

SPECIAL REPORT:

21 February 2019

MANIPULATION OF ECONOMIC INDICATORS IN AFRICA

The misreporting of economic data and indicators is becoming increasingly apparent across some African countries. EXX Africa assesses the political motivations involved in the manipulation of economic statistics and the likely repercussions for investors and nascent continental trade agreements.

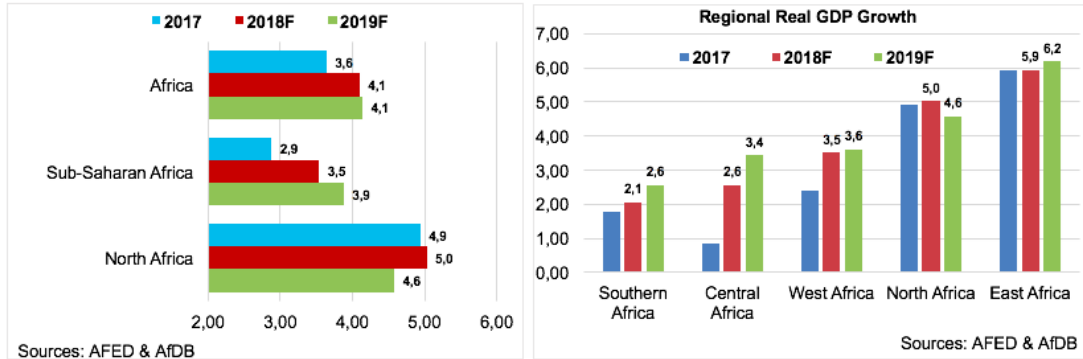
On 20 February, Tanzania's National Bureau of Statistics rebased the country's economy in order to recalculate growth in gross domestic product (GDP) over the past few years. The rebasing practice is commonplace and many African countries have rebased their economies over the past few years. Most notably, Nigeria overtook South Africa as Africa's largest economy after a rebasing calculation in 2014 that almost doubled its GDP to more than USD 500 billion. The rebasing of Ghana's economy last year meant that economy expanded by 24.6 percent in 2018.

However, the timing of rebasing economies is often politically motivated. In Tanzania's case, the GDP rebasing shows a 3.8 percent expansion of the economy in the year that President John Magufuli came to power, even though there are signs that the economy has slowed since he was elected. Magufuli will seek re-election in 2020 based on a campaign pledge to broaden Tanzania's economic growth through state-led interventionist policies.

In Zimbabwe, the statistics agency rebased some of its economic statistics last October in an unexpected move that the government said increased the nominal

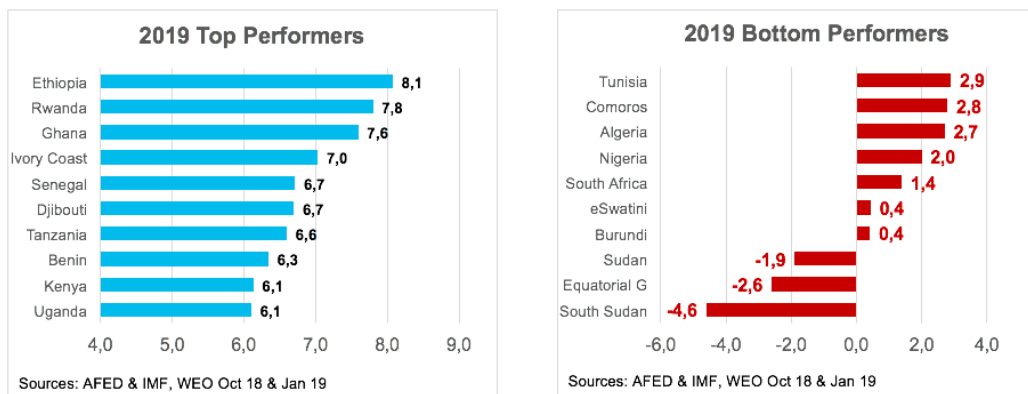
Real GDP Growth: Aggregates and Regions

(year-on-year % growth)



Africa Real GDP Growth: 2019 Top & Bottom Performers (excl. Libya)

(year-on-year % growth)



size of its struggling economy by more than 40 percent in 2018, which seems highly unrealistic given the country's ongoing economic crisis. In neighbouring Zambia, the finance minister is planning to rebase the country's GDP in 2019, which should see a sudden spike in economic growth this year, even though the economy is mired in debt and heavily impacted by falling export values.

Misreporting of national statistics

It is obvious, that the rebasing of a country's GDP can be manipulated in order to serve political means, particularly to boost an incumbent in an election year or to deny an economic slowdown. Moreover, there have been numerous recent instances in which governments have failed to properly disclose publicly-guaranteed loans or have manufactured economic statistics, such as inflation, public debt, and GDP numbers.

This leads to a broader argument that the misreporting of statistics is commonplace in many African countries. In 2014, the Centre for Global Development (CGD) argued in a report that the misrepresentation of national statistics does not occur merely by accident or

due to a lack of analytical capacity – at least not always – but rather that systematic biases in administrative data systems stem from the incentives of data producers to overstate development progress.

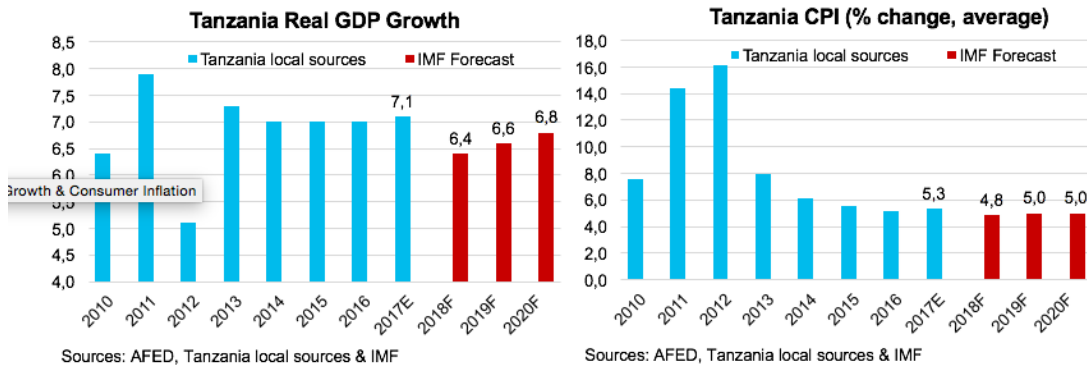
The CGD report argued that there are significant inaccuracies in the data being published by national and international agencies. These inaccuracies appear to be due in part to perverse incentives created by connecting

data to financial incentives without checks and balances, and to competing priorities and differential funding associated with donor support. These inaccuracies, perverse incentives, and lack of functional independence mean that public and private investment decisions based on poor data can be deeply flawed, with major implications for well-being and public expenditure efficiency.

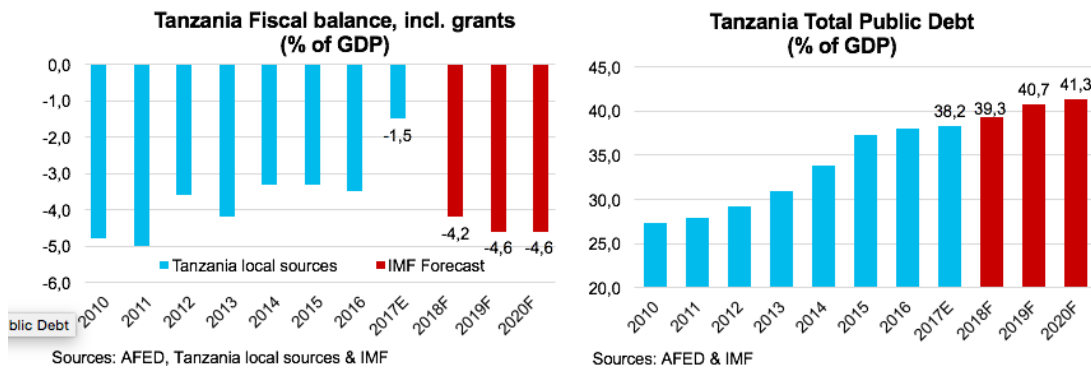
COUNTRY CASE STUDIES

In this report, EXX Africa assesses a number of African countries where there are strong indications or past precedents of manipulation of economic and financial statistics. Our case studies vary from suspected manipulation of economic growth and inflation numbers to suit political ends, to a lack of disclosure of publicly guaranteed loans. These case studies do not provide a definitive list of countries that have misreported on indicators, but do illustrate a broader problem across African economies that is likely to have a major impact on foreign investors' risk exposure and the future of hallmark African trade agreements.

Tanzania: Real GDP Growth & Consumer Inflation



Tanzania: Fiscal Balance & Public Debt



TANZANIA – EXAGGERATING GROWTH NUMBERS

Optimistic central bank forecasts show that Tanzania's economy is picking up steam again. The rebasing of GDP also 'magically' increases the size of the country's economy since current President Magufuli came to power. However, falling foreign direct investment, partial donor suspensions, and a tarnished investment reputation, as well as an unfolding scandal into massive public accounting discrepancies, paint a different picture.

Tanzania's central bank projects that the country's real GDP would grow by 7.2 percent in 2018 and 7.3 percent in 2019, supported by public investment, particularly the implementation of mega infrastructure projects. The economy has been growing at around 7 percent annually for the past decade, but slowed to 6.6 percent in 2017.

However, Tanzania has been struggling to secure financing to fund its Five-Year Development Plan. Local sources report that a lack of public spending and private sector concerns over policy uncertainty are actually curtailing growth, rather than boosting the economy. Investor confidence has collapsed, driven by

the government's disputes with investors. As a result, foreign investment has dropped by more than 30% since 2015 when President Magufuli was elected.

Moreover, subdued government revenue collection and delays in securing financing for projects have held back development spending and hurt economic growth. A sharp fall in lending to the private sector, prompted by high non-performing loans, point to a continued slowdown in growth. Additionally, the institutions of the Tanzanian state are

weakening and increasingly exposing public revenue to embezzlement and corruption. Tanzania's public finances are in poor shape and efforts to ensure effective financial oversight face mounting obstacles.

Our recent analysis and local intelligence contradicts the Tanzanian central bank's forecast. Last year, the government imposed criminal sentences for organisations and individuals that contradicted Tanzania's official statistics. We laid out the arguments contradicting Tanzania's official forecasts in a recent briefing (See **SPECIAL REPORT: IS TANZANIA MANIPULATING ITS ECONOMIC GROWTH FIGURES?**).

ZAMBIA – LACK OF DEBT DISCLOSURE

The budget deficit and pace of debt-accumulation are more likely to be higher than previously forecast by the Zambian government. This follows a contentious revision of the 2017 fiscal deficit by the Zambian government to factor in capital expenditures that had not been properly recorded in the previous years' financial statements. The IMF remains the foremost remedy for the ailing Zambian economy. Anchorage from the lender of last resort and the prospect of a restoration of macro-economic fundamentals should

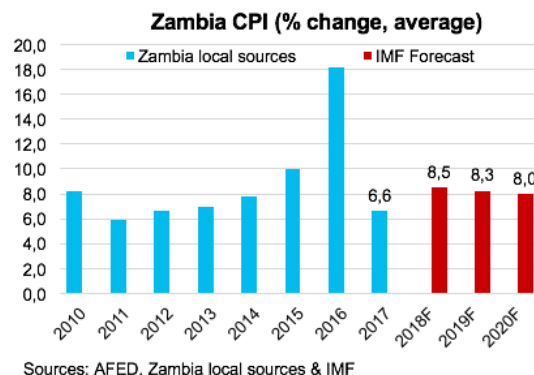
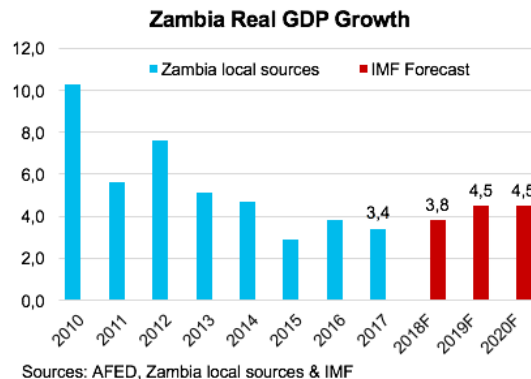
aid in narrowing the trust deficit, plugging the funding shortfall, and unlocking the desperately needed investment inflows.

The elevated debt has also placed interest payments under scrutiny, with concerns that they may tend towards 27 percent of revenue in 2019. Disconcertingly, with the local kwacha currency rapidly ceding to the USD and the outlook on the mainstay copper industry appearing highly speculative, there is the feeling that the worst is yet to come for the externally vulnerable market. Indeed, further bullishness from the US Federal Reserve Bank or tariffs on the commodity could see the Kwacha depreciate more, revenue streams dry-up, and foreign short-term payment requirements tread further into default territory as portended by recent ratings downgrades.

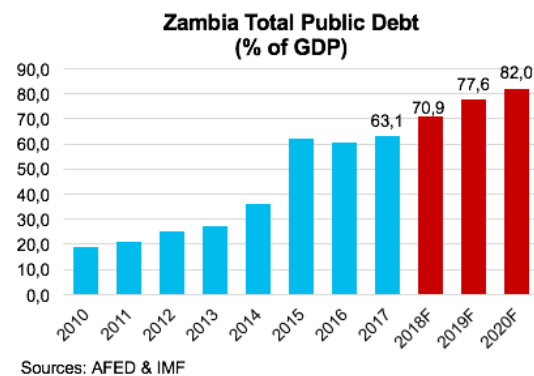
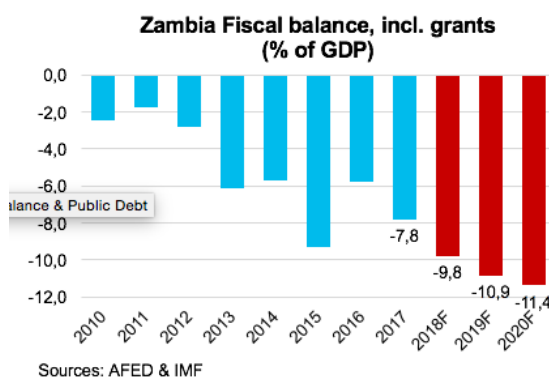
Beyond the arithmetic, the downgrades, and belated disclosure of the capital expenditure also call into question Zambia's transparency amid ongoing suspicions that the country is withholding the disclosure of its true financial position. EXX Africa has taken a strong position on Zambia's debt disclosure since early 2018, which conflicts with official government accounts.

Unofficial accounts say that total external and domestic debt stands at USD19 billion, accounting for over 90 percent of GDP. Since early 2018, Zambia has signed more than USD1 billion in new loans, indicating that total debt could now be nearing 100 percent of GDP. External debt could be as high as USD15.6 billion, while local debt seems almost incalculable given lack of clarity in lending by state-owned entities from local banks. The argument over debt calculations centres on whether undisbursed contracted loans (mostly

Zambia: Real GDP Growth & Consumer Inflation



Zambia: Fiscal Balance & Public Debt



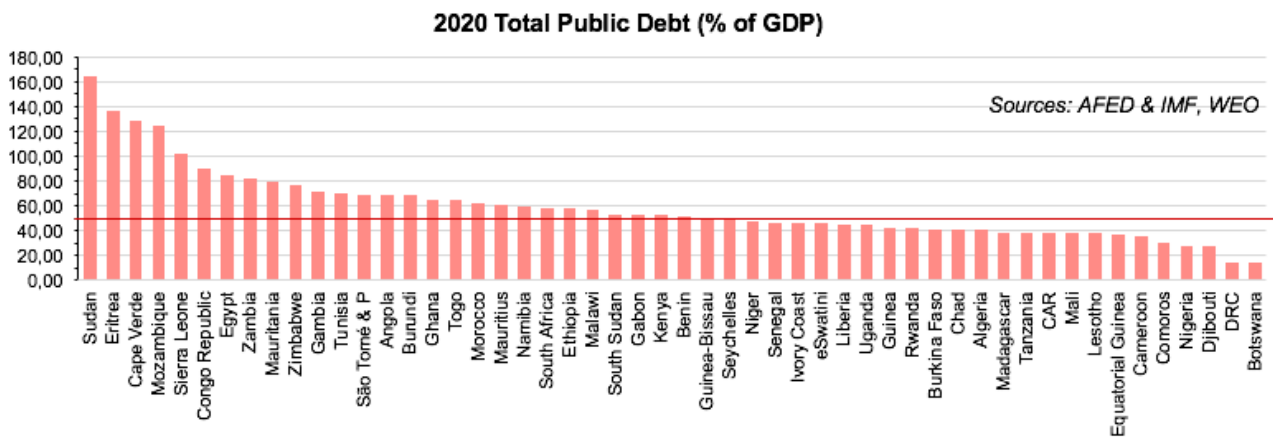
Chinese project finance) should be counted (See **ZAMBIA: AUTHORITARIANISM AND ECONOMIC NATIONALISM GAIN FURTHER GROUND**).

SUDAN – DENYING AN ECONOMIC CRISIS

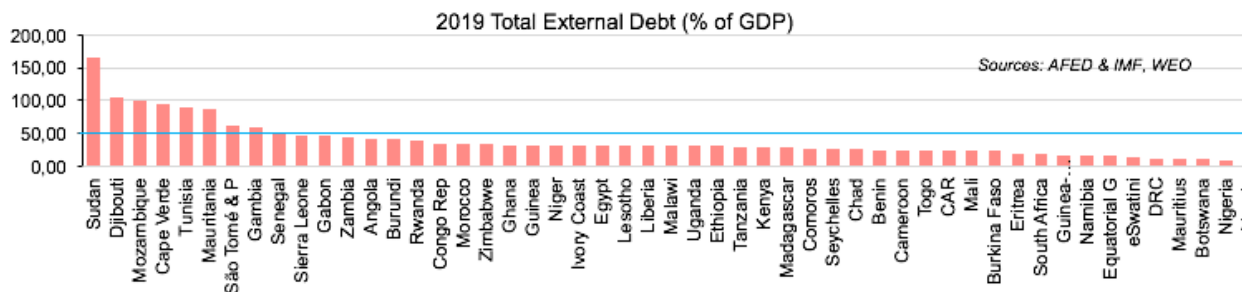
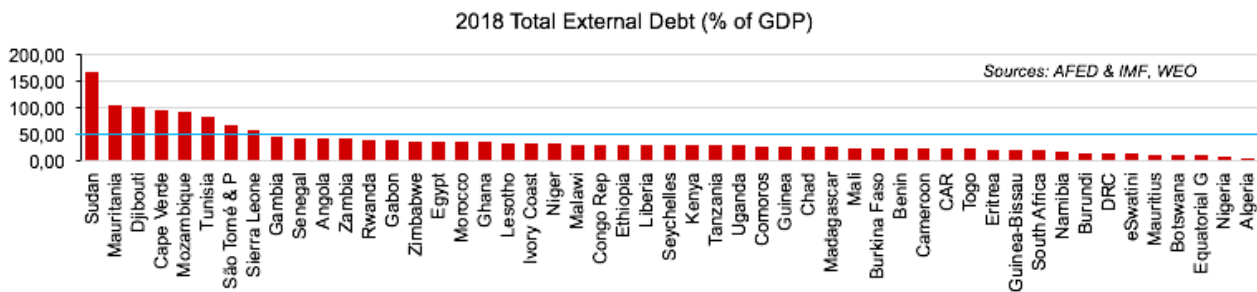
The Sudanese economy is showing further deterioration as anti-government protests continue. The Sudanese pound has fallen to a record low on the black market, selling for 70 Sudanese pounds for cash transactions in recent weeks, as the gap with the official rate of 47.5 pounds continued to widen. The price of the dollar for cheque transactions stood at 83 pounds. Due to the lack of liquidity in the banks, US dollar carries two prices on the black market. The purchase price through checks is usually higher than the cash price.

The sudden depreciation over the past few weeks has been triggered by cash shortages following a run on the banks, as depositors fear the protests are gaining momentum since the opposition's stated intent to unite against the embattled government. The Sudanese central bank sharply devalued the currency in early October to 47.5 pounds from 29 pounds to the

Africa: Total Public Debt in 2020



Africa: Total External Debt



dollar, and established a new system under which a group of banks and money changers set a daily rate. However, the official rate has barely moved, while the black market rate continues to depreciate against major currencies.

The economic crisis is being denied by the government, which recently released figures claiming that inflation was actually slowing. On 10 February, the state statistics agency said that Sudan's inflation dropped to 43.45 percent in January year-on-year, from 72.94 percent in December led by slowing prices of food, beverages, and transport. Such figures have been widely ridiculed by both Sudanese and international economists as state propaganda.

The underlying economic and financial weaknesses remain in place and indicators such as cash shortages

and currency depreciation suggest rampant inflation. A more likely forecast for January inflation would be around 85 percent, suggesting that Sudanese authorities are manipulating the statistical reports.

The most recent International Monetary Fund (IMF) report indicated that Sudan's gross international reserves remained very low in 2017 at just USD 1.1 billion, equating to 1¾ months of import cover. Local sources report that reserves have fallen to a new low over the past three months and are fast depleting, posing severe risk of non-payment and default on loans. In EXX Africa's most recent analysis, we considered that Sudan is firmly in debt distress and poses highest risk of debt unsustainability (See **SUDAN: PROSPECT OF A 'SUDANESE SPRING' LOOMS AS OPPOSITION UNITES**).

REPUBLIC OF CONGO – PLAYING HIDE AND SEEK WITH THE IMF

A prevailing economic crisis in the Republic of Congo – manifest in the country's debt accounting for 110 percent of its GDP – is increasing concerns regarding the country's short-to-medium trajectory and President Sassou Nguesso's longevity in implementing the necessary reforms to escape the malaise.

President Sassou Nguesso says his government is negotiating "on a basis of trust" with the IMF on the country's financial problems. However, in 2017 the IMF accused Congo of having hidden part of its debt from the organisation by claiming it was 77 percent of GDP. According to the IMF's own calculation, the ratio is 117 percent. Last year, French media claimed that the Congolese government had skirted requirements of the IMF through a financial contrivance created by French oil giant Total.

The IMF insists that the Congolese government first needs to restructure its USD 9.14 billion in debt, which at 117 percent of GDP the Fund deems unsustainable. The permitted debt threshold in the regional Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC) organisation is 70 percent. Congo is seeking to restructure its debt with commodities trading houses after borrowing USD 2 billion from merchants. However, the bulk of its external debt is owed to Chinese entities.

Without regaining access to international financial institutions and markets, Congo faces an imminent cash-flow crisis. As it is, the government has had to resort to loans from China and short-term advances from its central bank. Rescheduling Congo's debt will be extremely difficult because of the opacity and complexity of many of its deals, such as loans-for-oil with China. France and the US seem unwilling to deliver a bail-out, which increases the probability of a



regional currency devaluation. The IMF seems adamant to avoid such a regional currency devaluation.

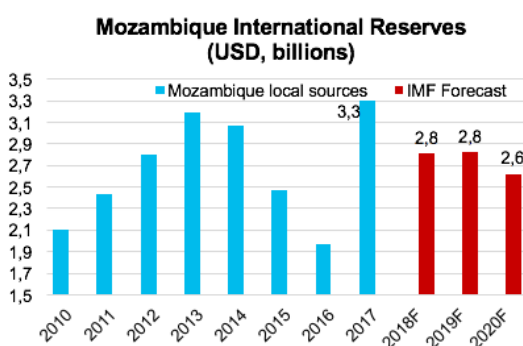
Foreign, especially French, companies also resist a devaluation as the pegged exchange rate has assured low inflation and a French guarantee of fixed-rate convertibility to the euro. When France devalued the CFA franc by 50 percent in 1994, the result was high inflation and outbreaks of popular unrest. Therefore, all CEMAC members are opposed to resorting to devaluation. However, France will be unwilling to lend money directly to distressed and unreformed economies such as Republic of Congo. This means that a currency devaluation may become the only option left to mitigate the debt crisis, unless the IMF intervenes

MOZAMBIQUE – THE 'HIDDEN' LOANS SAGA CONTINUES

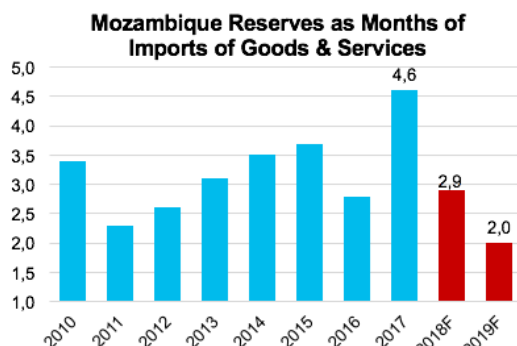
In early January, Mozambique's attorney general indicted 18 nationals for their involvement in fraud involving USD 2 billion in loans to state-owned companies. The indictment includes 'charges of abuse of power, abuse of trust, swindling and money laundering.'

The country's Parliament and attorney general's sudden action demonstrate growing panic inside the Mozambique government and renewed pressure to deal with the three-year old scandal that

Mozambique: International Reserves & Months of Import Cover

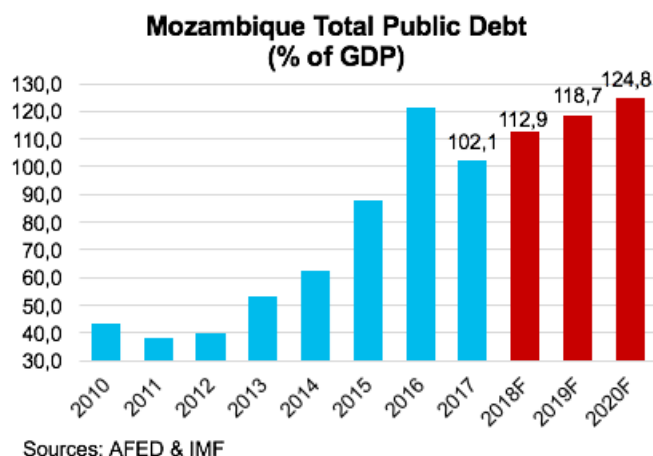
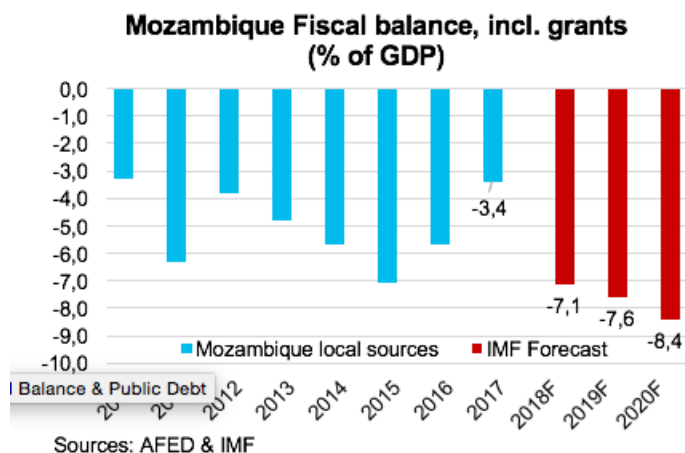


Sources: AFED & IMF



Sources: AFED & IMF

Mozambique: Fiscal Balance & Public Debt



prompted the IMF and foreign donors to cut off credit support in 2016, thus triggering a currency collapse and a debt crisis from which the country is still trying to recover.

Former Mozambique finance minister Manuel Chang was among those indicted. Chang, who denies wrongdoing, has been detained in neighbouring South Africa since 29 December in a case brought by US prosecutors related to the fraudulent loans. Four days after Chang's arrest, three former Credit Suisse bankers – Andrew Pearse, Surjan Singh, and Deletina Subeva – were detained in London. A fifth accused, Jean Boustani was arrested in the US. Boustani is alleged to have negotiated a round of bribe and kickback payments by his company shipbuilder Prinvest in order to ensure Mozambique government approval for projects to develop a coastal protection system for Mozambique's 2,470 km coastline.

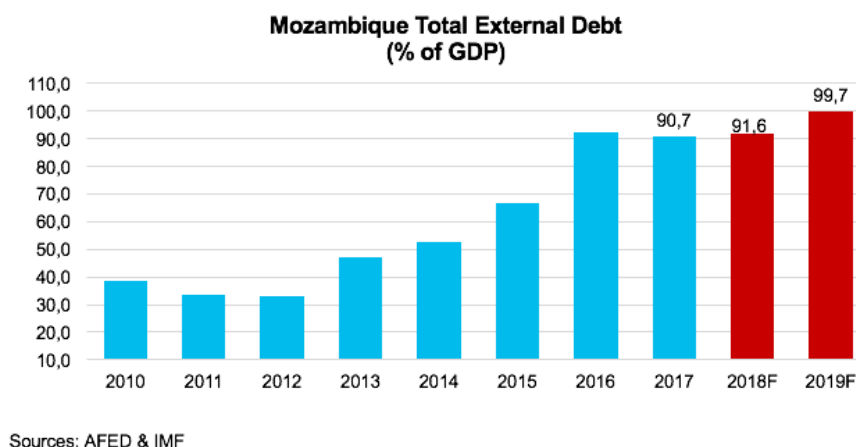
One of the projects was contracted by Mozambican state-owned company ProIndicus, which solicited USD 622 million in loans from Credit Suisse and Russian state-owned bank VTB Capital. Another project, to build a fleet of tuna fishing vessels, was housed under state-owned company Ematum, which gained USD 850 million in financing from Credit Suisse and VTB Capital. A third project involving

Prinvest, nominally to build a shipyard, provide additional naval vessels, and upgrade two existing facilities to service Proindicus and Ematum vessels, fell under a third state-owned company, Mozambique Asset Management (MAM), which secured loans worth USD 500 million.

All loans were secured by Mozambique government guarantees and began to default on repayments around 2017. According to the US indictment, large bribes and fraudulent payments were made to the various accused bankers and Mozambique government officials. All accused have so far denied the allegations.

However, Mozambique's Attorney-General has said she will seek to have those charged in the US and elsewhere face justice in Mozambique. Further arrests are expected as a number of names in the US indictment have not been disclosed. EXX Africa was one of the first risk advisories in early 2016 to flag substantial undisclosed debts, which was eventually


Mozambique: Total External Debt



confirmed by the Mozambique government, subsequently prompting the IMF and foreign donors to cut off support, triggering a currency collapse, and a default on sovereign debt.

Mozambique's government is currently seeking to restructure the loans and in November struck an initial agreement with the bulk of its creditors to restructure a USD 726.5 million Eurobond. The agreement includes extending maturities and sharing future revenue from offshore gas projects. The agreement confirms EXX Africa's longstanding forecast that

creditors would not seek punitive measures against Mozambique, but would rather restructure debts while leveraging gas revenues as collateral. The agreement is the first in a set of steps that will be required to restore Mozambique's relations with creditors and international financial institutions, especially the IMF.

We recently also assessed the threat of the Mozambique debts scandal spilling over into Angola, which we continue to monitor (See **SPECIAL FEATURE: FALL-OUT OVER MOZAMBIQUE DEBT SCANDAL RISKS SPILL-OVER INTO ANGOLA**). 

INSIGHT

Our analysis and economic forecasts show noticeable discrepancies between national official statistics and forecasts made by international agencies. The manipulation of economic data and the lack of full disclosure of publicly guaranteed loans will weigh on many African countries economic outlook this year and in the longer term.

In January, the IMF downgraded its 2019 sub-Saharan Africa growth projections from 3.8 percent to 3.5 percent. The World Bank is also rather subdued in its assessments, projecting that the sub-Saharan region will grow by no more than 3.4 percent this year. These projections are pushed downward by the muted economic recoveries in some of the continent's largest economies, including Nigeria and South Africa. Meanwhile, the African Development Bank (AfDB) projects 4 percent growth across Africa, boosted by 4.4 percent growth in the North African region.

The highest growth levels will continue to be located in Anglophone East African countries, alongside the record growth tempo in Ethiopian. The fast developing Francophone West African countries, as well as Ghana, will provide a counter-balance on the other side of the continent, despite Nigeria's more subdued growth rates. A post-election economic revamp could lift South Africa's economy with beneficial effects for neighbouring states. In the meantime, the southern African region is expected to remain the continent's worst performing economy.

A modest recovery in central Africa is unlikely to be

sustained and is underpinned by IMF lending facilities to countries like Cameroon and Chad. The North African region is facing a decline as growth slows in Tunisia and remains stagnant in Algeria. Out of Africa's five biggest economies, only Egypt will see growth rates of over 5 percent, again boosted by sizable loans from the IMF, World Bank and, Gulf states.

Debt sustainability will remain a key concern in Africa in 2019. The IMF warned last year that Africa's debt-refinancing risks could be substantial over the next two years. The World Bank forecasts at least USD 5 billion in international debt redemptions in sub-Saharan economies this year and over USD 8 billion next year. These figures do not include domestic debt or substantial interest payments on both external and domestic debt.

Proper disclosure of debts and accurate and accountable reporting of economic and financial indicators will be crucial in determining African countries' balance of payments and their longer term economic outlook. Investors will face higher risks in countries that are suspected of borrowing recklessly or manipulating economic indicators. Moreover, large trade deals, such as the nascent African Continental Free Trade Agreement (ACFTA), could be spoiled if all participating countries do not accurately and transparently disclose all their financial obligations and economic growth numbers.