



AFRICA

Key Inflation Dynamics

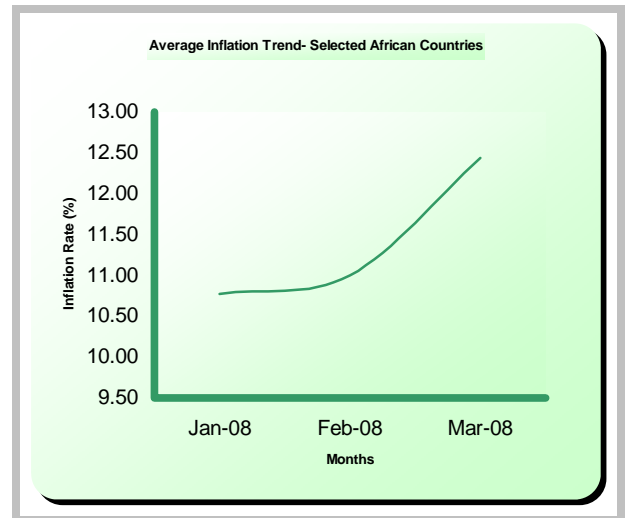
- Average inflation rate for Africa continues to worsen on the back of the deepening credit crunch, as well as, energy and food price hikes.
- As the external environment is less likely to be favorable to Africa's inflation outlook within the short-term, we expect average inflation for Africa to further worsen by half year.
- Despite the persistent rise in average inflation for Africa; Nigeria has sustained its disinflation path during the year, with March inflation declining further to 7.8%.

Current Inflation Figures

Countries	Inflation Rates	Period
Namibia	7.9	February'08
Angola	11.8	January'08
Mauritius	9.0	March'08
South Africa	10.6	March'08
Ghana	13.8	March'08
Malawi	8.0	February'08
Uganda	8.1	March'08
Zambia	9.8	March'08
Kenya	21.8	March'08
Botswana	9.8	March'08
Tanzania	8.9	February'08
Lesotho	10.7	March'08
Nigeria	7.8	March'08

Source: Country Statistics Offices and Central Banks

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Overview

A combination of imported food inflation, increasing energy cost, and sharply depreciating local currencies have resulted in what can be described as notable high inflation rates in most Africa countries.

With the factors that are pushing prices up outside the control of most countries, we expect inflation to continue its upward trend unless the global financial turbulence and food price hikes eased. External risk exposures remains high, as current account deficits across most countries continue deteriorate in the wake of the weakening dollar, higher than expected crude oil price hikes, as well as, imported food inflation.

While Ghana headline inflation stood at 13.8% in March this year- the highest outturn in the immediate two years; South Africa's core inflation rate [CPIX] worsened to 9.4% in February, the highest since 2003. Amidst the inflation hikes, however, Nigeria has sustained its disinflation process. Inflation for Nigeria further decelerated from 8.0% in February to 7.8% in March on account of noticeable year-on-year price declines in the communications, as well as, the clothing and footwear components of the Consumer Price Index basket for the country. Food prices, however, deteriorated during the period and contributed 7.47% to the overall inflation outturn for the period.

Overall, we expect the current upward trend in inflation rates to continue within the short term. The deterioration in current accounts will continue to put pressure on domestic currencies, and this is likely to filter into domestic prices through the import of both finished goods and raw materials. Food inflation is also likely to further worsen, as most African countries are net importers of food.

Ghana

The exposure of the economy to international crude oil price hikes, increased domestic liquidity and food price shocks continue to serve as downside risks to inflation in Ghana.

The latest inflation figure for Ghana is 13.8% [March, 2008]. This indicates a further deterioration from the February outturn of 13.2%. Inflation for Ghana has been on the increase since October, 2007 which is in line with the noticeable worsening of macroeconomic fundamentals during the fourth quarter of last year.

With the current inflation hikes emanating mainly from current account risk exposures, we do not expect average prices to ease within the short term. We expect overall inflation to peak at 16% by July; but to ease by October after the domestic harvest season sets in, as food inflation is likely to ease.

Nigeria

Inflation for Nigeria eased by 20 basis points in March to 7.8% amidst the worsening global financial crisis and increasing food prices.

The Nigerian economy continues to be resilient to external shocks due to the improved fiscal space created from the more efficient management of oil revenues over the year. Inflation for January was 8.6%, but eased by 60 basis points in February to 8.0%, and thereafter eased to 7.8% in March.

We expect the recent policy tightening by the Central Bank of Nigeria to help subdue domestic liquidity growth; but inherent fiscal expansion and release of increasing oil revenue into the domestic economy may result in inflation increasing marginally above single digit threshold by the end of the third quarter.

Kenya

Inflation for March was 21.8%, up from the 19.1% recorded in the previous month. Kenya's inflation recorded a double digit outturn in mid 2007, but the immediate post-election violence has worsened the outturns during the first quarter of this year.

Inflation started the year at 18.2% in January, but further hikes in food and fuel prices combined with the post election shocks pushed inflation further to 19.1% and 21.8% in February and March respectively. Aside the post election crisis, the factors that are pushing Kenya inflation up are the continuing global food and crude oil price hikes.

Kenya's economy is resilient, and as economic activity regains momentum we expect prices to ease significantly within the short term; which should help keep future inflation within the band of 6% and 11%.

Mauritius

Price level stability remained robust during the first quarter. Mauritius' Inflation rate remained at 9.0% for February and March, after a marginal rise from 8.9% in January to 9.0% in February.

The key threat to inflation in Mauritius is food inflation. The inflow of foreign capital has led to overall appreciation of the domestic currency against major international currencies, which should help cushion the economy against imported inflation. With inflation still within single digit, the central bank is more likely to focus on stimulating growth within the short term than fighting inflation.

We expect inflation rate to remain stable until domestic liquidity significantly outweighs gross output expansion. Hence, inflation is likely to be within the band of 8% and 12% within the short term.

Botswana

March inflation for Botswana further worsened to 9.8%. In February, inflation increased by 60 basis points over the January outturn to 9.0%.

Despite the higher outturn in overall inflation, food inflation for Botswana took a downturn in March amidst the ongoing global food price hikes. The key contributors to the March inflation outturn were price increases for the electricity, housing, water and transport sub-groups.

While the global energy price shocks continue to trickle into non-food inflation; food inflation decelerated in March. With positive real rates of return on money market securities, we expect monetary policy to be more effective in mopping excess liquidity and thus help curtail inflation risk within the short term.

Lesotho

Consumer inflation has been on the increase, albeit marginally, since the beginning of the year. From 10.5% in January, inflation went up by 10 basis points to 10.6% in February; and further worsened by the same basis points to 10.7% in March.

The rise in inflation cut across both food and non-food prices, which indicates the downside risk posed by the global food and energy price hikes to the Lesotho economy. Prices of bread and cereals, as well as oil and fats were up by 0.5% and 2.8% respectively; while prices of vehicles, as well as, furniture and carpets increased by 1.9% and 0.5% respectively.

With an underlying current account exposure, we expect inflation to further rise in the coming month.

Zambia

Zambia's inflation turnout for March has been in line with further global energy and food prices hikes, as inflation closed March higher at 9.8% compared to the previous month's outturn of 9.3%.

While food inflation was 9.1% in March, non-food inflation closed at 10.4% during the same period. The major contributor to food inflation was notable increases in the price of cereals, underpinned by higher production cost due to load shedding of electricity and higher transport costs.

We expect the onset of the domestic cereal harvest to boost supply and help ease cereal prices within the short-term; which should help ameliorate food inflation pressures. Production and transportation costs, however, are likely to serve as further downside risks.

South Africa

South Africa's inflation rate rose above single digit threshold in March, as inflation stood at 10.6%. The first quarter saw deteriorations in price fundamentals for the country with both headline and underlying inflation reaching record highs. Inflation for February was 9.8%.

The key contributors to the March outturn were the transport, food and personal care sub-groups of the index. Transport cost increased by 16.1% in March, compared to 14.1% in February; while food prices were up by 15.3% in March, compared to 14.1% in the previous month. There was a marginal ease in energy cost increases to 8.6%, compared to 8.7% in February.

Overall, the integration of South Africa into the global economy is likely to serve as further downside risk to the economy within the short-term. Consequently, we expect further inflation hikes in the coming month.

Inflation & Financial Markets Outlook

Inflation hikes are likely to continue in most African countries within the short term; as the continuing global financial crisis has led to a further deterioration in their external outlook and a consequential sharper depreciation in their respective domestic currencies.

Average inflation closed 2007 higher than expected for Africa. Average inflation for middle-income countries on the continent jumped from 7.2% in 2006 to 8.7% in 2007; while that for low-income countries increased from 8.6% to 9.4% during the same period. Inflationary pressures remain high on the continent as the global hike in food prices intensifies and the price of crude oil continues to climb higher. Crude oil price peaked at US\$119.93 in the last week of April as OPEC seeks to keep output steady in the wake of increased global demand, especially, from China and India.

Characteristically, most countries within the continent continue to target end-period single digit inflation rates for 2008; hence, interest rates remain aligned to lower inflation rate expectation. This has resulted in negative real interest rates in most treasury markets within the continent. With the inflation outlook dismal, we expect risk to fixed income returns to be higher across most countries in the coming month.

Essentially, we do not expect gains in fixed income securities, especially, government securities to outperform equities in Africa within the short-term. Equity markets are more likely to outperform inflation, and we expect investors to maintain a portfolio balance in favour of equities. The key risk to the equity market outlook is the extent to which further hikes in inflation can worsen overall macroeconomic risk; especially, the fallout of increased lending rates on corporate expenses and profitability.



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