United Nations
Economic Commission for Africa

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

July–September 2022

Key messages

African economic outlook for 2022 and projections for 2023

- » Economic growth in Africa is expected to remain near its 2022 level for the subsequent two years, with a growing downside risk.
- » A possible recession in the United States of America during the second half of 2023 may induce a global recession, severely affecting Africa.
- » With several major currencies depreciating against the dollar, emerging economies stand to suffer the most damage.
- » The inflation rate for Africa is expected to peak in 2022 at 14.5 per cent, and then follow a downward trajectory from 2023.
- » Disagreement continues on the use of interest rate hikes to curb demand and, by extension, inflation.

Debt crises on the cards for Africa

- » For highly indebted nations that have reduced fiscal flexibility because of their response to the coronavirus disease pandemic, budgetary policy trade-offs are becoming increasingly difficult.
- » Eight African nations are now in debt distress: Chad, Congo, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zambia and Zimbabwe.
- » After the first half of 2022, more sovereign ratings fell than rose: Burkina Faso, Ghana, Mali, Namibia and Tunisia were downgraded.
- » Long-term policies to tackle high debt levels include extending the tax base, improving governance, debt-for-development swaps and stimulating investment.

African macroeconomic expectations

Continued deterioration of African economic prospects

It is projected that annual economic growth in Africa will drop to 3.9 per cent in 2022 and will remain at this level in 2023 and 2024, with a growing downside risk. Currently, consecutive and overlapping shocks, such as the coronavirus disease (COVID-19) pandemic, the war between the Russian Federation and Ukraine, and climate change shocks have placed strain on economic growth, causing global supply chain bottlenecks and commodity price shocks. Because of the shocks themselves, reactions to them (e.g. the Federal Reserve of the United States of America aggressively hiking interest rates) and internal difficulties within countries, the world may witness a recession in 2023, one of the most severe impacts of which could be a financial crisis in emerging markets and developing countries.

South Africa is one of the member States that is expected to move into a technical recession earlier than expected, in the third quarter of 2022,[1] owing to increased power outages and high levels of uncertainty created by the conflict between the Russian Federation and Ukraine, which have reverberated throughout global financial markets. When an economy enters a recession, production, demand and employment all drop, as a slowdown

1 Statistics South Africa is to publish the country's GDP figures on 7 December 2022 on the website https://www.statssa.gov.za.

Key macroeconomic variables for Africa (Percentage)

Key economic variables	2021	2022	2023	2024
GDP	4.7	3.9	3.8	3.8
Inflation rate	11.9	14.5	10.5	6.8
Fiscal balance to GDP ratio	-5.3	-6.6	-5.9	-5.8
Debt-to-GDP ratio	65.8	69.0	79.5	87.9

Sources: Economic Commission for Africa, Macroeconomic model output, August 2022, October 2022; International Monetary Fund, World Economic Outlook, April 2022; Oxford Economics, Global Economic Database, 2022.
Abbreviation: GDP, gross domestic product.

in economic growth and aggregate demand also reduces demand for workers, with uncertainty and worsening expectations affecting hiring. In South Africa for example, production has slowed down, as is evident from the country's most recent high-frequency manufacturing survey, showing that the utilization of productive capacity has decreased, with the main reason cited for underutilization being "insufficient demand". Employment in South Africa has long been a problematic area, with the unemployment rate currently at 33.9 per cent. Owing to its linkages with other States in Southern Africa, through trade in particular, these countries will not remain unaffected. Other pressures may be expected, such as lower investment (which can damage the long-term productive capacity of an economy), further credit tightening, increased government borrowing and heightened poverty and inequality levels.

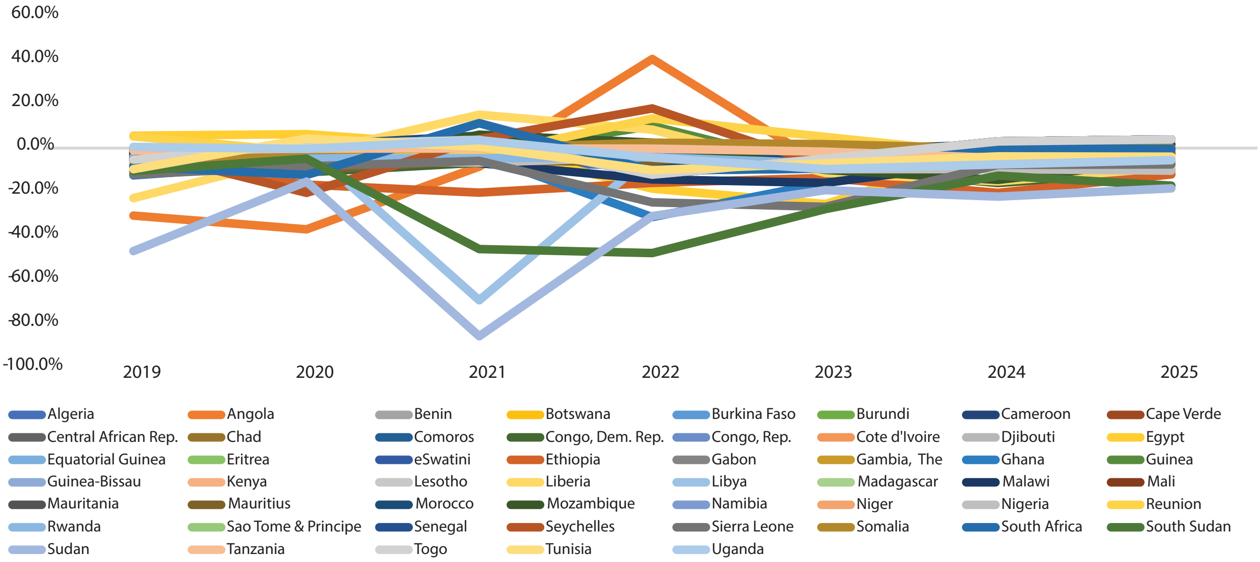
With the United States expected to go into a recession in the second half of 2023, also pushing the rest of the world into a recession, the impact on African countries may be significant, owing to lower exports and higher financing costs. The impending recession in the United States is already dampening market demand. In the meantime, the tightening of monetary policy by the Federal Reserve to combat high inflation will inevitably affect international capital flows, thereby increasing the cost of financing that African States require to maintain economic activities and impeding their recovery from the various shocks noted above. However, if the United States does go into a recession, it may also signal the end of the excessive appreciation of the dollar and provide some relief for emerging markets.

Depreciation of exchange rates against a stronger dollar

According to the World Bank, the value of the dollar has increased by up to 11 per cent since the start of 2022 and reached parity with the euro in August. Several major currencies have lost ground against the dollar, with severe repercussions for emerging markets, the majority of which are in Africa. In response to interest rate hikes by the Federal Reserve, investors have flocked to the dollar, which they view to be safer than developing market currencies, which have proved to be more volatile. The currencies of 90 developing countries have depreciated against the dollar in 2022, with more than a third losing more than 10 per cent of their value. The current course of action may push the world into a recession.

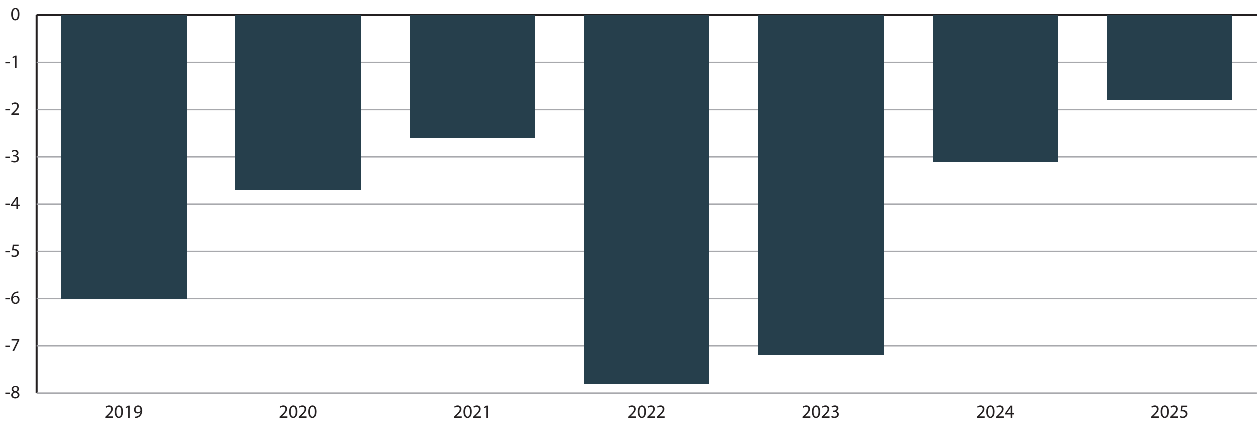
There has been significant volatility in major African currencies (see figure I) since the advent of the conflict between the Russian Federation and Ukraine; the value of the currencies has deteriorated further owing to the stronger dollar, deteriorating market conditions and rising import requirements for food and fuel. Conditions for financial stability have deteriorated in Africa and remain threatened as a result of the continuing conflict, affecting nearly every aspect of economic activity and financing. However, African currencies are expected to appreciate (on average) against the dollar beginning in 2024 (see figure II).

Figure I: Fluctuations in the currencies of selected African countries against the United States dollar, per annum (Percentage)



Source: Oxford Economics, Global Economic Database, 2022.

Figure II: Average annual change of exchange rates in Africa, excluding Zimbabwe and Zambia (unweighted) (Percentage)



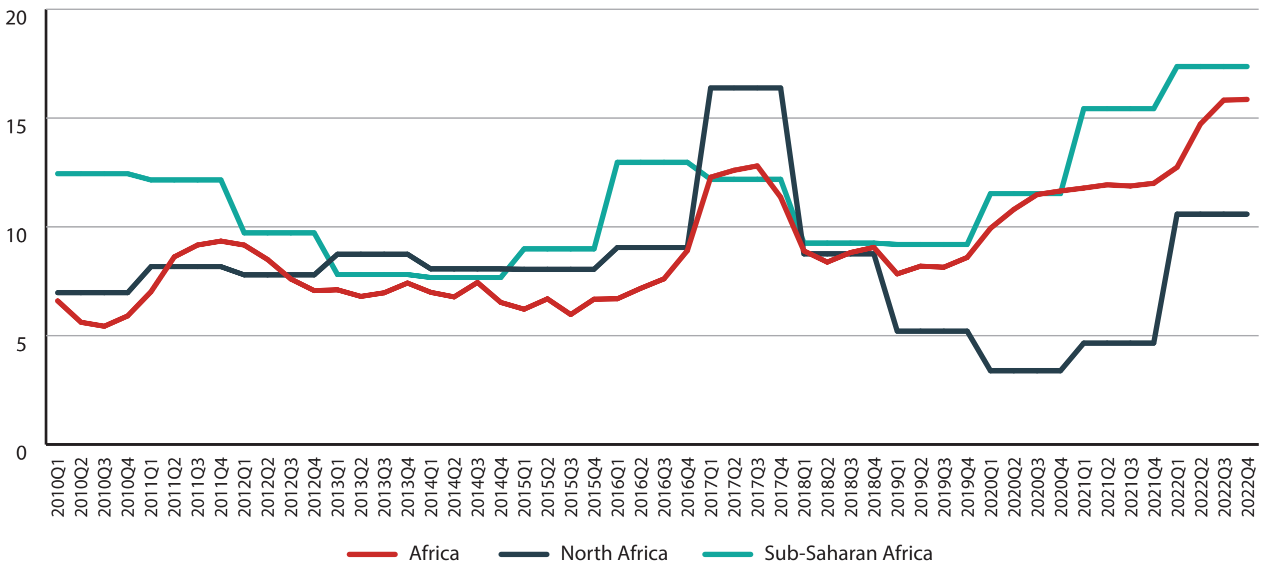
Source: Calculations of the Economic Commission for Africa based on data from Oxford Economics, Global Economic Database, 2022.

Acceleration of inflation across the continent

Owing to the sluggish recovery from the COVID-19 pandemic, rising food and energy costs and high levels of public debt, sub-Saharan Africa is experiencing one of its most difficult economic situations in recent years. High inflation, which has been a problem in the region for more than a decade, has had a catastrophic effect on wages and food security. Addressing this problem while simultaneously encouraging growth is a top priority for the continent.

From 2021 to 2022, projections indicate that global inflation will have increased from 4.7 per cent to 8.8 per cent, before levelling off at 6.5 per cent in 2023 and 4.1 per cent in 2024. It is projected that inflation in Africa will reach 14.5 per cent in 2022 and 10.5 per cent in 2023 (see table). Furthermore, inflation in sub-Saharan Africa is expected to remain higher than in North Africa (a trend seen since 2015). Inflation is expected to peak at 17.4 per cent in sub-Saharan Africa and at 10.6 per cent in North Africa by the fourth quarter of 2022 (see figure III) and, subsequently, to revert to 2015 levels by the first quarter of 2024.

Figure III: Quarterly inflation rates in Africa (Percentage)



Source: Oxford Economics, Global Economic Database, 2022.

A significant recent trend observed is that, while volatile shocks to such items as energy and food prices continue to account for a significant portion of inflation, they are no longer the overwhelmingly dominant drivers. More recently, global commodity prices have declined, but the pass-through effects for Southern Africa continue to fuel consumer price inflation.

In North Africa, inflation is still on the rise and the outlook for economic development has deteriorated overall, while a foreign exchange crisis looms in Egypt. The economic outlook for East Africa remains bleak, owing to persistently low exports and rising inflation.

The economic outlook for Central Africa and West Africa is mixed, with rising inflation, sluggish oil output and a slowdown in private sector activity all projected to reduce net foreign direct investment in 2022. The economies of resource-rich countries should benefit from high commodity prices.

Figure IV.1: Inflation projections, 2022 (Percentage)

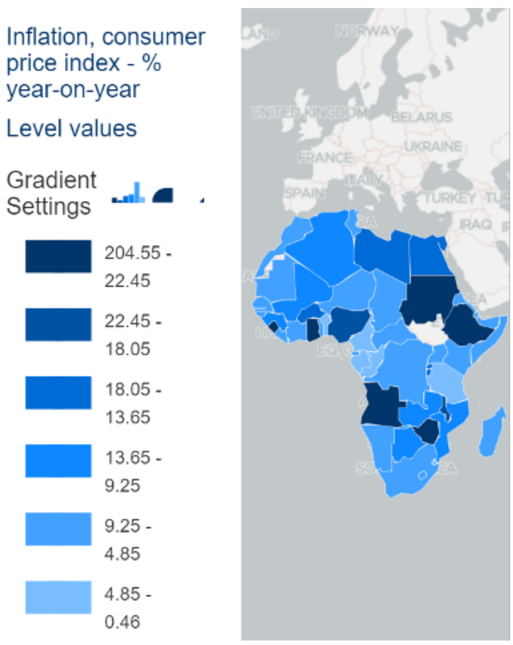
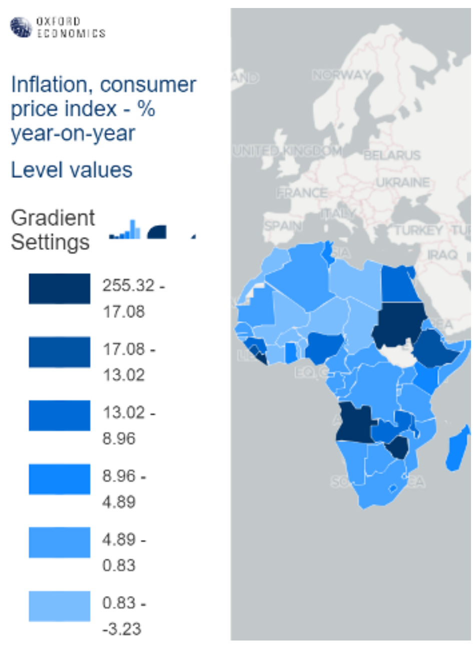


Figure IV.2: Inflation, 2019 (Percentage)



Source: Oxford Economics, Global Economic Database, 2022.

However, the list of countries in West Africa, where rising inflation is fuelling social unrest, is growing longer; the latest is Sierra Leone.

A comparison of inflation by country is shown in figures IV.1 and IV.2: the former provides inflation projections for 2022 and the latter shows percentages for 2019. The high inflation levels could have significant repercussions for low-income households in developing economies. Food accounts for the majority of consumer spending in African countries, meaning that inflation can have extremely severe consequences on living conditions.

Tighter monetary policy aimed at curbing inflation

Globally, central banks are trying to impose tougher monetary policies to reduce demand for products and compensate for global supply shortfalls. The same applies in Africa, and examples are found in Eswatini, Lesotho and Nigeria for the third quarter of 2022. To counteract rapidly rising inflation, which had reached 20 per cent by August, the Central Bank of Nigeria increased the policy rate from 14.0 per cent to 15.5 per cent. Rates had already been raised twice in 2022, in May and July, for a total of 400 basis points during the first quarter; therefore, the 150 basis-point increase caught the market off guard. As inflation continues to rise, it is possible that rates will be raised by another 50–100 basis points before the end of the year. Following the lead of the South African Reserve Bank, the central banks of Eswatini and Lesotho each raised their key policy rates by 100 basis points, to 6.00 per cent and 0.75 per cent, respectively. The rate hikes are necessary to protect the peg of the currencies in these States to the South African rand, as stipulated by the Common Monetary Area agreement. Therefore, the pattern of increases in interest rates continues in much of Africa, although the Monetary Policy Committee of the Central Bank of Egypt surprised many observers by leaving the policy rate constant, deciding to pursue inflation control by other means.

There is an ongoing debate about the use of interest rate hikes to slow down demand and, by extension, inflation. Those that oppose the approach contend that, because high prices have been caused mostly by shocks to the supply chain, interest rate hikes are not an appropriate policy mechanism. Furthermore, according to the United Nations Conference on Trade and Development, changes in monetary and fiscal policy in advanced economies could lead to a global recession and long-term stagnation, which would be even worse than the financial crisis of 2008 and the COVID-19 shock of 2020. In its report entitled *Trade and Development Report 2022: Development Prospects in a Fractured World – Global Disorder and Regional Responses*, the United Nations Conference on Trade and Development indicated that interest rate hikes in the United States in 2022 could cost developing countries an estimated $360 billion in future income, signalling even more trouble ahead, in particular for some of the worst-hit countries that were already in debt distress before the pandemic.

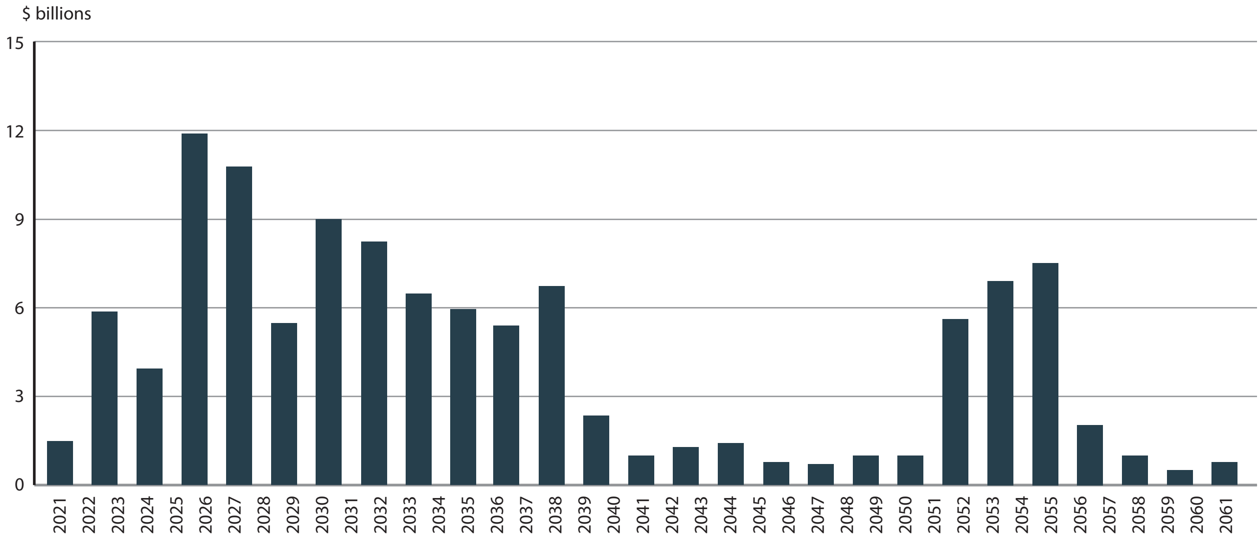
African debt burden

In 2022, the African continent's budget deficit is projected to reach 6.6 per cent of gross domestic product (GDP) and the government debt-to-GDP ratio in Africa is expected to end the year at 69 per cent. Projections indicate that the debt-to-GDP ratio will continue to deteriorate, owing to global financial conditions. Budgetary policy trade-offs are becoming increasingly challenging, in particular for highly indebted countries whose fiscal flexibility has been depleted by their reaction to the COVID-19 pandemic.

Debt crises on the cards

Over the past 60 years, every global recession has led to a rise in global government debt; this has been markedly the case over the past decade, when public debt levels increased in many African States. Most of the current public debt was created in 2020 and 2021, when countries took on debt to address the effects of the COVID-19 pandemic. Other countries borrowed money through

Figure V: Due dates of African public debt, 2021–2061



Source: African Development Bank, African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa, Abidjan, 2022.

multilateral channels, but over the same two-year period, nine African countries issued a total of $27.2 billion in Eurobonds.

While majority of the region's debt portfolio still comprises multilateral and bilateral loans, the proportion of international financing that is highly concessional has been steadily dropping over the past decade. This gap has been closed by a considerable increase in private sector finance. Sub-Saharan African countries owe a total of approximately $21.5 billion in Eurobond repayments (not including interest payments) over the next five years. It should be noted that interest payments are still the biggest expense for African States, and the expense that is growing the fastest in the budgets of most African countries that hold Eurobonds.

massive redemption schedules and a lack of access to conventional lending markets. According to the most recent (September 2022) International Monetary Fund (IMF) list of low-income countries' debt sustainability analysis for countries that are eligible for the Poverty Reduction and Growth Trust, eight out of the nine countries currently in debt distress are from Africa: Chad, Congo, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zambia and Zimbabwe.

Deterioration of African ratings in the first half of 2022

More sovereign ratings experienced deterioration than improvement after the first half of 2022. The ratings of Burkina Faso, Ghana, Mali, Namibia and Tunisia were all lowered. Only the ratings of Angola