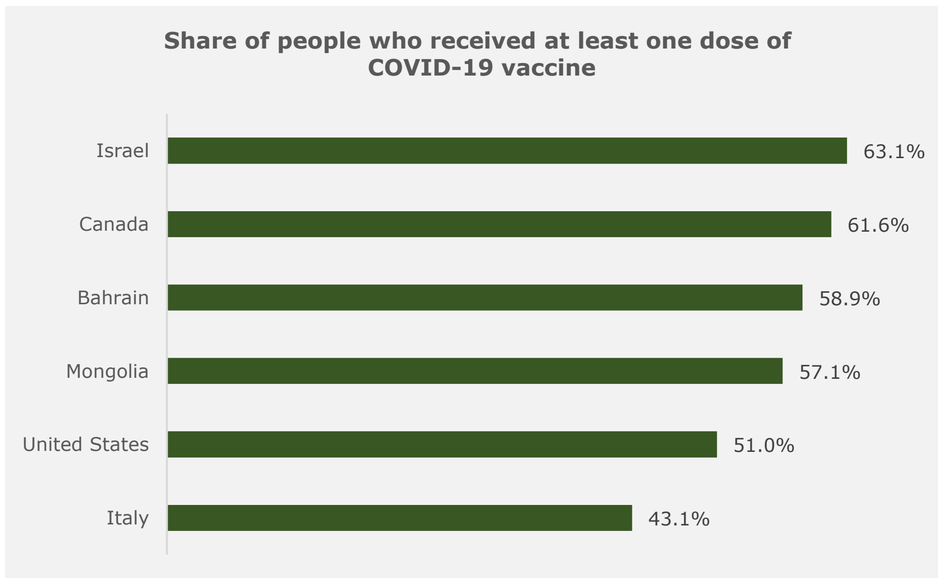
Virus Variants	
New WHO Label	**Earliest Sample**
Alpha	U.K. (September 2020)
Beta	South Africa (May 2020)
Gamma	Brazil (November 2020)
Delta	India (October 2020)

Source: Bloomberg, WHO, Vetiva Research

Recent history has two instances of inequitable access to medical care. From the antiretroviral drugs in the 1990s to the H1N1 influenza vaccines in 2009, most developing economies experienced either late or no access to vaccines. In 2009, richer countries demanded up the vaccines, leaving nothing for developing economies. While the virus did not degenerate into a global pandemic, the proactive efforts to improve global access downplayed this risk. Had the COVID-19 Vaccine Global Access (COVAX) initiative not been set up, developing economies could have been at the mercy of richer countries amid the glaring emergency of the pandemic. Notwithstanding, collaborative efforts are still required as new outbreaks in several parts of the world pose a downside risk to the anticipated recovery.

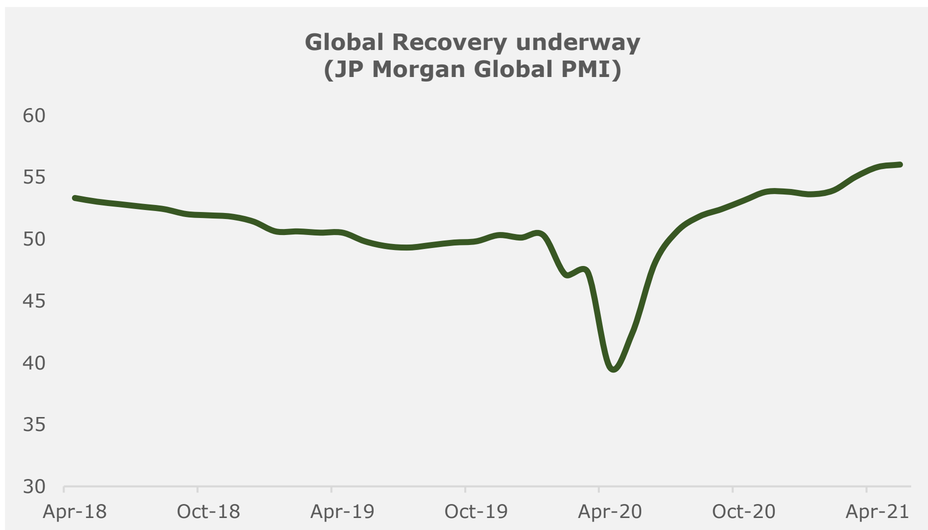
In retrospect, COVAX made early bets on AstraZeneca vaccines because it was cheaper to procure and store. However, the AstraZeneca vaccine did not exhibit effectiveness against some variants of the virus informing its suspension in South Africa, apart from the incidences of blood clots that led to its abrupt dismissal in some Scandinavian countries. With the pandemic resurgence posing an overt threat to recovery, economies are left to the cycle of easing and reinstating restrictions to manage the health and economic crises.

The speed with which vaccines have been administered in advanced economies could reduce the herd immunity countdown from months to weeks. Israel exemplifies the success of rapid vaccination, as the number of cases and hospitalization dropped drastically in the country, with no record of fatalities. This has supported the easing of restrictions to support recovery. Most of the economies that are close to herd immunity are either small in population size or armed with economic might. However, many economies sit at the bottom of the pyramid due to vaccine shortages and inadequate funding capacities.



Source: Our World in Data, Vetiva Research

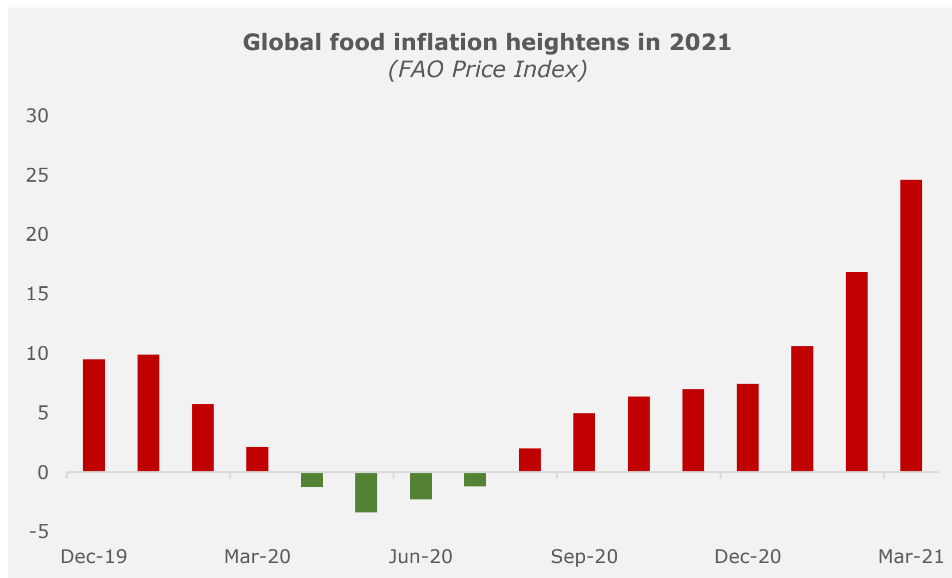
With vaccines on the global scene, recovery may not be far in sight. Leading economic indicators suggest this. Global manufacturing activity, proxied by the JP Morgan Global Purchasing Managers Index, has been in the expansion territory since July 2020. While the reopening of economies served as a facelift from lockdown troughs, the sustained policy support, timeliness of vaccine approvals, and consequent rollouts elevated global manufacturing activity.



Source: Bloomberg, Vetiva Research

Despite the recovery in global manufacturing activity, higher oil prices and a renewed demand for a greener global economy has fuelled the uptick in commodity prices, and consequently global inflation. Using the Food and Agricultural Organisation's Price Index as a proxy, food inflation has been on the rise, maintaining its longest streak in a decade. This has been attributed to drought in food-producing regions, slow production growth amid a rise in demand. Increased demand for vegetable oils and dairy products has also been contributory to higher global food inflation. With new demand from the biodiesel sector and underwhelming production in Indonesia and Malaysia, the FAO Vegetable Price Index has risen to multi-year highs. Grain prices are also on the rise, fuelled by stockpiling of supplies and food export bans, both of

which are consequences of increased individualism, a state the world found itself following the pandemic. Pent-up demand from China following its swine fever episode is also responsible for the surge in some agricultural commodities.



Source: Bloomberg, Vetiva Research

Advanced Economies: Blazing the trail

Riding on ample vaccine supply, stimulus packages and loose monetary policy environments, advanced economies are tipped to lead the global recovery. However, slow vaccine rollouts and the resurgence of outbreaks have stunted growth in some of these economies.

In the Eurozone, pandemic pressures dragged the region's economy into a double-dip recession. The combined forces of a virus variant spread and a slow rollout of vaccines contributed to the rise in COVID-19 cases and deaths in the European Union (EU). In the first quarter of 2021, the EU slipped by -1.8% y/y, slower than the contraction in Q4'20 (-4.9% y/y). The tides could tilt towards recovery in the medium term as countries in the region ramp up vaccine rollouts and implement pro-recovery fiscal packages. Also in Europe, the United Kingdom has shown signs of a rebound from pandemic-related pressures from manufacturing activity to job numbers and retail sales. Rising vaccine rollouts, better savings habits, and sustained fiscal support via its furlough scheme could drive recovery as the services-dominant economy adapts to the fundamental shift at the workplace.

In Asia, the slowdown in the Japanese economy moderated to -1.0% q/q in Q1'21 due to pandemic scourges, sluggish vaccine rollouts and underwhelming capital expenditure outcomes. Rising infections resulted in the declaration and expansion of emergencies in key prefectures including Tokyo. Vaccine hesitancy and the slow pace of vaccination in the country contribute to uncertainties in Japan, especially as the kick-off date for the 2021 Olympics draws near. However, the Bank of Japan's Tankan Index has shown signs of optimism retreating from a negative region despite a partial lockdown since the beginning of the year. This reflects the positive impact of global vaccination

efforts, stimulus checks in the United States, and profound recovery in China on Japanese exports.

The United States of America is expected to return to pre-pandemic levels this year, as its successful vaccine rollouts and well-timed stimulus packages lifted economic activities by 1.6% y/y in Q1'21. While a brief political risk surfaced during the Capitol Hill Crisis, the successful inauguration of the Biden administration led to key cabinet choices that saw the appointment of Janet Yellen, a one-time Chair of the US Fed, as the Secretary of the US Treasury. The United States has seen a rollout of three key relief packages to its citizens - $1200 under the CARES Act, $600 by the end of 2020, and $1400 under the America Rescue Plan. The Biden Administration has put forward an infrastructure plan to rejig the post-pandemic American economy. The $2 trillion plan, which is expected to create jobs, revamp US infrastructure, and fight climate change, will be funded by raising corporate tax rate, capital gains tax rate, taxes on book income, and by ensuring global corporations pay a global minimum tax. This could partly reverse the tax cuts delivered by the Trump administration.

Despite the inflationary implications of its stimulus packages, the US Fed has sustained its accommodative tone, keeping interest rates near zero and maintaining its monthly $120 billion asset purchases in place. With inflation rising to 5% in May'21, the Fed's flexible inflation targeting scheme suggests average inflation is about 8bps below its target as of the time of this writing. Thus, inflation is perceived as transitory allaying fears of policy tightening, which could derail recovery. This is a similar stance held by both the Bank of England and the European Central Bank as both banks are bent on remaining accommodative until inflation targets are sustainably achieved. The Bank of Japan however chose to tone down its aggressive equity purchases until financial market conditions mandate it to.

Emerging and Developing Economies: Behind the curve

With new outbreaks of the pandemic in Brazil, India and Argentina, emerging economies are lagging in the race to herd immunity and recovery. Contrary to what played out during the Global Financial Crisis, advanced economies could bounce back faster from the pandemic-induced recession as slow vaccine rollouts, supply challenges, and lack of proactive containment measures heighten the health risks in emerging economies. In addition to this, pre-existing economic challenges continue to impede recovery from fiscal slippage risks to worrisome debt burdens, external vulnerabilities, inflationary pressures, and currency instabilities. In a bid to ramp up vaccine supplies in developing economies, a waiver of intellectual property (IP) rights on vaccine technology has been on the front burner. This could allow developing economies produce their versions of the vaccines without accusations of IP infringements.

China, being a foremost emerging economy, was the first major economy to return to pre-pandemic level in 2020. Registering a 2.3% y/y growth in 2020, the Chinese economy witnessed its slowest growth on record in the pandemic-stricken year. Although the Asian country has a target of 6.1% y/y growth for 2021, the economy made a record 18.3% y/y comeback in Q1'21, its biggest quarterly expansion on record. This was partly due to the low-base effect, as

the economy contracted by 6.8% y/y a year earlier on account of its stringent lockdown measures.

In 2020, another key emerging economy, Russia, experienced its sharpest contraction in 11 years. Sliding by 3.1% y/y in 2020, the services sector was most hit by the pandemic as the hospitality sector slipped by 20.7%. The economy outperformed forecasts (World Bank: -6.0%), thanks to strong pre-pandemic policy buffers, its small-sized service economy, exclusion of the industrial sector from COVID-19 related restrictions, and adequate fiscal support. Although Russia approved a vaccine last year, the country drags its feet in getting its population immunized.

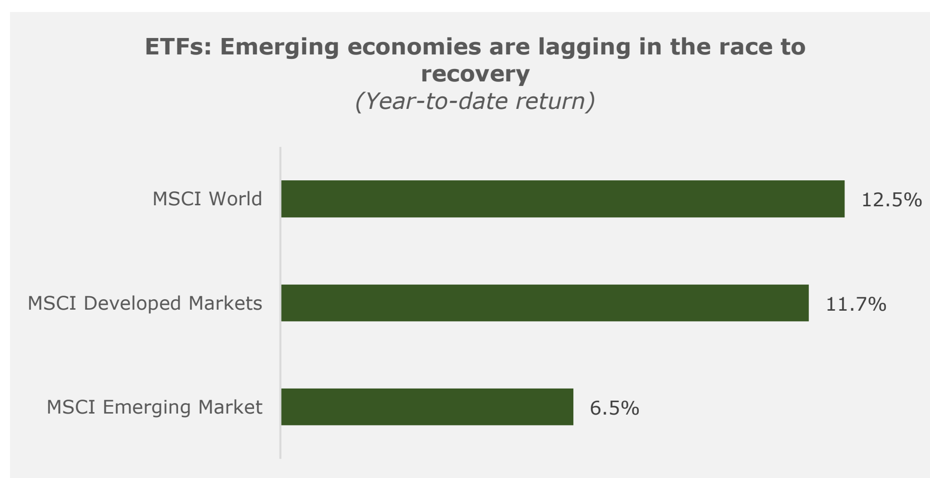
Speaking of vaccines, India, which hosts the world's largest vaccine producer, is faced with the double whammy of a severe wave of the virus and internal vaccine shortage as less than 20% of its population has received at least one dose of the vaccine. India's sharp rise in cases can be attributed to a spread of a more infectious variant of the virus reinforced by the staging of large political rallies and a religious festival in February. Although the Indian authorities have been hesitant to roll a national lockdown, the Indian economy may slip into a double-dip recession following its minor recovery in Q4'20.

Rounding the BRIC narrative with Brazil, the Latin American country recorded a less severe contraction (-4.1% y/y) than expected (World Bank: -8.0%, IMF: -9.1%), possibly as a result of social aid which cushioned the economic impact of the pandemic. While Brazil could require more social intervention, its public debt to GDP has risen beyond 90%. Further stimulus rounds may be needed to support the informal economy however, efforts not to breach spending limits may lead to cautious expenditure growth.

For many emerging markets, rising food prices have heightened inflationary risks calling for outright rate hikes. Thus far into 2021, we have seen a total of 24 rate hikes, many of which are from emerging economies including Brazil, Russia, and Turkey. A key highlight during the first half of the year was the sack of the Central Bank top officials in Turkey over President Erdogan's contrarian views on the relationship between interest rate and inflation. However, 7 Central Banks have remained dovish, dishing out rate cuts to support recovery in their economies.

In most economies, interest rates remain unchanged from 2020 levels. There is increasing evidence that monetary policy actions in advanced economies, especially the US, have significant impact on emerging markets. The taper tantrum episode of 2013 comes to mind here as unexpected policy normalization signals in the United States resulted in emerging market selloffs, portfolio outflows, and weaker currencies. On the flip side, the dovish stance by the Fed resulted in a dovish chorus across emerging markets in 2020. Although portfolio outflows were recorded during the global market selloffs, portfolio flows returned amid the ultra-loose monetary policy environment later in the year.

In the medium term, emerging markets could capitalize on the proposed increased Special Drawing Rights (SDR) allocation of the IMF. The $650 billion injection would be the largest in history surpassing the $250 billion allocation during the Global Financial Crisis. This will act as a liquidity boost to many emerging economies without shouldering new debt burdens.



Source: Bloomberg, Vetiva Research

In its recent World Economic Outlook, the International Monetary Fund (IMF) upgraded global growth outlook for 2021 to 6.0% y/y. Contrary to what the markets are signifying, the Fund expects emerging economies (6.7% y/y) to outpace Advanced economies (5.1% y/y) in 2021. A rebound in Italy could be crucial in propelling the Euro Area to a 4.4% y/y comeback in 2021. The United Kingdom, on the other hand, is expected to record its strongest recovery rate (5.3% y/y) in thirty years. The optimistic growth expectation accorded to India (12.5% y/y) could be revised downwards as the severe wave in the East Asian country poses a key downside risk to recovery. However, vaccines and sustained policy support are expected to jumpstart the global economy by 6.0% y/y in 2021.

IMF Apr'21 Forecasts	GDP (%)	Inflation (%)
World	**6.0**	**3.5**
Advanced Economies	5.1	1.6
US	6.4	2.3
Euro Area	4.4	1.4
UK	5.3	1.5
Japan	3.3	0.1
EMDEs	6.7	4.9
China	8.4	1.2
India	12.5	4.9
ASEAN-5	4.9	2.3
Saudi Arabia	2.9	2.7
Russia	3.8	4.5
SSA	3.4	9.8

Source: IMF, Vetiva Research

Macroeconomic and policy themes in H2'21

Vaccine diplomacy

The concept of vaccine diplomacy has become more glaring recently. Provision of timely donations to countries in need could help in slowing dangerous mutations in the virus and stem the spread of the virus globally. Equally, vaccine donations can be capitalized on in strengthening diplomatic ties. Making vaccine availability a common public good has been at the fore of Chinese foreign policy, as it announced the provision of free vaccines to some while exporting commercially to others. While the timely rebound of the Chinese economy places it in a suitable position to assist several emerging and developing economies, the export bans put in place by other vaccine producers have created a vacuum to be filled. With some Chinese candidates in the clinical trial stage, successful clearances could boost vaccine diplomacy measures. Unlike China, Russia has expanded its vaccine exports to several countries despite its slow vaccine rollout. Vaccine efficacy concerns regarding the Russian Sputnik vaccines have waned, paving way for adoption in the EU, other Asian, and Latin American countries. While the United States may be late to these diplomatic moves, we could see the increased donation of excess supplies from the West in the second half of the year, as domestic herd immunity is achieved, and vaccine supply picks up. Targeted vaccine donations could spring up goodwill for China and Russia as time passes by.

Geopolitics

Key geopolitical events to watch out for include US-China relations, the Nuclear weapon deal, and Iran's Presidential elections. Like his predecessor, Joe Biden has taken a firm posture on US-China relations. During his first 100 days in office, he berated China for its role in Hong Kong and Taiwan. Tariffs and intellectual property restrictions are yet to be reversed, as the Biden Administration attempts to push back against Beijing's economic abuses. While a de-escalation of tensions is highly unlikely, we expect more diplomatic moves from Joe Biden.

Concerning US-Iran relations, the Nuclear weapon deal could come to the limelight as both countries step up talks. The Biden Administration's decision to revisit the deal could be hinged on Iran's full compliance with its terms of the deal - low uranium enrichments that could dissuade the possibility of nuclear weapon development. With sanctions still in place, geopolitical tensions could emerge should its next leader take a more hard-line posture. A successful negotiation could see a significant supply of oil into the market, which could clip off some gains in oil prices. Meanwhile, other tensions between the Saudis and Yemen's Houthi rebels could swell geopolitical tensions in the second half of the year, especially following the round of attacks launched against Saudi Aramco in the first half of the year.

De-dollarization and Digital Currencies

The increased demand for swift payments buoyed demand for cryptocurrencies. While digital currencies are extolled for payment facilitation, its role as a store of value has been questioned given the volatility of cryptocurrencies. Fundamental issues raised by apex bank officials across the world are terrorism funding and the absence of an intrinsic value. While fiat currencies are driven by interest rates, inflation, trade, and other economic

fundamentals, cryptocurrencies do not have such mechanisms backing them. As witnessed during the first half of the year, tweets, regulations, and the Jones effect were the obvious drivers of activity in the crypto market. While some countries have issued banking/legal bans on cryptocurrencies, Central Bank Digital Currencies (CBDCs) are already been explored in some countries, an alternative to other crypto assets. China is already leading this feat via its digital renminbi issuance, which does not only facilitate digital payments but also places every transaction under the surveillance of the People's Bank of China. Unlike China, the United States is not in a hurry in issuing a digital currency or affirming the so-called stable coins, which are linked to fiat currencies or commodities. According to Jerome Powell, stable coins represent a subtle improvement over crypto assets but lack credibility because they are not backed by any official currency. Nonetheless, increased oversight is on the offing as US authorities roll out regulatory policies. As the world emerges from the global pandemic, the digital currency narrative could gain traction.

Away from digital currencies, some emerging markets are also taking steps in de-dollarizing their economies. Recently, China has extended its bilateral currency swap arrangements with Thailand and Pakistan. Russia, Iran, and Turkey are also exploring such arrangements as efforts to reduce dollar dominance and foster international trade. While the dollar will remain a strong force in the global market, evolution in the global monetary system could be a key theme to watch out for.

Commodity Super Cycle?

A brewing theme across the globe is the possibility of strong demand growth across asset classes because of expansionary macroeconomic policies, a build-up in inflation, and the unintended fallout of building a greener global economy. With the rollout of monetary and fiscal stimulus in advanced economies and the sharp recovery in Chinese demand, the commodity rally could persist. Meanwhile, renewed commitment to build renewable energy infrastructure and produce electric vehicles could swell up demand for precious metals. Oil prices are also building despite the pandemic-induced dent on developing economies. Concerted efforts to improve vaccine rollouts could swing oil prices further, barring any significant supply of oil into the market. Altogether, further waves of the virus, the pace of vaccinations, and speed of recovery in advanced economies could be critical in ascertaining the direction of commodities in the near to medium term.

Global minimum Tax

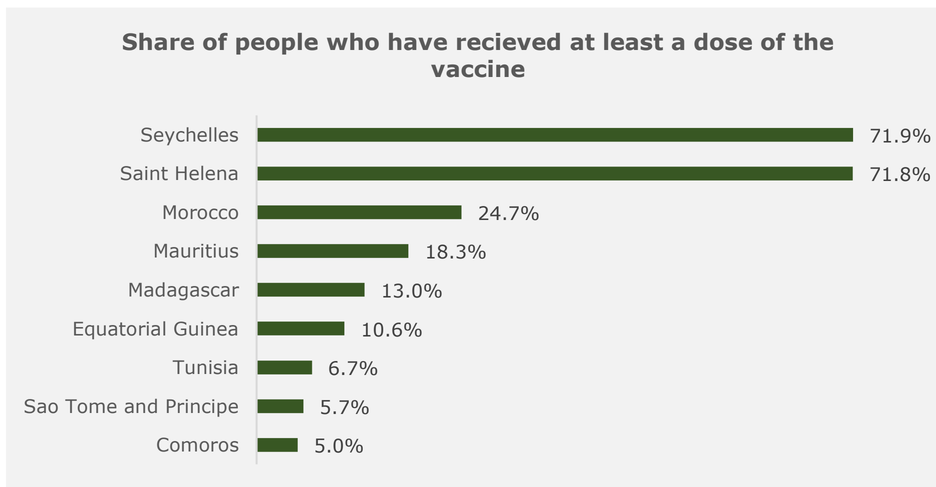
Over the years, multinational companies have evaded taxes by shifting profit and tax revenues to tax-havens (countries with low tax rates). The reduction in corporate taxes by government creates a proverbial race to the bottom, as countries reduce their corporate tax rates to attract investments from these institutions. In the end, companies end up paying lesser corporate taxes. This has led to pent-up investment in safe havens like Ireland or others with zero corporate tax rates - Cayman Islands and Bermuda. With a global minimum tax on the scene, this undue advantage is eliminated by ensuring corporates pay more taxes. The Organisation for Economic Corporation and Development estimates this could unlock $50-$80 billion in additional corporate tax income. While the G-7 group of countries has approved 15% as a minimum global tax, more discussions will be held by the G-20 and other stakeholders. This will be

a closely monitored theme in the second half of the year, especially as emerging economies need to mobilize revenues to propel their economies.

Sub-Saharan Africa

Treading uncharted waters

In 2020, Africa experienced its first recession in five decades. Multilateral institutions estimated that Sub-Saharan Africa (SSA) contracted by 2.0% in 2020. This was substantially less than some regions which fell twice as much. The mild contraction in 2020 can be attributed to a slower spread of the virus, lower fatality rate, less stringent restrictions, dominance of the agricultural sector, and the rebound in commodity prices. While some economies did not go into hard lockdowns, others rolled back restrictions when the socio-economic consequences came knocking hard on their respective economies. In the region, recovery could be sluggish due to the limited fiscal space to fund vaccine rollouts amid substantial reliance on external support for vaccine supplies.



Source: Our World in Data, Vetiva Research

Following the low base in 2020, the IMF estimated that the region could recover by 3.4% y/y in 2021, supported by a rebound in commodity prices, private consumption, and investment. Meanwhile, the region is not expected to return to pre-COVID living standards until 2023. Recovery will also be divergent across countries. While the pandemic provided a low base for tourism-dependent economies in 2020, the upsurge in virus variants and reinstatement of travel bans poses a downside risk to recovery in such economies. The most vaccinated nation on earth, Seychelles, which is also tourism-dependent, recorded a spike in cases among fully vaccinated individuals. Thus, measures to reduce social contact must be implemented alongside vaccine rollouts to prevent a further rise in COVID-19 cases. Containing the spread of the virus will be vital in attracting tourists; nonetheless, the tourism sector may not recover well until 2023.

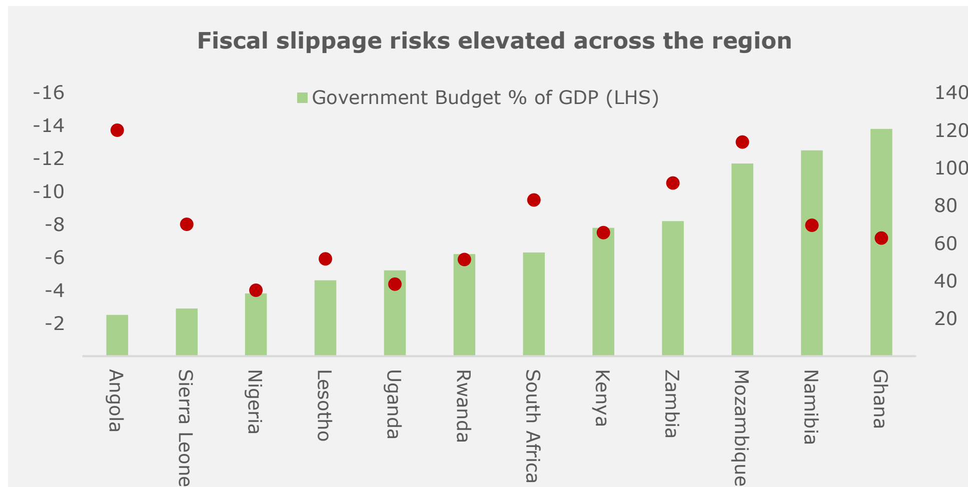
The rebound in commodity prices and consumption could pave way for recovery among oil exporters and resource-intensive economies. However, subdued investment and demand could weigh on recovery, especially following security threats on existing projects in Mozambique and incidences of conflict in the Tigray region. Pent-up investment may however support output growth in diversified economies, as they are expected to recover quicker than other economies.

IMF Apr'21 SSA Growth Forecasts			
Resource Dependent	**Country**	**RGDP (%)**	**Inflation (%)**
Crude Oil	South Sudan	5.3	40
	Equatorial Guinea	4	1.5
	Cameroon	3.4	2.2
	Nigeria	2.5	16
	Chad	1.8	3
	Gabon	1.2	2
	Angola	0.4	22.3
	Congo, Republic of	0.2	2.5
Non-Resource-Intensive	Botswana	7.5	4.7
	Niger	6.9	0.4
	Guinea	5.6	8
	Ghana	4.6	9
	Burkina Faso	4.3	2.7
	Mali	4	1.7
	Congo, Democratic	3.8	10.9
	Liberia	3.6	10.9
	Central African Republic	3.5	3.3
	Zimbabwe	3.1	99.3
	South Africa	3.1	4.3
	Sierra Leone	3	15.5
	Tanzania	2.7	3.3
	Namibia	2.6	3.4
	Zambia	0.6	17.8
Tourism	Mauritius	6.6	2.6
	The Gambia	6	6
	Cabo Verde	5.8	1.2
	São Tomé and Príncipe	3	10.6
	Seychelles	1.8	3.7
	Comoros	0	0.3
	Sub Saharan Africa	**3.4**	**9.8**

Source: IMF, Vetiva Research

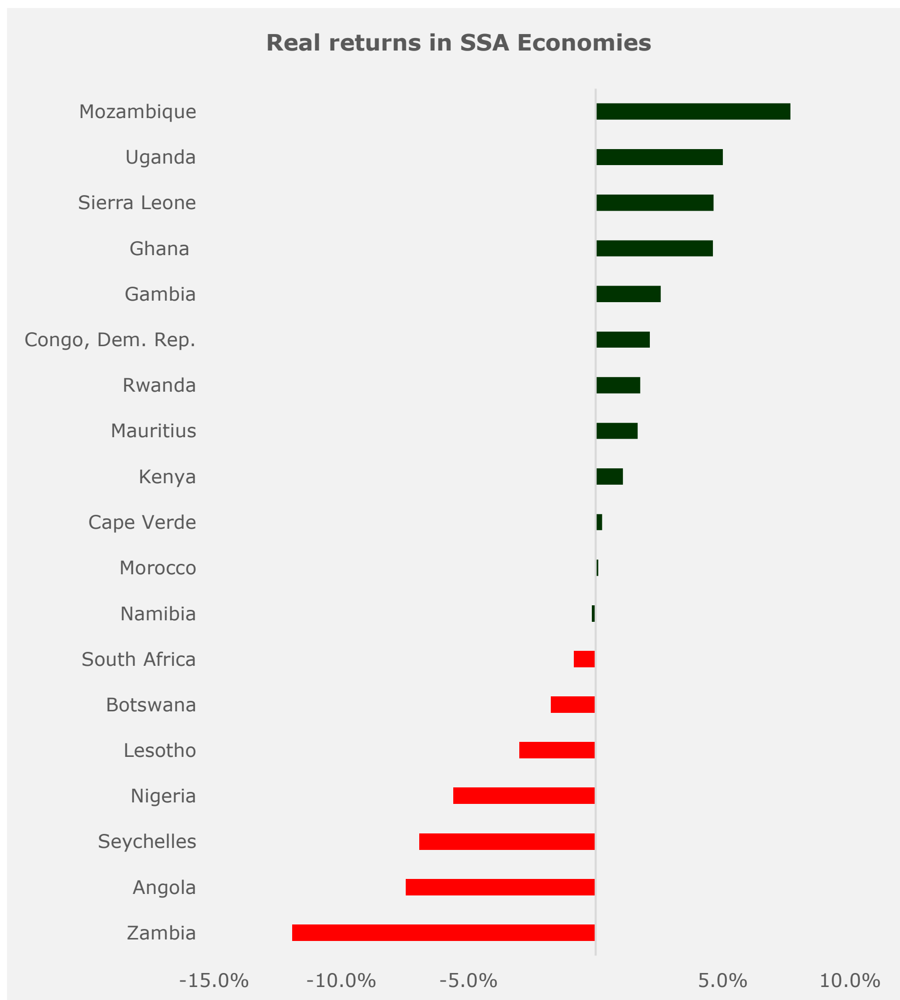
Funding the recovery becomes a herculean task when about 17 economies were already in or at the edge of debt distress before the pandemic struck. Across the region, fiscal stimulus was barely up to 3% despite the debt reliefs provided by the Debt Service Suspension Initiative (DSSI). According to Fitch, median public debt leaped from 56% of GDP in 2019 to 68% of GDP in 2020. The need to keep public finances in check has led to premature rollbacks of relief measures. Many of these economies will have to reassess their fiscal profiles and improve revenue mobilization. While outright tax hikes may be contractionary, an inward assessment would be critical to capture more people and goods under the tax net. At the same time, a thorough review of public finances may be essential to tackle misappropriation of public funds, which could leak out already insufficient revenues. The sub-region's value-added tax (VAT) efficiency (35%)

underperforms the global benchmark (50%), buttressing the need for thorough fiscal review and use of technology to improve efficiency in tax collections.



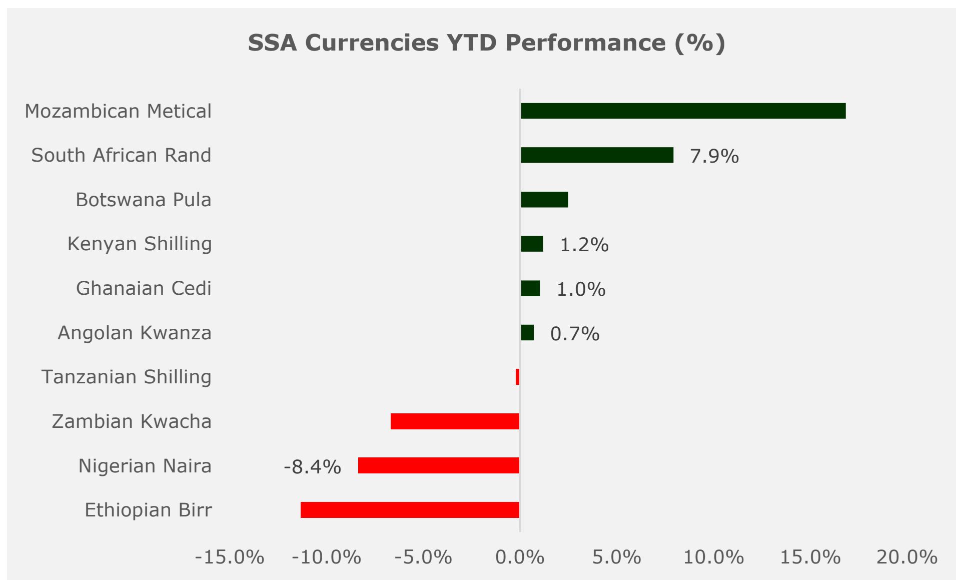
Source: Trading Economics, Vetiva Research

In the run-up to 7 elections in H2'21, fiscal slippage risks may be on the rise. Further policy responses are expected to be driven by monetary authorities. However, apex banks have limited room for further interest rate cuts. As the pandemic era called for extraordinary measures, several governments resorted to their respective apex banks (Nigeria, Ghana, Uganda, Mauritius) for financing in 2020. Risks of further recurrence abound should government finances continue to dwindle in the face of pandemic shocks. Caution has to be exercised to prevent the history of hyperinflation from replaying in the region. At the moment, inflation has been on the upswing in the region caused by rising oil prices, currency weakness, drought, and conflict in food-producing areas. Some economies (Zambia, Zimbabwe, Mozambique) have begun tightening to rein inflationary pressures. A lot of economies could remain accommodative until advanced economies slow down asset purchases. Some economies with tolerable inflationary outcome (Ghana, Uganda, Congo) could deliver rate cuts to drive home recovery. On the flip side, the need to attract portfolio flows could warrant policy tightening across the SSA, especially in economies with negative real rates of return.



Source: Trading Economics, Vetiva Research

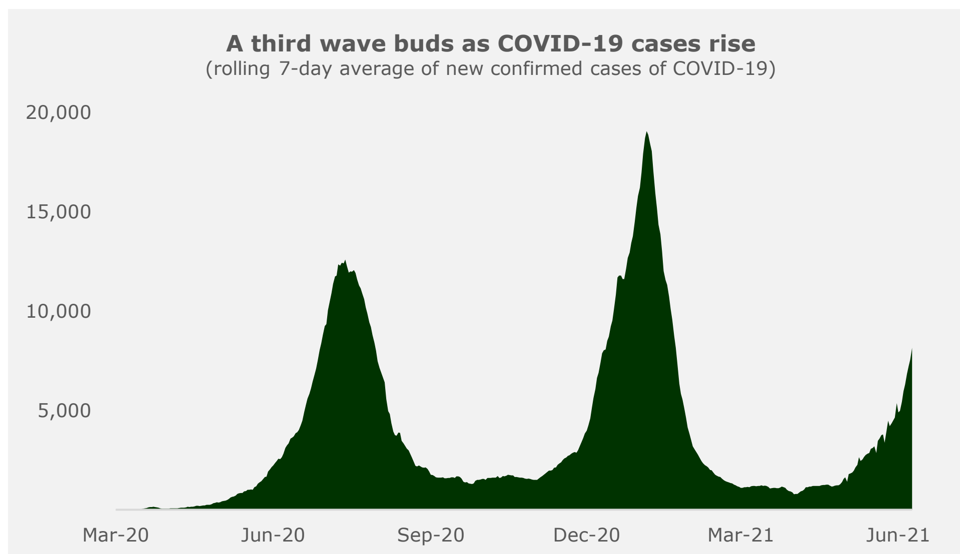
Amid the accommodative monetary policy stance, currency pressures are beginning to ease as higher commodity prices and hawkish monetary policy moves support SSA currencies. The 300bps hike in the Mozambican benchmark rate supported the Metical, as the economy had the highest real rate of return in the region. More fundamentally, the surge in commodity prices spurred investment interests in the Southern-African economy. Despite the security threats to the LNG project in the country, the Mozambican metical has appreciated by as much as 16% YTD. The South African Rand has also exhibited resilience, given it was one of the fastest emerging currencies to recover from the risk-off sentiments in 2020. The pick-up in demand for commodities, further bolstered by the US infrastructure plan has been a key driver of stability in the currency. The Ghanaian Cedi and Kenyan Shilling have fared relatively well on the back of an early Eurobond issuance and resilient remittance inflows, respectively. The Angolan Kwanza - which has been on a free fall over the years – took a breather during H1’21 as the rebound in oil prices alleviated currency pressures. The Nigerian Naira, on the other hand, has been weakened by lull investment appetite amid implementation of FX reforms. For many of these currencies, developments in the global market continue to support currency valuations. Nonetheless, new outbreaks of the pandemic and policy normalization in advanced economies could undermine these gains.



Source: Bloomberg, Vetiva Research

South Africa: Confronting roadblocks on the path to recovery

The pandemic pummelled economic activities in South Africa by 7.0% y/y (Vetiva: 7:2%) in 2020, its worst economic performance in 74 years. Being the country with the highest caseload in Africa, the economy had to implement stringent lockdown measures to prevent the health crisis from degenerating. The sectors most hit by the pandemic were largely labour-intensive and constituted one-third of the economy - the manufacturing; transport, storage, and communication; and the trade, catering, and accommodation sectors. While the agricultural sector recorded its strongest growth in three years, the sector contributed less than 3% to total national output. As such, the South African economy could not exhibit resilience in the face of the pandemic, as economic output fell in all quarters of the year on a y/y basis. Thus, the pandemic has reversed economic progress by eight years as the economy is about the same size as it was in 2012.



Source: Our World in Data, Vetiva Research

While the previous year's favourable base provides a tailwind for recovery, the sluggish pace of vaccination could be a key downside risk. Despite the proactive purchase of AstraZeneca vaccines, the use of the jab had to be halted due to its ineffectiveness against the dominant variant in South Africa. Reports of blood clots led to a temporary suspension of the single-shot Johnson & Johnson COVID-19 jab, before eventual resumption due to the low probability of adverse reactions.

The government had put in place an economic plan to respond to the pandemic and restore economic activity. The plan also focuses on electricity generation, job creation, and infrastructure development. This becomes necessary as the economy recorded its highest unemployment reading (32.6%) in the first quarter of 2021. With more people out of work, consumption remains subdued. The expanded unemployment rate amounts to 43.2%, when accounting for those within the working population age and were discouraged from taking a job. On the flip side, inflation fell to its lowest in 16 years in 2020 (FY'20: 3.3%) on the back of the plunge in oil prices. Low pricing pressures cascaded into 2021 as

inflation fell below the Reserve Bank's target in February despite the uptick in gasoline prices. Bucking the global food inflation trend, higher crop production has moderated food inflation outcomes, which has given the apex bank leeway to remain accommodative.

South Africa had one of the highest fiscal responses to the pandemic among emerging economies. Its 2021/22 budget was premised on promoting economic recovery, providing public health support, and returning public finances to a sustainable position. The country is one of the few in the region to earmark funds for vaccine rollouts (R10.3 billion: $686.7mn). Planned tax increases were rolled back amid optimism over the easing of COVID-19 restrictions and increased economic activities. However, levies on petroleum and alcohol products will be implemented to drive up revenue. The authorities successfully curbed the growth in the public sector wage bill in line with its fiscal consolidation measures. With debt levels exceeding 80% of GDP, the government has shown commitment to curbing public expenditure growth and implementing structural reforms. The set-up of the *Vulindlela* unit has been critical in monitoring reform implementation across several sectors of the economy.

Given the bullish run in precious metals, the economy is poised to record another trade surplus in 2021. As of Mar'21, the export value index was higher by 8.0% y/y, with metals, machinery, and ores & minerals contributing most to export growth. On the flip side, the import value index was 7.8% lower y/y due to lower metal, machinery, and petroleum imports. Over the years, the economy has recorded expansion in export growth and reduction in import growth. We attribute this to high levels of industrialization, the strength of the Rand, and sustained foreign direct and portfolio investment in the economy.

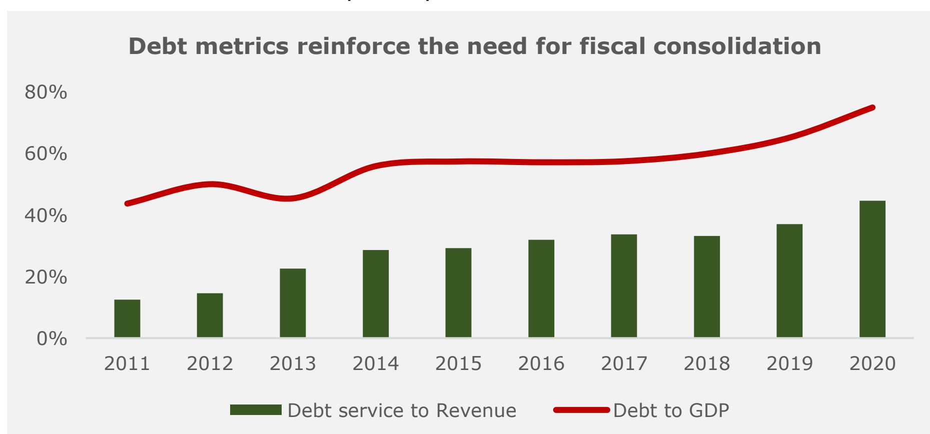
Ultimately, the South African economy is expected to ride on milder restrictions, favourable base effects, and resumption in private demand. Beyond this, the South African economy needs to implement structural reforms that will stabilize power supply, revive labour markets, and boost private consumption. Thus, we anticipate a 3.5% y/y recovery in 2021 (IMF: 3.1% y/y). Risks could emerge from the sustenance of strict containment measures and social unrest ahead of local government elections later in the year. Nonetheless, anti-graft operations could provide a soft landing for the ruling Africa National Congress (ANC) in the upcoming elections. With fiscal consolidation plans underway, restraints on public wage growth and resumption in business activities could lead to narrower fiscal deficits. Meanwhile, taxes on alcohol and petroleum products could accentuate inflationary pressures in 2021 (Vetiva: 4.4% y/y, IMF: 4.3% y/y), albeit the strength of the Rand could assuage such pressures. Barring any significant policy change by the US Fed, we expect the accommodative stance to persist in 2021. Bucking the trend in merchandise balance, we foresee a weakening of the economy's current account balance as the rally in oil prices increases the value of imports.

Ghana: Ahead of the pack

In line with our expectations, the Ghanaian economy recorded a positive but low output growth - 0.4% y/y - in 2020 (Vetiva: 1.3%). This was despite the impacts of the lockdown and elections in the first and last quarters of the year, respectively. Nonetheless, this was the slowest growth the Ghanaian economy has recorded since 2009. Broad-based expansion in the first and final quarters of the year overwhelmed the disruptive impact of the lockdown on output growth during the mid-quarters. Recovery was propelled by the agriculture (+7.4% y/y) and services (+1.2%) sectors while the industrial sector (-3.6% y/y) gave in to pandemic scourges.

Ghana was the first African country to receive vaccines under the COVAX initiative. The West African economy has outpaced other countries within the region, having vaccinated c.3% of its population. The pace of rollouts was however held back by export bans on vaccines produced in India, following the health emergency. The timeline of vaccinations could be affected by delays in vaccine supplies. In the meantime, restrictions may be reinstated. However, the government plans to launch more countercyclical policies to support businesses and households.

The COVID-19 Alleviation and Revitalization of Enterprises Support (Ghana CARES) programme, which was introduced in November 2020, seeks to fast-track recovery and create decent jobs. The Ghana CARES programme seeks to attract educated youths to commercial farming, build Ghana's light manufacturing sector, develop the ICT economy, improve the construction & housing industry, improve the implementation of the government's flagship programme, and establish the Development Bank of Ghana to finance the agenda of the CARES program. To alleviate pandemic pressures on businesses in 2021, the government communicated its plans to provide a tax rebate of 30% for companies in the hospitality, education, entertainment, travel, and tourism sectors; suspend quarterly income tax instalment payments for small businesses and waive interest and penalties for tax arrears. However, the government introduced several levies including a health levy, sanitation, and pollution levy, energy sector recovery levy, and a financial sector clean-up levy. The gaming industry will also be assessed for revenue mobilization. In all, the government aims a fiscal deficit of 9.5% of GDP in 2021 (2020: 11.7%). However, its increasing debt burden becomes a cause of concern, especially as debt-to-GDP rose to 76% in 2020, while debt service gulped 45% of revenue. At this pace, the government may be raising taxes to service debts unless appropriate fiscal consolidation measures are put in place.



Source: MOFEP, Vetiva Research

Inflation has eased year-to-date as high base effects induce lower pricing pressures. Thus, the Bank of Ghana (BoG) delivered a 100bps rate cut to support recovery as credit growth in Ghana slowed down during the first few months of the current year. Following the recent dovish move, we expect the BoG to remain accommodative in H2’21.

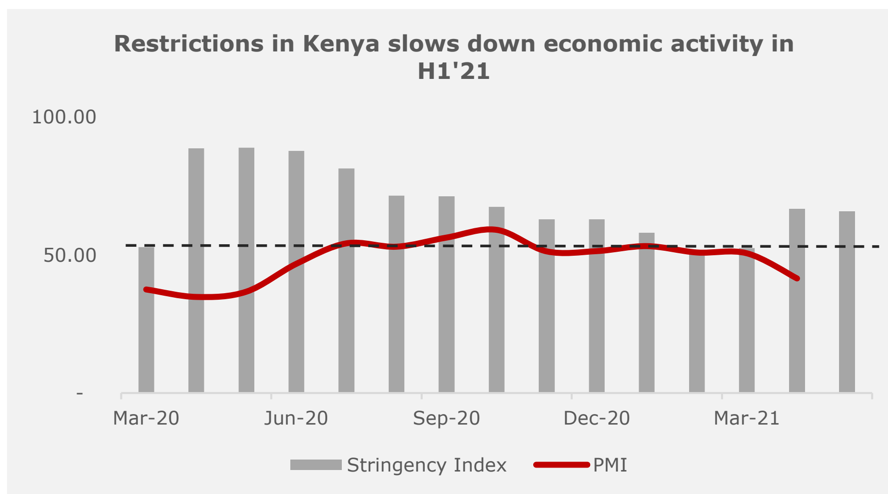
Given the diversified nature of Ghana’s exports, the economy was able to achieve a positive current account balance in 2020. In the first few months of the year, the surge in crude oil prices supported the Ghanaian Cedi, while the prices of gold and cocoa were lower due to rising US yields and excess cocoa supply in Côte d'Ivoire, respectively. Notwithstanding, a positive trade balance was recorded with exports exceeding imports by $300 million. This has supported reserve accretion and appreciation in the Cedi as reserves can cover imports by 4 months, above the global benchmark of 3 months. The successful $3 billion Eurobond raise has also helped to boost reserve adequacy and support the Cedi.

The Ghanaian economy has the prospects to outperform the region in H2’21 due to its commitment to vaccinations, timely responses to pandemic-related needs, and the favourable macroeconomic environment. However, the vaccine supply chain disruption could stall full doses from been administered. Thus, restrictions may come into play and stall recovery efforts both in the formal and informal sectors. There are also downside risks to reform implementation in Ghana as the ruling party lacks a majority in the parliament. Nonetheless, we expect the Ghanaian economy to grow by 4.4% y/y (IMF: 4.6% y/y) in 2021. While the reflationary efforts of the government are necessary, the upward review of its minimum wage could cushion the effects of earlier levies. Consumer inflation could inch higher on the back of higher fuel levies and underlying oil prices. Notwithstanding, base effects and a stronger Cedi could serve as tailwinds. Thus, we expect headline inflation to average 8.5% y/y (IMF: 9.0% y/y) in 2021. Following the surprise 100bps rate cut, we expect the BoG to hold on to policy parameters for the rest of the year. With an upbeat outlook for commodities, the external sector could rise on these gains and provide a soft landing for the Ghanaian Cedi in 2021.

Kenya: Fiscal consolidation on the front burner

Kenya, which is the largest economy in East Africa, has had its fair share of pandemic pressures. As at the writing of this report, Kenya is yet to release its official GDP numbers for FY'20. Our estimates suggest a minor growth of 0.5% y/y (IMF: 0.80%) due to the high growth in Q1'20 and resilience of the agricultural sector.

After eight months of carefully rolling back COVID-19 restrictions to jumpstart economic recovery, Kenya experienced a severe wave of the virus in March 2021, which overwhelmed public health infrastructure. High-frequency indicators reveal that the rollback of restrictions hurt economic activity in March as PMI fell below 50 (indicating a contraction). Restrictions were further lifted as rates of infection ease. Notwithstanding the ease in infection rates, vaccine rollouts have been affected adversely by limited vaccine access and hesitancy of individuals to take up those vaccines.



Source: Our World in Data, Standard Bank, Vetiva

Like many other SSA countries, Kenya has to undertake fiscal consolidation due to its fiscal position. The Kenyan authorities rolled back COVID-19 relief measures to mobilize domestic revenues in 2021. In addition, the government introduced a minimum tax payable at 1% of gross turnover and a digital services tax on income from services. The government also raised the qualifying income threshold for residential income tax and abolished incentives under the Home Ownership savings plan. To curb expenditure, the government froze employment in non-priority sectors and cut down on non-essential expenditure. In all, the government seeks to fund its budget with higher taxes and lesser debt. The KSh 3 trillion budget ($27.8 bn) will be financed majorly by domestic debt to reduce exposure to external shocks. While this may crowd out the private sector, Kenya's current debt mix (with external debt comprising 70%) could expose debt vulnerabilities in the event of external shocks. As a result, the Kenyan authorities sought debt-reliefs under the Debt Service Suspension Initiative. This, in addition to the $2.34 billion three-year credit facility approved by the IMF, will help address debt sustainability issues.

While fiscal consolidation helps to improve the budget balance, inflation has been on the receiving end of tax hikes and higher fuel prices. Despite the uptrend in inflation since Oct'20, inflation has remained within the apex bank's band. Thus,

the Central Bank of Kenya (CBK) may not be under pressure to tighten, given the structural drivers behind inflation. However, the CBK extended loan restructuring and regulatory flexibility till June 2021 to mitigate job losses and give businesses time to adjust to the new normal. A key softener to food inflation could be currency appreciation, as the Shilling has been gaining ground. While there may be no clear fundamental drivers to the stronger currency, the surge in remittances and announcement of IMF disbursements could be responsible for the appreciation. Within the first five months of the year, remittances were up by 23% y/y reflecting the trickle-down effects of stimulus payments in advanced economies, especially in North America and Europe. Conclusively, exports have rebounded from pandemic lows, thanks to a pick-up in external demand.

In H2’21, we expect the loosening of COVID-19 restrictions to buoy economic activities. This informs our 5.7% y/y growth expectation for 2021 (IMF: 7.6% y/y). However, recovery could be uneven as the slow pace of vaccination holds back the tourism sector and resurgence in COVID-19 cases stall the industrial sector. Nonetheless, the Kenyan economy has the prospects to record broad-based expansion in 2021. While the debt situation has restrained further fiscal responses to pandemic pressures, its contractionary fiscal measures will pay off in mobilizing revenues and reducing external exposure. The impact on inflation may be dire to start with, however, inflation is expected to remain within the CBK’s target band. Thus, we expect inflation to average 6.0% y/y in 2021 (IMF: 5.0% y/y). Monetary authorities may remain accommodative to complement fiscal consolidation, as outright rate hikes could raise the cost of financing domestic debts and undermine consolidation efforts. Meanwhile, positive real returns could induce capital inflows and ease pressures on the Shilling, alongside the rebound in flower exports. However, tourism arrivals could remain subdued due to COVID-19 restrictions.

Angola: Any hopes for recovery?

The pandemic expounded the woes of the Angolan economy, which was still grappling with the oil price shock of 2014 and its butterfly effects on the real, fiscal, and external sectors of the economy. In 2020, the Angolan economy contracted by 5.2% y/y (Vetiva: 5.3% y/y), its largest contraction since 2014. Asides from the oil price shock, the pandemic hurt labour-intensive sectors as 10 sectors (out of 14) relapsed on a year-on-year basis, as opposed to a pre-pandemic average of 5 sectors. The sectors most hit include the transport and storage sector (-38.4% y/y), the construction sector (-25.7% y/y), the mining sector (-10.0% y/y) and the oil sector (-6.8% y/y). The agriculture, manufacturing, business, and utilities sectors were the outliers that recorded positive output growth. Due to its five years of persistent decline in GDP and currency weakness, the Angolan economy has fallen five places to become the eighth largest economy in the SSA.

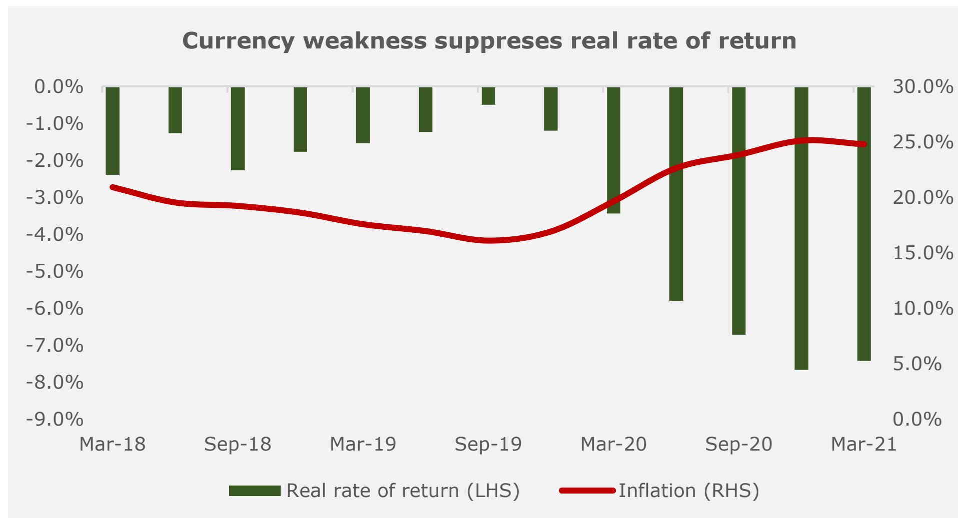
Apart from being the first country to receive COVAX vaccines in the Eastern and Southern African region, Angola also received vaccine donations from China. As at the writing of this report, four vaccines have been approved while two have been deployed – the Sputnik V and AstraZeneca vaccines. However, the country has vaccinated barely 1.8% of its population, despite adequate preparations made for cold-chain infrastructure. Nonetheless, the country could leverage its experience in handling the outbreak of yellow fever in 2017.

Amid the implementation of public health measures, economic reforms are ongoing to transform the Angolan economy. The government has been championing reforms through its Privatization program (PROPRIV) to attract investments into the Angolan economy and reduce public dominance, corruption, and inefficiencies of its publicly run enterprises. Angolan authorities noted recently that 39 out of 195 assets have been sold to investors. More companies within the tourism, telecommunications, insurance, and service sectors are on the list. This could help stabilize its fiscal balance and diversify the economy in the medium term. The government has also negotiated debt reliefs under the DSSI, which covers half of its external debt service payments. This could free up resources for continued intervention efforts within the economy.

Alluding to one of its intervention efforts, the Production, Export Diversification, and Import Substitution (PRODESI) program has been instrumental to job creation within the Angolan Economy through the financing of projects across the agricultural, commerce, and transformation industries. While it is estimated that 9,000 jobs have been created year-to-date, the government targets the creation of over 50,000 jobs by 2022. This could have reflected in the unemployment figures, as unemployment rate fell to 30.6% in the fourth quarter of 2020 from a 34% peak a year earlier. The gains in employment were also attributed to an improved supply of labour into the agricultural sector, which expanded its fastest in 5 years.

Amid rising unemployment, inflationary pressures have eased slightly, thanks to the rebound in oil prices and the subsequent appreciation in the Angolan Kwanza. With May’21 inflation numbers rising to 24.9% y/y, inflation remains elevated. This has limited the ability of the monetary authorities to alter the benchmark rate, which has been high and frozen at 15.50% for two years running. While a rate hike could support portfolio inflows, this could raise the cost of credit access

which could be detrimental to businesses and households. On the flip side, a rate cut could exacerbate external vulnerabilities, considering high inflation figures. Meanwhile, Angola has seen investments from 15 countries flowing into several sectors, with major investment flows coming from the United Arab Emirates and China.



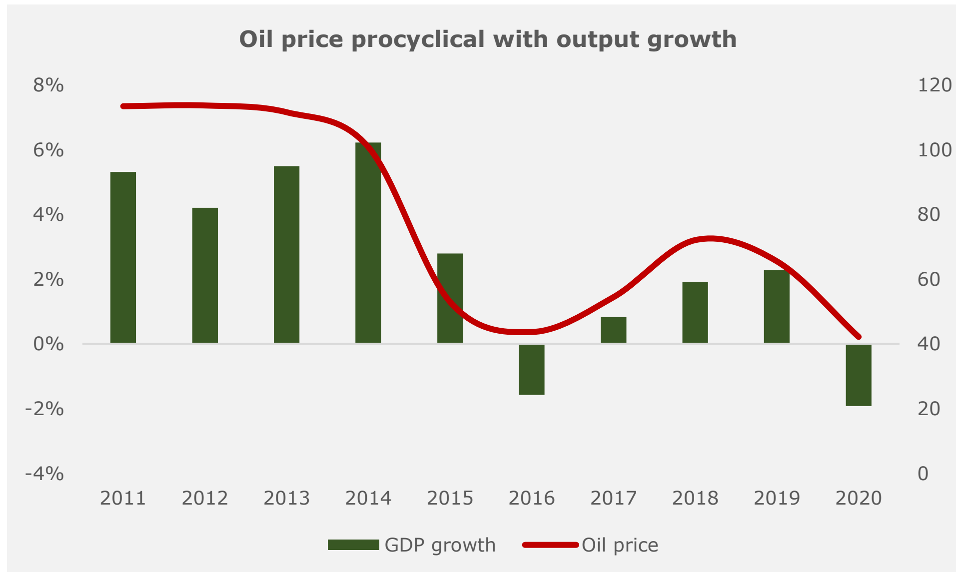
Source: Banco Nacional De Angola, Vetiva Research

Given the slight recovery in oil prices, investment flows into the oil sector could support recovery efforts this year, especially as OPEC eases production cuts. However, we note the downside risks posed by weak domestic demand and the plague of locusts, which could impede growth in the agricultural sector. Thus, we estimate a slight recovery of 1.42% y/y (IMF: 0.4% y/y). While the locust outbreak could affect food production, inflation is majorly driven by currency weaknesses. We expect the high base to moderate inflationary pressures in H2’21, as oil production and exports pick up and the Kwanza faces lesser pressures. However, headwinds could emerge from a modest drought and locust infestation. Nonetheless, we anticipate a slight rise in headline inflation to 23.44% y/y (IMF: 22.3%) in FY’21. While oil prices are expected to end the year on a positive note, we highlight possible headwinds from Iran supplies to the market. Meanwhile, rising investments in the Angolan economy will help drive exports, especially as the PRODESI program continues to engender import substitution and export diversification. Thus, the economy could bounce back from a twin deficit with surpluses on both fiscal and current account balances, as improved tax receipts buoy government finances.

Domestic Economy

Pandemic wipes out three decades of progress

Within the last decade, Nigeria's growth trajectory has been lopsided between the high-growth era of 2010 – 2014, which was propelled by higher oil prices, and a stable FX environment; and a low-growth era of 2015-2020, marred by two recessions, no thanks to commodity price shocks and a global pandemic. Growth post-2014 has been non-inclusive, as GDP per capita has been on a free fall. The pandemic worsened the situation, sinking living standards to levels last seen in the 1980s.



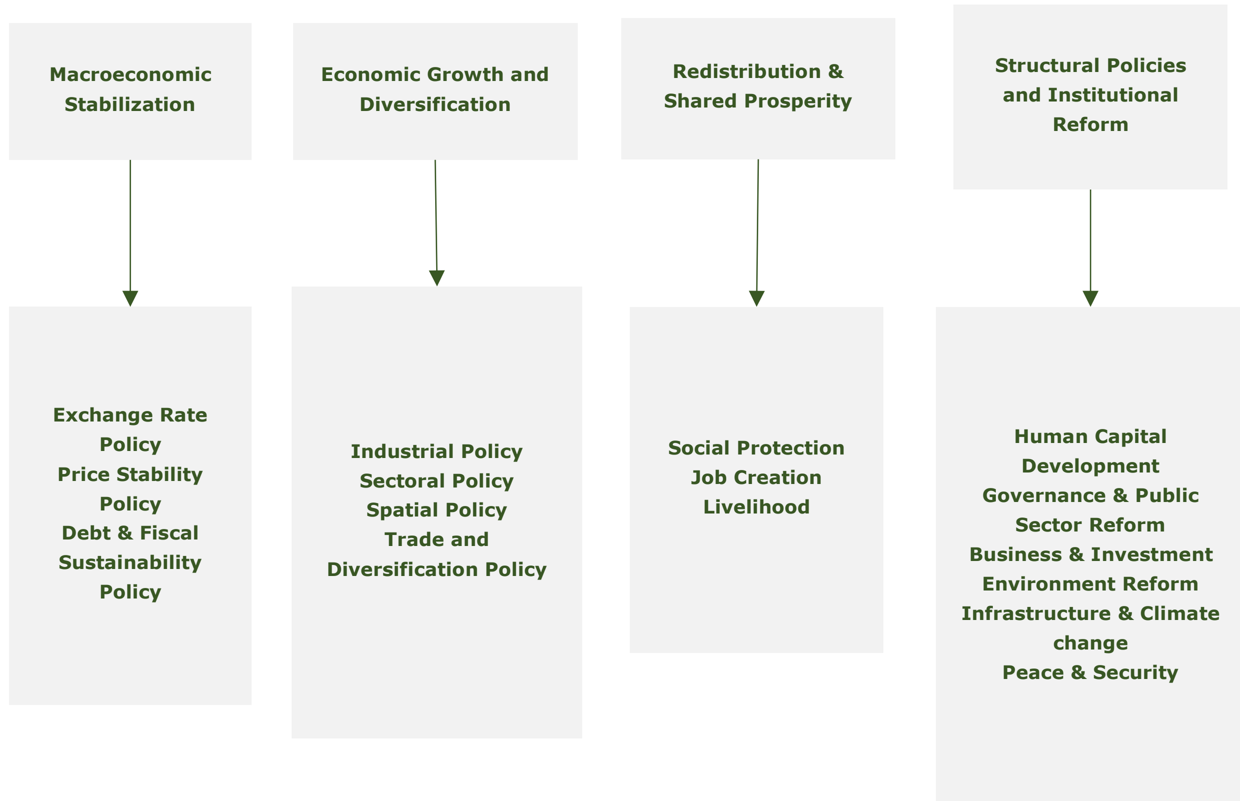
Source: NBS, CBN, Vetiva Research

Amid the free fall in per-capita income levels, Nigeria overtook India as the poverty capital of the world in 2018 with over 80 million Nigerians classified as poor. In 2019, the Federal Government made a commitment to lift 100 million Nigerians out of poverty within a decade. This feat led to the development of the Nigeria Poverty Reduction with Growth Strategy (NPRGS) by the Presidential Economic Advisory Council (PEAC). The policy has four major pillars – Macroeconomic Stabilization, Industrialization for Economic Growth and Transformation, Structural Policies and Institutional reforms, and Redistributive Policies & Programmes. The strategy also highlights the following key targets:

- An annual GDP growth rate of 2.3% - 4.4% between 2019 and 2024, and 6% between 2025 and 2030.
- Annual average poverty reduction of 11.2 million people with 80% self-employed and 20% in wage-paying jobs
- Narrowing of regional poverty
- Providing an exit route for the extremely poor by 2023

While Nigeria has had several economic policies in the past with the Economic Recovery and Growth Plan (ERGP) and the Economic Sustainability Plan (ESP) being the most recent, the NPRGS was quite comprehensive, detailing not only the objectives and required policies, but also the cost and manner of financing the strategy. According to the PEAC, the strategy requires $1.6 trillion, which translates into an annual spend of $161 billion spanning 2021 through 2031. Like the PEAC noted, while 50-60% should be internally funded, the consolidated revenue of the federation will be grossly inadequate for proper execution. Thus, the Committee recommended the reduction in the size and cost of governance

as an immediate measure. Meanwhile, an Investment Growth Fund will be instituted to mobilize funds from pension funds, insurance companies, sovereign wealth funds, development institutions, private sector investors, diaspora funds, endowment and equity funds.



Source: Presidential Economic Advisory Council, Vetiva Research

While the NPGRS encompassed several aspects of the economy, we note that regulations and reforms would be essential in achieving the desired targets. Headwinds could arise from fading administrative will, especially as the 2023 general elections approaches. Others include slow implementation of reforms and social resistance to reforms. Nonetheless, the NPRGS lays a solid framework for boosting human development outcomes within the economy, should all tiers of government adopt a concerted approach to implementation.

FY'21 Outlook: Ascending from pandemic depths

In the near term however, the route to recovery from the pandemic-induced recession is of utmost importance. In 2020, the economy relapsed by -1.92% y/y, reflecting the impact of stringent lockdown measures and currency-related weaknesses.

Recovery from the pandemic-induced recession began in the last quarter of 2020, where the economy defied the disruptive impacts of the EndSARS protests to grow by 0.11% y/y. This recovery was confirmed in the first quarter of 2021 via a 0.51% y/y recovery. While agriculture expanded, growth in the industrial sector slowed down and the services sector receded.

Our recovery trajectory analysis revealed that out of 19 major sectors, only two sectors fell at a faster pace or plunged from an expansion in Q1'21, compared with Q4'20. Due to the high base, many sectors – most of which are high-contact sectors – fell at a slower pace in the first quarter of 2021. Thus, the reopening of the economy has supported the resuscitation of economic activities from pandemic lows.

Classification	Major Sectors	Recovery trajectory
Agriculture	Crop Production	Grew at a slower pace
Industry	Mining and Quarrying	Fell at a slower pace
	Utilities	Grew at a faster pace
	Construction	Grew at a faster pace
	Manufacturing	Rose from contraction
	Power	Rose from contraction
Services	Transportation and Storage	Fell at a faster pace
	Arts, Entertainment & Recreation	Fell at a slower pace
	Trade	Fell at a slower pace
	Financial and Insurance	Fell at a slower pace
	Other Services	Fell at a slower pace
	Administrative and Support Services	Fell at a slower pace
	Professional, Scientific & Technical Services	Fell at a slower pace
	Education	Fell at a slower pace
	Accommodation and Food Services	Fell at a slower pace
	Public Administration	Fell from expansion
	Human Health & Social Services	Grew at a faster pace
	ICT	Grew at a slower pace
	Real Estate	Grew at a slower pace

Source: Vetiva Research

We regard this trajectory as a key pointer to recovery, even as the economy is expected to rebound sharply in the second quarter of the year on the back of favourable base effects, less stringent restrictions, absence of lockdowns, and accommodative monetary policy stance. While the depreciation of the Naira and the adjustment to pump prices could serve as headwinds to recovery, we expect the previous year's favourable base to herald recovery in the coming quarters.

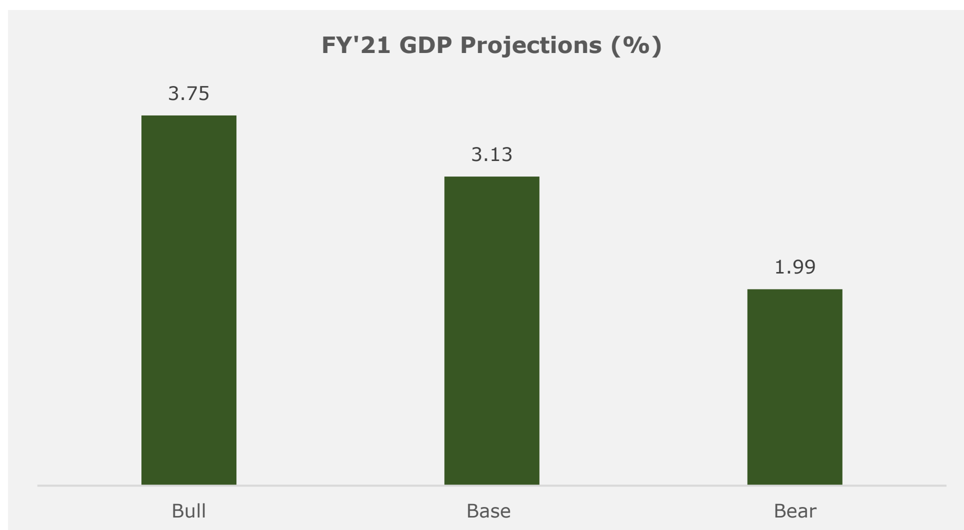
Agriculture could ride on the interventions of the Central Bank to sustain its resilient growth outcomes. However, headwinds from herder-farmer clashes could limit pace of growth. The manufacturing sector could also maintain its expansion path as restriction on labour hours are removed and innovative marketing strategies are deployed to cater for depressed consumer wallets. This could yield stellar results for the Food, Beverage and Tobacco sub-sector, which

is responsible for half of manufacturing output. However, headwinds could arise from the passthrough of weaker exchange rate and higher fuel prices. Notwithstanding, we note the efforts of the CBN in reviving the textile, apparel and footwear sector. However, we do not envisage a quick rebound in the sector, given the infrastructural deficit, weakness of the Naira, and a bias for foreign custom-made products. The Construction sector could rebound on renewed private real estate investments and budget execution. The oil sector will experience a breather from the gradual easing of output cuts. However, headwinds could arise from the return of shale producers and introduction of more OPEC+ production cuts, should severe waves of the virus arise or the Iranian nuclear deal pulls through.

Low base effects could also herald recovery in the Services sector. Over time, economic activities have recovered. Thus, the transport sector – being an aid to trade- is expected to rebound. However, we do not expect a rebound to pre-pandemic levels due to the increased adoption of technology and security risks associated with road travel. Given the inelastic nature of the transport sector however, consumers have no choice but to adjust their expenditure habits, as fare prices are increased in line with pump price adjustments. While we still envisage a contraction in the trade sector, the reopening of the borders could provide some relief to the sector.

Growth in the ICT sector would depend largely on the discretion of the Nigerian Communications Commission (NCC) as extension of deadlines beyond Q2'21 could slow down growth in the telecoms sector. The real estate sector could continue its path of recovery, given renewed private and public investment in housing. Growth in the financial sector could be in single digits this year, as business climate hostilities stifle credit growth. Meanwhile, high-contact sectors like Education, Professional services and Administration may not recover to pre-pandemic levels, due to slow adaptation to the post-lockdown era.

Ultimately, we anticipate a recovery of 4.47% y/y in Q2'21 (Q2'20: -6.10% y/y). In the third and fourth quarters, we expect the reopening of activities to drive economic activity, alongside a solid rebound in the oil sector as OPEC+ production cuts ease. Thus, we expect the broad economy to rebound by 3.13% y/y in FY'21 (FY'20: -1.97%).



Source: Vetiva Research

Rebasing exercise: Around the corner

In 2014, Nigeria alongside 4 other African countries, decided to rebase their economies. This led to the inclusion of emerging sectors – telecommunications and entertainment – which led to a 90% jump in economic output catapulting Nigeria to the biggest economy in Africa. Rebasing essentially changes the reference year, against which output in outer years will be measured. The change from 1990 to 2010 led to a better estimate of the Nigerian economy, given the evolution of newer sectors and changes in economic fundamentals such as inflation, interest rates and exchange rates.

As the Federal Government and World Bank team up on this exercise, the 2018/19 year was selected as the new base year. This was the most stable year since the oil price crash of 2014, which dragged economic activities in 2015 and 2016. According to the United Nations, such rebasing exercises should be carried out every five years. Thus, we see the exercise as pertinent in providing reliable estimates on the composition of the Nigerian economy. Given the expansion in technology sector over the years, which has spilled over to several sectors, we expect further clarification on the contribution of agro-tech, fintech and other tech-related sectors to the economy. More importantly, the new rebasing exercise would involve assessment of the economy at the state level. This will enable investors assess the economic profile of these states and enable states lure investment via special incentives. Thus, the rebasing exercise will be a win-win for the Nigerian economy.

Source: Trading Economics, Vetiva Research

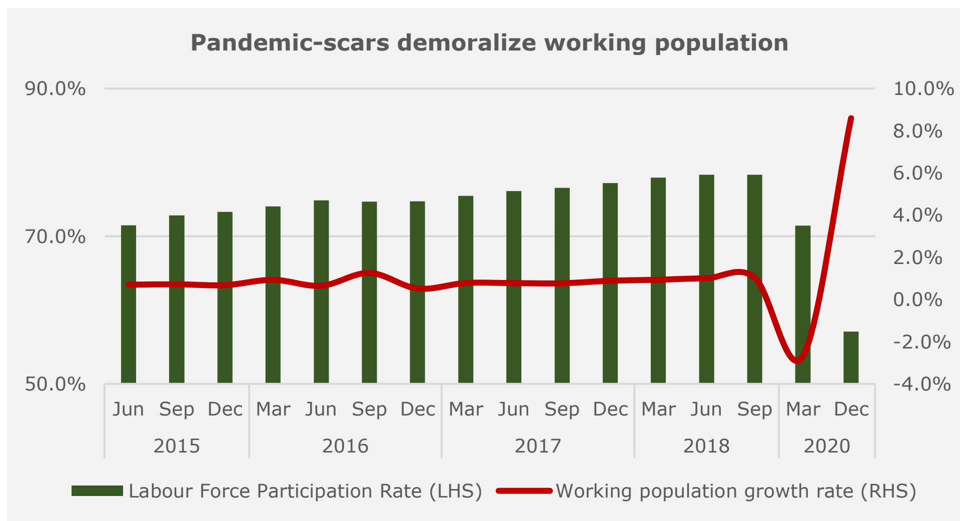
Unemployment on steroids

Since 2015, Nigeria has recorded an unrelenting rise in unemployment. This is driven by the underperformance of labour-intensive sectors, as well as a huge skill-mismatch in the economy. By December 2020, three out of ten people within the age of 15 – 65 who were in active search for work could not find, compared to two out of ten people three years earlier. Thus, Nigeria's unemployment rate (Dec'20 33.3%) is the second highest in Africa.

A more worrying data is the deceleration in the country's labour force participation rate – proportion of those within the working population age bracket that are in jobs or eager to search for work – despite the rise in the number of people within the working population age bracket. This implies an increased level of discouragement as optimism in the economy wanes. Before the pandemic struck, c.71% of the working population was either employed or in active search for work. This statistic reduced to c.57% in 2020, as the pandemic demoralized

the working-age population, due to the dearth of wage-paying jobs, scourge of the pandemic and the disruptive impacts of the protests.

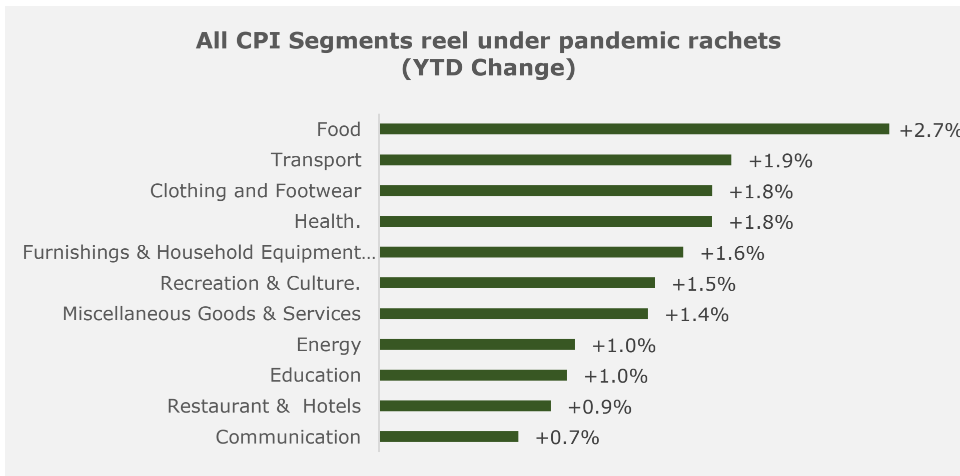
Given the high correlation between insecurity and high unemployment outcomes, more needs to be done to incentivize labour-intensive industries such as Trade and Manufacturing. This could improve the workforce and resuscitate interest in the domestic economy, especially as the brain drain effect continues to drive skilled workers to regions with attractive remunerations and living conditions. While brain drain could take a toll on the current account balance and exchange rate in the short term, remittances and diaspora financing could be the long-run benefits. However, Nigeria has an army of underutilized labour resources, which could be mobilized with adequate investment in labour-intensive sectors.



Source: NBS, Vetiva Research

Inflation: Base effects versus Reforms

Retail inflation rose to new heights in H1’21, despite the reopening of the borders in December 2020, as the rachet effects of the border closure and pandemic-induced disruption flayed consumer prices. In the month of March, consumer prices witnessed two major shocks – a higher fuel price announcement and a food blockade. The announcement of a market reflective pump price by the Pipeline and Product Marketing Company (PPMC) stirred panic-buying, which could have induced larger price adjustments, if the NNPC had not intervened. Thus, pump prices were restored to status-quo while the government continued to engage labour unions. A more severe risk came from the food blockade declared on the southern part of the country by the Northern-based Amalgamated Union of Foodstuff and Cattle Dealers. This sparked a distortion in food prices, as excess supply resulted in lower food prices in the North while food prices skyrocketed in the South. If not for prompt intervention, this could have degenerated into a food crisis. However, base effects eased pricing pressures in Apr’21 as inflation fell for the first time in 19 months.



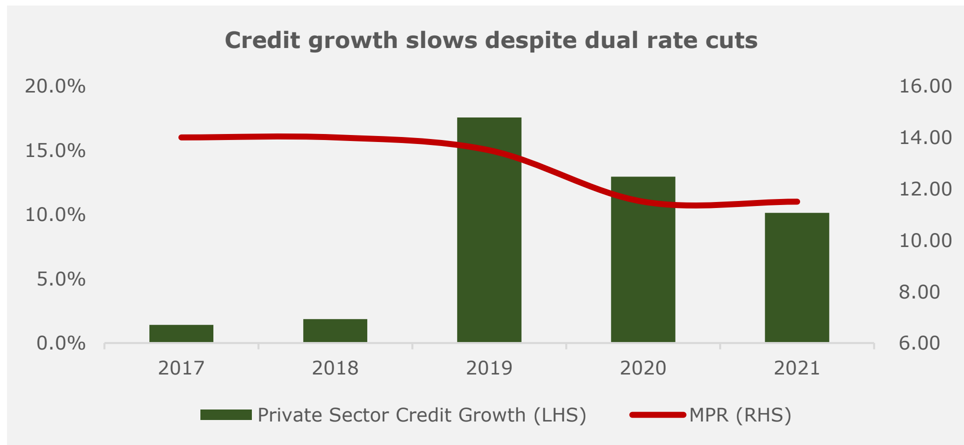
Source: NBS, Vetiva Research

Going into the second half of the year, we see a tussle between high base effects and emerging FX pressures. However, we believe base effects could gain upper hand. That said, we expect food inflation to average 21.11% y/y (2020: 16.11% y/y). FX unification efforts could yield short-term inconveniences and tickle consumer prices. This informs our core inflation expectation of 13.05% (2020: 10.29%) for 2021. However, the harvest season and prompt policy interventions could nip this trend in the bud. Thus, we expect headline inflation to average 17.34% y/y in 2021 (2020: 13.21% y/y). While the Federal Government harps on the maintenance of fuel subsidies, policy reversal could be a key downside risk to our inflation expectations. This is besides the proposed inclusion of sugar and wheat on the restrictive list as well as resurfacing blockade on critical food items. These factors could ignite inflationary torches afresh and send inflation on a sprint.

Monetary Policy: Gunning for recovery

Before the pandemic struck, the Central Bank had adopted a pro-growth policy posture. The release of the 5-year policy thrust in 2019 was the precursor to its subsequent policies. Chief among those policies was the introduction of loan-to-deposit floors and punitive Cash Reserve Ratio (CRR) debits to induce lending to the private sector. Though this policy sought to drive economic growth through private lending, credit growth slowed following the hike in the Cash Reserve Ratio and pandemic onslaught in 2020. While the benchmark rate was eased by 200bps in 2020, the hostile business environment constrained credit growth to the private sector. However, the stimulus measures of the CBN improved credit access to several sectors via its intervention facilities.

In the first half of the year, monetary policy tools were largely laid on the table. The rise in vaccine variants and sluggish vaccine rollout became emerging threats to recovery following the narrow escape in Q4’20. Thus, the primary goal of economic recovery, which the Bank had prioritized since the pandemic struck, could not be placed on the back seat. Economic recovery remained the topmost priority despite the unrelenting spike in inflation. The minor recovery in Q1’21 and the slight moderation in inflation thereafter created a glimmer of hope as stronger growth turnout is expected further in the year.



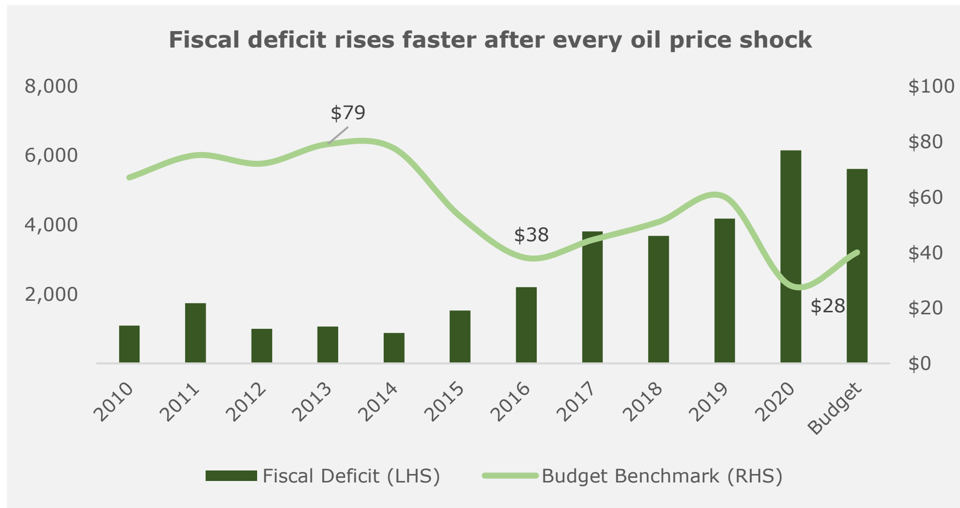
Source: CBN, Vetiva Research

Following two quarters of positive output growth and a subsequent moderation in inflation, we see the Central Bank maintaining a neutral policy stance till the end of the year especially as the disruption in vaccine delivery timelines and slow pace of vaccination limits its ability to alter its policy stance too early. Thus, we expect the bank to sustain its accommodative stance till the end of the year. If push comes to shove, surprise rate cuts may be delivered to drive home recovery while the liquidity management tools are continually deployed to influence the yield environment. Given the transition to a post-pandemic environment, we do not see scope for rate hikes in 2021, as investors are more concerned with FX unification efforts and the CBN with economic recovery.

Fiscal policy: In a bundle of dilemmas

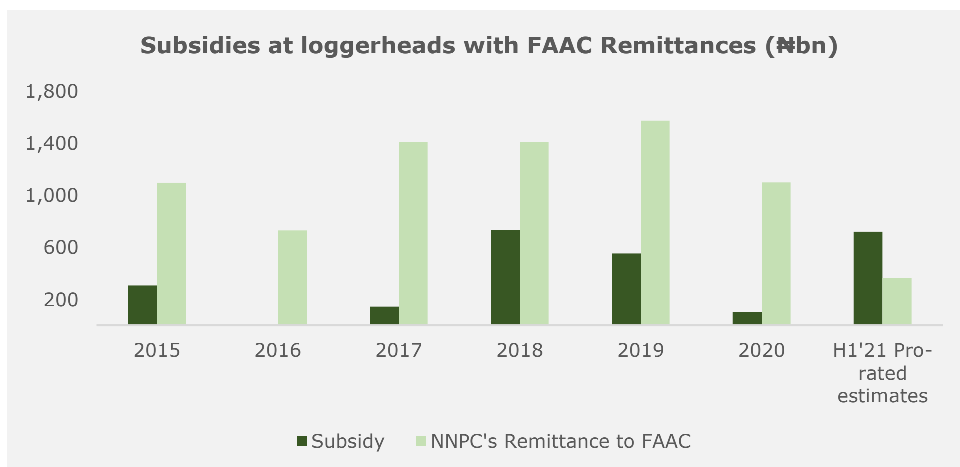
Given the huge dependence on oil revenues, the fiscal sector witnessed a more severe blow from the pandemic in 2020. This led to a restatement of budget estimates and a downward revision in the budget benchmark oil price. Notwithstanding the pressures from the pandemic, the Federal Government kept to its commitment of early presentation of the appropriation bill. For the third year running, the budget was passed into law on time in 2021, alongside passage of Finance Act 2020. The ₦13.6 trillion budget ($35.9 billion) would be the largest proposed government spend on record. In 2020, ₦76 out of every ₦100 generated in revenues was spent on recurrent line items, most of which was gulped by personnel costs. This left barely 19% to the much-needed capital expenditure, which could have greater multiplier effects on the economy.

Given the limited revenue-generating avenues, the proposed deficit of ₦5.6 trillion is also the largest on record, surpassing the proposed budget outlays in 2015. Thus, the sustained rise in deficit levels has led to the consistent breach of regulatory limits (deficit <3% of GDP) in recent times. Measures need to be put in place to trim expenditure and mobilize revenue. In line with trend, fiscal deficit tends to rise faster after every oil price shock before a temporary slowdown. However, a major downside risk to moderation will be the resurfacing of fuel subsidies.



Source: Budget Office, Vetiva Research

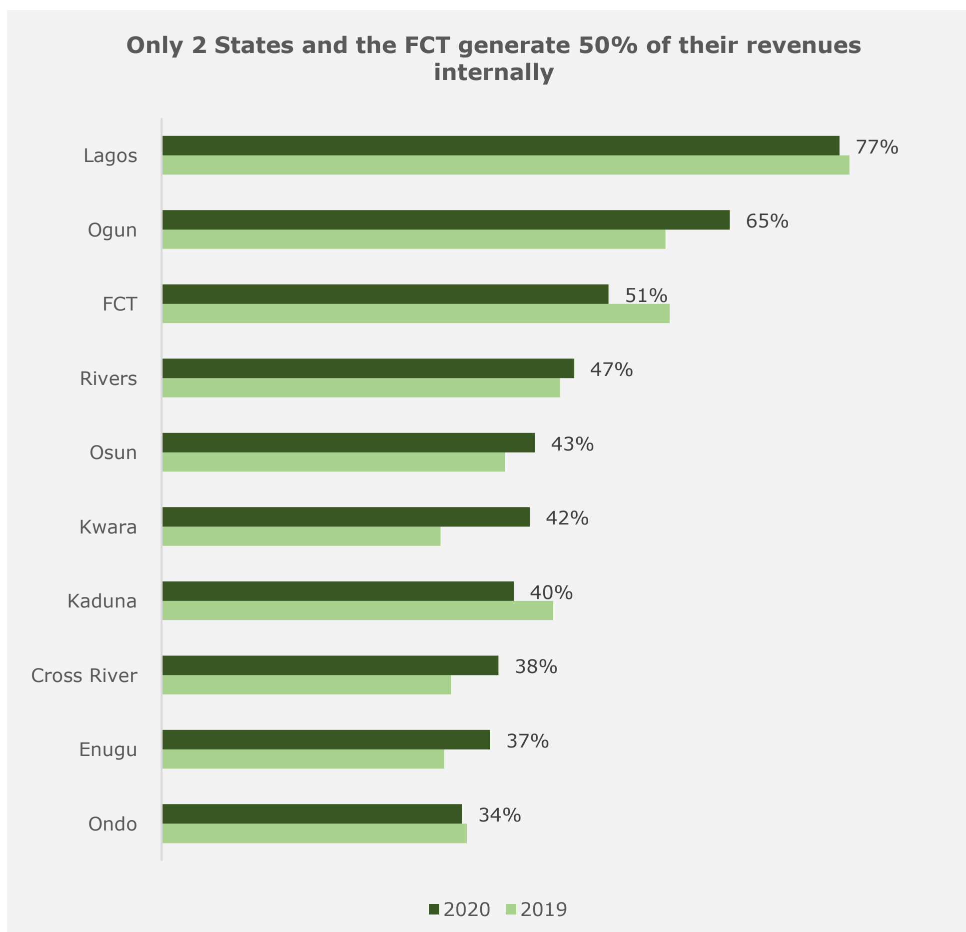
Fuel subsidies has launched the fiscal authorities into multiple dilemmas. For a while, the Federal government had made commitments to end fuel subsidies, which will lead to market-reflective fuel prices. The pandemic-induced dent on oil prices brought an ample opportunity to effect this change. The gradual recovery in oil prices, brought about by the reopening of economies, gave the fiscal authorities the leeway to adjust pump prices. This commitment ran out of steam when the arrival of vaccines on the global stage accelerated oil prices. Almost immediately, social resistance to reforms from labour unions sprung up, leading to a halt in reforms. Attempts by the Petroleum Products Pricing Regulatory Agency (PPPRA) to announce a market-reflective pump price in Mar'21 had to be rebuffed by the Nigerian National Petroleum Corporation (NNPC), due to inconclusive talks with labour unions. At this point, the dilemma staring the fiscal authorities was fiscal sustainability and economic welfare. The continued expenditure on subsidies could keep public expenditure on the rise, especially as a result of the exchange-rate passthrough. On the flipside, premature withdrawal of fuel subsidies could lead to social unrest, amid the absence of automatic stabilizers in the Nigerian economy. Despite these concerns, subsidies must be phased out gradually, as recommended by the PEAC, to allow foreign investment flow into the downstream sector and allow for resource reallocation to other productive sectors of the economy.



Source: NNPC, NBS, Vetiva Research

In the meantime, the opportunity cost of maintaining subsidies has expanded from foregone expenditure in productive sectors to Federal Allocation Accounts Committee (FAAC) inflows. Given the rise in crude prices and the adoption of the NAFEX rate as the official exchange rate, subsidies are projected to surpass the remittances of the NNPC to the Federation Account in the first half of the year. This has placed the federal authorities in a new dilemma, as the fiscal sustainability of states are threatened by maintaining subsidies. Thus, the calls for swift removal of fuel subsidies have been resounding. An abrupt subsidy removal could be dire for household prices, considering the elevated inflationary environment, ensuing social unrest, clamour for minimum wage increases and a slowdown in economic activities. On the flip side, the need to support states - which are still reeling from pandemic pressures- has come to the fore.

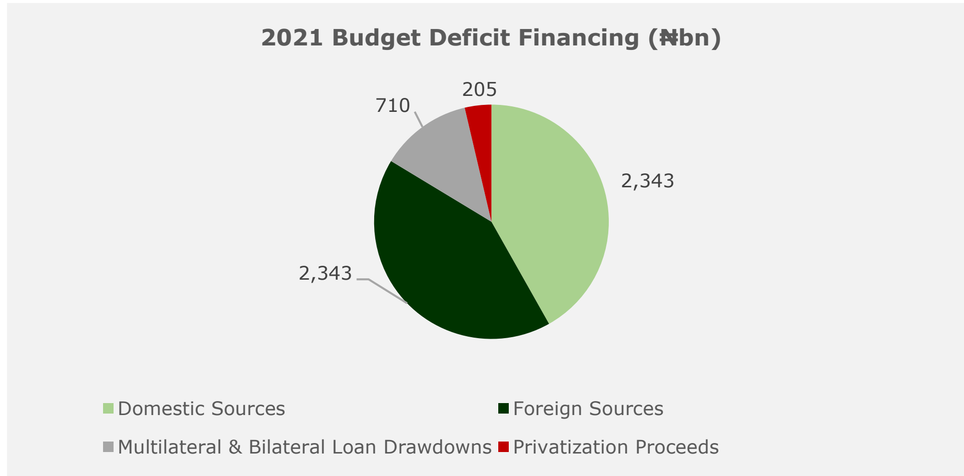
Data from the National Bureau of Statistics shows that only two states and the Federal Capital Territory generated 50% of its revenue internally both in 2019 and 2020. This poses a major medium-term risk should there be an earlier-than-anticipated shift to cleaner forms of energy, especially as global warming remains a hot topic in global parlance. Thus, the fiscal framework of the states has to be rejigged. Incentives have to be implemented to attract foreign direct investment, in line with their areas of competitive advantage, as outlined by the Nigerian Investment Promotion Council (NIPC) and the PEAC. Thus, the development of economic corridors within the country would be the organic and sustainable way of attracting investment, driving employment, boosting output, and improving the internally generated revenues of these states over the medium term.



Source: NBS, Vetiva Research

Financing the Deficits

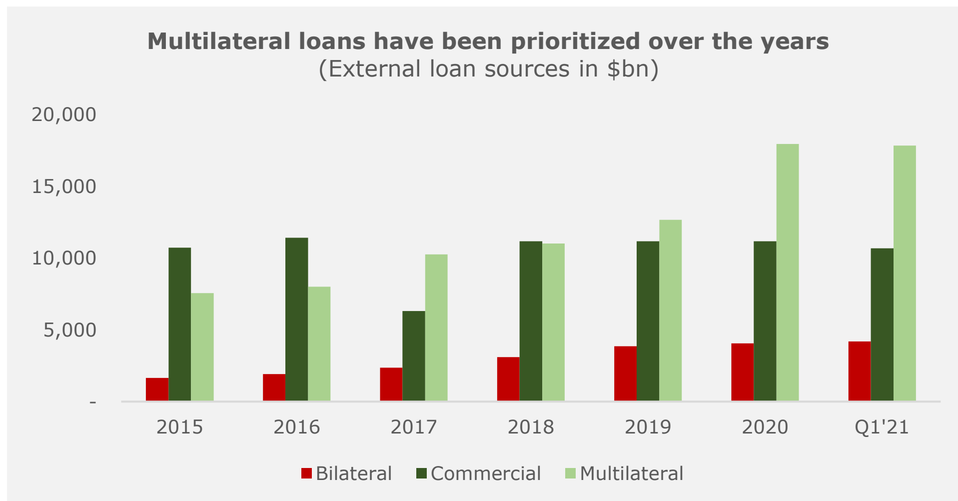
In 2020, the pandemic's dent on the economy prevented the government from meeting its non-oil revenue estimates as tax collections were significantly lower. Expenditure grew in line with estimates as a result of higher debt service costs despite the lid on personnel costs. Capital expenditure was also down by 11% relative to projections. This resulted in a historic deficit of ₦6.2 trillion ($16.2 billion). This deficit was plugged via the domestic debt market (33%), budget support loan from the IMF (20%), and Ways and means advances (47%). In the current year, fiscal deficit is expected to slow down to ₦5.6 trillion ($14.7 billion), funded by domestic borrowings, foreign borrowings, bilateral/multilateral drawdowns, and privatization proceeds.



Source: Budget Office, Vetiva Research

Debt sustainability: new strategy prioritizes domestic financing

Nigeria's debt profile has expanded over the years. In 2020, total debt stock rose by 20.1% to ₦32.9 trillion ($86.4 billion), driven by budget support loans from multilateral authorities and the fall in the value of the naira. The total debt stock however declined by 1.5% q/q to ₦32.6 trillion by the end of Q1'21 as several external loans were repaid including a ₦500 million Eurobond. While the debt mix has been dominated by domestic borrowings over the years, the proportion of external debt to total debt has been rising, as the government takes up more multilateral and bilateral loans.

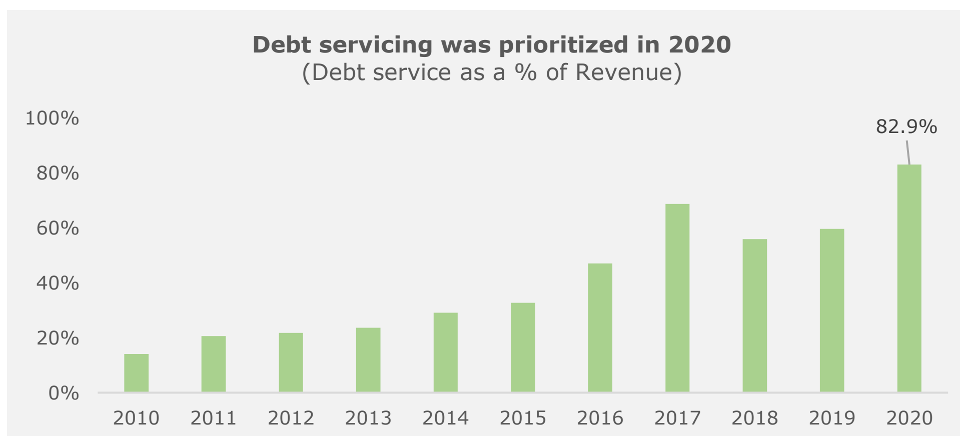


Source: DMO, Vetiva Research

Earlier in the year, the Debt Management Office rolled out its medium debt strategy for 2020-2024. According to this strategy, the country's debt-to-GDP ceiling was raised to 40% (from 25%), to support the financing of future fiscal deficits. In addition, the domestic-external debt mix was reviewed from 60:40 to 70:30, reflecting further headroom for public accumulation of domestic debts. While this may crowd out the private sector, this could reduce exposure to the vagaries of the foreign exchange market. Nonetheless, cheaper multilateral funding should be prioritized to prevent debt service from gulping significant proportions of revenue. In the second half of the year, the country is expected to raise c.$2 - 3 billion in the international debt market.

Source: DMO, Vetiva Research

Debt sustainability remains a relevant issue in this context. With Nigeria's debt-to-GDP ratio at 21%, our debt metrics seem adequate when compared with peer countries. However, debt servicing has been gulping more of revenues in recent times. The commitment to service debts, which is crucial for credit rating assessments, was prioritized over capital expenditure in budget execution. Despite the high debt service-to-revenue performance recorded in 2020, we expect a moderation in this ratio in 2021 due to higher oil prices and non-oil revenue collections. Meanwhile, Fitch affirmed Nigeria's 'B' rating citing its low general government debt to GDP ratio, small FX indebtedness, and its developed financial system with a deep domestic debt market as key rating drivers. However, the rating agency raised concerns over our weak revenue, external liquidity pressures, high dependence on oil, and high inflation.



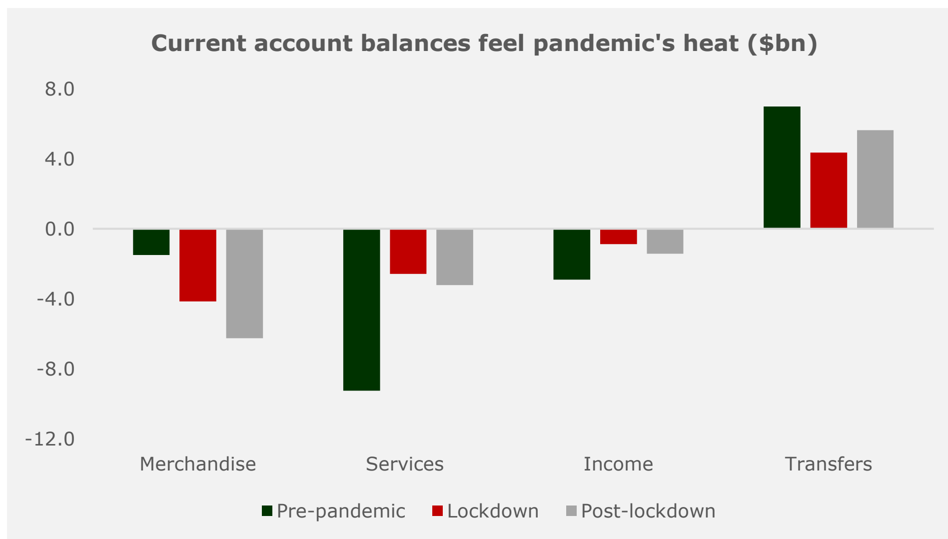
External Outlook: A déjà vu scenario

Current Account Analysis: Remittances exhibit resilience

Given Nigeria's gross dependence on crude receipts, the pandemic dealt a hard blow on both current and capital account balances. While the rollout of vaccines provided shades of optimism, further spread and mutation of the virus posed greater threats to the external sector.

In Q3'18, Nigeria's current account balance fell into the red zone. Pre-pandemic, the deficit in the current account was driven by increased local appetite for services by non-residents. When the border closure measures came into full force in Q4'19, the merchandise account balance turned negative joining forces with the services segment to extend the deficit in the current account, as the border closure - which was intended to stem the smuggling and import of agricultural products- simultaneously reduced exports. Although, some cement producers were privy to preferential border access, many exporters were not and thus, the deficit persisted.

Unlike the merchandise account, the income account has been in a perpetual deficit, as non-residents flocked into the domestic fixed income market, taking advantage of juicy double-digit returns. On the flip side, the transfer segment has remained in surplus, due to the sustained inflow of remittances from Nigerians in diaspora. When the pandemic erupted, all segments of the current account felt the impact. The deficit on the merchandise account expanded while the deficits on the income and services accounts moderated. Although the transfers account remained in a surplus, the surplus reduced slightly.



Source: CBN, Vetiva Research

The expansion in the merchandise account deficit was as a result of a more severe impact of the pandemic on export relative to imports. Crude export – which constitutes 66% of our exports- has been adversely affected by the pandemic, due to the sharp drop in global demand and the ensuing supply response. Although crude demand recovered following the availability of vaccines, the mutation of the virus and further waves of the virus stifled recovery. In H1'21, an infectious strain of the virus emerged in India, Nigeria's top trade partner by exports. This had a ripple effect on Nigeria's crude receipts as crude exports allegedly plunged by 98% m/m in April. We expect exports to recover in H2'21 as the crisis is contained in India, global demand recovers and

OPEC+ production cuts are eased. On the flip side, the huge dependence of the economy on imports has helped in widening the merchandise account deficit. Although the dual devaluation of the Naira prevented imports from rising to pre-pandemic levels in 2020, imports have been on a steady rise and will likely reach pre-pandemic levels in 2021. The reopening of the borders would also facilitate the widening of the current account balance, as goods, which could not be imported previously, can legitimately pass though the borders.

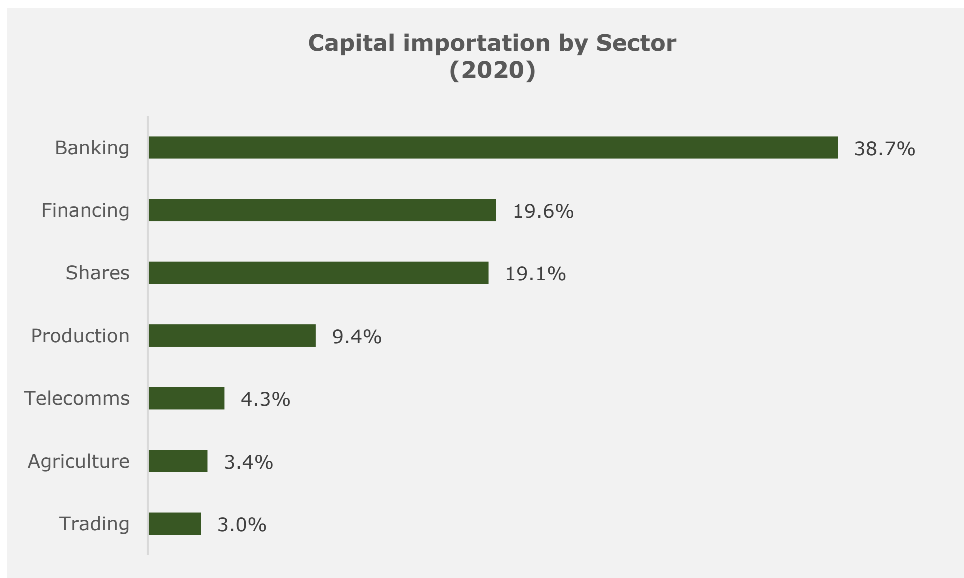
The Services account witnessed a sharp improvement as the deficit narrowed from c.$9bn pre-pandemic to c.$3bn post-lockdown. This was majorly driven by the pandemic, as the weakness of the Naira and proliferation of virtual meeting platforms reduced the demand for travel and other business activities. Given the gradual recovery in travel demand, we expect services account deficit to expand, but remain below pre-pandemic levels.

The oil shock also reverberated through the income account, as risk-off sentiment ensued. The flight to safety, decline in the yield environment coupled with the inability to repatriate FX proceeds, tainted investment appetite in Naira assets. We expect the deficit in the income account to persist due to FX liquidity concerns despite the marked rise in the yield environment in the first half of the year. However, we note possible tailwinds from the CBN’s exchange rate unification efforts, which could revive sentiments over the medium term.

The surplus in the transfer account has been upheld by resilient remittance inflows into the economy. The segment is poised to remain in the surplus region, given the relative strength of external currencies over the Naira, brain drain syndrome, and the continued exodus of Nigerians in the search for greener pastures. In recent times, the Central Bank has issued two key policies to improve remittance inflows. While we anticipate release of relevant data, we note that these policies helped in reducing volatility in the parallel market.

Capital Importation: A shadow of the past

Following the oil price shock in 2014, investment flows have failed to grow beyond pre-shock levels. Between 2014 and 2020, foreign direct investment has fallen by 55% as delayed reform implementation stall investment inflows into the economy. With a multiple exchange rate system as well as constraints to ease of doing business, Nigeria has lost key investments to peer countries. Unlike foreign direct investment, foreign portfolio investment has been highly correlated with oil prices. Due to the fall in the yield environment and FX conundrum, investors have been jittery about investing in money market instruments, which constitutes 43% of total capital inflows. More capital inflows have come from loans rather than equity investments, as firms take advantage of foreign loans amid the global liquidity glut and rising cost of credit in the country. With majority of these funds flowing into the financial services industry, other sectors which need capital flows for development are inadequately financed. Thus, pro-investment reforms need to be enacted to attract investment flows into several sectors of the economy.



Source: NBS, Vetiva Research

FX Outlook: Convergence takes centre stage

The Naira has witnessed twists and turns over the years. With every oil price shock comes an adjustment in the currency peg. When oil prices recover, the Naira never does, as these shocks correct the pre-existing overvaluation of the currency. Unless exports are diversified and imports are substituted with local production, the Naira could continually be strained by downcycles and commodity price shocks.

Following the oil price shock in 2020, the CBN effected dual adjustments in the official peg. Notwithstanding these adjustments, the Naira was fundamentally overvalued considering the Real Effective Exchange Rate (REER) estimates. While the official peg was overvalued, the continued depreciation of the Naira in the parallel market led to prompt responses from the apex bank. Late last year, the Bank mandated all International Money Transfer Operators to credit beneficiaries in foreign currency. In retrospect, the dollar-remittance initiative of the CBN had a massive impact on narrowing the FX gap in Nov'20, as the CBN uncovered arbitrage opportunities explored by some international Money Transfer Operators (IMTOs) in their dealings with customers.

In the first half of the year, the CBN issued two policies to reduce pressure on the Naira. The first, being the banking ban on cryptocurrencies, sought to exclude the financial system from the systemic risks associated with digital currencies. Interestingly, this move preceded the selloffs in the cryptocurrency market, which occurred in the second quarter of the year. A month later, the 'Naira 4 Dollar' scheme was introduced to boost remittance inflows. While we anticipate data on remittances to track the success of the scheme, both policies helped in reducing the volatility in the parallel market.

Given the widening of the FX gap, the continued clamour for unified exchange rates filled the air as multilateral institutions and foreign portfolio investors continued to observe the CBN's commitments to FX reforms. The recent adoption of the Nigerian Autonomous Foreign Exchange (NAFEX) rate as the official exchange rate was executed in the second quarter and before a Monetary Policy Committee meeting. Thus, clarity on policy direction was provided as the CBN substantiated its position on running a managed float exchange rate regime.

Notwithstanding, the ensuing c.9% adjustment in the official exchange rate signalled a gradual drift towards a flexible exchange rate regime.

Despite the adjustment, the NAFEX rate is still relatively overvalued, using CBN's fundamental estimates. On the flip side, the Naira is relatively undervalued in the parallel market. Thus, more policies need to be implemented to reduce arbitrage opportunities and influence adjustment in both markets to equilibrium. Although the CBN has licensed more IMTOs to encourage competition and boost remittance inflows, more has to be done to narrow the gap between the NAFEX and black-market rate. More depreciation may be required at the NAFEX window to attract foreign portfolio investors once more into the economy. We estimate Nigeria's Relative Purchasing Power Parity (RPPP) exchange rate could rise to ₦450/$ (Dec'20: ₦439.35). While we do not envisage a depreciation of the NAFEX to this level, we still expect the Naira to continually underperform in the parallel market.

Given the flurry of policies in the FX space this year, we do not expect unification of rates to occur within the near term. However, we anticipate the rollout of more measures to reduce the FX gap beyond the indefinite extension of the 'Naira 4 Dollar' Policy. As suggested by multilateral institutions, transition to an auction-based FX platform, which could engender transparency, may be considered to reduce arbitrage opportunities while interventions occur during times of high volatility. With the CBN mulling over the creation of a Central Bank Digital Currency, this could boost remittance inflows, eliminate arbitrage opportunities in the foreign exchange market, and provide a better exchange rate determination mechanism.

In the second half of the year, we view rising oil prices as a catalyst to reserve accretion, as restrictions are loosened across the world and crude demand in India recovers. Intentions to raise funds in the international debt market could also support reserve accretion in the near term. In addition, the country can also take advantage of the increased Special Drawing Rights Allocation by the IMF to shore up its external reserves. Thus, we expect the NAFEX rate to remain rangebound between ₦410/$ - ₦415/$ in the second half of the year. Should the government tap the international debt market and simultaneously take advantage of its SDR Allocations from the IMF, there could be considerable appreciation in the NAFEX window. At the parallel market, we expect the Naira to hover around ₦500/$. However, we see room for possible appreciation should the CBN roll out more policies to checkmate arbitrage in the parallel market and increase FX supply.

Vetiva Exchange Rate Forecast				
Period	Indicator	Forecast		
		Worst	Base	Best
Jun-21	Reserves ($'mn)	33,527.62	33,559.73	35,527.62
	I&E (₦/$)	426.3	411.4	396.3
	Parallel (₦/$)	505	499	480
Sep-21	Reserves ($'mn)	32,202.04	34,648.23	36,053.73
	I&E (₦/$)	432.6	412.6	392.6
	Parallel (₦/$)	519	496	485
Dec-21	Reserves ($'mn)	31,274.63	34,143.08	41,042.08
	I&E (₦/$)	429.5	414.5	399.5
	Parallel (₦/$)	542	498	472

Forecast Assumptions			
	Worst	Base	Best
Jun-20	Brent (avg.): $42/bbl	Brent (avg.): $66/bbl	Brent (avg.): $65/bbl
	Imports restriction: Yes	Imports restriction: Yes	Imports restriction: Yes
	Risk-off sentiment	Risk-on sentiment	Risk-on sentiment
	Crude oil sales: low	Crude oil sales: moderate recovery	Crude oil sales: strong recovery
	Spending limits relaxed: Yes	Spending limits relaxed: No	Spending limits relaxed: No
Sep-20	Brent (avg.): $51/bbl	Brent (avg.): $63/bbl	Brent (avg.): $68/bbl
	Imports restriction: Yes	Imports restriction: Yes	Imports restriction: Yes
	Risk-off sentiment	Risk-on sentiment	Risk-on sentiment
	Crude oil sales: low	Crude oil sales: moderate recovery	Crude oil sales: strong recovery
	Spending limits relaxed: Yes	Spending limits relaxed: No	Spending limits relaxed: No
		Eurobond flows: $2bn	Eurobond flows: $3bn
Dec-20	Brent (avg.): $48/bbl	Brent (avg.): $64/bbl	Brent (avg.): $72/bbl
	Imports restriction: Yes	Imports restriction: Yes	Imports restriction: Yes
	Risk-off sentiment	Risk-on sentiment	Risk-on sentiment
	Crude oil sales: low	Crude oil sales: moderate recovery	Crude oil sales: strong recovery
	Spending limits relaxed: Yes	Spending limits relaxed: No	Spending limits relaxed: No
		Eurobond flows: $2bn	Eurobond flows: $3bn
			SDR Allocation: $3bn

Source: Vetiva Research

Risks to the outlook

Going into the second half of the year, we note there are headwinds that could stall recovery. Ranging from further mutation of the virus to premature withdrawal of policy support, the global economy could slip into a double-dip recession should these risks escalate.

Health Risks

Despite the availability of vaccines, the trio – vaccine nationalism, vaccine hesitancy and slow rollouts – could be key downside risks to recovery. A major risk could arise from the continued mutation of the virus, even as four variants of the virus have been uncovered. Should new strains of the virus arise, we may see the return of lockdowns and stringent restrictions. Concerted efforts would be required to subdue the health risks and drive vaccine rollouts in developing economies.

Financial risks

Inflation has been on an uptrend in advanced economies. Although Central Banks have maintained a neutral posture to inflationary pressures, we see considerable risks to recovery from a replay of the 'taper tantrum' episode. While inflation is perceived as transitory, the simultaneous shift to a greener economy could keep pricing pressures elevated. However, premature rate hikes and policy normalization in advanced economies could tighten financial conditions and boomerang on emerging markets, culminating to a post-pandemic financial crisis. Thus, caution must be exercised to monitor the inflation trajectory, as the world transits gradually into a post-pandemic era.

Geopolitical Risks

All eyes will be on US relations with Russia and China, especially over military presence at Ukraine's border. In addition, US-Iran tensions could also be under the radar, especially if a hardliner emerges as the new Iranian leader. Another key issue will be the Saudi-Arabia and Houthi relations. Further tensions could fuel a surge in oil prices that could feed into consumer prices and fuel inflationary spikes in non-oil economies.

Security Risks

Given the pockets of insurgency in Sub-Saharan Africa, an escalation of conflicts could hinder investments and stifle recovery. Thus, concerted efforts are needed to de-risk the region to attract the much-needed investment required for economic growth and prosperity.

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