Africa’s quarterly economic performance and outlook
April - June 2022
I. Recent economic performance

A. African economic prospects are deteriorating as the conflict between the Russian Federation and Ukraine continues

The conflict between the Russian Federation and Ukraine has given rise to global supply chain bottlenecks and commodity price shocks, which have weakened the growth prospects of many African economies. Because the Russian Federation and Ukraine are crucial suppliers of agricultural commodities globally, the prices of those commodities and related inputs, including fertilizer, have risen sharply since the outbreak of the conflict. The combination of rapidly rising food and fertilizer prices and supply chain disruptions has exacerbated domestic price pressures, further worsening already dire food insecurity in many countries. Higher prices for other commodities, in particular for oil, natural gas and industrial metals, are expected to benefit energy and mineral exporters, but the region’s net energy importers are expected to face much higher fuel bills, which will undermine their external and fiscal balances. Those challenges come at a time when many African economies are already reeling from the adverse repercussions of the pandemic, climate shocks (as food production in many countries has been adversely affected by floods, droughts and other extreme weather events), and heightened security risks. The result: ballooning import bills for economies that are net food and oil importers, which will reduce economic growth in 2022.

Economic growth in Africa as a whole is projected to fall from 4.7 per cent in 2021 to 3.9 per cent in 2022. Economic activity is being constrained, in particular, by weaker growth prospects in oil-importing countries, where gross domestic product (GDP) growth is projected to fall to 3.2 per cent in 2022. However, these trends differ for oil-
exporting countries. For the region’s oil-exporting countries, higher energy prices are expected to result in windfall gains, leading to higher growth, projected at 4.9 per cent in 2022. As illustrated in figure I, overall economic growth will continue to slow in 2023, with GDP growth expected to fall to 3.8 per cent, as a result of the overlapping effects of ongoing shocks. Growth in oil-importing countries is likely to decline further in 2023, to approximately 3.1 per cent, while for oil-exporting countries, it is projected to rise still further, to 5.1 per cent, with oil prices likely to remain high.

Among African subregions, North Africa has been the most severely affected by the conflict between the Russian Federation and Ukraine, and its annual growth, previously expected to reach 4.9 per cent in 2022, is unlikely to exceed 3.9 per cent. The subregion’s GDP is projected to decrease further, to 3.8 per cent, in 2023. Ukraine and the Russian Federation are among the top suppliers of grain to North Africa. The conflict between the Russian Federation and Ukraine has thus increased concern over the sustainability of government budgets, in particular since many countries in the subregion spend a significant proportion of their budgets on food subsidies.

In East Africa, GDP growth is projected to reach 4.8 per cent in 2022, largely owing to improved economic activity in Kenya, Uganda and the United Republic of Tanzania. Growth in Kenya will be driven by a rebound in domestic demand and rising commodity prices, while recovery in the United Republic of Tanzania will be driven by an improved tourism sector. The conflict in northern Ethiopia has slowed post-pandemic recovery in the entire country and in its neighbouring countries, Djibouti and Eritrea. Growth in the subregion as a whole is projected to reach 5.7 per cent in 2023.

Growth in West Africa for 2022 is estimated at 4 per cent (instead of 3.7 per cent, as per earlier forecasts), as it continues to recover from the negative repercussions of the pandemic. The GDP of Nigeria, the subregion’s largest economy, is projected to increase in 2022, primarily driven by a recovery in non-oil sectors. Despite the resurgence in oil prices, Nigerian oil production is still below pre-pandemic levels, owing to maintenance work and declining investment in the sector. Social unrest and violence have also hampered economic activity in that country. As a whole, growth in West Africa is expected to remain at 4 per cent in 2023. However, rising prices threaten that recovery.

In Southern Africa, GDP growth is projected to dip to 2.4 in 2022 (instead of 2.6 per cent, as per earlier forecasts) and is expected to marginally rebound to 2.5 per cent in 2023. Growth in Central Africa...
will gradually rebound to 3.3 per cent in 2022 and is projected to remain at 3.3 per cent in 2023. The economies of all countries in the subregion, with the exception of the Congo, are expected to rebound in 2022 on the back of increased trade in both oil and non-oil primary commodities.

B. Inflation and monetary policy

As the prolonged conflict between the Russian Federation and Ukraine continues to exert strong pressure on prices, central banks will need to watch price movements closely and to raise interest rates if inflation starts to rise. However, there is a need to balance the trade-off between containing inflation and promoting growth.

As illustrated in figure II, prices for food, energy and fertilizer trended upward around the globe since early 2020 (i.e. since the start of the COVID-19 pandemic), and peaked following the outbreak of the conflict between the Russian Federation and Ukraine in February 2022. In the second quarter of 2022, the World Bank food price index showed a slight decline, from 158.7 in April to 151.5 in June; however, this was still much higher than the figure of 127.3 recorded in December 2021. The World Bank energy price index, on the contrary, continued to rise, reaching 171.2 in June, the highest since January 2019. The World Bank fertilizer price index rose sharply, recording a high of 255 in April 2022, before trailing off slightly in May and June 2022.

C. Inflation across the continent accelerated in the second quarter of 2022

In Africa, food accounts for roughly 40 per cent of the consumption basket. As both food and oil prices continue to surge, inflation in African countries has increased sharply, threatening the region’s economic outlook. Inflation in Africa has remained elevated since the onset of the pandemic, remaining above 10 per cent since 2020 and projected to hit 12.3 per cent in 2022, much higher than the expected global average of 6.7 per cent. It is estimated that the overall inflation rate in Africa will decline to 9.5 per cent in 2023, with the world average falling to 4.1 per cent.

High inflation rates are affecting certain countries more than others. Ethiopia, for example, has one of the highest inflation rates in Africa, and inflation worsened still further in May 2022, spurred by a rise in food prices. Although Ethiopia recorded

Figure II: World monthly price index for energy, food and fertilizers, January 2019–June 2022 (2010=100)


inflation levels above 35 per cent in the first two months of the second quarter, inflation decelerated in June 2022 as food prices increased at the slowest pace since August 2021. In Kenya, rising food and oil prices resulted in an increase in the overall inflation rate from 5.6 per cent in March 2022 to 6.5 per cent in April. Wheat prices remain very high and, given the scale of wheat demand (in East Africa, wheat accounts for one third of average national cereal consumption, 84 per cent of which is met by imports) and reliance on wheat imports (in particular in Ethiopia and Kenya) from the Russian Federation and Ukraine, East African countries are likely to be significantly affected by the ongoing conflict between those two countries.

Other countries that have moved into double-digit inflation include Algeria and Egypt. While Egypt is the world’s largest wheat importer, Algeria is the African continent’s largest importer of food overall, importing 75 per cent of its food requirements. Inflationary pressures will persist as the conflict between the Russian Federation and Ukraine drags on, given that those two countries are among the top suppliers of grain to the North African subregion.

Additional countries that have been hit particularly hard by inflation include Ghana, where annual inflation rates have been on an upward trajectory since 2021 and have risen as high as 27.6 per cent. Inflation rates also increased in Nigeria after the outbreak of the conflict between the Russian Federation and Ukraine in February 2022. Even countries that have relatively low inflation rates, including Kenya, Rwanda and South Africa, have recorded significant increases in second-quarter inflation.

D. Rising prices affect food production

Higher fuel, food and fertilizer prices are likely to affect food production in Africa. Such a scenario could worsen food insecurity, which disproportionately afflicts the poor. In Southern Africa in particular, rising input costs are posing a
major threat to food security. Malawi, South Africa, the United Republic of Tanzania and Zambia, which are the four key suppliers of maize in the subregion, are highly dependent on fertilizer imports. The rise in fertilizer prices will lead to a decrease in the production of maize and have implications for planting and yield prospects in the next agricultural season.

E. Central banks raise rates to fight inflation

Raising interest rates is a typical policy response to inflation. There are arguments for African countries to raise their interest rates above inflation levels to achieve a positive real rate and to mobilize savings towards investment. Any tightening of monetary policy will, however, do little to contain price pressures that stem mostly from increases in the cost of imports. Nonetheless, central banks in Africa are very keen to curb inflation, which, as outlined above, has increased to levels unseen in decades. Figure IV illustrates how interest rates varied between January 2021 and May 2022 in selected African countries.

As part of an intensified response to global headwinds that have driven inflation and capital outflows, the Monetary Policy Committee of the Central Bank of Nigeria decided on 23 May 2022 to raise its monetary policy rate from 11.5 to 13 per cent. The Reserve Bank of South Africa also increased its benchmark interest rate by 50 basis points, from 4.25 per cent in April 2022 to 4.75 per cent in May, and warned that even higher borrowing costs were coming. As a result of rising global commodity prices and supply chain disruptions, the Central Bank of Kenya identified greater risks in its inflation outlook and came to the conclusion that there was room to tighten monetary policy further in order to lower inflation expectations. It therefore decided to increase its central bank rate from 7 per cent to 7.5 per cent. The Central Bank of Egypt raised its interest rates by 200 basis points, seeking to contain inflation expectations after prices soared at their fastest

Figure IV: Monetary policy-related interest rates in selected African countries, per cent per annum, January 2021–May 2022


7 Central Bank of Nigeria, “Key decisions of the Central Bank of Nigeria Monetary Policy Committee May 23 and 24, 2022”. The Bank’s monetary policy decisions area published at: www.cbn.gov.ng/monetarypolicy/ decisions.asp.
8 Prinesha Naidoo (Bloomberg), “South Africa hikes rates by most since 2016 with more to come”, 19 May 2022.
rate in three years. Its Monetary Policy Committee raised the deposit rate from 9.25 to 11.25 per cent in May 2022, and the lending rate from 10.25 to 12.25 per cent. The Monetary Policy Committee of Rwanda noted that economic recovery was expected to remain strong, but would be affected by global economic conditions, with pressure coming mostly from external factors; it therefore decided to maintain its central bank rate at 5 per cent.\(^\text{10}\)

**F. Fluctuations in exchange rates amid rising inflation**

The weakening of African currencies is compounding the challenges stemming from rapid price increases by further exacerbating inflation. Exchange-rate volatility has been pronounced for major African currencies since the start of the conflict between the Russian Federation and Ukraine. As illustrated in figure V, many African currencies have weakened against the United States dollar since the first quarter of 2022 due to the dollar’s resilience, deteriorating global financial market conditions and an increase in the import demand for food and gasoline.

The Ghanaian cedi depreciated by more than 20 per cent from January to March 2022, and then depreciated by 29 per cent in June. In the first three months of 2022, the Egyptian pound depreciated by 16 per cent, but then remained relatively stable until June. The South African rand had been strengthening against the dollar since January 2021, but reversed course in May 2022. The recent weakening of the South African rand could be the result of interest rate increases by the central bank to curb surging inflation.\(^\text{11}\) The Ethiopian birr and Kenya shilling also continued to depreciate between January and June 2022.

Financial stability in the region weakened and remained under threat owing to the conflict between the Russian Federation and Ukraine, which affected nearly every aspect of economic activity.

**Figure V:** Fluctuations in selected African currencies against the United State dollar, January–June 2022


\(^\text{10}\) National Bank of Rwanda, “Monetary policy report”, May 2022.

II. Fiscal policy performance

Inflationary pressures caused by the conflict between the Russian Federation and Ukraine, stemming, inter alia, from rising commodity prices, were expected to adversely affect the short- and medium-term fiscal position of African countries.

As illustrated in figure VI, the conflict’s impact on the energy sector resulted in a sharp increase in the prices of oil and natural gas. Oil prices increased on average by 25 per cent between February and June 2022, rising to more than $110 per barrel, with natural gas prices increasing by 36 per cent over the same period. Skyrocketing energy prices reduced the fiscal space of many African countries.

The African continent’s budget deficit for 2022 is expected to be equivalent to 4.6 per cent of GDP. Despite being lower than in 2021, when it was equivalent to 5.3 per cent of GDP, and in 2020, when it reached 7 per cent, the figure forecast for 2022 is still higher than the continent’s budget deficit in 2019 (prior to the COVID-19 pandemic), when it stood at 4.2 per cent of GDP.

Budget deficits in oil-exporting countries are expected to fall to 2.9 per cent of GDP in 2022, down from 3.8 per cent in 2021 and 6.6 per cent in 2020. The figure for 2022 is even lower than

Figure VI: Crude oil prices and the natural gas index (2010=100)

Source: World Bank, Commodities Price Data (The Pink Sheet), June 2022

Figure VII: Fiscal balances as a percentage of gross domestic product, by subregion and country group, 2019–2024

Source: IMF, World Economic Outlook database (April 2022).
the (pre-pandemic) budget deficit in 2019, which stood at 3.1 per cent. Falling budget deficits in oil-exporting countries can be explained by an increase in commodity revenue share. The average budget deficit for oil-importing countries is also expected to fall, from 6.2 per cent in 2021 to 5.8 per cent in 2022, and to 5.2 per cent in 2023 and 2024. Central Africa stands out as the only African subregion that will record a budget surplus, equivalent to 2.5 per cent of GDP, in 2022. It is anticipated that tax measures, in particular the consolidation of public revenue and the restriction of current expenditure, as well as increased trade in both oil and non-oil primary commodities, will result in the gains projected for Central Africa.

As illustrated in figure VIII, the government debt-to-GDP ratio for Africa as a whole is expected to stand at 64.5 per cent in 2022, some 1.4 percentage points lower than in 2021, but still significantly higher than the pre-pandemic figure for 2019, when it stood at 57.1 per cent. The debt-to-GDP ratio is then projected to drop to 62.3 per cent in 2023, and to 61.7 in 2024. The debt-to-GDP ratio for oil-importing countries will peak at 73 per cent of GDP in 2022, up 10 percentage points from 2019, although it is then predicted to drop to 71 per cent over the following two years, while that of oil-exporting countries is anticipated to drop from 54.7 per cent in 2021 to 52.6 per cent in 2022, and then further to 50.3 per cent by 2024. The overall outcome is partly attributable to anticipated skyrocketing energy costs brought about by the conflict between the Russian Federation and Ukraine.

The debt-to-GDP ratio in West Africa, which during the pandemic increased significantly (from 36.7 per cent in 2019 to 47.2 per cent in 2021), is predicted to fall to 46.9 per cent in 2022, then slightly increase over the following two years. The debt-to-GDP ratio in East Africa and Central Africa also increased considerably during the pandemic, from 45.7 to 50.4 per cent and from 51.8 to 56.4 per cent, respectively, between 2019 and 2021; however, it is expected to decline to 49.3 per cent in East Africa and to 47.9 per cent in Central Africa in 2022. Over the next two years, further declines are expected. Southern Africa’s debt-to-GDP ratio rose considerably during the pandemic, to an all-time high of 81.1 per cent in 2020, but is predicted to decrease to 67.5 per cent in 2022 and then rise again, to 68.4 per cent in 2023 and to 69.2 per cent in 2024. Compared to other African subregions, North Africa has had and will continue to have the highest debt-to-GDP ratio, rising from 87 per cent in 2021 to a projected 89 per cent in 2022, before falling to 85 per cent during the following two years.

Debt vulnerability is an issue of concern in many African countries. Debt and deficits ballooned during the pandemic at rates that were more extreme than at the beginning of the Great
Depression or the 2008 global financial crisis; indeed, the speed with which debts and deficits increased is similar to the speed with which they increased during the two world wars of the twentieth century. According to IMF analysis of the debt sustainability of low-income countries, and as shown in the table above, the extent of debt distress in African countries remained unchanged between 31 March and 31 May 2022, with 16 African countries at high risk of debt distress, and 7 countries already in debt distress. It should be noted that the increase in the debt-to-GDP ratio during and after the pandemic can be attributed to pandemic-related expenses at a time when tax revenue was also declining.

As shown in figure IX, government revenue as a percentage of GDP in Africa is projected to be 20.5 per cent in 2022, close to its pre-pandemic figure in 2019, when it stood at 20.3 per cent. However, it is then expected to drop to 19.8 per cent in 2023, and to 19.4 per cent in 2024. Oil-exporting countries, as a group, experienced a sharp fall in government revenue as a percentage of GDP, from 18.5 per cent in 2019 to 14.7 per cent in 2020, before it rose again to 16.2 per cent in 2021. That figure is expected to increase to 18.4 per cent in 2022, but then decline once more, to 17.1 per cent in 2023 and to 16.2 per cent in 2024. The rise in government revenue for oil-exporting countries in 2022 will be primarily because of higher energy prices caused by the conflict between the Russian Federation and Ukraine, and the reopening of economies following prolonged COVID-19-related lockdowns.

In oil-importing countries, government revenue as a percentage of GDP rose slightly, from 20.7 per cent in 2020 to 21.3 in 2021, and is expected to reach 22 per cent in 2022. However, no significant change is projected for 2023 or 2024.

### Figure IX: Government revenue as a percentage of GDP, by subregion and country group, 2019–2024

![Graph showing government revenue as a percentage of GDP by subregion and country group, 2019–2024](source: IMF, World Economic Outlook database (April 2022).)
IV. Policy recommendations

Several short- and medium-term options relating to fiscal policy, monetary policy, and food security and trade should be considered.

A. Fiscal policy

The conflict between the Russian Federation and Ukraine has left many developing countries with limited fiscal space in which to manoeuvre. The harsh reality of the rising cost of living and higher interest rates will intensify the already significant risk of social unrest in Africa. To tackle those formidable challenges, countries need to implement rigorous policy measures. Fiscal policies will need to be carefully targeted towards vulnerable populations to prevent rising debt vulnerability. To safeguard the most vulnerable households, policymakers should use direct financial transfers as often as feasible. The use of temporary subsidies or targeted tax reductions with set expiration dates is an option for countries that are unable to provide targeted transfers. For countries to increase their resilience, it is crucial to create strong social safety nets. The use of digital technologies, such as mobile money and smart cards, could enhance the effectiveness of financial transfer programmes that are designed to help those who are most in need of assistance.

In the long term, financing options need to be re-examined to enhance fiscal space. Examples of possible options include streamlining tax regimes to close loopholes, enacting social and environmental taxes, enhancing the capacity of countries to tax the digital sector, increasing the progressiveness of income tax collection, rationalizing tax incentives and improving the efficiency of public spending. Furthermore, Africa, as a continent, needs to push for changes in the global financial architecture. During the pandemic, there were debates about radically reforming the financial system, but in the end, only some modest fine-tuning of existing processes took place. Financial system reforms for countries in need must be reviewed.

B. Monetary policy

The dilemma facing monetary authorities is made more difficult by the conflict between the Russian Federation and Ukraine, which is simultaneously hurting economies and stoking inflation. Central banks will need to closely watch price trends and balance the trade-off between curbing inflation and promoting growth. In addition, they need to take action to mitigate the threat to financial stability posed by higher interest rates and maintain a credible policy framework that is supported by solid independence and transparent communication.

C. Food security and trade

From the inability to import essential foods to the long-term repercussions of decreased fertilizer production, the conflict between the Russian Federation and Ukraine has had, and will continue to have, a significant and far-reaching impact on food security and on food systems in general in Africa. Moreover, the conflict has jeopardized the already fragile rebound in global trade. Due to sanctions, export limitations, higher energy costs and disruptions to transportation networks, trade costs are set to continue to rise. Countries in Africa should avoid imposing restrictions on the export of affected products and countries that stockpile commodities to protect their national interests, risk doing so to the detriment of their trading partners. Countries should diversify their food import sources, following the example of South Africa which, since the start of the conflict between the Russian Federation and Ukraine, has taken action to procure wheat from alternative sources.

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12 Abebe Aemro Selassie and Peter Kovacs, “Africa faces new shock as war raises food and fuel costs”, IMF blog, 28 April 2022.