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momento

BEWARE OF THE KNOWN, AND UNKNOWN

ENERGY TRANSITION: COST IMPLICATION ON THE SSA

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EDITOR'S NOTE

It is still January, so I guess it is still acceptable for me to wish you a happy new year - in case I have not had the opportunity to do so in person. I trust your year has started off on a positive note. I cannot say the same for the recuperating global economy as pandemic gradually transitions into an endemic. In **And the plot glooms...** (Page 07), I explored the recent downgrades in global economic expectations for 2022 and the risks that may necessitate further downgrades in the course of the year.

Also, in not so pleasant circumstances, Burkinabes witnessed their President's toppling a week ago by military mutineers. The incidences of military takeovers across the African continent are becoming one too many, especially in Western Africa where an uncomfortable number of dominoes have already fallen amid widespread democratic deficits. In **Africa: Coups breed coups** (Page 12), I shared my thoughts on this disturbing trend and the risks it poses to the region in the near term.

I also cannot say the year started on a positive note for crypto investors, and other investors in risk assets as the monetary hawks seem not to be putting on the brakes. So far, 20 central banks – predominantly in emerging markets - have altered their benchmark interest rates with a strong bias for hikes, including Argentina, Moldova, Ukraine, Chile and South Africa. Amid red-hot global inflation, the hawks are left with no other choice, and risk assets are set to bleed. But it may not be all doom and gloom, as I weighed on the themes that I expect will dominate the global economy in **Beware of the known, and unknown** (Page 05).

Amid all the economic brouhaha, the global community is not losing sight of saving planet earth and focus is on Africa to speed up its energy transition plans. In **Energy transition: Cost implication for the SSA** (Page 10), **Yusuf Ogunbiyi** weighed in on the fiscal pressures that could emanate from the transition, underscoring the importance of development assistance commitments made by the West at the 2021 United Nations Climate Change Conference (COP 26).

While we may be cautiously bullish on the global economy in 2022, have a quote from Warren Buffet, that says "cash combined with courage in a time of crisis is priceless", at the back of your mind. And remember that games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard.

Have yourself a rewarding 2022.

Mosope Arubayi

BEWARE OF THE KNOWN, AND UNKNOWN

BY MOSOPE ARUBAYI

As the economic consequences of the pandemic continues to dissipate and the global recovery progresses further, economic policymakers are now faced with the herculean task of taming inflation amid the fragile global recovery. With the risk of a rates lift off looming larger in 2022, a number of themes are expected to dominate the macroeconomy. Many of the themes are carried forward from last year, but are likely to be more conspicuous in 2022.

- **Inflation and normalization**: The US is facing the highest inflation since 1982, and there is evidence that it is likely to persist. Unfortunately, the Fed has been slow in responding to the inflationary pressure, and the biggest near-term risk is that the Fed is seriously behind the curve and has to get serious. For a Fed that has been largely tolerant over the past 22 months, providing support to the economy to heal it from the coronavirus pandemic, the upsurge in US inflation to a record-high has tilted monetary policy odds away from pandemic support. The first rate hike is expected in March, while the Fed is also simultaneously embarking on quantitative tightening. Only time will tell how the interaction of these two policy tools will play out, and the eventual impact it will have on inflation. There are indications that the anticipated three interest rate hikes and a smaller Fed balance sheet may not be sufficient to rein inflation to the 2% target.

- **Fiscal tightening**: While monetary policy tightening is likely to have a bigger impact on financial market dynamics, fiscal tightening could have a bigger impact on the economy as policymakers dial down their pump priming measures. Public spending to provide support to households and small businesses has been the catalyst for recovery from the COVID-19 slump, and now governments are tempering the fiscal stimulus. The austerity points to slower economic growth, although it could also help rein in the inflationary pressures heating up some economies. The pace of fiscal consolidation varies across countries, and for a variety of reasons. However, budget plans for this year are not set in stone, and governments can adjust them if the virus persists.

- **Technology and E-commerce**: There is no doubt that these sectors have been some of the biggest beneficiaries of the pandemic, as the transition from traditional, in-person retail sales to online sales accelerated through the pandemic. This is not likely to change in 2022 especially in emerging markets where they have significant scope to penetrate. As the world continues to manage the COVID-19 pandemic, the world will likely continue to interact more remotely than ever before. Technology will continue to assist with this global transformation. It has also become abundantly clear that E-commerce is not just a fad or a seasonal story but rather represents an ongoing growth narrative with many associated economic knock-on effects for payment providers, industrial real estate, air freight and logistics firms.

- **Supply constraints**: From supply chain bottlenecks to labour supply constraints, both are trends than began with the pandemic and are likely to persist longer than expected. While supply chain bottlenecks are expected to ease further, they are unlikely to be eliminated, fuelling inflationary pressure. The pressure on prices will also be felt in the labour market as employees demand for wage increases to make up for price increases, or outrightly resign to higher paying jobs. The pandemic collapsed the barriers associated with the geographical mobility of labour, hence competition for talent is now global. Therefore, apart from monetary compensation, workers will also look out for other benefits including flexibility of working hours and/or location.

- **Multiple covid waves and mutants**: As the pandemic gradually transitions to an endemic, and vaccine equity remains but a long call, multiple variants of the virus will emerge amid less severe social constraints. The Sub-Saharan Africa (SSA) will remain highly vulnerable to multiple waves of the virus because of its limited access to vaccines. However, policymaker will be cautious not to hurt economic recovery by implementing stringent lockdowns. Service activities will still be constrained and this will culminate in a divergently growing, but sluggish economy.

- **Geopolitics and Political risk**: With elections at various levels scheduled in no less than 30 countries and territories – especially in emerging markets -, 2022 could be a political pottage. Political risk looms large – from extreme candidates coming out victorious and adopting hostile policies, to election-related violence, to increased domestic and international tensions. French elections (April and June) may be the center of focus in the global economy as it influences the power dynamics of the EU, to some degree. Let us not forget the US mid-term elections (November). Important elections will also be taking place in a host of other countries including Kenya (August), Brazil (October), Philippines (May), Colombia (March and May), and South Korea (March).

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AND THE PLOT GLOOMS...

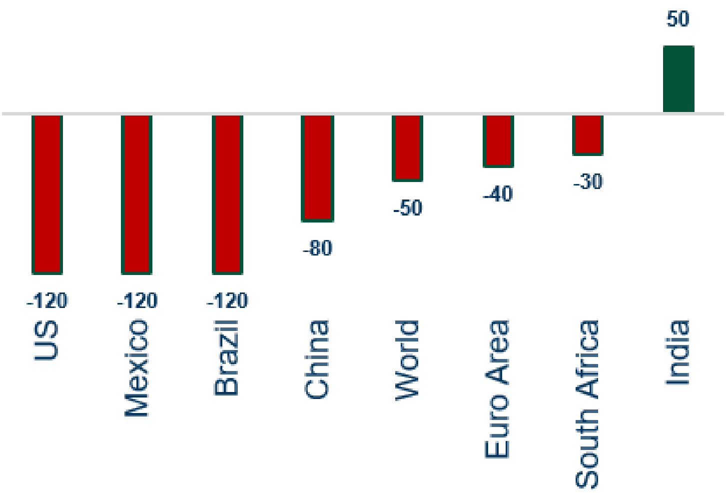
BY MOSOPE ARUBAYI

2022 is the year many had projected that the world economy will fully recover from the pandemic. Not until Omicron struck, dampening the upbeat recovery mood. With the worst of the pandemic behind us and the risk of multiple waves and mutants ahead, economic expectations are being dimmed, the most recent being the International Monetary Fund (IMF). The IMF expects global growth to moderate from 2021 levels (5.9%) to 4.4%, 50bps lower than their October projection. Towing the same path earlier in the month but with a less severe mark down, the World Bank also downgraded its economic projections for 2022 by 20bps to 4.1%.

A major cause for softening will be the roll back of pump priming by both fiscal and monetary policymakers. These, in addition to ongoing supply chain bottlenecks, elevated inflationary pressures and elevated risks of financial vulnerability in large parts of the world could increase the risks of a hard landing. Therefore, the global economy enters 2022 in a weaker position than previously expected. While COVID-19 continues to cast a shadow over the growth prospects of major economies, developing countries are facing severe long-term problems related to lower vaccination rates, tightening of global macroeconomic policies, and unsustainable debt burdens.

Although the downward adjustments are a reflection of clouds gathering over the recoveries in the US and China, the anticipated adverse impact of expected global economic challenges on some emerging markets including Mexico, Brazil and South Africa also contributed to the downward review. However, with a 50bps upward review in its January projection, India is not letting the growth engine leave its shores. The persistence of elevated price levels and income inequality in emerging and developing economies could be dent their economic recovery.

The ineffectiveness of global measures to address inequality of vaccine access means the COVID-19 virus will be very much around us, and the global economy is prone to shocks from reimposed mobility restrictions, supply disruptions, and rising energy prices, that are likely to keep global and local prices elevated through 2022. Likewise, multiple waves and mutants of the virus will lead to a resurgence of infections that will likely bring further damage to public health, disrupt economic activity in the near term, and could worsen growth projections if it persists. The combination of raised restrictions, cautious consumers and people taking time off sick is likely to take its toll, slowing the pace of the global economic recovery.



Source: IMF

There is no doubt that economic momentum remains strong in 2022, with a number of downside risks that can weaken the engines of growth and add to overall global uncertainty. Thankfully, as the global status of COVID-19 shifts from pandemic to endemic, we are better armed with tested medical and policy measures to address its economic consequences. Therefore, the impact of subsequent episodes of the virus on the economy are likely to be less severe than previous episodes.

While COVID-19 continues to cast a shadow over the growth prospects of major economies, developing countries are facing severe long-term problems related to lower vaccination rates, tightening of global macroeconomic policies, and unsustainable debt burdens.

ENERGY TRANSITION: COST IMPLICATION ON THE SSA

BY YUSUF OGUNBIYI

As I pen this third article in the Energy Transition series, I feel obliged to answer some of the questions raised by readers about the implications and costs of the energy transition on countries in Africa. I must say that some of the costs and implications of this transition are yet to be identified but so are some of the revenue opportunities. However, if there is anything we have observed, it is that African countries are still on the negative end of the impacts of the climate situation as national policies in most countries still lag the global average.

Back to the question on costs, the cost implications of the energy transition are in two folds. First is the possible revenue and foreign exchange loss due to the decline in demand for fossil fuels across the world. Second is the cost to be incurred by governments and businesses as they invest in this energy transition, implementing projects to ensure that the non-fossil fuel, clean sources of energy are instituted. In both instances, the development and economic impacts of these costs are not negligible.

In the first instance, countries in Africa with significant dependence on fossil fuel would experience a short-term shock to revenues and foreign exchange as demand declines globally. A look at the trade matrix of Sub Saharan Africa shows that nearly 40% (AU, 2020) of the exports from the region is based on fossil fuel products. By extension, the foreign exchange earned from these transactions are critical to balance trade and funding the importation of products consumed by SSA countries. The Immediate is the possibility of ensuring development of these economies, amidst a population boom, notwithstanding the macroeconomic shocks expected.

In responding to this challenge, economic policies are expected to double down on the economic diversification drive and build other sectors that are more sustainable. In addition to the economic diversification drive, economic policies should leverage on the massive gas reserves, about 624 trillion cubic feet (Statista, 2022), across the country to bridge the possible revenue shock as natural gas continues to be recognized as a cleaner fossil fuel and critical to the energy transition.

As per the second cost, the cost to be incurred as governments and businesses invest massively in driving the energy transition. This cost will typically include the cost of all the physical investments in generation and transmission as well as the numerous subsidies and research and development expenses that will be incurred by these governments. Honestly, I think this will be most difficult of all costs to incur and governments in SSA will probably be the last set of governments to incur such costs.

Most expectedly, these countries will continue to use fossil fuel longer than other countries in the other parts of the world and will lag in expenditures on the energy transition journey. On the contrary, we expect that the investments in this space will be led by businesses and private individuals as the economics of the energy spectrum support more investments.

Overall, the costs to developing countries like those in the SSA will stem from the possible revenue losses they are exposed to in the short term and the investment and subsidy expenditures expected to drive the energy transition. If the commitments from the COP 26 are anything to go by, developed countries are expected to invest heavily in this transition and support these countries as they also attempt to transition.

With a near-record time in office, Germany's second-longest serving post-war chancellor has certainly given her successor a huge responsibility as well as respect for the office in the international space.

AFRICA: COUPS BREED COUPS

BY MOSOPE ARUBAYI

A new year, another coup in Africa, especially West Africa that has seen no less than five military takeovers in the past year. Mali, Tunisia, Guinea, Sudan, and now Burkina Faso have been recent coup hotbeds amid widespread public discontent and disillusionment. Africa saw more than 10 general elections in 2021, and majority returned the incumbent leaders. In some of the elections - such as in Chad, Republic of Congo, Djibouti and Uganda - the incumbent was contesting for a third, fourth or even fifth term. Most of these elections were marked by varying degrees of inhumanity.

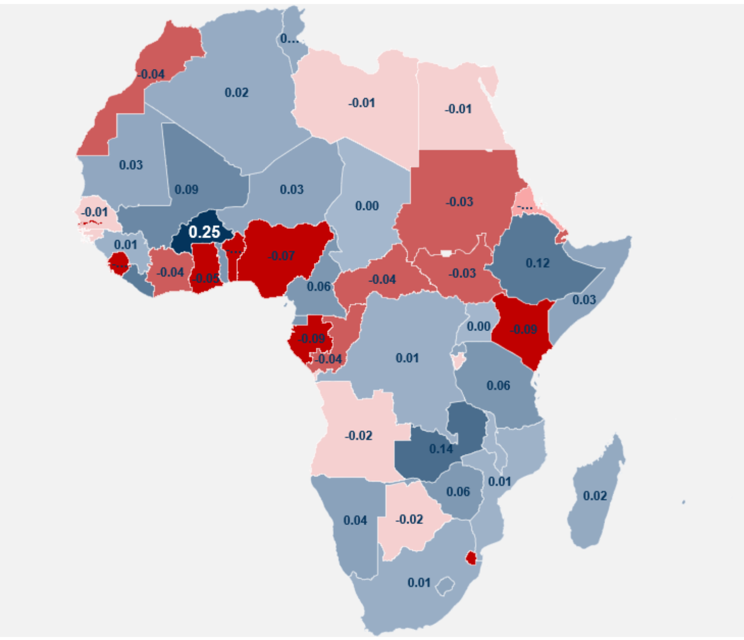
Democratic governments in Africa are performing abysmally. People are fed up with their governments for many reasons — major security threats, relentless humanitarian disasters and millions of youths having no prospects. Many countries – including Burkina Faso, Cameroon, Central African Republic, Democratic Republic of the Congo, Ethiopia, Libya, Mali, Mozambique, Nigeria and Somalia - are facing a range of brutal hostilities that are leaving much civilian suffering in their wake, causing some to tend to privilege military approaches to ending them.

Economic underperformance is an oft-cited predictor of coups, and coup leaders take advantage of this, and the failure of governments to respect basic rights, uphold constitutional obligations, and carry out promised reforms. The recent surge in the militarization of politics is a disturbing trend as it poses a threat to peace, security and stability in West Africa, and Africa at large. Coups are contagious. If the coup plotters are not punished, there will be more coups in Africa.

West Africa is geographically vicinal with North and Central Africa. This means that upheavals in one region is a squirming catastrophe for the next, especially if there are no obvious consequences for coup perpetrators. Case in point, Mali's interim President - Colonel Assimi Goïta – who is a two-time coup leader is yet to be penalized for his involvement in the coups that brought him to power. His Guinean counterpart, Mamady Doumbouya also enjoys the same benefits from global and regional leniency towards coupists. This could encourage agitators in other countries to chart a similar course.

Looking forward, expressing optimism about the prospects for Africa's democracy is difficult, especially in countries recently afflicted by military depositions. Therefore, Global and African institutions need to step back from toothless negotiations and be firmer in condemning and meting out sanctions on coupists, in order to arrest the continent's increasingly fluid democratic systems. Already, the Global Peace Index (GPI) readings for 2021 points to significant annual deterioration in Gabon, Kenya, Benin, Nigeria and the Gambia.

While recent coups have occurred in the Central and Francophone West Africa sub-regions, governments in Anglophone West Africa should be at high alert as the risk of a coup contagion is high. With Anglophone West Africa countries – Nigeria, the Gambia, Sierra Leone and Ghana-, more than countries in other regions, recording significant deteriorations in their decorum levels in the past year, a spillover is almost inevitable. But how can countries come out of this coup-trap?



Sources: Institute for Economics & Peace; Mosope Arubayi

There is this notion that no elections are worse than fraudulent and forged elections, and this has led to other democratic deficits such as ignoring or downplaying elements like a free press, freedom from political repression or human rights. There is a dire need to actually address the continent's flawed political systems. In the wake of national and local elections scheduled to take place in seven African countries (Angola, Comoros, Gambia, Kenya, Lesotho, Senegal and Tunisia) this year, democratically elected governments need to look beyond the fetish of strict electoral calendars - which in most cases are rigged - as a marker of democratic progress, and focus on upholding human rights, strengthening the rule of law, and building credible, independent institutions.

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THE INTELLIGENT INVESTOR SHOULD RECOGNIZE THAT MARKET PANICS CAN CREATE GREAT PRICES FOR GOOD COMPANIES AND GOOD PRICES FOR GREAT COMPANIES.

BENJAMIN GRAHAM