



United Nations
Economic Commission for Africa

Africa's quarterly **economic performance** and **outlook**

April - June 2021

Summary

The present quarterly report provides an analysis of economic performance in Africa between January and June 2021, as well as the envisaged outlook for African economies based on their growth, fiscal, monetary and exchange rate policy and performance. The focus of the report is on assessing the extent to which African economies have been affected by the coronavirus disease (COVID-19) pandemic and the global economic developments associated with the recovery process since the beginning of 2021. The report also contains suggestions for some policy recommendations to help African countries achieve macroeconomic stability and economic growth as they recover from the crisis.

Key messages

- » Africa is expected to experience positive growth in 2021 owing to growing global demand and to recovering commodity prices, which could boost exports in commodity exporting countries, as well as to countries' gradual easing of their coronavirus disease (COVID-19) restrictions.
- » However, downside risks persist and may cloud the growth outlook in Africa. Strained public finances, the spread of new COVID-19 variants and slow vaccination drives may further affect the growth outlook in Africa in the short to medium term.
- » Countries' fiscal space remains severely constrained amid increasing debt levels owing to rising government expenditure and diminishing tax revenues in many African countries, with a growing number of countries in or at risk of debt distress.
- » Monetary policies remain accommodative to support economic recovery processes, despite increasing inflationary pressures in some countries.
- » There is a need for transformative policies and international support to address the continent's economic vulnerabilities and help

mitigate the health and economic effects of the pandemic.

I. Recent economic growth performance

The third wave of COVID-19 is posing a great risk to the continent's relatively modest recovery. Since the beginning of 2021, the world has witnessed strong global recovery from the COVID-19 crisis. This is attributable to soaring world merchandise trade, which has reached pre-pandemic levels. In addition, global industrial production has expanded since the second half of 2020, while the prices of key raw materials, such as copper, iron ore and lumber, have surged.¹ Stronger-than-expected recovery growth in China and the United States of America, which account for about 40 per cent of world output, have significantly contributed to the recent global growth. However, slow vaccination progress and limited capacity to provide fiscal support have obstructed economic recovery in most developing countries, including those in Africa. The crisis has weighed heavily on the public finances of African countries, constraining their fiscal space and raising the risk of debt distress in some of them in the short to medium term.

As has been the case with the rest of the global economy, growth prospects in Africa have suffered as a result of such developments. Growth in the continent's real gross domestic product (GDP),

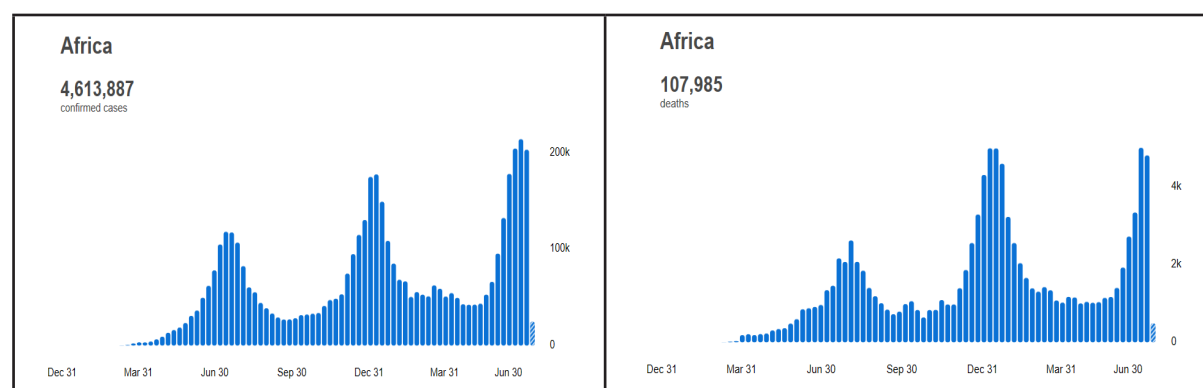
¹ See www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WESP2021_UPDATE.pdf.

which was projected to reach 3.1 per cent in 2021, was downgraded by 0.5 percentage points from the April 2021 forecasts, putting it far below the pre-pandemic output levels (see figure II). Economic recovery is also uneven in the region, with growth forecasts diverging across subregions and countries. At the current pace, Africa will be the slowest-growing region in the world in 2021, which will hold back near-term recovery. The main factors affecting the recovery include the fast-surging third wave of COVID-19, the economic structures of countries, and the limited size and effectiveness of economic stimulus measures. Such factors continue to weigh on the recovery despite the rebound in capital flows and the record levels of global commodity prices. Furthermore, the third wave of COVID-19 has fuelled the new surge that is exacerbated by delayed vaccine supplies, slow vaccination roll-out and the spread of more contagious new variants. In Africa, people have been significantly affected by the pandemic, owing to increasing unemployment and loss of

income and purchasing power, which have pushed millions of individuals into extreme poverty.

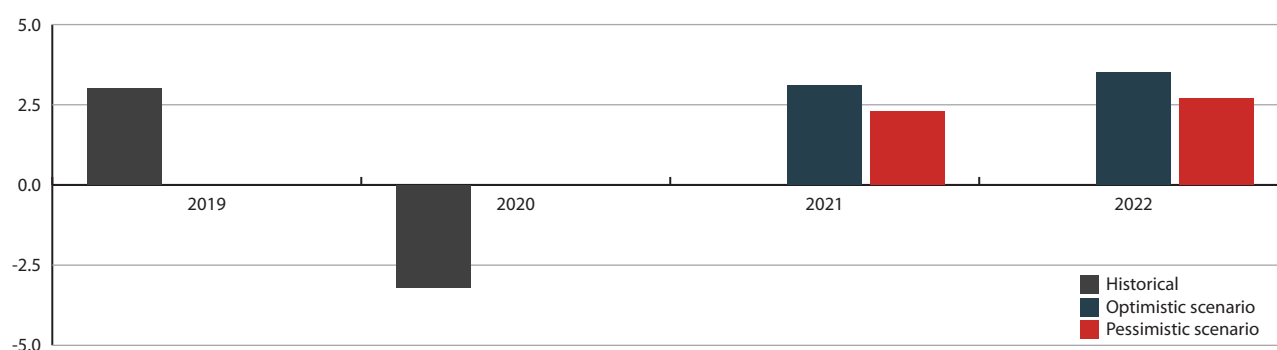
The growth in COVID-19 infections in Africa in the second quarter of 2021 was the fastest in the world, with an explosive trajectory that outpaced the record set by the second wave (see figure I). Many countries have recorded a resurgence since April 2021, and numbers of new COVID-19 cases and deaths have increased significantly, with infection rates (positive cases out of the total number of those tested) exceeding 40 per cent in a week. According to the Africa Centres for Disease Control and Prevention, more than half of African countries have experienced deadlier COVID-19 cases in the third wave, with the Southern and North African subregions remaining the hotspots. The surge is driven by public fatigue with key anti-COVID-19 measures and by the increased spread of the most transmissible variants. They include the Delta variant, which originated in India and has been detected in 21 African countries, the Alpha variant that is present in 35 countries and the Beta

Figure I: Africa: weekly confirmed coronavirus disease cases and related deaths, December 2019 to June 2021



Source: World Health Organization, WHO Coronavirus (COVID-19) Dashboard. Available at <https://covid19.who.int/> (accessed on 18 July 2021).

Figure II: GDP growth in Africa, 2018–2022 (Percentage)



Source: Economic Commission for Africa estimates, July 2021. Source: Based on ECA estimates, 2021.

variant, found in 30 countries. The third wave has prompted countries to effect lockdowns, which have profoundly affected labour markets and employment and halted economic activity.

The pace of vaccine administration is posing a key challenge as well as a risk because it remains vital for opening up African economies. As such, the slow pace presents a threat to the continent's recovery process. Although 50 African countries have been rolling out vaccines, vaccination in Africa is far behind, with only 2.0 per cent of the population having received at least one dose of the COVID-19 vaccine, compared to 26.5 per cent for the whole world by June 2021.² Inequality in vaccine access owing to limited vaccine supplies, insufficient funding, safety issues and hesitancy are the key factors behind the slow roll-out. According to the World Health Organization Regional Office for Africa, more than 90 per cent of African countries will miss the September target of vaccinating 10 per cent of their populations as well as the end-of-year target of 20 per cent of their populations. The World Bank estimates that the current global recovery is set to be faster than any of the previous recoveries from a worldwide recession since the end of the Second World War. However, African countries would need supportive actions to accelerate the vaccination roll-out in order to open their economies and accelerate the recovery process.

II. Fiscal and debt performance

A. Fiscal policy measures to combat the effects of the pandemic have increased fiscal deficits and debt vulnerabilities in Africa

Fiscal measures put in place to mitigate the health, economic and social effects of the pandemic and to provide social protection and strengthen economic recovery from it have increased

countries' fiscal deficits, which has left many African countries susceptible to worsening debt vulnerabilities.³ Increased investments in health systems, the acquisition of vaccines, the expansion of social protection programmes and support to the private sector through tax relief have all played a significant role in creating such vulnerabilities. Some countries have put in place short-term measures to support lives, livelihoods and overall economic activities. The measures include food vouchers, value added tax refunds and the extension of tax payment periods, the suspension of contributions to pension funds and the funding of emergency plans.

In response to the health crisis, such countries as Algeria, Eswatini, Gabon, Guinea-Bissau and Lesotho disbursed funds to cushion the population against the economic and social impacts of the pandemic. Such countries as Angola, Botswana, Cameroon, the Democratic Republic of the Congo, Seychelles, South Africa and South Sudan have recorded relatively high fiscal burdens since the beginning of the pandemic, as vaccination costs per capita exceeded total government expenditure per capita.⁴ Development partners, such as the World Bank and the African Development Bank, provided support to countries, including the Comoros, to strengthen their agriculture and tourism sectors, while in Cabo Verde and South Africa, Governments put in place measures to support the private sector through loan guarantees and tax obligation facilities. In the Congo and Malawi, waivers on such taxes as corporate income tax, turnover tax and tax on the importation of essential goods are being granted to revamp the economy.⁵

Since the outbreak of the pandemic, such measures have continued to increase budgetary deficits in most African countries, with the continent's average fiscal deficit widening from 4.2 per cent in 2019 to 7.6 per cent in 2020 (see figure III) as government expenditure increased from 27 to 30 per cent of GDP over the same period. The situation

² See www.afro.who.int/news/risk-covid-19-surge-threatens-africas-health-facilities.

³ African Development Bank, *African Economic Outlook 2021: from Debt Resolution to Growth the Road Ahead for Africa* (2021).

⁴ See www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19 and <https://blogs.worldbank.org/health/calculating-sub-saharan-africas-covid-vaccination-financing-gap>.

⁵ See www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

was exacerbated mainly by greater demand for funds as Governments provided support to help their citizens cope with the economic impacts of the pandemic. The global pandemic forced many Governments to borrow heavily as they lacked the fiscal space to accommodate the effects of the crisis. However, the African fiscal deficit is expected to narrow to about 5.0 per cent of GDP in 2021 because government expenditure has declined as countries lack the fiscal space required to absorb the effects of the crisis and because the drop in their economic activities is expected to keep their revenue bases relatively low. At the subregional level, North Africa experienced the highest expenditure increase, from an average of 42 per cent over the period 2010–2019 to 54 per cent in 2020.

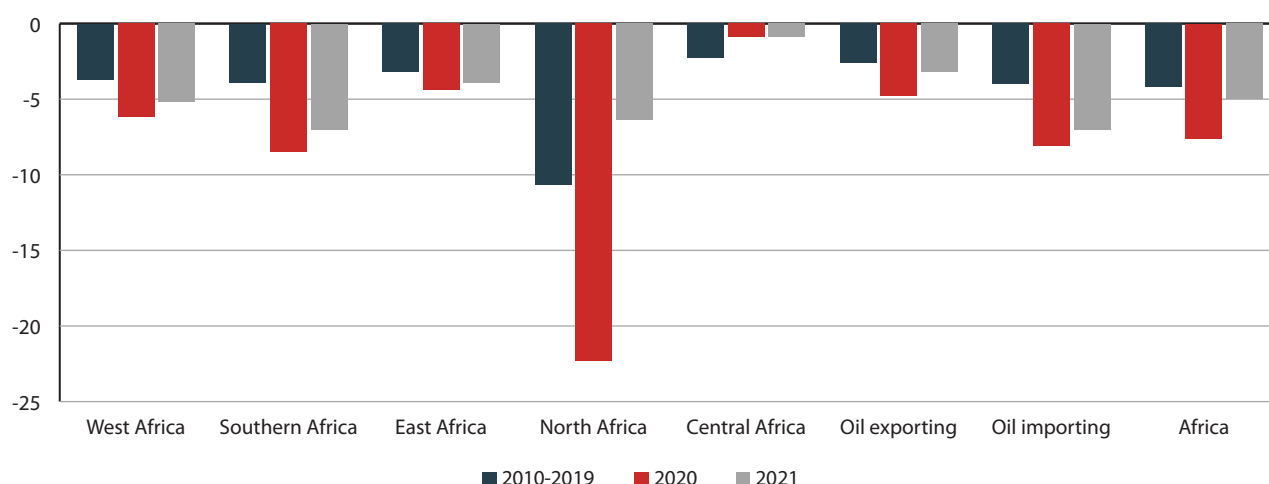
At the subregional level, fiscal deficits averaged 10.7 per cent over the period 2010–2019 in North Africa before accelerating to 22.3 per cent in 2020, reflecting the impact of COVID-19 as expenditures rose from 42 to 54 per cent over the same period. However, fiscal deficit is expected to contract to 6.4 per cent of GDP in 2021 as government expenditures are projected to decline significantly, driven by the decline in revenues in the subregion (see figure IV).

In West Africa, fiscal deficit averaged 3.7 per cent over the period 2010–2019 and widened to 6.2 per cent in 2020. However, it is anticipated that it will shrink to 5.2 per cent in 2021 as expenditures

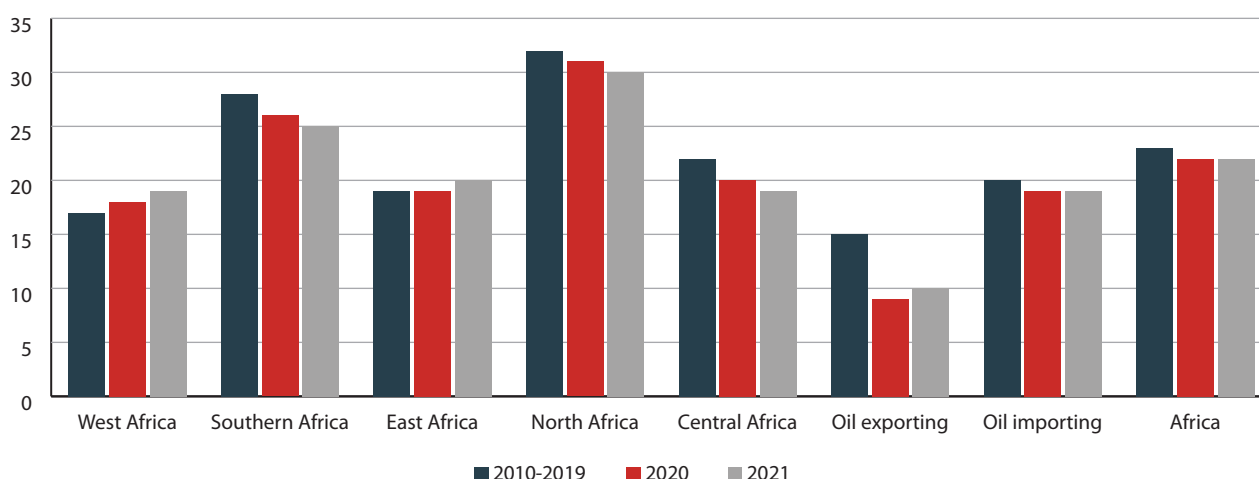
are expected to stabilize while revenues slightly increase in the subregion. On average, the fiscal deficit in Southern Africa stood at 3.9 per cent over the period 2010–2019 and surged to 8.5 per cent in 2020, but it is expected to decline to 7.0 per cent in 2021, as both revenues and expenditures are expected to decline in the subregion, reflecting the anticipated and prolonged impact of the pandemic on economic activities in the subregion. The fiscal deficit in East Africa averaged 3.2 per cent over the period 2010–2019, but it expanded slightly to 4.4 per cent in 2020 as expenditures surpassed revenues. In Central Africa, the fiscal deficit averaged 2.3 per cent over the period 2010–2019 and contracted to about 1.0 per cent in 2020 as Governments in the subregion made significant cuts in their expenditures (see figure V).

In oil-exporting countries, fiscal deficits averaged 2.6 per cent between 2010 and 2019 before rising to 4.8 per cent in 2020 but are projected to contract to 3.2 per cent in 2021 as oil prices reach pre-pandemic levels owing to growing global demand (see figure III). Fiscal deficits in oil-importing countries accelerated to 8.1 per cent in 2020 from a 4.0 per cent average over the period 2010–2019 as government expenditure increased while revenues declined. The deficits are projected to narrow to 7.0 per cent in 2021. According to projections, government spending in some African countries will shrink owing to limited fiscal space and efforts by States to reduce debt accumulation. However, in 2021, the fiscal deficit is expected to grow in

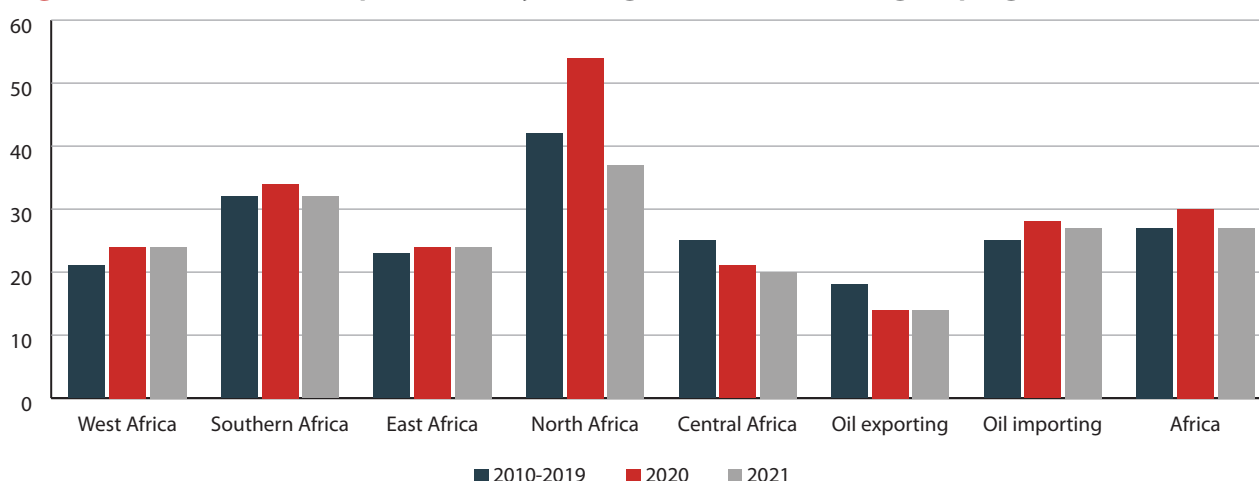
Figure III: Fiscal deficits by subregion and economic grouping, 2010–2021



Source: International Monetary Fund (IMF), World Economic Outlook (2021).

Figure IV: Government revenue by subregion and economic grouping, 2010–2021

Source: IMF, World Economic Outlook (2021).

Figure V: Government expenditure by subregion and economic grouping, 2010–2021

Source: IMF, World Economic Outlook (2021).

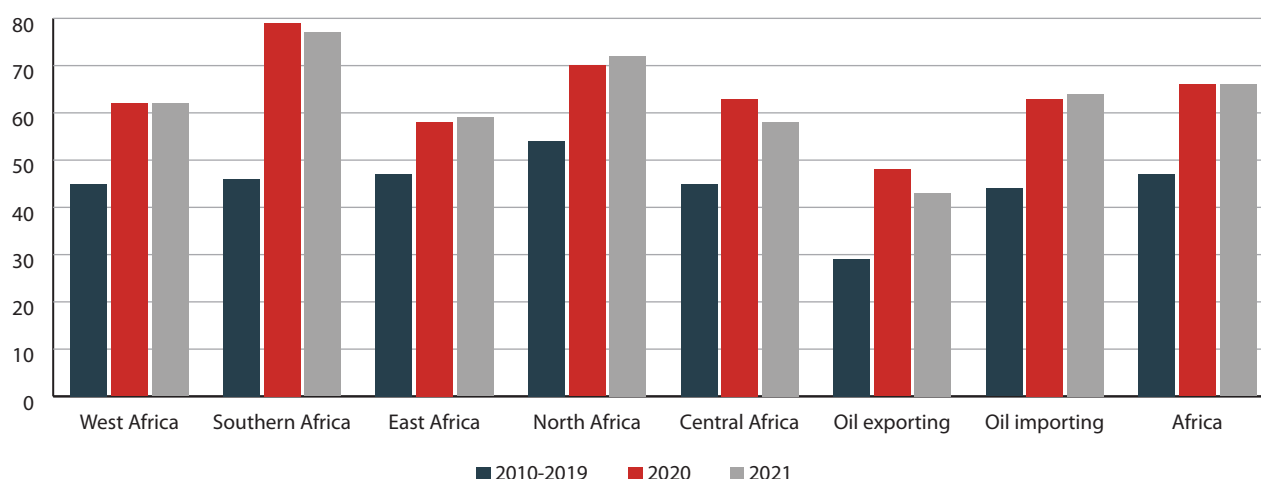
such countries as Algeria, Burundi, Ghana, Malawi and South Africa owing to revenue shortfalls from imports and exports, a narrowed tax base caused by economic contraction and increasing spending on vaccines and social protection.

B. Debt vulnerabilities on the continent remain relatively high

Debt vulnerabilities remain high on the continent, as the debt-to-GDP ratio jumped from an average of 47 per cent in the period 2010–2019 to 66 per cent in 2020 and is projected to remain stable at 66 per cent in 2021 (see figure VI). At the subregional level, all the subregions marked a significant increase in their debt profile in the past 10 years. The debt-to-GDP ratio in East Africa rose from 47

per cent in the period 2010–2019 to 58 per cent in 2020. North Africa recorded a 16 percentage point jump, on average, between the period 2010–2019 and 2020, while Southern Africa recorded a 33 percentage point increase over the same period. In West Africa, debt-to-GDP ratio rose to 62 per cent in 2020 from a 45 per cent average between 2010 and 2019. Both oil-exporting and oil-importing countries recorded a percentage point increase of about 19 between the period 2010–2019 and 2020.

The debt-to-GDP outlook for 2021 differs by region, as Southern Africa and Central Africa are expected to see reductions in their debt profiles, while the opposite is true for East Africa and North Africa. West Africa is expected to maintain stable

Figure VI: Debt situation by subregion and economic grouping, 2010–2021

Source: IMF, World Economic Outlook (2021).

debt positions. A positive outlook is projected for oil-exporting countries in 2021 (as oil prices are expected to rise owing to increasing demand), while oil-importing countries will experience a rise in the debt-to-GDP ratio. The debt burden has implications for interest payments; as the debt stock increases, so will interest payments. As reported by IMF, interest payments in 2020 reached **20 per cent** of tax revenues for the African region as a whole and exceeded **one third** of revenues in some countries.⁶

According to IMF, as at 30 April 2021, a total of 21 countries on the continent were assessed to be “at high risk” of or in debt distress.⁷ As a share of tax revenues, government debt in Africa stands at an average of about 408 per cent, far higher than the overall average of 345 per cent among the least developed countries.⁸ The increase in debt-to-tax revenue ratio represents long-standing economic vulnerabilities among African countries. To help

debt-service relief to Somalia and the Sudan through a decision point of the enhanced Heavily Indebted Poor Countries Initiative. More steps in this direction, including the current discussions on Chad, Ethiopia and Zambia under the Common Framework initiative, may improve the debt situation on the continent in 2021.

Financing large deficits still remains a big challenge for most African countries owing to the constraints that the decline in the countries’ economic activities – and therefore in their revenues – places on their fiscal space. In addition, debt service costs are projected to rise from 3.4 per cent in 2019 to 3.7 per cent in 2021, exerting more fiscal pressure on the countries’ finances.⁹ Low-income countries received grants, concessional loans and debt relief, mostly through the Debt Service Suspension Initiative supported by the World Bank and IMF, to help address the rise in public debt. The Initiative is designed to help countries to concentrate

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