15 Dec 2021

OXFORD ECONOMICS AFRICA

Research Briefing | Africa

Africa Watchlist 2022

Economists

Jacques Nel
Head: Africa Macro
+27(0)21 863 6200

François Conradie
Lead Political Economist
+27(0)21 863 6200

- **Our Watchlist 2022 looks at developments that could potentially become the main African themes of next year. The analysis first explains the drivers behind each development and then describes what this realisation of each event would look like. We look at the potential of a unilateral declaration of independence by Tigray in Ethiopia and a French withdrawal from Mali. We also discuss the prospect of South Africans enduring unprecedented levels of electricity supply disruptions and look into some potential currency surprises.**
- If Tigray declares independence from Ethiopia, Ethiopia will become a more difficult place to do business as companies trading nationally see their operations disrupted, reputational risk increases and government puts its liberalisation plans on hold.
- If France redeploys its Operation Barkhane troops to Niger from Mali, violence and smuggling will increase in the three-borders area, Ecowas will lose influence and radical opposition to the governments of Senegal and Côte d'Ivoire will increase.
- If South Africa's electricity generation fleet were to experience one too many unplanned breakdowns in terms of large capacity losses, the system would teeter on the brink of a full blackout, which would necessitate unprecedent electrical power rationing.
- If EM sentiment were to weaken, the Egyptian pound could become one of next year's major exchange rate losers. In turn, if copper prices prove to be resilient, the Zambian kwacha could be next year's major currency surprise.

Our watchlist for 2022 with the projected likelihood of each development materialising

Watchlist for 2022

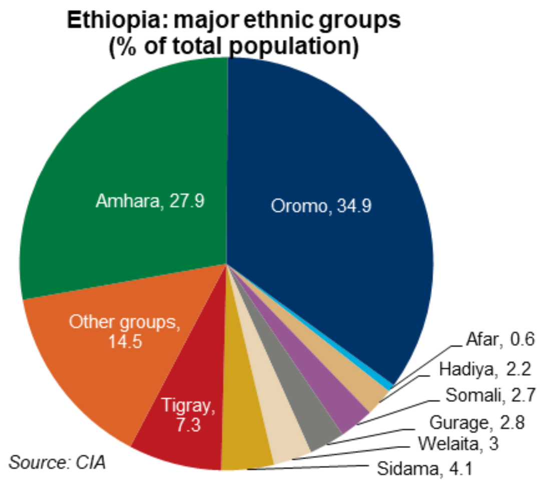
Development	Likelihood	Drivers
Ethiopia: Tigray makes unilateral declaration of independence	Moderate	• Ongoing conflict along the border • Ethnic militia mobilisation • Foreign interference
French troops quit Mali	High	• Disagreements with junta in Bamako • Isolationist mood in France • Russian opportunism
South Africans introduced to Level 8 loadshedding	Low	• Loadshedding to intensify • OCGT fallback a vulnerability • Baseload close to minimum
Currency surprises	High	• Markets could be surprised next year • Kwacha riding tailwinds • Egyptian pound could be 2022's big loser

Contact: jnel@oxfordeconomics.com

Ethiopia: Tigray makes unilateral declaration of independence

Both sides in Ethiopia's current conflict sound sure of victory. In December President Abiy Ahmed told commandos, "*Nothing will stop us … the enemy will be fully destroyed*" and his adversary, Tigray People's Liberation Front (TPLF) leader Debretsion Gebremichael, said that "*until the enemy is completely buried, heavy fighting will continue*". But federal forces have lost some of the ground they gained in the initial blitzkrieg from November 2020 to January 2021, while the Tigrayan counteroffensive was stemmed. Tigrayans will be hard to defeat in their region, but nor is it realistic to think that the TPLF will capture Addis Ababa and overthrow the government there. What might it look like if the two armies fight to a draw?

Tigray is ethnically homogenous, and its population has rallied against the federal forces' advance

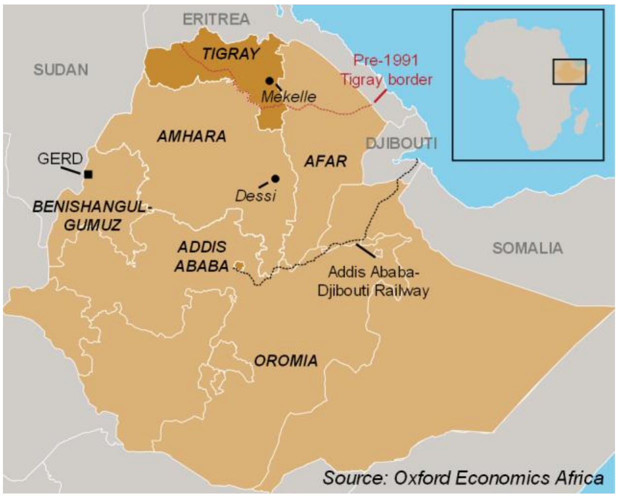


About 97% of the population of Tigray region is Tigrayan and ethnic mobilisation has been effective – the conflict has been disturbing for the number of atrocities on both sides that have had evident ethnic motivations.

The TPLF is not what its predecessor force was under the late Meles Zenawi, and we cannot see it capturing the capital. But it is able to fight the federal forces to stalemate.

Mr Gebremichael and his TPLF make a unilateral declaration of independence in H1 2022. Fighting continues along the Tigray-Amhara border, which remains unsettled. There is displacement of people, exacerbated by food insecurity, but conflict becomes less widespread. Non-state actors (ethnic militias) are behind remaining acts of violence in contested districts like Wolkait (western Tigray). The AU and UN reject the declaration because of the dangerous precedent it sets, but the TPLF gets covert assistance from Egypt and, indirectly, from the UAE and Saudi Arabia. The State's failure to reconquer Tigray emboldens its enemies in other peripheral regions – Oromia and Benishangul Gumuz – and low-level conflict persists. There are protests against Mr Abiy's government but he remains in office.

Federal forces are confronted with other peripheral rebellions

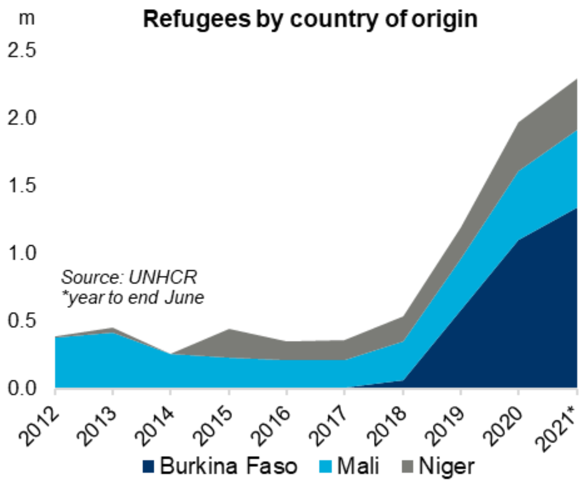


The mortal enmity of Eritrea – Eritrean troops have been involved in the war on the side of Addis Ababa – means the landlocked Tigray does not have access to a port there. Nor does it have such access via Djibouti, which is careful not to annoy its huge neighbour Ethiopia. The Tigrayans negotiate a deal with cash-strapped military authorities in Sudan.

West Africa: French troops quit Mali

Jihadist terrorism has been trending negative in the Sahel for 10 years. It is especially murderous in the three borders area where the territories of Mali, Burkina Faso and Niger meet. Inadequate responses by governments have driven popular opposition and, in Mali, created the conditions for the coup there in May 2021. The coup government has been testy about pressure from France and Ecowas to return to civilian rule, and Russia has been good at seizing the advantage.

Populations in the Sahel are furious at their civilian leaders and the French, but trusting of their military officers



The number of refugees from Burkina Faso has exploded in the past three years, and terrorism has become a greater concern in previously safe Côte d'Ivoire. Land degradation and more erratic rainfall make traditional ways of life impossible, and unemployed young men are easy recruits for jihadist networks.

Bamako signs a deal with a Russian mercenary outfit called Wagner in Q1 2022 and the French pull their troops out of Mali in angry response. Malians line the roads along which the retreating French column travels. Its departure is televised across the world and is met with special jubilation in Francophone West Africa. The surging anti-French sentiment into which it plays strengthens opposition figures like Laurent Gbagbo in Côte d'Ivoire and Ousmane Sonko in Senegal. Street protests and strikes in both those countries, repressed severely by police, become a more serious problem. President Macky Sall's party loses its legislative majority in the legislative poll held in mid-2022. The environment is less welcoming for French companies. Conflict in the Sahel stays at the same level as the Russians are no more able to police the vast area than the French were. They do, however, gain control of artisanal gold mining operations, which enrich them and the junta government, though none of the money finds its way to Treasury. In the region, Ecowas and the Waemu institutions lose influence and the business environment in a general sense deteriorates.

The business environment deteriorates and terrorism continues or worsens

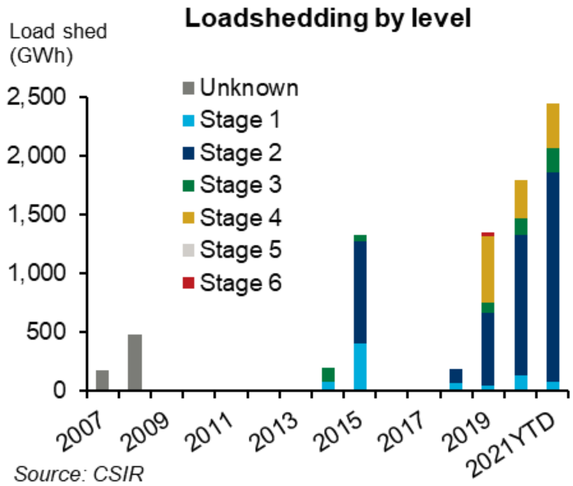
Terrorist attacks like a major one at Inata (Burkina Faso) on November 14 have increased popular opposition to the government in Burkina Faso, and added anti-French sentiment in the region.

Local radical dissidents and Russian operators have seized the advantage, but conflict will stay serious, or worsen, if the French leave.

South Africans introduced to Stage 8 loadshedding

The low energy availability factor of the national utility's ageing and mostly coal-fired electrical generation fleet has forced the electricity system operator to artificially suppress national demand through loadshedding (planned power outages used to curtail the national grid's electric load). Any additional electrical energy project delays and further breakdowns will worsen the electricity supply gap and increase the number of bouts as well as the intensity of loadshedding. This will increasingly put the stability of the electricity system at risk, thereby bringing a potential electricity system blackout ever closer.

The intensity of loadshedding has increased

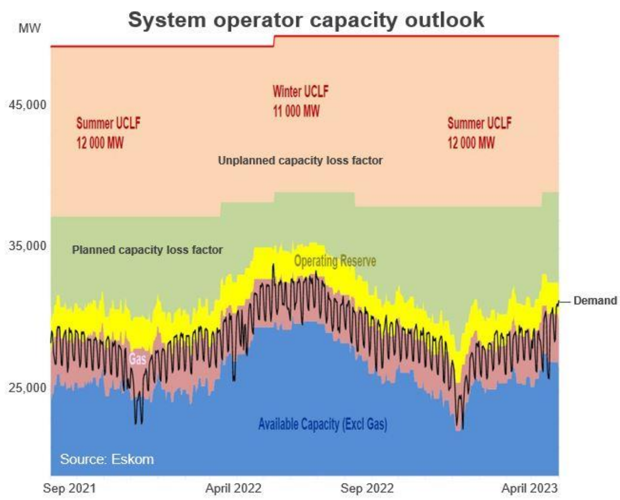


Loadshedding has increased both in terms of the number of sessions and the severity thereof (stages reached).

There are officially eight potential stages of loadshedding, but the highest level reached thus far is stage six in 2019 – this meant 6,000 MW in additional capacity was taken offline.

Disruptions to the country's strained peaking or emergency electricity generators push the country to loadshedding level 8. South African's again awaken to news that operations at another one of the country's ailing coal-fired power stations have been suspended due to mechanical failure. This usually leads to the implementation of loadshedding, mostly ranging between stages two and four. The supply slack is picked up by the fast-response dispatchable generation plants, namely the open-cycle gas turbines (OCGT). However, years of excessive use (these stations are designed to be used much-more infrequently and mainly during periods of peak demand) has rendered the OCGTs vulnerable to failure, and an OCGT breakdown occurs. The government announces the implementation of stage eight loadshedding, meaning 8,000 MW is taken offline. South African residents can expect to be without power up to six times a day, or 12 hours, depending on the day's schedule. Authorities compel the country's major mineral smelters and manufacturers to shut down operations in order to prevent a total system collapse.

The electric grid is vulnerable and will remain so in coming years



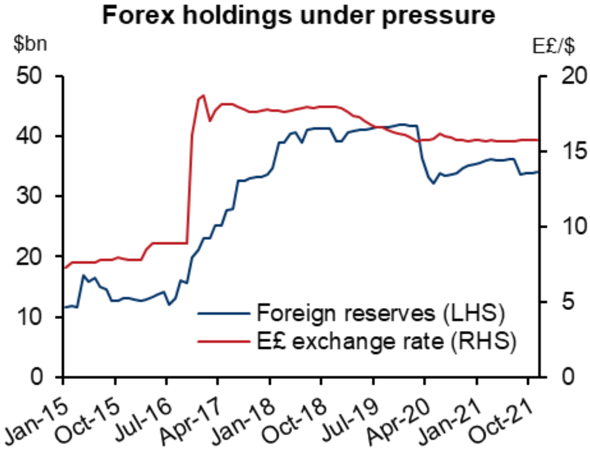
National demand for electricity is nearly permanently being met by expensive peak diesel generators, which should technically only be used during peak demand periods.

The system's ability to deal with unexpected disruptions is very limited, while such disruptions could imply a greater reliance on last-resort reserve capacity and threaten a national blackout.

Currency surprises

The Egyptian pound has strengthened against the US dollar since 2017. However, since then, the current account deficit has nearly doubled in size, while FDI inflows are almost half of what they were before the Covid-19 pandemic. The country has become increasingly dependent on portfolio inflows, with foreign held treasury bills equating to around 70% of total forex reserve holdings. A sudden shift in emerging market sentiment could see capital inflows reverse, which would pose a serious problem for foreign reserves and the Egyptian pound's value. In turn, the Zambian kwacha has recovered markedly since the new administration came into power. Still, the last time the kwacha was at current levels copper prices were 70% lower than they are now, while the institutional environment may yet spring up some favourable surprises.

The pound looks susceptible to adverse changes in emerging market sentiment



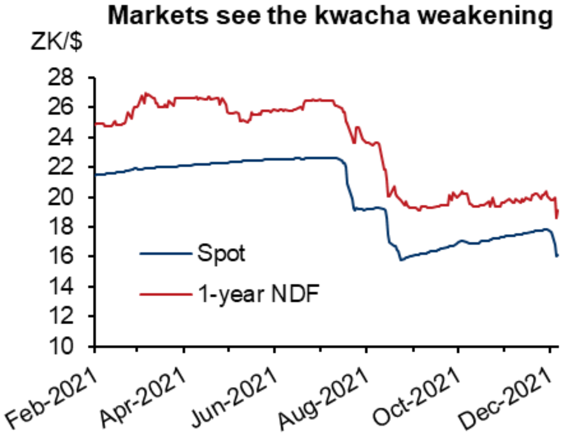
Sources: Oxford Economics Africa, Haver Analytics

Egypt has become increasingly dependent on external debt and foreign portfolio inflows.

With IMF support exhausted and monetary policy tightening expected to commence in advanced economies next year, external pressures look set to intensify and the forex buffer to combat these pressures is ailing.

Advanced economy savings glut turns into higher spending on durables, stoking inflation. The unwinding of the large hoard of excess savings accumulated by households in the US and Europe could see the demand for manufactured goods increase further next year, propping up prices for inputs such as copper. Robust demand would feed into US Fed inflation concerns, with monetary policy tapering being brough forward a few months. This tightening in international monetary conditions weighs on emerging market sentiment, putting pressure on countries such as Egypt that have become highly dependent on portfolio inflows. The Egyptian forex reserve buffer dwindles and the central bank is forced to allow an uncomfortable amount of depreciation. In turn, robust copper prices and signs that the institutional environment remains on a favourable trajectory provide the kwacha with additional support, with the Zambian unit proving much more resilient than the levels currently priced in by markets.

Markets see notable kwacha weakness next year



Source: Refinitiv

The one-year non-deliverable forward rate suggests that markets expect the kwacha to depreciate nearly 20% over the next year.

Copper price resilience or further progress on the institutional front could surprise markets in 2022.