



United Nations  
Economic Commission for Africa

# Africa's quarterly economic performance and outlook

Expenditure matters for growth and debt sustainability

January–March 2023

## Key messages

- » Global growth is projected to fall from an estimated 3.4 per cent in 2022 to 2.9 per cent in 2023.
- » The growth momentum of Africa will resume its upward trend in 2023, decelerating as a result of the ongoing war in Ukraine.
- » Inflation in Africa is estimated to decline in 2023 as monetary policies tighten across the continent, but the scarring effects of record-high inflation will remain.
- » Eight African countries are in debt distress, even though average public debt will likely drop to 62.1 per cent of gross domestic product (GDP) in 2023 compared to 67.4 per cent in 2022.
- » African fiscal deficit is estimated to be 5 per cent of GDP in 2022 and will improve slightly to 4.8 per cent in 2023 but remain unfavourable compared to the 2019 pre-pandemic level of 4.4 per cent.
- » As African countries, especially the least developed countries, have a higher level of consumption coupled with a lower level of capital expenditure, compared with developed and emerging economies, growth and debt sustainability may be undermined.
- » Growth remains the most effective method for escaping a debt minefield. Policies that promote the greater allocation of resources to productive activities, such as infrastructure, health and education, and a more favourable business climate are important for accelerating productivity growth.

The world is suffering from uncertainties as a result of the war in Ukraine and the scars of the coronavirus disease (COVID-19) pandemic. Soaring food and energy prices, rising borrowing costs, limited fiscal space and growing demand for spending on vulnerable people have confounded countries that are still struggling to recover from the pandemic. According to the International Monetary Fund (IMF) (2023), global growth is projected to fall from an estimated 3.4 per cent in 2022 to 2.9 per cent in 2023, then to rise to 3.1 per cent in 2024. The abrupt reopening of China following restrictions that had been introduced in response to the pandemic provides the opportunity for a rapid increase in economic activity, but the conflict in Ukraine may continue to suppress economic growth. Global inflation is expected to fall from 8.8 per cent in 2022 to 6.6 per cent in 2023 and to 4.3 per cent in 2024, but is still above pre-pandemic levels of about 3.5 per cent (IMF, 2023). To combat high inflation, central banks have raised their interest rates, but monetary tightening may make

the debt crisis in developing nations worse. The Economic Commission for Africa (ECA) estimates that average public debt will likely drop to 62.1 per cent of GDP in 2023 from 67.4 per cent in 2022, even as some countries remain in debt distress.

The present report provides an analysis of the macroeconomic developments from January to March 2023 and an outlook for the continent, in relation to economic growth, inflation and fiscal and monetary policies. The report provides an assessment of the composition of government expenditure in Africa, revealing that African Governments have a higher level of consumption expenditure and a lower level of capital expenditure than developed and emerging economies, which could hinder growth and debt sustainability, especially in the least developed countries in Africa. Policy recommendations based on the assessment are provided in the last section of the report.

## Growth momentum was negatively affected in 2022 and will recover slightly in 2023

The growth momentum in Africa has been negatively affected by the war in Ukraine, the lingering effects of the COVID-19 pandemic and other shocks. As is shown in figure I, the real GDP growth rate of the continent for 2022 is estimated to be 3.6 per cent, which is 1 percentage point lower than the growth rate for 2021 (4.6 per cent). The rate is projected to recover to 4.1 per cent in 2023, before climbing further to 4.5 per cent in 2024, as shown in table 1.<sup>1</sup> Following the publication of the quarterly economic performance and outlook report for the period October–December 2022, ECA revised upwards its growth projection for 2023 by 0.2 percentage points, from 3.9 per cent to 4.1 per cent. The increase of growth from 3.6 per cent in 2022 to 4.1 per cent in 2023 reflects the gradual recovery from the impact of the war in Ukraine and the moderate decline of inflation, which is shown in table 1.

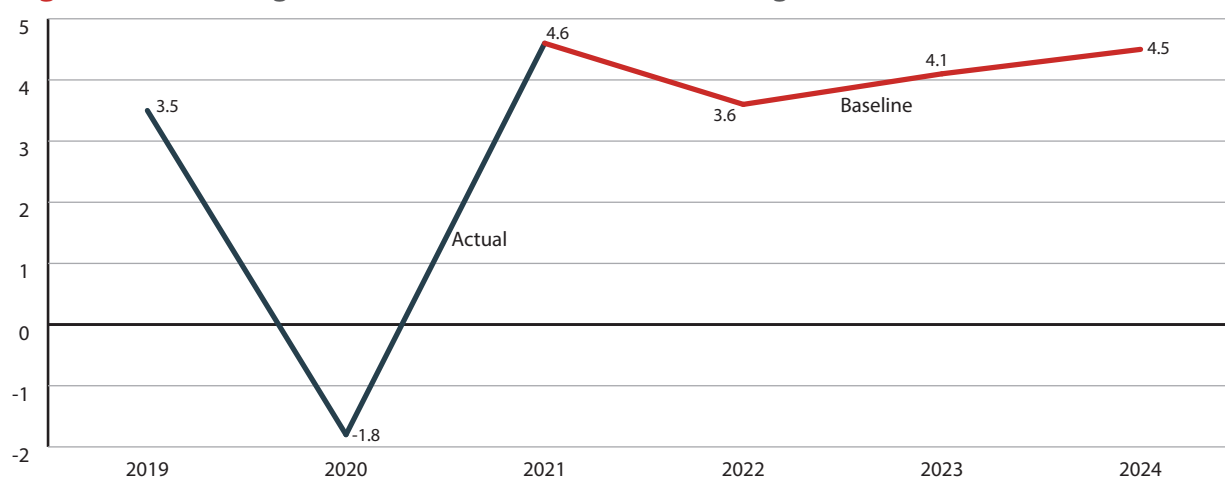
Growth in Africa over 2022 has been driven mainly by growth in East, North and West Africa, as is shown in figure II. Growth in East Africa is estimated to have reached 5.1 per cent in 2022 and is expected to stabilize at around the same

level in 2023 (United Nations, 2023). Growth in that subregion will continue to be driven by the rebound of services and industrial activity, higher levels of State spending, increased trade, the recovery of the tourism sector, closer subregional links within the East African Community (African Development Bank, 2022) and greater investment in infrastructure, in particular in Rwanda and Uganda. In Central Africa, growth is estimated to have reached 3.4 per cent in 2022, up from 1.4 per cent in 2021, and to remain at that level in 2023 (United Nations, 2023), mainly driven by growth in Cameroon and Gabon, owing to an increase in oil prices coupled with strong domestic production in those two countries (Esterhuysen, 2022).

In West Africa, Senegal is expected to continue to experience a remarkable improvement in growth in 2023 following the commencement of hydrocarbon exports, which are coinciding with the rising prices of natural gas (Nel and Davis, 2022). As a result of the continued weakness of the oil sector (Adegbesan, 2023), however, real GDP growth in Nigeria is predicted to decline from 3.6 per cent in 2021 to 3.2 per cent in 2022 (United Nations, 2023). The growth of the subregion is expected to rise slightly from 3.6 per cent in 2022 to 3.8 per cent in 2023 (United Nations, 2023).

Growth in North Africa is expected to increase from 3.9 per cent in 2022 to 4.8 per cent in 2023

**Figure I:** Real GDP growth, Africa, 2019–2024 (Percentage)



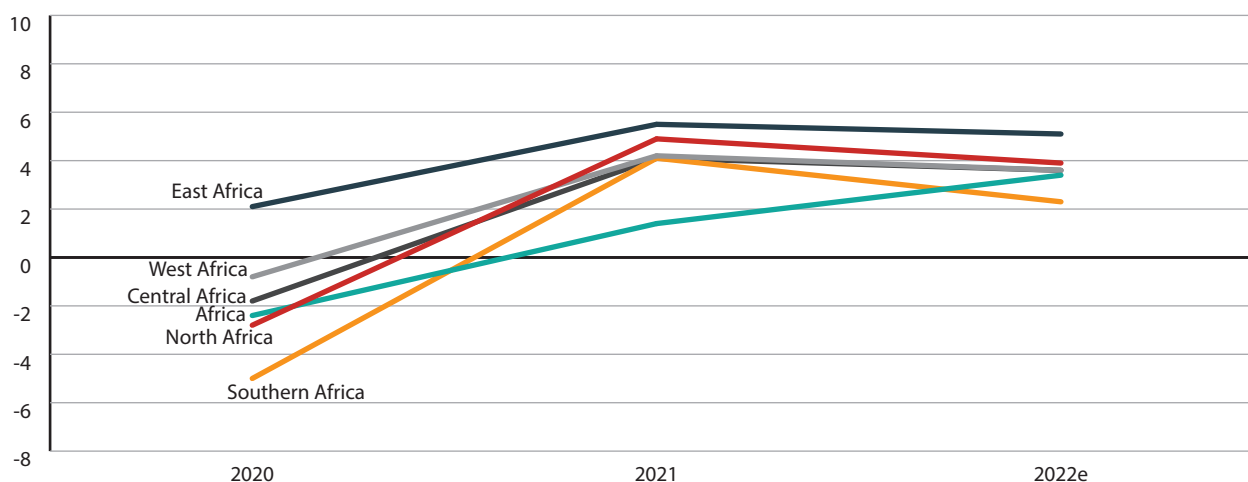
Source: ECA estimates, February 2023.

<sup>1</sup> According to IMF (2021), growth in Africa is estimated to be 3.8 per cent in 2022, to drop slightly to 3.7 per cent in 2023 and to rise to 4.2 per cent in 2024.

**Table 1:** Key macroeconomic variables for Africa, 2021–2024 (Percentage)

	2021	2022	2023	2024
GDP	4.6	3.6	4.1	4.5
Inflation rate	22.7	12.8	11.8	9.7
Fiscal balance-to-GDP	-5.3	-5.0	-4.8	-4.7
Debt-to-GDP	65.6	67.4	62.1	61.3
Current account balance	-2.4	-2.4	-2.3	-2.1

Source: ECA estimates, February 2023.

**Figure II:** Real GDP growth in Africa by subregion, 2020–2023 (Percentage)

Source: United Nations (2023) and ECA estimates and forecasts, 2023.

(United Nations, 2023). It should be noted, however, that growth in North Africa excluding Libya will contract from 5.1 per cent in 2022 to 4.1 per cent in 2023 (United Nations, 2023), as a result, in part, of the expected contraction in the eurozone. Consequently, it is expected that, in 2023, demand for exports from countries in North Africa will decrease, tourist arrivals will reduce and remittance inflows will decline. Algeria, Morocco and Tunisia will feel the effects of the slowdown the most because they conduct higher levels of trade with the eurozone than do other countries in the subregion (Fitch Solutions, 2022).

Sluggish growth is expected in most countries in Southern Africa, most notably in South Africa, the largest economy in the subregion, where growth is expected to reach 2.5 per cent in 2022 (United Nations, 2023). Over the past year, the country has been trying to address a number of persistent issues, including infrastructure constraints in the electricity and transport sectors, high unemployment, a tightened monetary policy

and high inflation. Furthermore, sluggish external demand induced by expected recessions in the eurozone and the United States of America may lead to a drop in real exports from South Africa in 2023, making the economy of South Africa the slowest growing economy of the major African economies that year (Nel and Davis, 2022). The growth rate of Southern Africa is expected to remain at 2.3 per cent in 2023 (United Nations, 2023).

## Inflation is expected to decline in 2023

The share of African countries experiencing double-digit inflation rocketed to 40 per cent in 2022, driven mainly by supply chain disruption caused by the war in Ukraine, which made essential food and energy more expensive. In descending order, Ethiopia, Ghana, Sierra Leone and Angola recorded some of the highest inflation rates on the continent in 2022 and they will remain at elevated

levels in the near term, as shown in figure III. As shown in table 1, the average inflation rate in Africa is estimated to be 12.8 per cent in 2022, before declining marginally to 11.8 per cent in 2023, and is projected to drop further to 9.7 per cent in 2024.

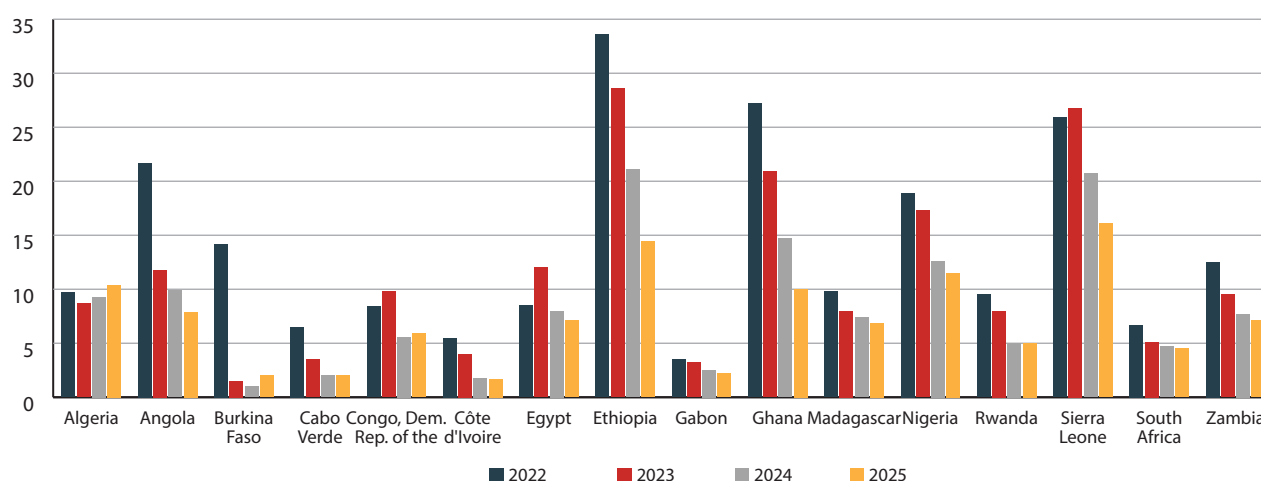
Inflation in Africa in recent years has been driven less by domestic activity and more by external factors, including a sharp spike in global commodity prices, disruption to the global supply chain caused by the COVID-19 pandemic, the crisis in Ukraine and other shocks, and exchange rate fluctuations. According to the African Development Bank (2023), in January 2023, 29 African currencies depreciated against the United States dollar on an annual basis. Owing to the ongoing war in Ukraine, reduced foreign demand, domestic pricing pressures and the continued tightening of monetary policies in developed countries to stem inflation, African economies may continue to endure exchange rate weakness in 2023. Rapidly rising borrowing costs, the burden of debt-servicing, electoral instability and food insecurity, therefore, pose significant risks (United Nations, 2023).

Since May 2022, the Kenyan shilling has depreciated steeply and lost almost 15 per cent of its value against the dollar (Clynch, 2023). The Ghanaian cedi, the worst performing currency in Africa during 2022, depreciated by about 40 per cent that year and has weakened by an additional 20 per cent so far in 2023 (World Bank Group, 2023). From January to April 2023, the Zimbabwean

dollar depreciated by 35 per cent against the United States dollar (Reserve Bank of Zimbabwe, 2023), and, between January and March 2023, the South African rand declined by nearly 7 per cent (South African Reserve Bank, 2023). Currency depreciation has contributed to higher inflation in the near term.

As a result of inflationary pressures, about two thirds of African countries increased domestic policy interest rates in 2022, and some are continuing to hike rates in 2023. In April 2023, interest rates were raised in Malawi from 18 to 22 per cent, which was the biggest increase in Africa in 2023 at that point and the steepest increase in Malawi since October 2022, as inflation is forecast to remain elevated (Vanek, 2023). On 30 March 2023, South Africa raised its main lending rate by a higher-than-expected 50 basis points to 7.75 per cent to curb inflation (Acharya, Gumbi and Miridzhanian, 2023). The tightening of monetary policy across the continent is expected to ease the inflationary pressures in 2023, and analysis suggests that recent increases in real interest rates are likely to be temporary. When inflation is brought under control, the central banks of advanced economies are likely to ease monetary policies and bring real interest rates back towards pre-pandemic levels (Natal and Barret, 2023). The European Central Bank and the Federal Reserve raised interest rates by 0.25 percentage points in May 2023 and the European Central Bank indicated that it would

**Figure III: Annual inflation rates for selected African countries, 2020–2025 (Percentage)**



Source: IMF (2022).

pause hikes in the near term (Deutsche Welle, 2023).

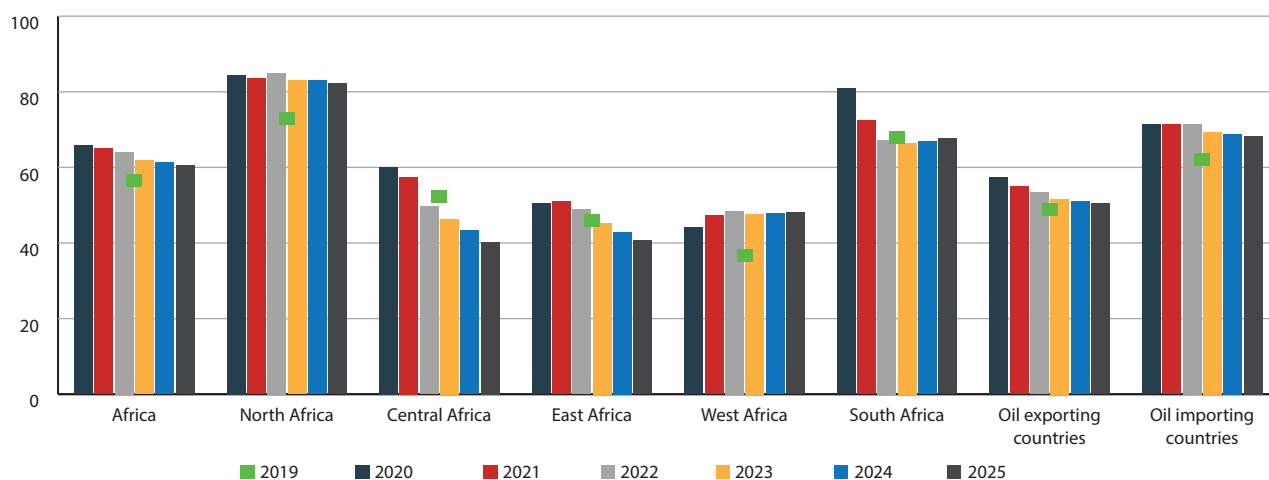
## Fiscal and debt conditions remain bleak

The fiscal deficit on the continent, which is estimated by ECA to be 5 per cent of GDP in 2022, remains unfavourable in comparison to pre-pandemic levels (4.4 per cent in 2019), but is expected to improve slightly to 4.8 per cent in 2023, as shown in table 1. Fiscal positions across Africa remain compromised as a result of the war in Ukraine and efforts by Governments to protect lives and livelihoods during the COVID-19 pandemic.

Governments across the world have spent more in recent years, first on such areas as public health services, business support schemes and social safety nets for individuals to tackle the immediate effects of the COVID-19 pandemic, and, second, on food and oil subsidies for vulnerable households to reduce the inflationary pressures triggered by the crisis in Ukraine since 2022. African countries, in particular, have been drawing additional resources to finance that spending.

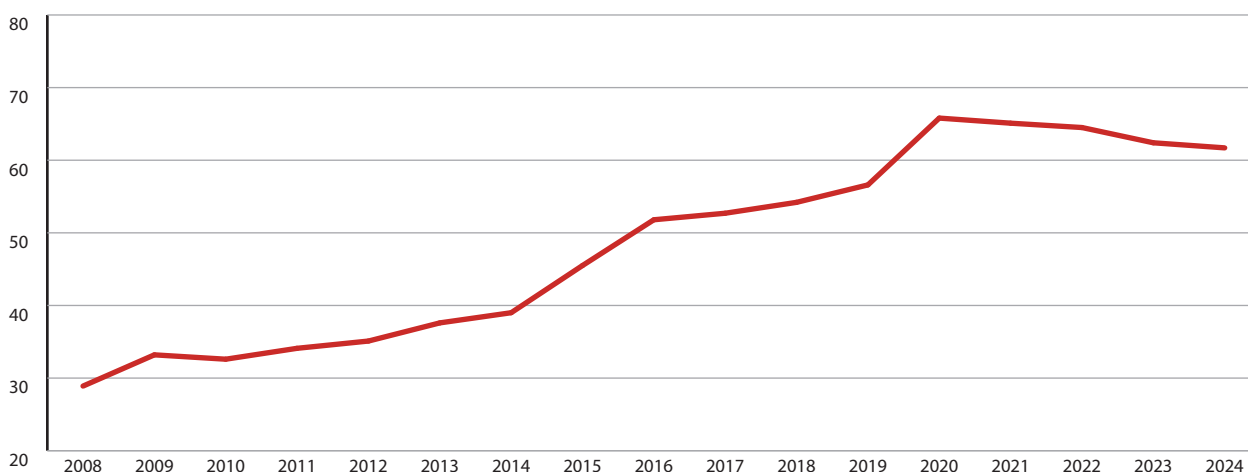
Average government gross debt in Africa increased to 67.4 per cent of GDP in 2022 and will likely drop to 62.1 per cent in 2023 but remain above pre-pandemic debt levels, as shown in table 1. Oil-importing countries will have much higher debt levels than oil-exporting countries between 2023 and 2025, as shown in figure IV. The Sudan, Eritrea,

**Figure IV:** Government gross debt in Africa by subregion and country grouping, 2019–2025 (Percentage of GDP)

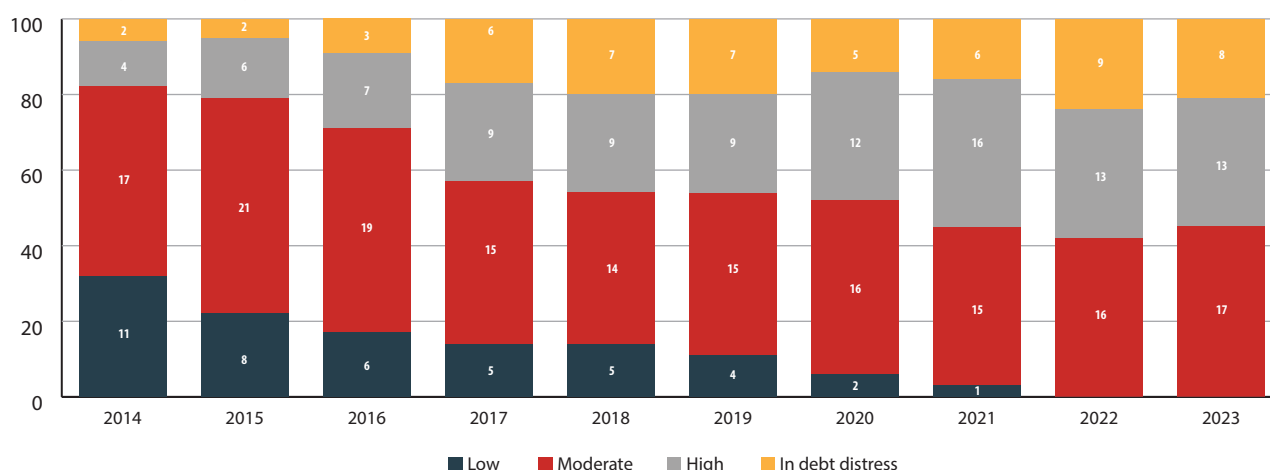


Source: IMF (2022).

**Figure V:** General government gross debt of Africa, 2000–2023 (Percentage of GDP)



Source: IMF (2022).

**Figure VI** : Number of African low-income countries at risk of or in debt distress as at 28 February 2023, by level of risk

Source: IMF (2023a).

Cabo Verde, Mozambique, Zimbabwe, Mauritius, Egypt and Tunisia, in descending order, are among the countries on the continent with significantly higher levels of government debt compared with other African countries in 2022 (IMF, 2022). According to IMF (2023a), as at 28 February 2023, 8 African countries were in debt distress, which is 2 more than in 2021 but 1 less than in 2022, and 13 countries were at a high risk of debt distress, as shown in figure VI. Given the elevated interest rates and the weakness of currencies against the dollar, a number of African countries will face challenges in servicing and rolling over a large volume of debt. ECA (2022) estimates that, in 2023, the principal repayment of at least \$2.7 billion on Eurobonds issued by African countries will be due.

The combination of high debt levels, as a result of the pandemic, lower growth and higher borrowing costs exacerbates the vulnerability of those economies, especially those with significant dollar financing needs in the near term.

## Impact of government expenditure on growth and debt sustainability

Public debt has been an important source of finance for most developing countries and has mainly served to supplement local revenue

sources for development purposes. In recent years, African countries incurred public debt to respond to the effects of the COVID-19 pandemic and other overlapping shocks, which has added severe strain to already dwindling financial resources. Although it would be incorrect to assume that debt accumulation started during the pandemic, the debt that was incurred during that period may well be the straw that broke the camel's back. According to Estevão and Essl (2022), public debt accumulation in Africa started long before the COVID-19 pandemic, as is shown in figure V. In a sample of 65 developing countries, including 33 African countries, between 2011 and 2019 public debt grew by 18 per cent of GDP on average, and by substantially more in some instances. According to research by the World Bank Group on the viability of debt in 65 developing countries, sustained primary deficits, or the difference between the fiscal deficit of the current year and the interest payment that was needed to be paid in the previous fiscal year, were the prime contributors to the public debt of those countries. That means that countries were spending more than they could afford.

Although the domestic revenue mobilization capacity of Africa during the current period of concurrent shocks and its importance for development and debt repayment is being comprehensively discussed, less attention is being given to the ways in which existing resources have been spent and to the destination of public

revenue and public debt. Improvements to the efficiency of expenditure could stimulate growth and ensure that funds are used to finance productive projects that generate sufficient growth and complementarities to repay current and future debt.

Government spending is tightly intertwined with policy decisions. As Waweru (2021) has highlighted, according to the Keynesian school of thought, government expenditure can contribute positively to economic growth and can lead to increases in employment through multiplier effects on aggregate demand. Literature from such authors as Bose and others (2007), Waweru (2021), Le and Suruga (2006) and Mo (2007) shows that recurrent government expenditure in developing and developed countries, including those in Asia, was found to negatively affect economic growth, while government capital expenditure contributes to economic growth. Mo (2007) has shown that shifting just 1 per cent of government spending to capital investment may boost growth by 0.38 percentage points.

Some empirical studies do not support the theory that economic growth is negatively affected by recurrent government expenditure but is positively affected by government capital expenditure, however. Many studies have shown that the influence of recurrent government expenditure on the rate of growth is ambiguous or insignificant. Some research indicates that public spending at the aggregate level does not appear to have a major influence on the real growth of the economy. Diamond (1990) argues that the provision of basic health and education services, which is frequently viewed as consumption, may increase the productivity of the labour force. Such provision could, therefore, boost GDP and contribute to the attainment of Sustainable Development Goals 3 and 4.

Studies on the topic conducted in Africa reveal various relationships between recurrent and capital expenditure and economic growth. In Nigeria, Aluthge, Jibir and Abdu (2021) found that, although recurrent expenditure does not

significantly affect economic growth in either the short or long term, capital expenditure positively and significantly affects economic growth in the short and long term. Similar results were reported by Kolawole and Odubunmi (2015) for Nigeria, by Nyarko-Asomani and others (2019) for Ghana and by Gebreyesus (2022) for Ethiopia. Researchers have commonly concluded that governments should boost the overall share of capital expenditure.

Capital expenditure in Africa, however, is currently restricted, owing to the persistent effects of recent concurrent shocks. A notable challenge for African countries, which many countries from other developing regions of the world share, is debt servicing, which accounts for a high proportion of fiscal expenditure and which diverts the focus from critical capital investment.

## **Composition of government expenditure in Africa shows low capital investment, especially in least developed countries**

Owing to the limited capacity to collect revenue, government expenditure in Africa remains relatively low and capital expenditure is particularly limited, as shown in table 2. A comparison of government expenditure and its composition among Africa, the European Union and Latin America and the Caribbean between 2019 and 2021 shows that total government expenditure as a percentage of GDP in Africa is significantly lower than that of the European Union and even some other developing regions, such as Latin America and the Caribbean; average government capital expenditure in Africa is lower than government consumption expenditure in that region; in the European Union, capital expenditure accounts for a much larger proportion of the budget than does consumption expenditure; in Latin America and the Caribbean, the two components are more or less similar; and, in 2020, when the pandemic started, both Europe and Latin America and the Caribbean spent more on consumption and capital expenditure, mostly



**Table 2:** Government expenditure composition by regional group, 2019–2021  
(Percentage of GDP)

	2019			2020			2021		
	Consumption	Capital	Total	Consumption	Capital	Total	Consumption	Capital	Total
Africa	13.1	11.1	24.2	13.5	11.6	25.1	12.5	12.0	24.5
European Union	20.6	25.9	46.5	22.4	30.4	52.7	22.0	29.4	51.4
Latin America and the Caribbean	16.0	15.1	31.1	17.0	17.5	34.5	15.9	15.4	31.3

Source: ECA calculations based on IMF (2022) and World Bank Group (2023a).

Note: Consumption, government consumption expenditure; Capital, government capital expenditure; Total, government total expenditure.

on health care, vaccinations, subsidies and health-care infrastructure, while public spending in Africa remained broadly similar to pre-pandemic levels. Further analysis of the composition of government expenditure in Africa, shown in annex 1, supports those findings and shows that the lack of capital expenditure is particularly prevalent in the least developed countries.

Data concerning the composition of government expenditure in Africa and Europe between 2000 and 2021 (shown in figures I and II, annex I) reveal that total government expenditure as a percentage of GDP in the European Union was around 50 per cent, comprising capital expenditure of over 30 per cent and government consumption expenditure of less than 20 per cent. In Africa, however, total government expenditure hovered at around 25 per cent of GDP, of which the share of capital expenditure, at around 10 per cent, was nearly always lower than the share of consumption expenditure. In general, in Africa, the least developed countries, as classified by the United Nations in World Economic Situation and Prospects 2023, are spending much less on capital items, as shown in figure III, annex I, owing mainly to limited resource mobilization. Even if those countries maximize their revenue collection, however, they may still not have enough to meet development finance needs.

Analysis of five least developed countries in Africa, namely Burundi, the Democratic Republic of the Congo, Mali, Mozambique and Zimbabwe, which had some of the lowest GDP per capita in the world in 2022, is contained in figures I to V,

annex II, in which further examples of distorted government expenditure can be seen. When there was a sharp drop in capital expenditure in Burundi in 2015, there was a sharp contraction of real GDP, but consumption expenditure fell only slightly. In Zimbabwe, there was a huge rise in the growth of real GDP of about 20 per cent in 2010, but that growth did not translate into capital expenditure or investment but went instead into consumption expenditure. The growth rate declined after 2010. Mali experienced a contraction of real GDP of 1.8 per cent in 2012, when capital expenditure shrank to almost nothing and consumption expenditure remained high and stable. In each of the five countries analysed, the capital expenditure remained significantly below consumption expenditure, and the relationships between GDP growth and capital expenditure were similar to those described in the literature mentioned above. Analysis of other African countries with the least GDP per capita in the world in 2022 also shows that government capital expenditure in those countries was significantly below the current expenditure.

## Policy recommendations

Public debt can be a powerful tool to support sustainable development if used judiciously and with a long-term horizon. Nevertheless, developing countries need to continue to explore ways to strengthen their fiscal position and reduce short-term debt distress.

Economic growth can curb the accumulation of public debt. Estevão and Essl (2022) have reported

that between 2011 and 2019, in a sample of 65 developing economies, economic development resulted in a reduction of public debt of the equivalent of nearly 12 per cent of GDP. The current trend, however, is moving in the opposite direction: African economies are projected to grow by just 3.6 per cent in 2022, with growth forecast to remain below 4.5 per cent level in the coming years and interest rates set to rise to combat inflation. Economic growth is still the best way to escape a debt trap. Policies that foster improved resource allocation and a better business environment, such as digitization and enhanced regulatory frameworks, are crucial for accelerating productivity development. Governments should use such crises as the COVID-19 pandemic as an opportunity to accelerate important structural reforms.

There is considerable scope to further enhance the efficiency of public spending. The growth of real GDP cannot be maintained by massive recurring expenses and fiscal expansion financed by debt in the absence of sufficient capital investment. Governments should try to stop the leaks and waste in national public financing in order to keep the share of ongoing consumption expenditure at a reasonable level, including by merging public agencies that serve similar purposes. Governments should carefully reallocate resources towards productive activities, such as infrastructure, health care and education, which would advance human development in order to improve the spending patterns for ongoing expenses. The Economic and Social Commission for Asia and the Pacific (2019) estimates that fiscal savings of up to 30 per cent in public expenditure on health care and education could be achieved for economies in the Asia-Pacific region. Potential savings on infrastructure investment could be even higher with better project preparation, selection and implementation. With more efficient public spending, those potential savings could then be redirected to finance additional investment in sustainable development or to reduce sovereign debt.

African countries, especially the least developed countries, must improve the composition of government expenditure. It makes sense to pursue a policy to increase government spending on the capital budget to promote economic growth, and to reduce current expenditure. Investing in capital projects might become even more difficult if African countries continue to need to spend more on current expenditure to tackle the immediate effects of shocks. Fiscal consolidation, such as the better targeting of government subsidies and transfers, is also needed.

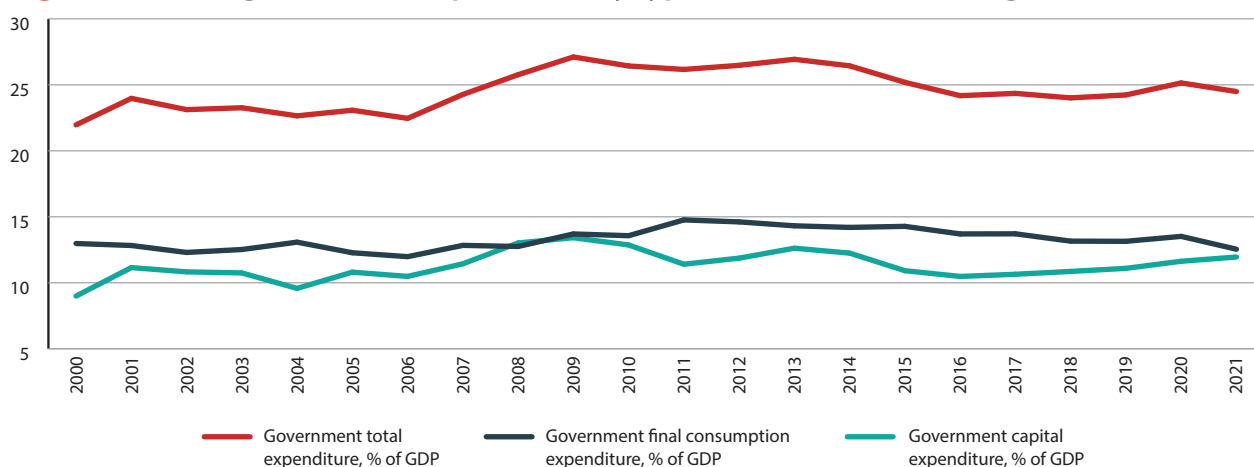
Improvements to fiscal policy must be accelerated. Enhancing the effectiveness of tax administration, for instance, is an excellent place to start, but Governments should work to expand tax bases in ways that promote, rather than restrict, long-term growth. That aim can be achieved by improving tax regimes, including by increasing taxes on activities that hinder sustainable growth and damage public health, such as carbon emissions and tobacco use (Estevão and Essl, 2022). Such measures as electronic tax filing and simplified tax systems can also help to improve efficiency and curb exemptions.

Given that Governments in Africa have limited domestic revenue and a high level of accumulated public debt, and that more consumption expenditure is required to mitigate the high living costs for the most vulnerable households in the short term as a result of the compounded effects of the COVID-19 pandemic and the crisis in Ukraine, there could be more borrowing in the coming years. The destination of debt should be more effectively monitored and debt should be used in the most productive way in order to generate greater returns that can be used for repayment. An efficient debt management strategy is needed to maintain the sustainability of African economies. The international community must assist by strengthening global initiatives that facilitate debt restructuring.

## Annexes

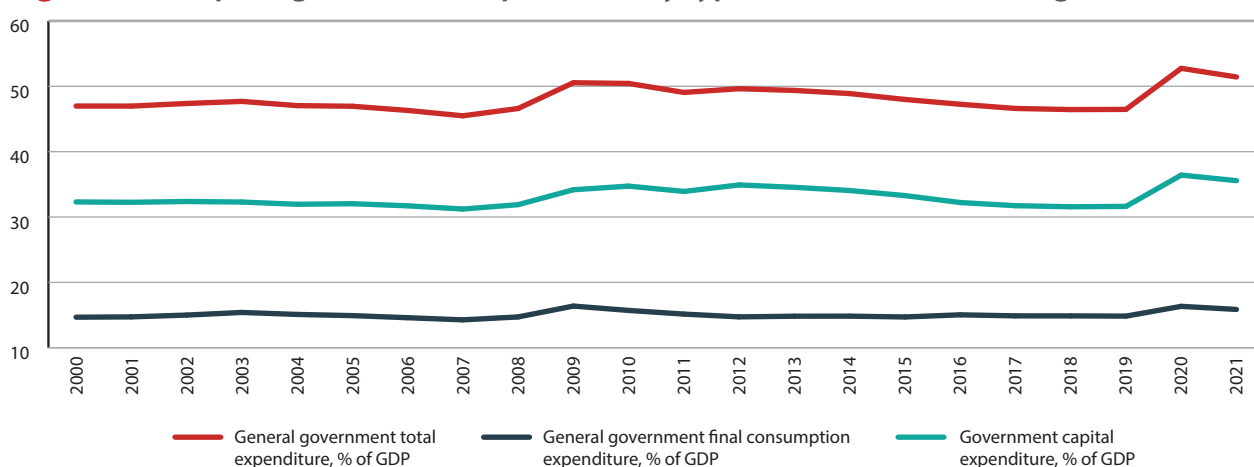
### I. Composition of government expenditure in Africa, Europe and African least developed countries

**Figure I:** African government expenditure by type, 2000–2021 (Percentage of GDP)



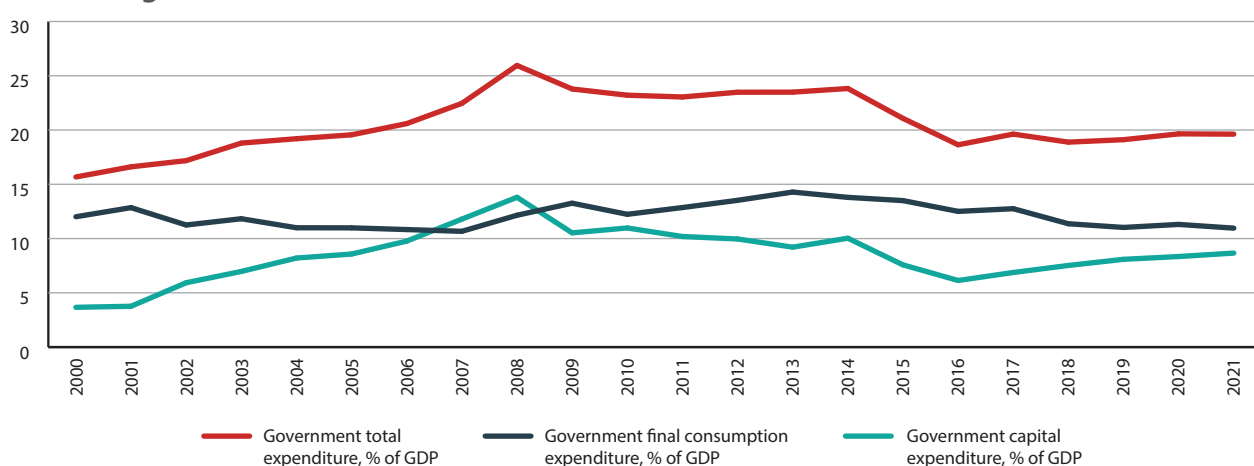
Source: IMF (2022) and World Bank Group (2023a).

**Figure II:** European government expenditure by type, 2000–2021 (Percentage of GDP)



Source: IMF (2022) and World Bank Group (2023a).

**Figure III:** Government expenditure of African least developed countries<sup>a</sup> by type, 2000–2021 (Percentage of GDP)

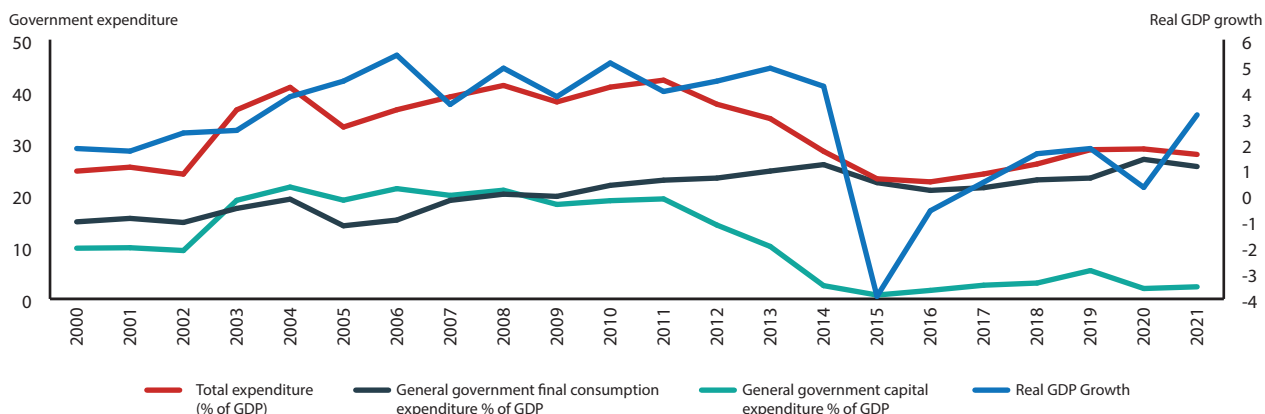


Source: IMF (2022) and World Bank Group (2023a).

<sup>a</sup> per classification by the United Nations in World Economic Situation and Prospects 2023.

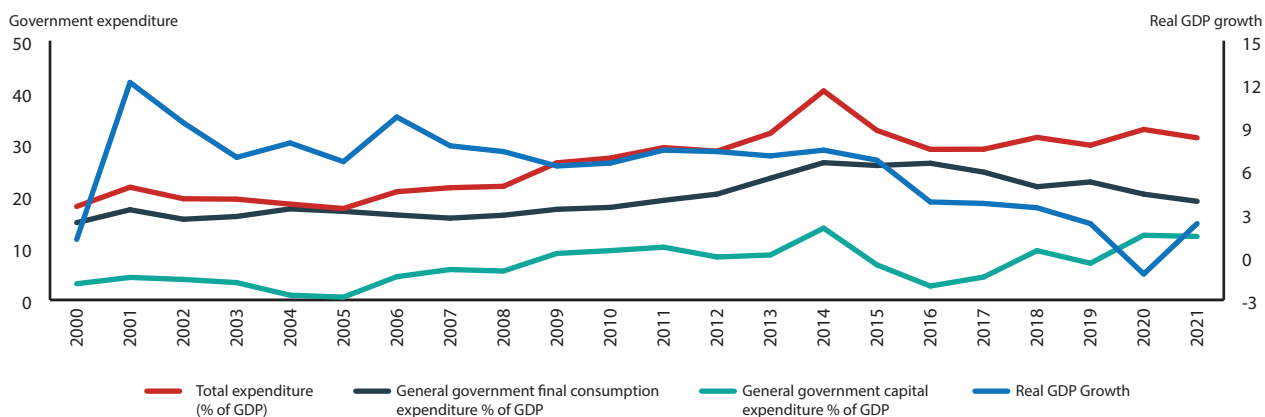
## II. Composition of government expenditure in selected African countries

**Figure I:** Government expenditure by type, as a percentage of GDP, and real GDP growth in Burundi, 2000–2021 (Percentage)



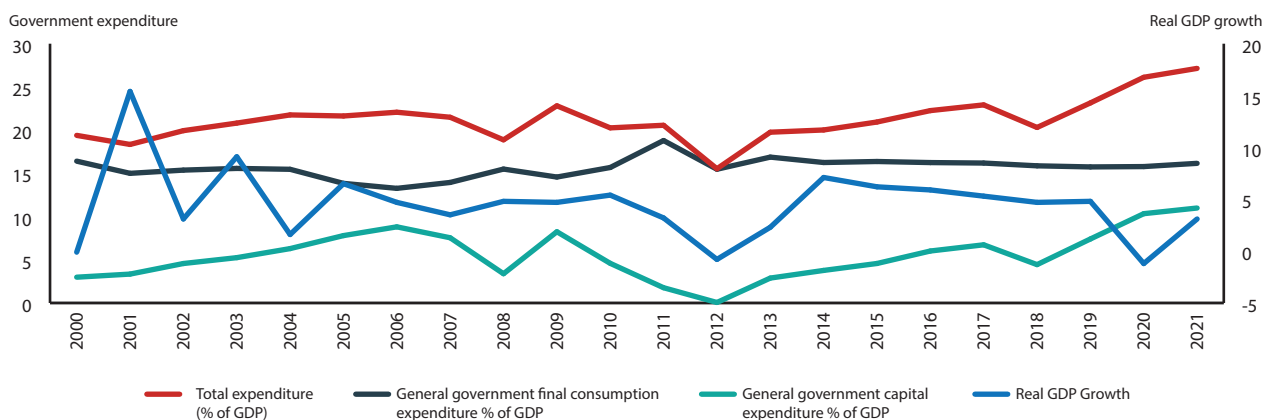
Source: IMF (2022) and World Bank Group (2023a).

**Figure II:** Government expenditure by type, as a percentage of GDP, and real GDP growth in the Democratic Republic of the Congo, 2003–2021 (Percentage)



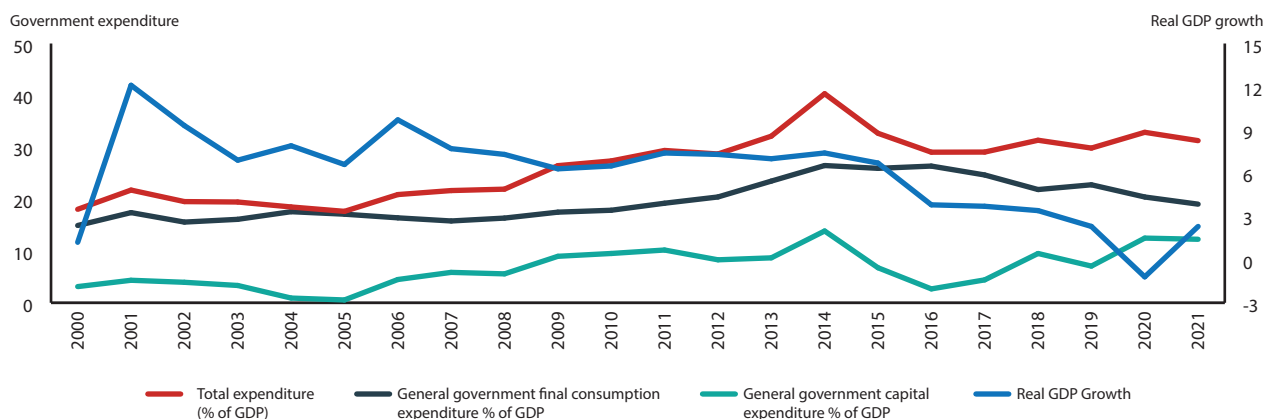
Source: IMF (2022) and World Bank Group (2023a).

**Figure III:** Government expenditure by type, as a percentage of GDP, and real GDP growth in Mali, 2000–2021 (Percentage)



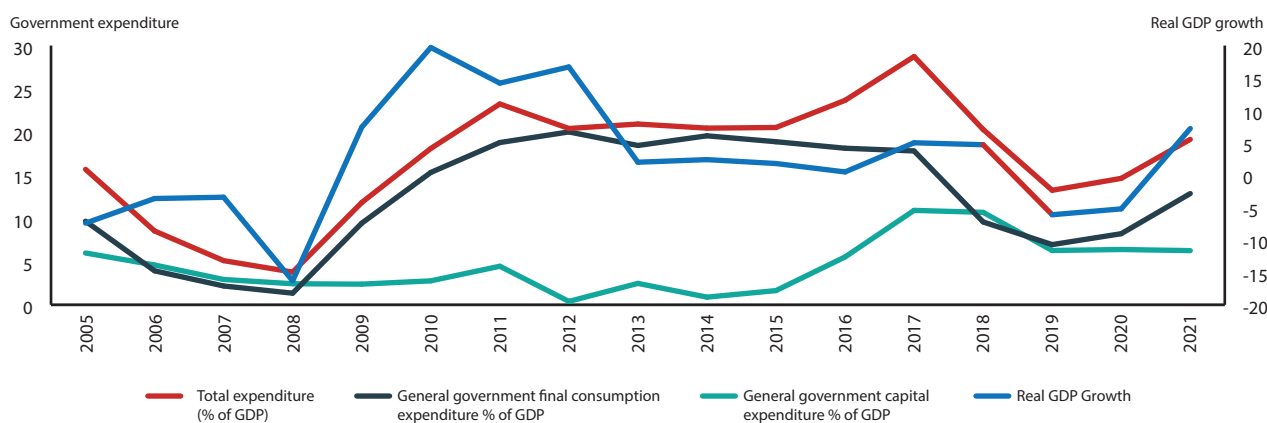
Source: IMF (2022) and World Bank Group (2023a).

**Figure IV: Government expenditure by type, as a percentage of GDP, and real GDP growth in Mozambique, 2000–2021 (Percentage)**



Source: IMF (2022) and World Bank Group (2023a).

**Figure V: Government expenditure by type, as a percentage of GDP, and real GDP growth in Zimbabwe, 2005–2021 (Percentage)**



Source: IMF (2022) and World Bank Group (2023a).

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