



United Nations  
Economic Commission for Africa

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

**January–March 2020**

## Summary

The present quarterly report provides an analysis of the recent performance and the prospects of African economies based on their growth during the quarter, along with their fiscal, monetary and exchange rate policy and performance. The report also proposes policy recommendations to assist African countries in achieving macroeconomic stability and economic growth. It is important to note that, unless otherwise stated, the report does not significantly take into consideration the impact of the COVID-19 pandemic. The report on the second quarter of 2020 will focus on the impact of the pandemic.

## Key highlights from the first quarter of 2020

In the first quarter of 2020, African economies grew by an average of 3.2 per cent, albeit with significant variation across countries and subregions. Economic activity in the second quarter is projected to contract by 1.6 per cent, owing to the adverse impact of the COVID-19 pandemic.

Fiscal consolidation was underway, driven by a mix of fiscal policy changes that have increased revenues and a decline in government spending, with North Africa making the largest gains through fiscal consolidation over the period.

Monetary policy was eased to support economic growth as inflation declined. However, room for further easing is limited given the downside risks that are envisaged.

External buffers remained weak, reflecting the worsening of current account deficits, decreasing capital inflows and declining foreign reserves, which have exerted pressure on exchange rates.

Governments need to use calibrated macroeconomic policy measures to ensure monetary policy efficiency and resilience to financial and external shocks to better cushion their economies against the intensifying economic impact of the COVID-19 pandemic and to boost economic recovery.

African countries remain vulnerable to both domestic and external shocks such as the COVID-19 pandemic, lower commodity prices, locust invasions, political uncertainties and armed conflicts that could weigh on growth.

Given that interest rates are close to their targets in most African countries, the margin for using monetary policy to stimulate growth is limited. Along with weaker fiscal and external buffers, African economies require a comprehensive package of macroeconomic policy responses to strengthen their health systems, mitigate the economic impact of the COVID-19 pandemic and stimulate the economic recovery that is needed to achieve the Sustainable Development Goals.

In the light of prevailing constrained financing options, the international development community needs to support the economic policy responses undertaken by African countries to address the COVID-19 crisis.

## I. Overall growth performance

1. The year 2019 ended with subdued GDP growth across many developing, emerging and developed economies, with average global growth reaching 2.6 per cent, down from 3.1 per

cent in 2018 (United Nations, 2020). This relatively low level of growth was attributed to the lower levels of trade and domestic investment, which weighed on growth. For Africa as a whole, growth stood at 2.9 per cent in 2019, with significant variation across countries and subregions. The macroeconomic outlook for 2020 is characterized by low commodity prices, structural weaknesses in some large economies and the outbreak of COVID-19, which started in China – a major trade partner of many African countries. Given that the effects of these factors have exacerbated the socioeconomic impact of the COVID-19 crisis, Africa's growth is expected to fall to 1.8 per cent in 2020 in a best-case scenario, or contract by up to 2.6 per cent in a worst-case scenario (see the box below).

2. Despite the challenges arising from a weak and uncertain global economic environment, African economies have recorded positive growth rates. The continent's overall economic activity is estimated to have increased by an average of 3.3 percent in the first quarter of 2020, and is expected to slow down slightly in the second quarter owing to the effects of COVID-19 (figure I). First quarter growth was dominated by increases in both private and public consumption, while net exports remain subdued. At the subregional level, economic growth is expected to remain robust in East Africa (figure I). The subregion grew by 6 per cent in the first quarter, which was

much higher than the continental average, and remained the fastest growing subregion in Africa. Key drivers of economic growth in East Africa include higher domestic demand and increased public investment. Despite the negative effect of COVID-19 on demand and lower global growth, the subregion's growth rate is expected to remain positive, at 1.5 per cent in the second quarter owing to lower oil prices, which are expected to benefit most of the oil-importing countries in the subregion.

3. Similarly, growth in North Africa also slightly increased, from 3.4 per cent in the fourth quarter of 2019 to 3.6 per cent in the first quarter of 2020, owing to higher domestic demand. That was largely driven by the growth performance of Egypt, thanks to its easing balance of payments and the recovery of domestic demand. Growth in Algeria and Morocco increased slightly, by 2.30 and 3.02 per cent, respectively, in the first quarter of 2020, compared to 2.0 and 2.8 per cent in the fourth quarter of 2019. The disruption in oil production in Libya due to the conflict between rival political groups slowed down growth from 5.2 per cent in the fourth quarter to 4.5 per cent in the first quarter. However, the outlook for the second quarter and the rest of 2020 is bleak owing to the impact of the COVID-19 outbreak that has already started having a toll on export demand, tourism receipts and oil revenues, together with the 30 per cent fall in oil

**Figure I:** Growth performance of Africa by subregion, fourth quarter of 2019 to second quarter of 2020



Source: ECA calculations (2020).

Abbreviations: Q1, first quarter; Q2, second quarter; Q4, fourth quarter.

prices (from \$63.6 in January to \$32.9 per barrel in March 2020) and overall lower global growth.

4. Owing to higher domestic demand, growth in West Africa remained stable in the first quarter of 2020, at 3.5 per cent. Although growth in Nigeria slightly increased (from 2.1 per cent in the fourth quarter to 2.3 per cent in the first quarter), the outlook for the second quarter of 2020 is pessimistic given the weak macroeconomic environment, including high inflation, multiple exchange rate windows and subdued non-oil revenues, all of which are projected to weigh on growth. It should be noted that the effect of COVID-19 will worsen growth performance in Nigeria, in view of the huge loss in oil revenue, which is expected to lead to currency depreciation and rising inflation. Furthermore, in response to the COVID-19 crisis and lower oil prices, Nigeria is revising its budget, which could have a negative impact on its economic growth. In contrast, Ghana's economic performance has remained strong, growing at 6 per cent in the first quarter of 2020, supported by higher private consumption and government expenditure. However, its growth is projected to slow down in the second quarter owing to the impact of the COVID-19 crisis.

5. The economic situation in Central Africa is challenging, despite a marginal growth increase to 2.9 per cent in the first quarter of 2020, 0.2 percentage points higher than its level in the fourth quarter of 2019. That increase was due to rising oil production in the first quarter. Nevertheless, growth in the second quarter of 2020 is expected to fall by 1.6 per cent, owing to demand contraction and the huge fall in oil prices. Growth in Cameroon was resilient in the first quarter owing to growth

in exports, which was buoyed by new projects in the gas sector. Similar performance was registered in the Central African Republic (4.8 per cent), Chad (5.5 per cent) and Gabon (2.8 per cent).

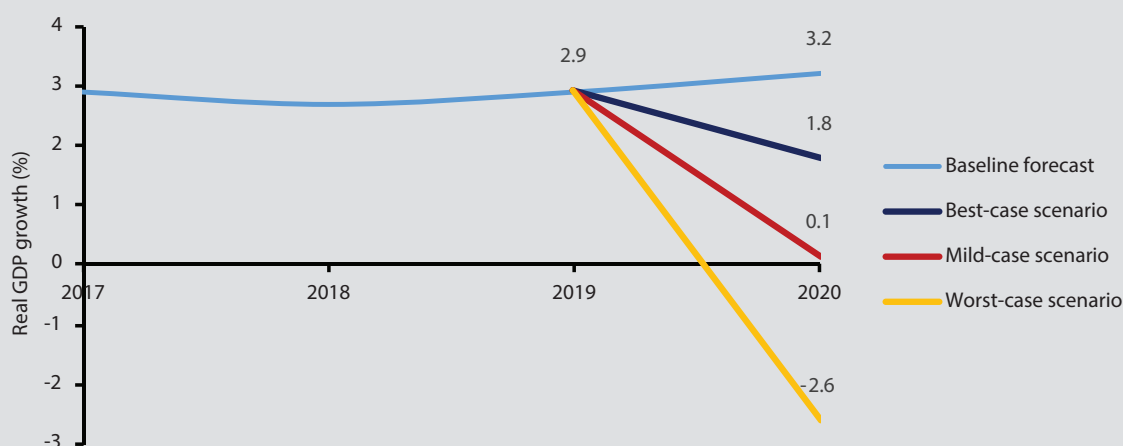
6. Many countries in Southern Africa are experiencing subdued growth as a result of high unemployment, energy challenges and a weak macroeconomic climate. Consequently, the subregion is estimated to grow by 0.9 per cent in the first quarter of 2020, from 0.2 per cent in the fourth quarter of 2019. South Africa, the subregion's largest economy, is in recession, contracting by 1.4 and 0.5 per cent in the fourth quarter and the first quarter, respectively. The country's growth remains below its potential, and prospects for recovery remain bleak as a result of uncertainty and constrained public finances, as well as the adverse effects of the COVID-19 pandemic. The economy of Zimbabwe is still in crisis, with unbridled inflation and minimal prospects for recovery in the short term. In contrast, 5 per cent growth in Malawi in the first quarter was buoyed by increased investment brought by an improved business climate and increased access to finance.

## **II. Growth outlook amid the COVID-19 pandemic**

7. As the adverse impact of the COVID-19 pandemic materializes, the overall level of economic activity of the continent in the second quarter of 2020 is projected to shrink by 1.6 per cent, reflecting weaker external demand, a significant decline in oil prices, and the economic impact of the pandemic (see the box below).

**Box: Potential impact of COVID-19 (2017-2020)**

COVID-19 will have a significant negative impact on growth in Africa. The uncertainty around the disease and consequent policy measures, such as physical distancing and lockdowns, have led to a decline in demand for African products. That has been compounded by a decline in economic activity as the labour force remains at home and also as global manufacturing activities decline sharply. In 2020, Africa's average GDP growth is expected to fall by a magnitude of 1.4 percentage points, from 3.2 to 1.8 per cent, in a best-case scenario, or could contract by up to 2.6 percentage points in a worst-case scenario.

**Potential impact of COVID-19**

Source: Estimates based on ECA calculations.

Furthermore, a substantial increase in total health spending is expected. African governments spend an average of 45 per cent of their total health expenditure on dealing with infectious diseases. Notwithstanding the current low prevalence of coronavirus on the continent, an increase in infections could cost governments between 0.10 and 0.43 per cent of GDP in additional spending. In absolute terms, based on 2020 GDP estimates, this value could range from \$2.1 billion if the rate of infection were to reach 10 per cent, to approximately \$10.6 billion if the rate of infection were to reach 50 per cent.

A decline in Africa's aggregate GDP from the projected baseline level of 3.2 per cent in 2020, owing to the impact of COVID-19, could have a broad revenue-reducing effect. In a scenario where the global economy declines by 1.5 percentage points, a 50 per cent infection rate among the continent's labour force would result in revenue losses of about \$28 billion, or 0.80 per cent of GDP. A loss of that magnitude would undermine the fiscal consolidation efforts underway across the continent.

Nonetheless, the decline in total revenue would be offset by an increase in customs and import duties of about \$0.8 billion, with the increase likely attributable to inflation, as production inputs become more expensive and scarcer, which will cause the prices of imports to increase. Countries with the highest revenues from customs and import duties (as a percentage of GDP) include vulnerable countries such as Mali and Somalia, in addition to some commodity exporters that tend to import most of the goods and services that they consume, such as Botswana and Namibia.

### III. Fiscal and debt performance

8. Africa's fiscal deficit as a percentage of aggregate GDP declined from 6.4 per cent in 2015 to 2.8 per cent in 2018. Despite a slight uptick to 3.0 per cent in 2019, a decline of 2.8 per cent has been forecast for 2020. That trend can be attributed

mainly to fiscal consolidation in North Africa, where fiscal deficits fell from 14 per cent in 2015 to 1.2 per cent in 2018. In a similar fashion, fiscal deficits in Central Africa declined from 9 per cent in 2015 to 0.6 per cent in 2018. Nonetheless, the COVID-19 crisis is expected to reverse that trend as tax revenues decline and governments implement fiscal stimulus strategies to counter the effects of the crisis.

## **A. Fiscal deficits decrease despite weak consolidation efforts**

9. The fiscal deficit situation in North Africa has been improving, notwithstanding a slight rise being projected for 2020. Increased fiscal consolidation efforts in Algeria, Egypt and Libya, along with a slight increase in revenues and lower spending on goods, services, wages and capital expenditure in Algeria, contributed to lower fiscal deficits in the subregion (World Bank, 2019a). In Egypt, the containment of growth in energy subsidies and civil servant wages, in addition to increased revenue collection (notably value-added taxes and income taxes), were driving factors. In Libya and Morocco, however, high levels of fixed expenditure on wages and subsidies constrained public finances despite higher oil revenues. Notwithstanding the efforts made to contain fiscal deficits, the current COVID-19 crisis will adversely affect fiscal deficits, with a decline in revenues from tourism and transport, and increased expenditure on health and fiscal stimulus.

10. Fiscal deficits were projected to decline in West Africa in 2020 owing to expected improvements in fiscal consolidation in Nigeria and Senegal. Similar efforts in Côte d'Ivoire and Ghana have met with limited success because of continued revenue shortfalls and increased government spending (AfDB, 2019a; World Bank, 2019b). In Central Africa, fiscal deficits were expected to decline from an average of 55 per cent in 2019 to 51 per cent in 2020, mainly owing to improved debt management in the Central African Republic, the Congo and Sao Tome and Principe. However, the COVID-19 crisis may reverse that trend.

11. Before the COVID-19 crisis, fiscal deficits in East Africa were expected to trend upwards, from 2.9 per cent in 2019 to 3.4 per cent in 2020. However, fiscal consolidation has not been sustained in Ethiopia, Kenya or Rwanda, with fiscal deficits fluctuating during the period 2015–2018 and projected to worsen beyond 2019. A fall in revenue compared to expenditure (mainly in Kenya) and increased public sector investment in Rwanda to fund capital

investments are some of the factors responsible for the fiscal deficits fluctuations (World Bank, 2019b).

12. Despite fiscal consolidation efforts in Southern Africa, fiscal deficits widened slightly in the subregion, from 4.5 per cent in 2017 to 5 per cent in 2018, mainly driven by the performance of Angola and Namibia. Reforms relating to public utilities, subsidies and privatization were the main drivers of fiscal consolidation in Angola (AfDB, 2019b; World Bank, 2019b). In Namibia, reductions in recurrent and capital expenditure constrained the fiscal deficit in the 2018/2019 fiscal year. In South Africa, despite a slowdown in fiscal consolidation efforts, macro objectives such as debt stabilization and reforms are expected to stabilize the economy in 2020.

## **B. Increasing debt levels in most subregions**

13. The average level of debt for the continent, captured as the debt-to-GDP ratio, increased from 53 per cent in 2015 to 61 per cent in 2019. As has been the case with fiscal deficits, the largest percentage increases have been in North Africa (from 63.9 per cent in 2015 to 94.7 per cent in 2018) and Central Africa (from 57.5 per cent in 2015 to 63.9 per cent in 2017). The rise in debt was driven by increased and rigid public investments, especially in strategic sectors such as construction, public works and hydraulics, along with the expansion of social housing programs (World Bank, 2019a). It was also due to large interest payments, high wage bills and low tax revenues.

14. In West Africa, debt increased from 49.8 per cent in 2015 to 57.9 per cent in 2018 and is projected to further increase to 59.2 per cent in 2019. Debt has been rising in the subregion's larger economies, including Côte d'Ivoire, Ghana, Nigeria, Senegal and Togo, mainly owing to low revenues and increased spending, but is projected to fall in 2020 (World Bank, 2019b). In contrast, debt in Central Africa declined from 65.7 per cent in 2016 to 57.7 per cent in 2018; it is projected to further fall to 55 and 51 per cent in 2019 and 2020, respectively. Better debt management in countries such as the Central African Republic, the Congo

and Sao Tome and Principe has been the principal cause of that decline. However, the trend may be reversed in the wake of the COVID-19 pandemic, obstructing the efforts of those countries to achieve the Sustainable Development Goals.

15. Debt had been increasing steadily in East Africa, but was projected to decrease beginning in 2019. That trend had mainly been driven by high debt in Eritrea, Seychelles and South Sudan, each with debt levels of over 60 per cent, which consisted mainly of accumulated external debt. In Southern Africa, debt rose from 57 per cent in 2018 to 59.6 per cent in 2019, mainly owing to increased financing of economic transformation projects and exchange rate depreciation. Angola, Malawi, Mauritius, Mozambique and Zambia had the highest debt levels in the subregion. In South Africa, weaker than expected revenue collection, increased spending to make higher education free of charge, poor performance by government enterprises and government intervention to minimize the impact of slow growth have helped to drive up debt levels (AfDB, 2019b; World Bank, 2019b).

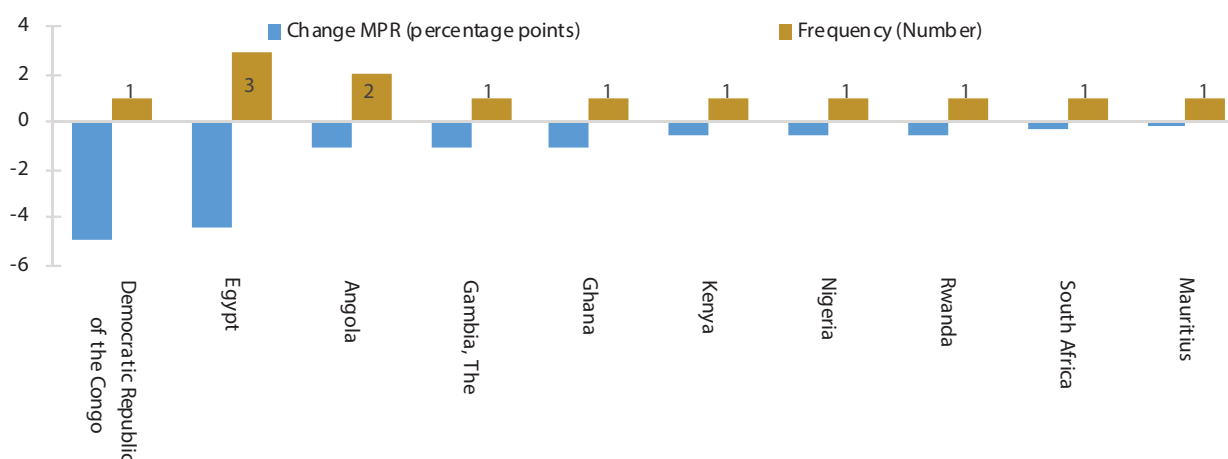
### **C. Monetary policy eased in 2019 as inflation rates declined; however, the Covid-19 crisis could fuel inflationary pressures and limit efforts to boost economic recovery**

16. In most countries across the continent, inflation declined or remained stable in 2019, thanks to good harvests and the relative stability

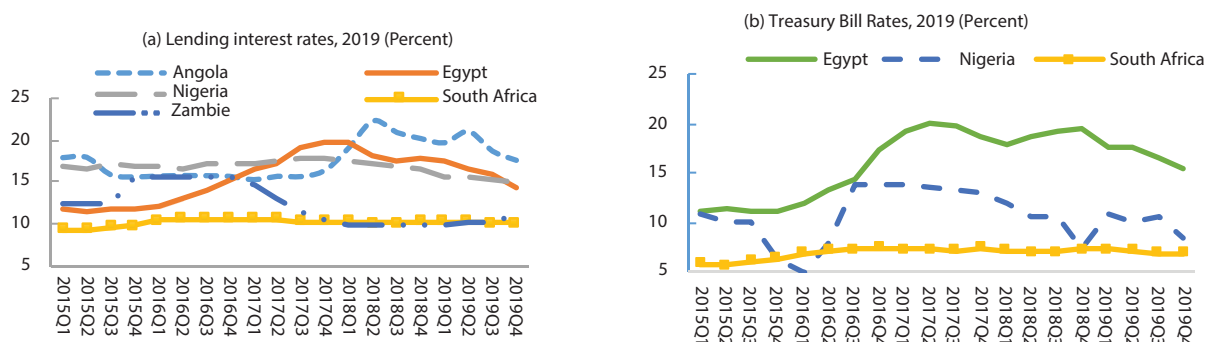
of global commodity prices (for example, those of fuels and food), which are important drivers of inflation dynamics in Africa. Inflation rates stood stable or decreased in many countries, with sharp declines in the Democratic Republic of the Congo, Egypt, Gabon, Ghana, Mauritius and Namibia. In contrast, inflation rose in a few countries, including Equatorial Guinea and Ethiopia. Inflation rates remained lower than usual among the members of the Central African Economic and Monetary Community (CEMAC) and the West African Economic and Monetary Union (WAEMU), with several WAEMU countries such as Côte d'Ivoire experiencing deflation. However, despite the stabilization of inflation, some African countries such as Ghana, Liberia, Nigeria, Sierra Leone, the Sudan and Zambia have been struggling with double-digit inflation rates due to macroeconomic imbalances. In the case of the Sudan, political turmoil that began in the fourth quarter of 2019 has also been a contributing factor.

17. In 2019, stable and lower inflation rates led to the implementation of accommodative monetary policy. Policy rates were eased to support economic growth and to stabilize inflation. In most countries, central banks cut policy rates in the light of the global economic outlook and the weakening of domestic inflation pressures. Other countries remained cautious, however, preferring to monitor developments in lieu of taking decisive action. Central banks of the major African countries reduced their policy rates to varying degrees. In 2019, Egypt aggressively lowered its policy rate by

**Figure II: Change in monetary policy rates in 2019: percentage and number**



Source: ECA calculations, based on the International Financial Statistics dataset (IMF, 2020).

**Figure III: Changes in interest rates in selected countries, 2015–2019**

Source: International Financial Statistics dataset (IMF, 2020).

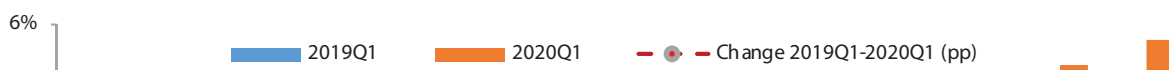
Abbreviations: Q1, first quarter; Q2, second quarter; Q3, third quarter; Q4, fourth quarter.

450 basis points, compared to Angola, Nigeria and South Africa, which cut their policy rates by 100, 50 and 25 basis points, respectively (figure II). Interest rates were also sharply reduced in the Democratic Republic of the Congo and to a lesser extent in the Gambia, Ghana, Kenya, Mauritius and Rwanda. However, some countries maintained their policy rates in the face of higher inflation (for example, Cabo Verde and Sierra Leone) or to improve their external positions (for example, the member countries of WAEMU, and Sao Tome and Principe).

18. The reductions in policy rates were mostly made in the first quarter of 2019. In contrast, few countries made such reductions in the fourth quarter of 2019, as inflation remained under its target level in those countries (figure III). Only the central banks of Egypt and Kenya cut their interest rates in the fourth quarter, by 100 and

50 basis points, respectively, which was less than the cuts made in the first two quarters by eight central banks. Accommodative monetary policy actions supported improvements in the financial conditions of households, businesses and governments. Declining nominal lending interest rates and treasury bill rates associated with narrowing credit spreads in some countries (for example, Angola, Egypt, Nigeria and South Africa) led to an expansion of credit in those economies.

19. However, monetary policy in Africa will face considerable challenges in the short-to-medium term owing to limited policy space for remaining accommodative in the light of underlying economic conditions and downside risks. While some countries, such as the Democratic Republic of the Congo, Egypt, the Gambia, Ghana and Mauritius, may have some room to reduce their

**Figure IV: Quarterly inflation in selected countries**

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