your reference in leadership and management

MACRO TRENDS IN AFRICA

Economic Trends

July 2022

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INTRODUCTION MACRO – TRENDS FOR AFRICA: ECONOMIC TRENDS

World news continues to be dominated by the various tensions generated by the conflict in Ukraine and its multidimensional consequences on the world. Although this conflict occupies most of the attention of the international media, it does not in itself summarize the profound dynamics that continue to characterize the course of the world in general and that of the African continent.

In order to contribute to a rapid and synthetic understanding of the major trends affecting the African continent, *STRATEGIES!* provides a summary called "MACRO - TRENDS FOR AFRICA".

The " Macro - Trends for Africa " are:

- A synthesis of the different political, economic, security and humanitarian trends.
- A presentation of recent developments in some of the key areas of life on the continent.
- An overview of key data and statistics that allow us to measure the weight of certain phenomena on the progress of African states and the lives of their populations.
- A summary of the recommendations made by experts and major international institutions to decision-makers and key players in African development.

In this July 2022 edition, *STRATEGIES!* presents an overview of economic trends on the African continent during the first half of 2022.

Enjoy your reading.

STRATEGIES! is an African consulting firm specialized in Leadership and Management. Headquartered in Cameroon and registered a branch office in Washington DC since 2017.

With over 27 years of experience, we provide consulting services to development and corporate organizations in facilitation / moderation, organizational development: strategic and operational planning, systems and tools development, macro trends analysis, capacity building, advisory & coaching, etc.

Our areas of expertise include economic development and entrepreneurship, job creation, technical and vocational training, democracy and good governance, peace and security, mining and natural resources governance, agriculture, decentralization, and gender mainstreaming.

1 KEY RECENTS DEVELOPMENTS IN SUB SAHARAN AFRICA

Macro – Trends in SSA, January to June 2022

- Growth Sub-Saharan Africa (SSA) is projected to slow to **3.7 percent** this, reflecting forecast downgrades in over **60 percent** of regional economies.
- Price pressures, partly induced by the Russian Federation's invasion of Ukraine, are sharply reducing food affordability and real incomes across the region.
- At just above **1 percent**, per capita income growth in SSA is projected to remain much lower than in other EMDEs.
- More people in SSA are expected to fall into extreme poverty, especially in countries reliant on imports of foods and fuel.

- Fiscal space is narrowing further as governments ramp up spending on subsidies, support to farmers, and, in some countries, security.
- However, the impact of the war will vary across countries, as elevated commodity prices will help soften the damaging effects of high inflation in some large commodity exporters.

- Among the risks to the forecast, prolonged disruptions to the food supply across the region could significantly increase poverty, hunger, and malnutrition, while persistent inflation could ignite stagflation risks and further limit policy space to support recoveries.
- An elevated cost of living could increase the risk of social unrest, especially in low-income countries.

Source: World Bank

2 SUB SAHARAN AFRICA OUTLOOK

Sub Saharan Africa Outlook - KEY TRENDS

- Growth in SSA is projected to decelerate from **4.2 percent** in 2021 to **3.7 percent** in 2022, as high inflation and policy tightening weaken domestic demand.

- Although forecasts for both 2022 and 2023 have been unchanged—mainly on account of upward revisions for Nigeria—regional growth excluding the three largest economies (Angola, Nigeria, and South Africa) has been revised down by 0.4 percentage points this year.

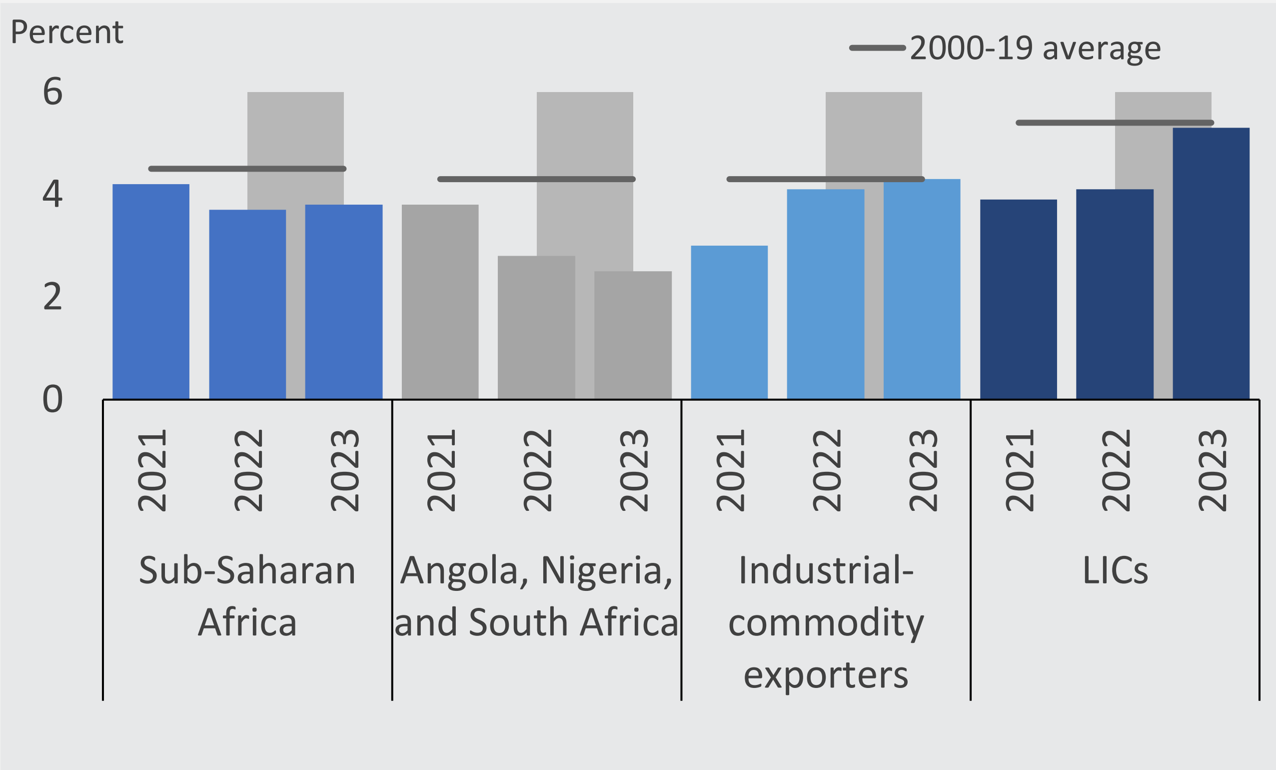
- Similarly for 2023, excluding the three largest economies, SSA growth has been revised down by **0.4 percent** since January.
- High inflation is anticipated to depress real incomes and domestic demand across the region.

- In about **45 percent** of the region's economies and a half of its fragile and conflict-affected countries, per capita incomes are forecast to remain below pre-pandemic levels in 2023.
- SSA as a whole is now expected to remain the only EMDE region where per capita incomes will not return to their 2019 levels even next year.
- **Over 60 percent** of countries in the region are in, or at a high risk of, debt distress following marked deteriorations in fiscal balances and increased indebtedness caused by the COVID-19 shock.

Source: World Economic Prospects, June 2022, World Bank

| Growth

- Growth in sub-Saharan Africa is expected to slow from **4.2%** in 2021 to **3.7%** in 2022.
- Growth in the region (excluding Angola, Nigeria, and South Africa) has been revised down by **0.4 percentage points** this year.
- Slower growth is expected is **30 countries** or **60%** of sub-Saharan African economies.



Note:
LICs = low-income countries. “Industrial-commodity exporters” represents oil and metal exporting countries. Aggregate growth rates calculated using constant GDP weights at average 2010-19 prices and market exchange rates. “Industrial commodity exporters” excludes Angola, Nigeria, and South Africa.

Source: World Bank.

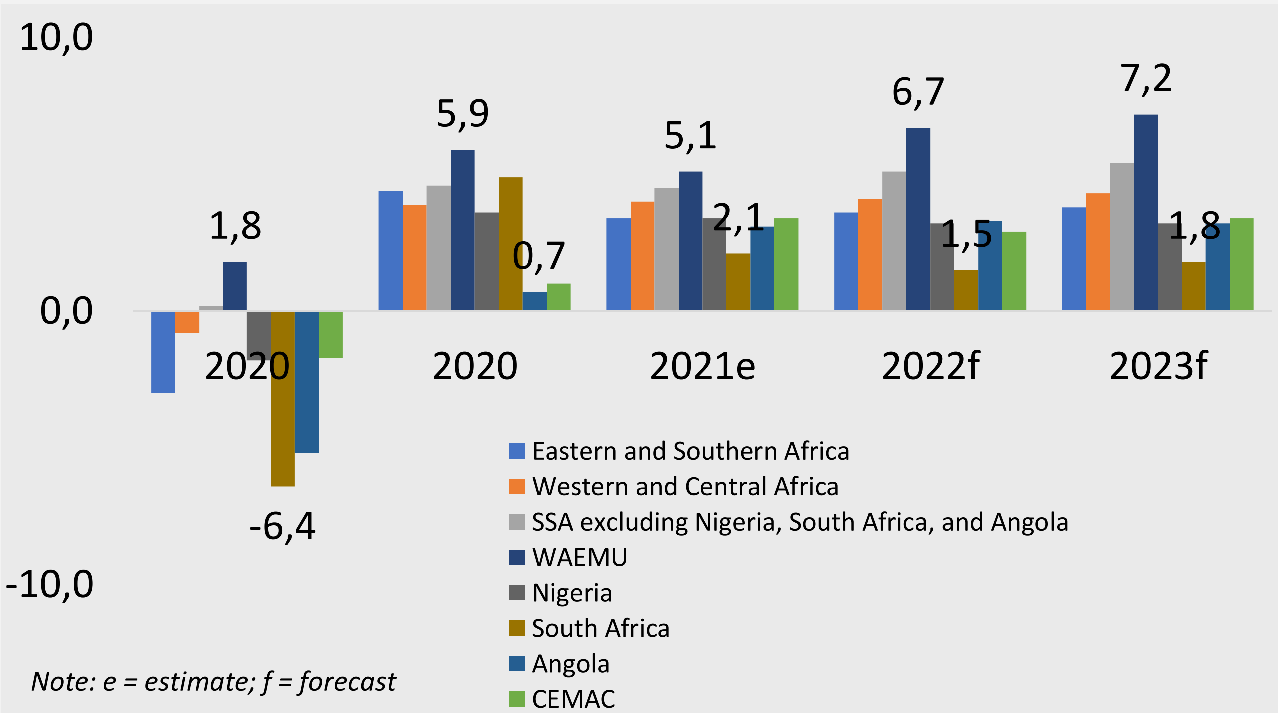
| Sub-Saharan Africa forecast summary

Real GDP growth at market prices in percent, unless indicated otherwise

In Eastern and Southern Africa, GDP is projected at **3.4%** in 2022 and **3.6%** in 2023.

In West and Central Africa, GDP is projected at **4%** in 2022 and **4.1%** in 2023.

GDP in sub-Saharan Africa (excluding Nigeria, Angola, and South Africa) is projected at **4.5%** in 2022 and **5.1%** in 2023.

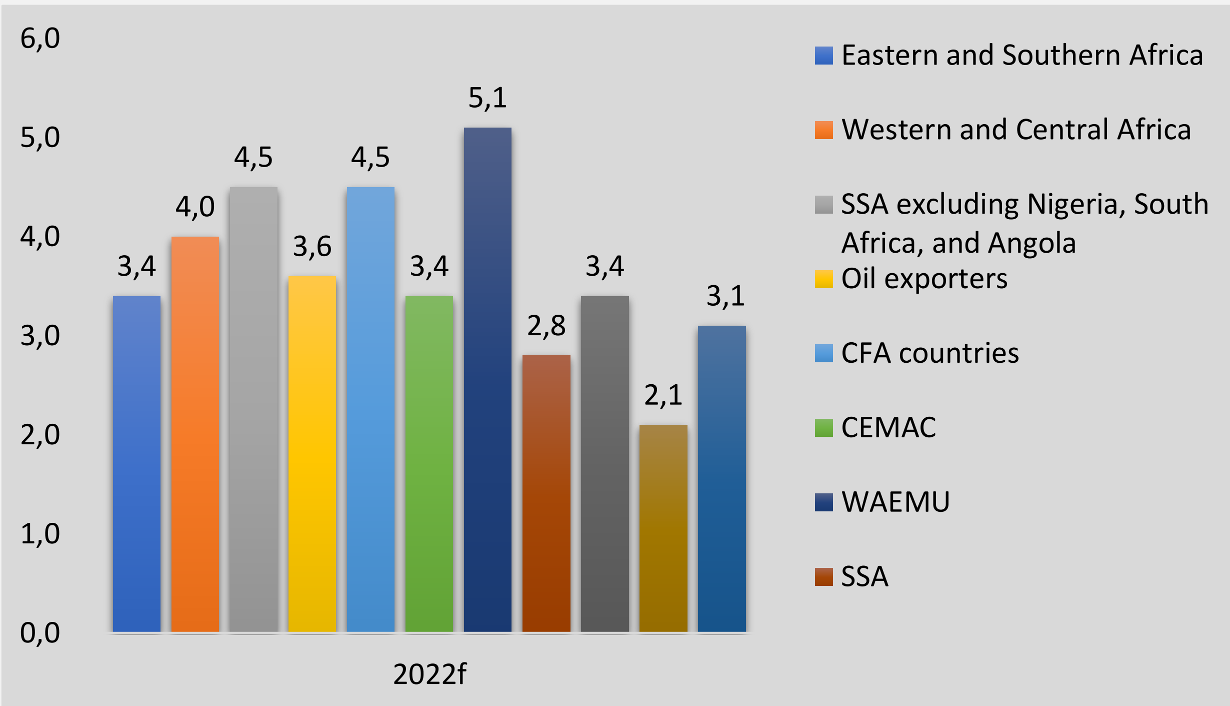


Source : World Bank.

| Sub-Saharan Africa forecast summary

Focus: World Bank's forecast of growth rates in 2022

- Overall growth rate in SSA* remains low (**2.8%**).
- ECOWAS area has the highest growth rate (**5.1%**), while CEMAC is at **3.4%**.
- West & Central African regions have an **average of 4.0%**, higher than East & Southern Africa (**3.4%**).
- CFA zone countries are at **4.5%** well above group of oil exporting countries (**3.6%**).
- South Africa, second largest economy of continent came in at **2.1%** behind Angola (**3.1%**) and Nigeria, Africa's largest economy, at **3.4%**.



Note: f = forecast; EMDE = emerging market and developing economy
* = including CAR & São Tomé and Príncipe in the subregion aggregate

Source : World Bank

3 INFLATION & FOOD CRISIS IN SSA

- Almost three-quarters of SSA economies were already classified as food-deficit countries before the current food price surge (FAO 2021).
- Even before Russia's invasion of Ukraine, prices were already accelerating rapidly in many SSA countries amid large currency depreciations, conflict, and adverse weather.
- With SSA households spending a disproportionately large share of their incomes on food, the sharp rise in food prices has eroded domestic demand and weakened recoveries in non-resource sectors.
- Even in SSA commodity exporters, increased living costs and shortages of food and fuel have begun weighing on activity.
- In the three largest SSA economies – Angola, Nigeria, and South Africa – the boost from favorable commodity prices is being offset by rising inflation and policy tightening.

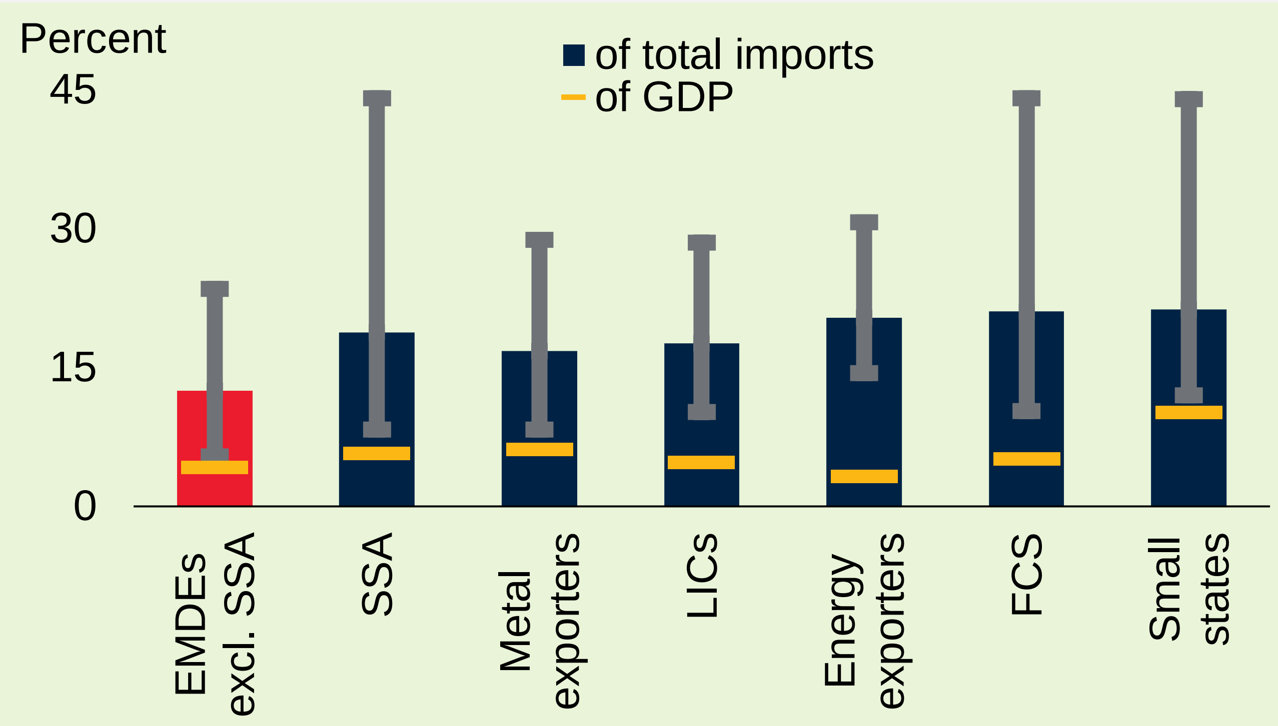
| Imports of food in SSA

1. Food insecurity is worsening in SSA, especially in countries dependent on food imports.

2. On average, food imports account for **20 percent of total** imports in SSA countries–almost twice as high as in other emerging markets and developing economies (EMDEs).

3. This percentage is slightly higher in energy exporting countries (**20.4%**), FSCs (**21.1%**) and small states (**21.3%**).

4. **Almost 3/4** of SSA economies were already classified as food-deficit countries before the current food price surge (FAO 2021).

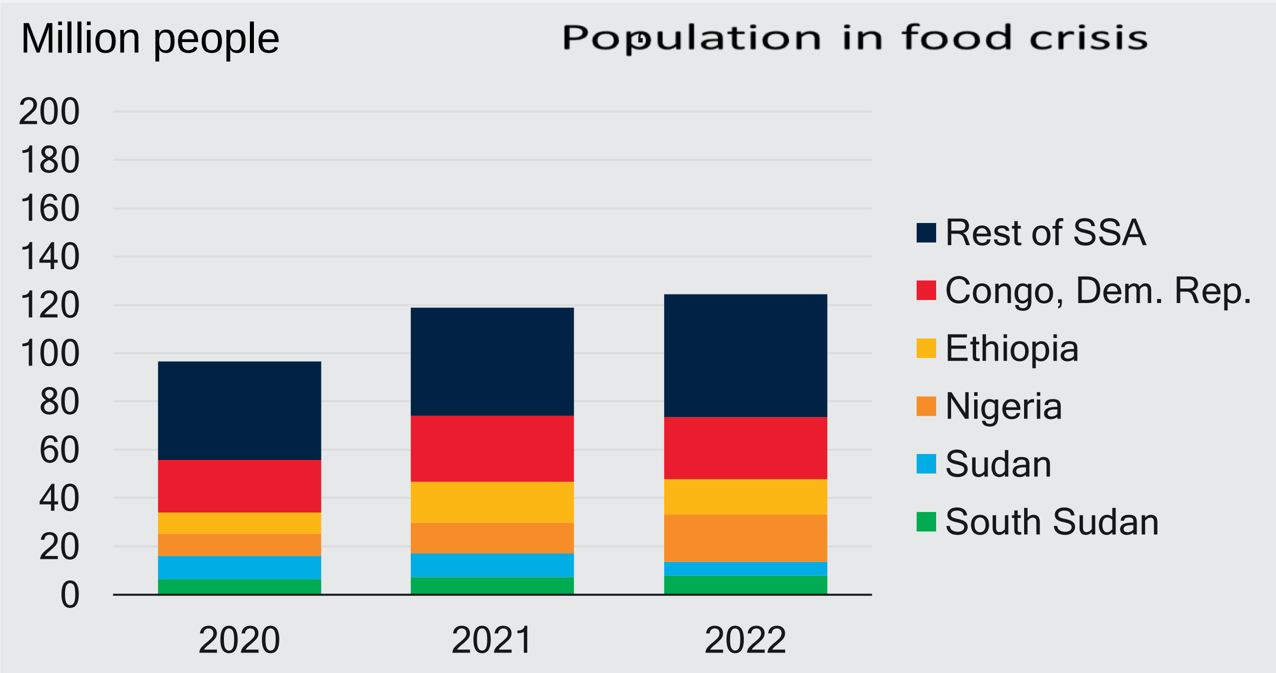


Note: EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; LICs = low-income countries; SSA = Sub-Saharan Africa. Based on a sample of 52 EMDEs, including 32 SSA countries. Last observation 2021 or earliest available year. Vertical lines indicate the min-max range for imports of food in total imports.

Sources: Comtrade (database); World Bank.

| Populations in acute food insecurity crisis (Phase 3)

- In sub-Saharan Africa, **40.8 million** people were in phase 3 in 2020 compared to **50.8 million** people expected in 2022.
- The most affected countries are DRC, Ethiopia, Nigeria, Sudan, and South Sudan.
- In 2022, DRC with **25.9 million** will be the country with the largest population in phase 3. Sudan will have **6 million** people in acute food crisis in 2022.
- Between 2020 and 2022, the number of food-insecure people increased by at least **30 million.**
- In total, **more than 120 million** people are in food crisis in 2022.

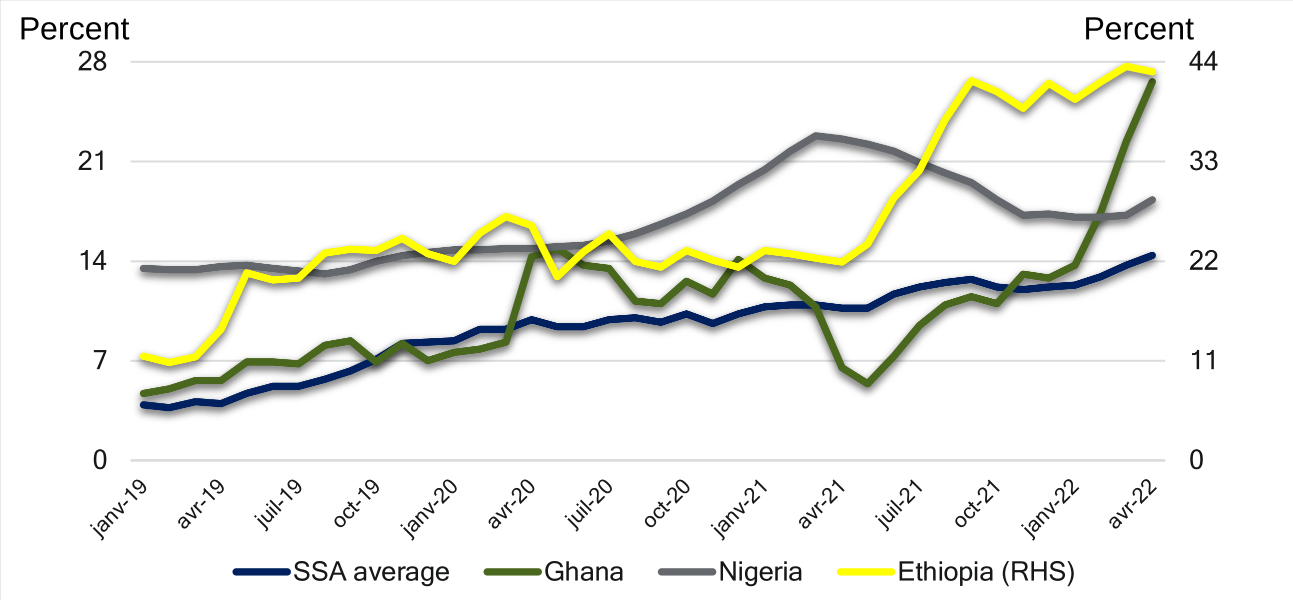


Note: SSA = Sub-Saharan Africa. Bars show the number of people in food crisis as classified by the Integrated Food Security Phase Classification (IPC/CH) Phase 3, that is, in acute food insecurity crisis or worse. Data for 2022 are estimates.

Sources: Global Network Against Food Crises; World Bank.

| Inflation

- In April 2022, the inflation rate in the Sub-Saharan Africa region reached a score of **14.4%.**
- The countries with high inflation during the period were Ghana (**26.6%**), Nigeria (**18.3%)** and Ethiopia (**42.9%**)

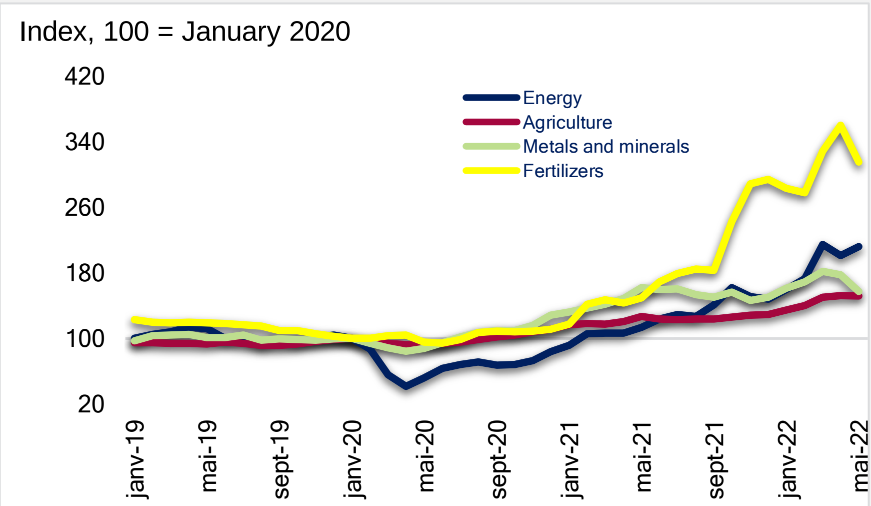


Sources: Haver Analytics; World Bank

| Commodity prices

Price trends between May 2021 and May 2022

- Energy inputs increased from **$113.4** in May 2021 to **$211.6** in May 2022.
- Agricultural inputs from **$126.8** in May 2021 to **$151.5** in May 2022.
- Metals and minerals from **$161.9** to **$157.6** in May 2022.
- Fertilizers from **$149.7** to **$315.**



Source : World Bank

4

RISKS IN SSA CONTRIES

Key Risks for SSA countries

- Further contraction of growth
- Worsening of poverty and food security
- Tougher public policies and violence
- Increased difficulties for public finances
- Increased vulnerability to health and climate hazards

Further contraction of growth

A faster-than-expected deceleration of the global economy and increased volatility of commodity prices could hurt many SSA commodity exporters.

- Exporters of industrial metals, crude oil, and ores (Angola, Democratic Republic of Congo, Republic of Congo, South Africa, Zambia) could suffer from a substantial deceleration of activity in China.
- A sharp contraction of growth in the euro area could hurt exporters of agricultural products–such as coffee, tea, tobacco, cotton, and textiles (Ethiopia, Madagascar, Malawi).

Worsening of poverty and food security

- Further disruption to global supplies of staple crops would lead to even higher food prices in SSA and increased spending on food imports.
  - One in seven SSA countries – including several large economies that already have a high incidence of food insecurity (Democratic Republic of Congo, Nigeria, Sudan) – depend on Russia and Ukraine for over 45 percent of their wheat imports, while almost all the region's economies are net importers of wheat.
- Higher prices for farming inputs – such as seeds, fuel, and fertilizers – would also prolong food price pressures in the region.
- Higher fertilizer prices could also worsen fiscal pressures across the region, given that in many countries, government spending on subsidized fertilizers accounts for a large portion of public spending on agriculture.
- Reduced food supplies amplify the risk that extreme weather events could cause food prices to soar even further.

Tougher public policies and violence

- High and rising inflation could lead to:
  - Accelerated tightening of monetary policies.
  - A much faster tightening of public policies in many sub-Saharan African countries.
  - Accelerated policy tightening could also increase the risks of stagflation in the region.
- Levels of violence and conflict remain elevated in SSA, particularly in the Sahel region.
  - A rapid increase in the cost of living could trigger a wave of civil unrest across the region, further dampening growth in many countries.

Increased difficulties for public finances

- A sustained period of risk aversion and capital outflows triggered by global geopolitical tensions could sharply raise borrowing costs and rekindle currency depreciations, further elevating debt sustainability risks and fueling inflation in many economies.
- Higher borrowing costs and a decline in donor financing would put a squeeze on public spending, jeopardizing infrastructure, and other development needs.
- Accelerated policy tightening could also escalate stagflation risks across the region

Increased vulnerability to health and climate hazards

- Low vaccination rates elevate the risk of recurrent outbreaks of new and more dangerous variants of COVID-19.
- Recurring outbreaks of new and more dangerous variants of COVID-19 could lead to lasting and more serious disruptions to economic activity in countries where vaccination rates remain low.
- Reduced food supplies amplify the risk that extreme weather events could cause food prices to soar even further.

5

KEY RECOMENDATIONS FOR SSA CONTRIES

At the level of world bank

1

Confronting food insecurity

Instead of price controls and subsidies, EMDEs can improve social safety nets, encourage diversification of food sources, and promote efficiency in food production and trade. This can include investments aimed at promoting farming systems that use climate-smart techniques and produce a more diverse mix of foods.

2

Raising labor force participation

A comprehensive policy package, including sustained investment, education policies and active labor market reforms, could enhance EMDEs labor force participation and help mitigate the slowdown in potential output expected over the next decade.

3

Preventing fragmentation of trade and investment networks

Policies makers should implement policies that encourage firms to diversify trade partners and inputs, especially in key strategic sectors, and measures that streamline border procedures and ease impediments to trade flows.

4

Facing fiscal policy challenges

More durable improvements in fiscal sustainability among EMDEs will be facilitated by efforts to increase domestic revenue mobilization and boost productivity. Broadening the tax base can improve government finances with limited impact on economic growth. Improvements in sovereign debt management would help preserve the ability of governments to support an equitable recovery.

5

Facing structural policy challenges

To counter the risk of costs being pushed up by trade and financial fragmentation, policy makers can put in place measures to enhance trade resilience and promote diversification.

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For the International Monetary Fund (IMF)

In terms of economic policy, the authorities face three immediate challenges:

1

First, they must **protect the most vulnerable households without compromising debt sustainability.** Fiscal policy must protect vulnerable households from rising food and energy prices, without exacerbating debt-related vulnerabilities.

2

The second challenge will be to **contain inflation without jeopardising the recovery**. Central banks face a difficult trade-off between containing inflation and stimulating growth. They should monitor inflation closely and be ready to raise interest rates, if necessary, while maintaining a credible policy framework that is clearly communicated.

3

The third challenge is that many countries will **face pressures on exchange rates from rising interest rates and high levels of global uncertainty.**

Source: Regional Economic Outlook for sub-Saharan Africa

At FAO level

For the Food and Agriculture Organization of the United Nations, the following areas of work are urgently needed:

1	2	3
Maintain open trade in food and fertilisers by ensuring that the conflict does not negatively affect production and marketing activities in Ukraine and the Russian Federation, so that both countries can meet their domestic production and consumption needs, while also meeting global demand.	**Find new and more diversified sources of food supply:** Countries heavily dependent on Russia and Ukraine should look to alternative sources of supply, tap existing food stocks and diversify domestic production to ensure the supply of food needed for healthy diets.	**Assist vulnerable population groups. In particular,** measures should be taken to monitor prices and food security outcomes and to deliver timely and well-targeted social protection interventions to the most vulnerable groups.

Source : https://www.fao.org/3/ni734fr/ni734fr.pdf

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