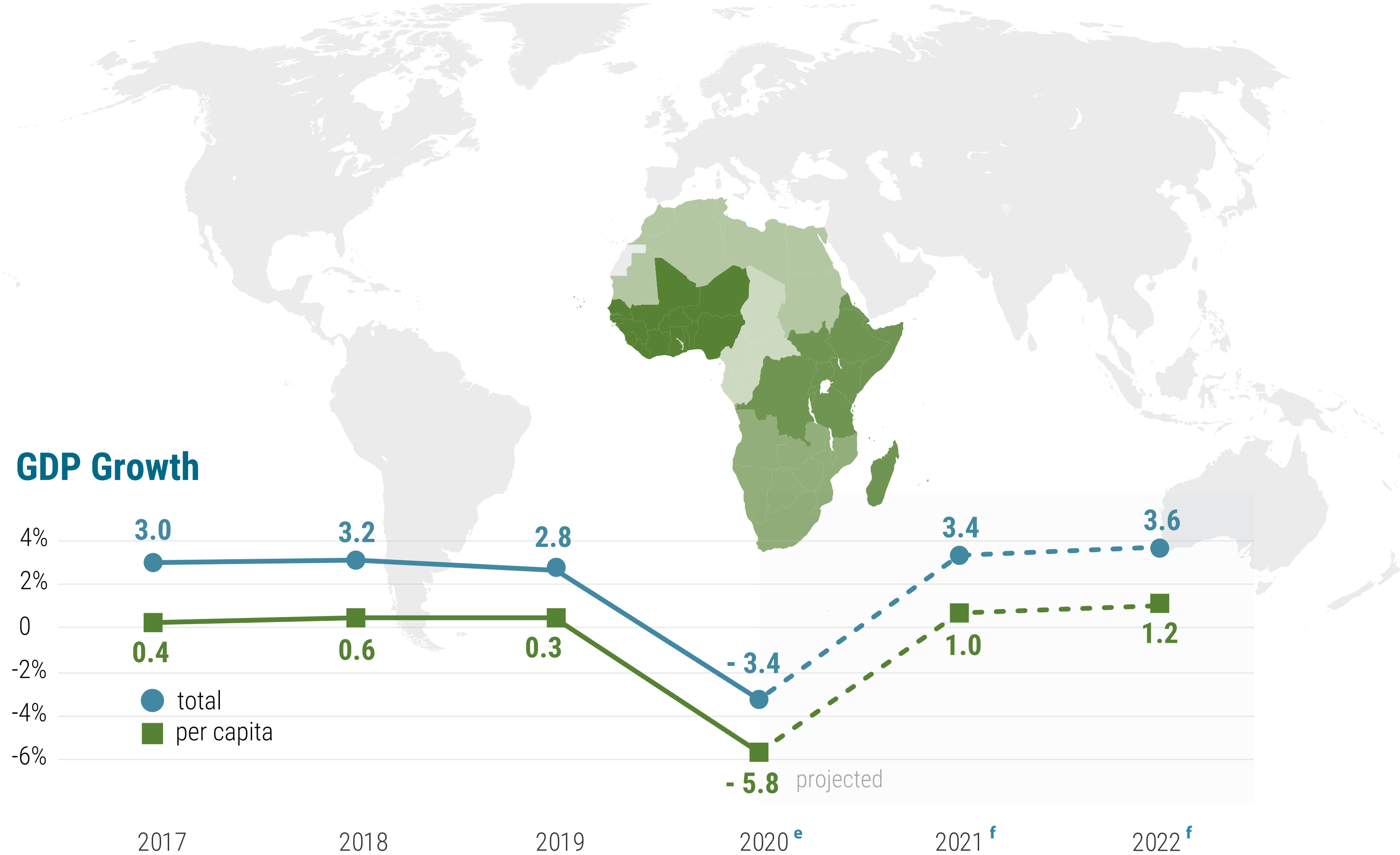
World Economic Situation and Prospects

2021

United Nations

Africa

GDP Growth

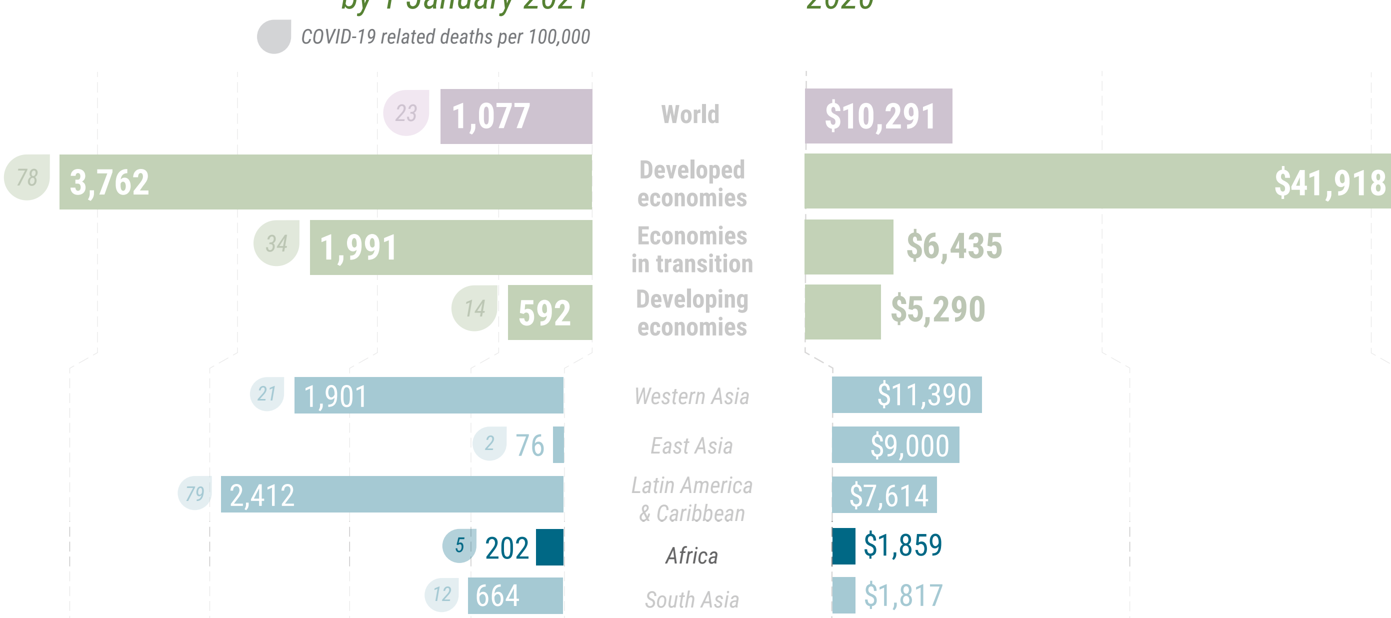


COVID-19 Cases per 100,000 people

by 1 January 2021

GDP per capita

2020



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2021*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

Aggregate data for Africa, excluding Libya.

e: 2020 estimates, **f:** 2021-22 forecasts.

Source for COVID-19 data: UNDESA calculations, based on data from Johns Hopkins University.

Developing economies

Africa: a huge economic downturn is undermining development prospects

- The magnitude and unequal nature of the current crisis have resulted in an enormous setback to recent development gains, with impacts on unemployment, poverty and inequality
- After the largest economic contraction on record in 2020, there is only a feeble and uneven recovery projected for 2021, reflecting the region's limited policy space
- Forging the path towards a stronger and sustained recovery will require forceful policy actions and further multilateral support

An unprecedented economic downturn has occurred in 2020…

Africa is experiencing an unprecedented economic downturn with major adverse impacts on the long-term development of the continent. The lower external demand and lower commodity prices, the collapse of tourism and lower remittances—exacerbated through the institution of much-needed domestic lockdowns and other measures required to control the spread of the COVID-19 pandemic—have caused a severe and widespread deterioration of the economic situation. Also, more difficult financing conditions and rising public debt are exposing many countries to debt distress. Given its magnitude and unequal effects across population groups, the current crisis is causing a rise in unemployment, poverty and inequality which threatens to wipe out the development gains of recent decades. While African countries have acted quickly to limit the spread of COVID-19, most of them are nevertheless confronting enormous challenges as they strive to keep the pandemic under control and mobilize the financial resources needed to support health systems, protect vulnerable population groups and support the recovery.

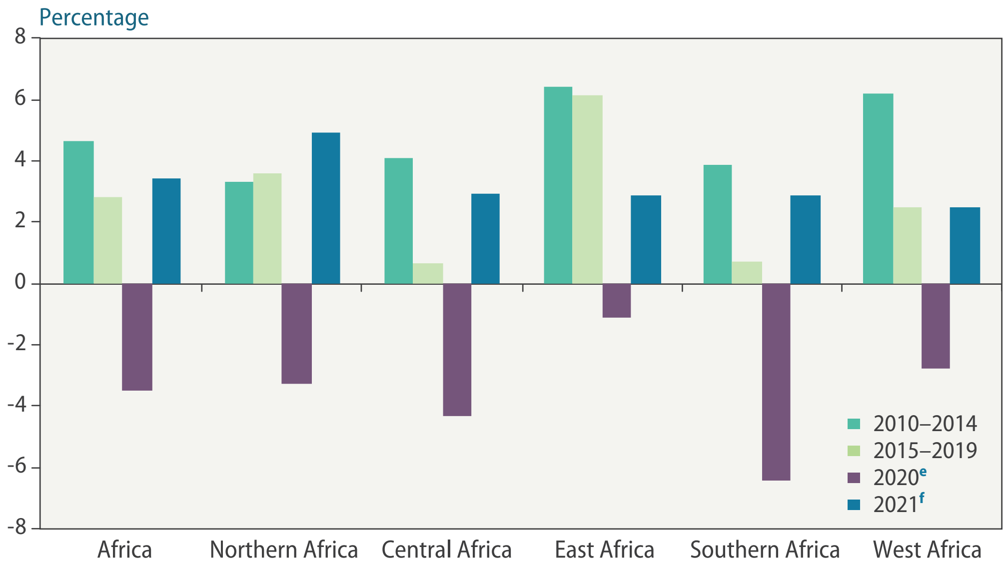
…with prospects for only a moderate recovery in 2021

After a contraction of 3.4 per cent in 2020—the first in 27 years and the largest on record—Africa is projected to achieve a modest recovery, with regional GDP expanding by 3.4 per cent in 2021 (figure III.5) and 3.6 per cent in 2022. The achievement of the projected recovery is predicated on a recovery of domestic demand as generated through the relaxation of lockdown constraints and the pickup of exports and commodity prices. Still, many African countries will have to carefully manage policy priorities on the road to recovery, amid limited liquidity and elevated debt burdens. Should countries experience a spike in infections, saving lives and protecting livelihoods must remain the priority, with increased health spending and financial support to vulnerable groups. In countries where the pandemic has receded, emphasis should be placed on stimulating economic activities.

The recovery faces significant downside risks

The recovery faces downside risks, with the outlook being subject to high uncertainties over the progression of the pandemic at the local and global levels and the development of a vaccine, including its accessibility. New surges of the virus could force countries to reinstate lockdowns and other restrictive measures. So far, Africa continues to be the least

Figure III.5
Real GDP growth in Africa, by subregion



Source: UN DESA, based on projections and scenarios produced with the World Economic Forecasting Model (WEFM).

Note: Data for 2020 are estimations and data for 2021 are forecasts (**e** = estimate, **f** = forecast). Excludes Libya.

affected continent, with most cases occurring in Morocco and South Africa. At the time of writing, Africa accounts for only 3 per cent of confirmed cases (~2.5 million) and 3 per cent of reported COVID-19-related deaths (~59,000), while the continent accounts for 17 per cent of the world population. The incidence rate is highest in Cabo Verde, Libya, Morocco, South Africa and Tunisia, where tens of thousands of cumulative cases exist per million people. Given the renewed surges in several developed economies, African countries should take necessary measures to keep COVID-19 under control.

African countries must avert a painful debt crisis

The challenges related to external financing and high debt levels pose a major risk. The elevated public debt is limiting the capacity to boost spending at this critical juncture. At the same time, meagre growth prospects mean less capacity to sustain debt levels, as foreign reserves, remittances and capital flows falter and depreciations constrain the capacity to service foreign currency-denominated debt. In this regard, gross debt-to-GDP ratios are projected to have increased in 2020 by, on average, about 8 percentage points and by over 20 percentage points in the Congo, Seychelles, the Sudan, and Zambia. Indeed, six African countries are in debt distress (Mozambique, Republic of the Congo, São Tomé and Príncipe, Somalia, Sudan and Zimbabwe), while 14 other countries are at high risk (IMF, 2020d).

African countries need further support from the international community in averting a debt crisis, protracted low growth and a high-debt trap. A debt crisis would not just cause a brutal further deterioration of current conditions, making for a dire outlook, but also force painful fiscal adjustments, thereby worsening development prospects. In the absence of international assistance, some countries might find themselves facing extreme difficulties in their attempts to revive economic activity, which would make debt servicing more arduous. Against such a backdrop, social unrest and political tensions may easily escalate, which could in turn increase insecurity, violence, internal displacement, migration and food insecurity. Extreme weather events, such as floods and droughts, could also disrupt economic activities; and the La Niña phenomenon, in particular, is projected to create drier- than-normal conditions in East Africa and lead to increased rainfall in Southern Africa up until the first quarter of 2021.

Nigeria and South Africa face major economic challenges

Among the largest economies, Nigeria was dealt a severe blow by the twin shocks of low oil prices and COVID-19-related restrictions. In 2020, GDP is estimated to have contracted by 3.5 per cent, amid lockdowns, lower oil production and weak oil prices. Although output is projected to expand by 1.5 per cent in 2021, tighter foreign exchange liquidity, mounting inflationary pressures and subdued global and domestic demand are clouding the medium-term outlook. After a strict lockdown which led South Africa's economy to contract by what is estimated to have been 7.7 per cent in 2020, GDP is projected to expand by 3.3 per cent in 2021. However, it remains uncertain whether, amid power shortages, elevated public debt and policy challenges, a strong and sustained recovery will materialize in the medium-term. Raising potential output in South Africa is a step critical to tackling the strong impacts of the crisis on the labour market. In Egypt, higher fiscal expenditures supported by foreign currency financing secured through multilateral institutions and an easing monetary stance helped prevent a contraction on a yearly basis in 2020. Egypt's GDP is estimated to have grown by 0.2 per cent in 2020; and in 2021, GDP growth is projected to climb to 5.4 per cent, underpinned by a strong recovery of domestic demand and facilitated by the absence of severe balance-of-payments constraints.[1]

The crisis is severely impacting commodity- and tourism-dependent economies

The commodity-dependent economies are experiencing the full force of the crisis, and its impact has been exacerbated by the fall in the prices of commodities, especially oil. Algeria's GDP is projected to undergo an expansion of 5.2 per cent in 2021, underpinned by the recovery in crude oil production after a contraction of 7.7 per cent in 2020. Still, Algeria's fiscal position has weakened, and austerity measures planned by the government may hamper the recovery. A key challenge is the implementation of a reform agenda that can promote private investments. Angola's economic difficulties are continuing after a prolonged downturn, with GDP growth projected at only 1.2 per cent in 2021. There are also significant downside risks associated with the inability of recent macroeconomic policies and structural reforms to ensure external and fiscal sustainability.

In Central Africa, West Africa and Southern Africa, many oil and mineral exporters—the Central African Republic, the Congo, Equatorial Guinea, Namibia and Zimbabwe—face a bleak outlook. After its first contraction in almost three decades, in 2020, Cameroon's economy is projected to recover in 2021 underpinned by strengthened external and domestic demand. Risks are tilted towards the downside, however, owing to domestic political tensions and lingering conflict in English-speaking regions. Following a contraction of 0.5 per cent in 2020, the economy of Ethiopia, among agricultural exporters, is projected to expand by 2.3 per cent in 2021, which is well below the potential level of growth. While agricultural exports are showing resilience, the tourism sector's performance will likely remain restrained throughout 2021.

The crisis is severely impacting tourism-dependent economies, including Morocco and small island developing States such as Cabo Verde, Mauritius, São Tomé and Príncipe and Seychelles. As tourism accounts on average for more than 25 per cent of employment and 15 per cent of GDP in these countries, the effect on unemployment rates, poverty and inequality is clearly visible. Amid restrictions on international travel, potential tourists' fear

1 In terms of fiscal years, GDP growth is estimated at 3.5 per cent for FY 2020, and for FY 2021, the forecast is 2.1 per cent.

of contagion and renewed waves of infection worldwide, the outlook for these economies is bleak. In Morocco, GDP growth is projected at 5.6 per cent in 2021, after an estimated contraction of 7.1 per cent in 2020. In the short term, amid the shutdown of tourism and rising unemployment, economic activity will remain relatively subdued.

A major blow has been dealt to employment across the continent…

The crisis has dealt a major blow to labour markets; and in 2020, unemployment rates increased across the continent, especially in urban areas. The nature of its impact, however, has been heterogeneous, being dependent on the severity of the downturn and the stringency of containment measures. As the COVID-19 pandemic discouraged some workers from job seeking, the size of the labour force has also declined in large economies, such as Nigeria and South Africa, which can have longer-term consequences for potential growth and fiscal revenues. In South Africa, the number of employed persons declined significantly throughout 2020, with the unemployment rate climbing to a record-high of 30.8 per cent in the third quarter. In Nigeria, the unemployment rate had risen to 27.1 per cent by mid-2020. Notably, the number of Nigerians who are unemployed stands at about 21 million, which exceeds the figure for the population of any one of more than 30 countries on the continent.

…and the outlook for ending poverty, reducing inequality and other Sustainable Development Goals is worsening

The size and unequal impacts of the crisis are plunging millions into poverty and aggravating inequalities, which represents a major setback to gains reaped in the previous decades. The current job losses, disproportionally affecting women, youth and migrants in the informal sectors, are compounded by the lack of social protection systems. This being the case, countries that have recently made substantial progress on poverty reduction, such as Liberia, Mauritania, Rwanda and Sierra Leone, will likely witness years of development gains reversed or even erased.

The increase in a range of deprivations will also raise multidimensional poverty to levels observed a decade ago, on average, affecting education, health and other services such as sanitation, drinking water and electricity (United Nations Development Programme and Oxford Poverty and Human Development Initiative, 2020). For example, the crisis could affect measures such as years of schooling and school attendance in countries that were already relatively deprived (for example, Burkina Faso, Chad and the Niger). Maternal and child mortality, in addition to being directly affected by the COVID-19 pandemic, could be indirectly affected through the disruption of health systems, whose impacts may include lower rates of vaccination and regular immunization, and food deprivation.

Fiscal spending aimed at containing the impact of the crisis is on the rise...

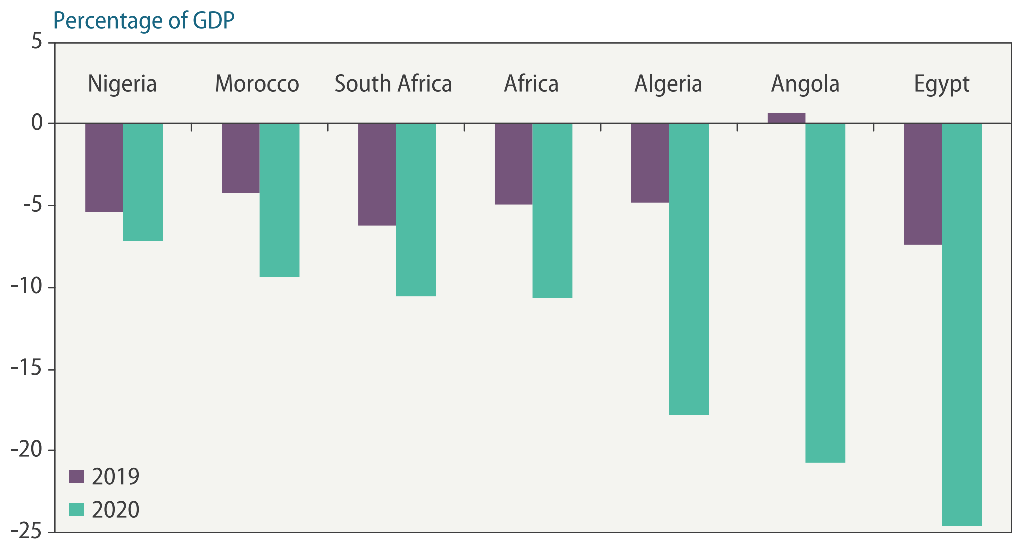
African Governments have embarked on fiscal expansion to combat the impact of the crisis. However, given limited fiscal capacity, the responses are significantly more constrained than in the rest of the world. Indeed, the fiscal response in sub-Saharan Africa has amounted to only 3 per cent of GDP on average so far, compared with a figure for developed countries of about 7 per cent of GDP (IMF, 2020e). Most countries have opted for more immediate support in the form of additional spending and/or through the forgoing of fiscal revenue, entailing mostly non-health sector measures, although some (e.g., Chad, Namibia and South Africa) decided in favour of equity, loans and guarantee schemes, which have less immediate impact on fiscal balances but increase contingent liabilities.

…with fiscal deficits reaching double digits in a number of countries

Although Governments have implemented a wide array of measures, the delivery of assistance has been hampered by a chronic lack of safety nets which would allow a swifter allocation of resources to those most in need. On the other hand, certain digital methods—most notably mobile money transfers—have been effective in boosting social protection efforts, for example, in Burundi, Kenya, Lesotho, Malawi and the United Republic of Tanzania.

Africa's average fiscal deficit is estimated to have climbed to 10.7 per cent in 2020, from 4.9 per cent in 2019 (figure III.6). In the medium term, many countries will need both to implement reforms for creating fiscal space and to guarantee their sustainability by improving debt transparency and management, promoting efficiency of public spending and expanding the tax base.

Figure III.6
General government overall balance, selected African economies



Source: UN DESA.
Note: Average for Africa excludes Libya.

Multilateral institutions have provided financial assistance, but more is needed

Multilateral institutions have been quick to provide financial assistance and debt relief. The IMF has extended $25 billion in assistance to African countries (representing 25 per cent of global financial assistance) and has provided debt service relief in the amount of almost $400 million (which represents 83 per cent of total debt service relief granted globally). For its part, the World Bank has pledged to deploy $50 billion for African countries over a 15-month period to cover operations ranging from expansion of virus testing and provision of medical equipment to the scaling up of social safety nets and support to farmers. In April 2020, the G20 finance ministers endorsed the Debt Service Suspension Initiative (DSSI), under which the world's poorest countries can postpone debt repayments due between 1 May 2020 and end of June 2021 (with the date possibly extended) and spread them over six years. Some countries—including Angola, the Congo, Djibouti, Mauritania and Mozambique—stand to save 1–2 per cent of GDP through participation in this initiative; and to date, 29 African countries have been benefiting from its implementation.

A debt moratorium will not suffice for the most indebted African countries

However, the expansion of private lenders has complicated debt relief efforts. In 2019, about 40 per cent of public and publicly guaranteed long-term external debt in sub-Saharan Africa was owed to private creditors, which have not yet begun to provide debt relief on equal terms. Rating agencies have made it clear that requests put forward by countries to private creditors for treatment on G20-comparable terms could lead to downgrades of those countries' credit rating. Strong action from Governments, citing force majeure, for example, could enforce comprehensive standstills (Rashid and Stiglitz, 2020). Yet, a debt moratorium will not suffice for the most indebted countries, and debt relief will be needed to avert defaults. In anticipation of such a need, the G20 reached an agreement, in principle, on a Common Framework for Debt Treatments, which it endorsed on 13 November, to facilitate debt restructuring on a case-by-case basis. This could represent a breakthrough under the international debt agenda. Ultimately, the current crisis not only calls for the creation of new liquidity initiatives (box III.2) but also presents an opportunity to establish a predictable, rules-based and comprehensive sovereign debt restructuring mechanism.

Aggressive monetary easing has been implemented amid contained inflationary pressures

Most African economies have sharply eased their monetary policies. In 2020, policy rates were cut in 25 countries as well as in the 14 member countries of the Central African Economic and Monetary Community (CEMAC) and the West African Economic and Monetary Union (WAEMU); other measures have included liquidity injections, moratoriums on debt repayments and restructuring of existing obligations. Cabo Verde, Guinea and Morocco also

Box III.2

Development financing through SDRs and the LSF—Options for policymakers

The COVID-19 pandemic has created financing challenges for numerous Governments in Africa saddled with high pre-COVID-19 debt levels and fiscal deficits, increasing borrowing costs, depreciating currencies and falling tax revenues (ECA, 2020). Africa's average debt-to-GDP ratio increased significantly, from 39.5 per cent of GDP in 2011 to an estimated 61.3 per cent of GDP in 2019.

Generally, borrowing costs are relatively high in Africa compared with developed and some emerging economies, as markets generally impose higher risk premiums on African economies. Estimates show that they pay about 2.9 percentage points more than their macroeconomic fundamentals would support (Olabisi and Stein, 2014), creating significant challenges for countries seeking to raise additional funding at reasonable cost. Furthermore, most African bonds are issued in dollars or in euros, which presents a high exchange rate risk for borrowing Governments if their currencies depreciate as a consequence of the COVID-19 pandemic.

These existing financing challenges have severely curtailed Africa's fiscal space for responding effectively to the pandemic, since even those economies that have access to international financial markets are finding it difficult to access liquidity on favourable terms. At the same time, the funds that have been freed by the G20 Debt Service Suspension Initiative for the poorest countries, and through International Monetary Fund (IMF) emergency funding for low- and middle-income countries, fall short of the vast amounts required to mitigate the effects of the crisis. More innovative financing measures are therefore needed to address both liquidity and solvency issues. Liquidity issues could be addressed through enhanced access to emergency funding facilities and new liquidity lines for the private sector in Africa, while solvency issues would require a more comprehensive temporary debt standstill as well as debt restructuring and reduction measures.

Special drawing rights

Access to special drawing rights (SDRs) can provide much-needed financing for many African countries. In April 2020, the IMF called on the G20 to support a new general allocation of SDRs which would benefit all countries. An alternative proposal is for developed economies to donate or lend unused portions of their existing SDR holdings to low- and middle-income countries that are in need of support. The combination of a new general allocation of SDRs with a mechanism for their subsequent reallocation to the countries most in need would further enhance the impact on liquidity.[a]

Under the IMF Articles of Agreement (articles XV and XVIII), any new general allocation of SDRs is distributed among member States in proportion to their quotas.[b] A new issuance of SDRs worth US$ 500 billion would therefore result in an allocation of US$ 11.9 billion for 51 African countries (excluding

a For further details on these two approaches in a global context, see, for example, United Nations (2020b).

b For further details regarding special drawing rights, see IMF (2020f).

(*continued*)

Box III.2 (*continued*)

Somalia, the Sudan and Zimbabwe) that account for a combined 2.381 per cent of IMF quotas—at no discernible cost. This is almost equivalent to the US$ 12.9 billion in debt relief offered through the Debt Service Suspension Initiative in 2020.

Alternatively, if all G20 countries were to lend or donate all of their existing unused SDRs (SDR 128.7 billion, equivalent to US$ 179.2 billion), this could go a long way towards helping African countries meet their immediate financing needs (estimated at $100 billion) (United Nations, ECA, 2020). Given the current interest rate of 0.5 per cent on SDR holdings, a voluntary redistribution of SDRs would entail a small cost for the giving country in the form of forfeited revenue. A case-by-case agreement on who is to bear this cost—the developed countries redistributing their SDRs or the developing countries receiving them—would be needed to facilitate the reallocation. For example, developed countries could levy charges, on a case-by-case basis, on lower-middle-income countries to help absorb the costs for low-income countries.

Joint proposal by ECA and PIMCO for a liquidity and sustainability facility

The liquidity problems facing economies across Africa have been exacerbated by high borrowing costs and a significant decline in capital flows. Some relief has been provided in the form of official sector debt moratoriums and standstill agreements. However, private sector debt, which has been mounting in Africa in recent years, has not benefited from such moratoriums and unlike other markets of developed countries, most COVID-impacted developing countries do not have access to central bank liquidity programmes with the ability to facilitate market functioning and help reduce financing costs. The establishment of a liquidity and sustainability facility, as proposed by ECA and PIMCO, would lead to an immediate reduction in borrowing costs for Governments in Africa and enhance their access to international capital markets and could also generate new investment interest from non-traditional investors. All risk would be borne by the private sector institutions accessing the facility, which could benefit official sector creditors and development finance institutions through its improvement of overall debt sustainability.[c]

Apart from pursuing its objective of raising the capital needed to address COVID-related needs and associated economic disruptions, the facility could also address the continent's debt problem. It is estimated that the facility could enable regional total savings in the amount of $39 billion-$56 billion over a five-year period, thereby significantly improving debt sustainability for vulnerable countries. The facility is designed for financing by central banks with hard currency reserves and would benefit for the most part vulnerable emerging market countries issuing bonds on the continent and even beyond, who face challenges related to market access and liquidity.[d]

c For further details, see the joint proposal of the Economic Commission for Africa and PIMCO regarding a liquidity and sustainability facility to improve market access for emerging market and other vulnerable sovereigns (United Nations, ECA, and PIMCO, 2020); and Songwe (2020).

d Joint proposal, p. 1, fourth bullet point.

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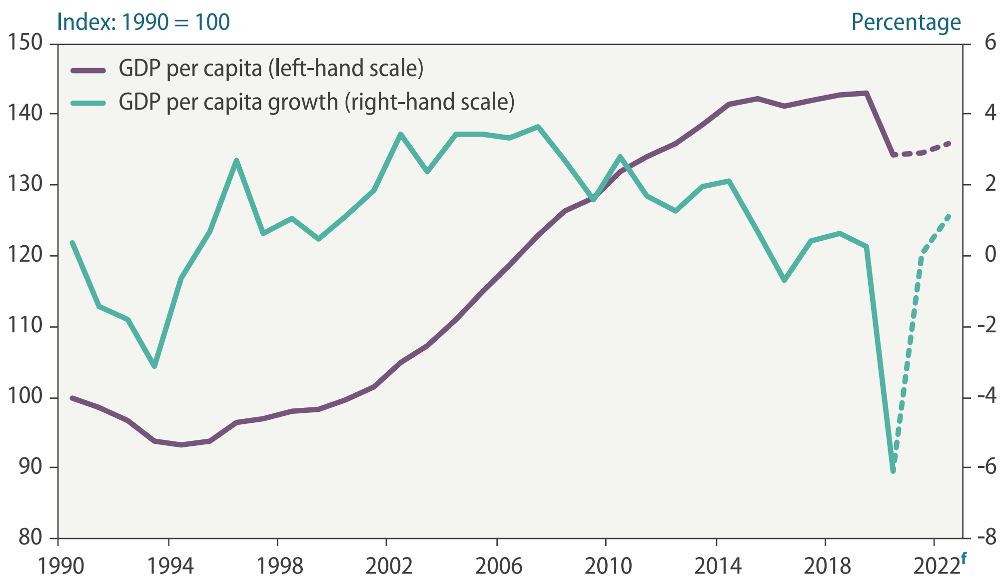
reduced capital adequacy ratios and liquidity coverage ratios. While monetary policies will likely remain accommodative in the short-term, barring inflationary pressures, those policies should nonetheless balance supporting aggregate demand with preserving exchange rate stability, especially in case of a double-dip global recession and renewed financial turmoil.

In 2021 and 2022, aggregate inflation in Africa is projected to ease to 9.0 per cent and 6.4 per cent, respectively, as inflationary pressures decline at the same pace as the containment of the outbreak. Inflation is projected to remain elevated in only a handful of countries (e.g., South Sudan, the Sudan and Zimbabwe), amid macroeconomic imbalances coupled with deteriorating economic and financial conditions and the monetization of fiscal deficits. If renewed supply disruptions and financial turbulence were to emerge, the inflation outlook could worsen. In this regard, aggregate inflation trended upward in 2020 as a result of exchange rate depreciation in domestic currencies and food price inflation associated to supply disruptions in Nigeria, South Sudan, the Sudan and Zimbabwe.

There is an urgent need for a robust and sustained growth uplift

Africa needs a sustained revival of growth. In 2020, GDP per capita is estimated to have regressed to the level observed a decade ago (figure III.7), owing to the current crisis and the slowdown that has taken hold since the end of the commodity boom. While a focus on the short term is essential, African countries still need to lay the groundwork for a strong and inclusive development path in the medium term, which would entail the creation of decent and inclusive jobs at a large scale. As countries will be emerging from the crisis with higher levels of debt, a careful balance of policy priorities will be required to build resilience and boost productivity. This would include accelerating both implementation of the reform agenda to unlock growth opportunities and institutional changes to improve transparency and build trust in the rule of law, as well as forceful policy actions in the areas of technology adoption, climate resilience and domestic revenue mobilization. African countries should prioritize, in particular, the use and diffusion of digital technologies, supported by the expansion of affordable and universal digital infrastructure. In addition, an effective framework for the implementation of the African Continental Free Trade Area could become a major tool for promoting intra-African trade, food security and productivity.

Figure III.7
Real GDP per capita in Africa



Source: UN DESA, based on projections and scenarios produced through the use of the World Economic Forecasting Model (WEFM).

Note: Data for 2020 are estimations and data for 2021 and 2022 are forecasts (**f** = forecast). Excludes Libya.