Economic development in Africa report 2024

Chapter II

Monitoring economic vulnerabilities when trading and investing across Africa

United Nations

Introduction

Chapter I provided an analysis of the impact of the global polycrisis on countries in Africa in terms of their exposure to six categories of external shocks (political, economic, demographic, energy, technology and climate) and their vulnerability across six domains (economic, governance, connectivity, social vulnerability, energy and climate-change related). It was found that economic vulnerability was among the top two domains across which most countries in Africa are most vulnerable to current polycrisis shocks. In essence, the global polycrisis can add to their economic burdens, further exposing their overall systems to instability, and many find themselves ill equipped to respond effectively to the adverse effects of overlapping crises, both external and internal. Such economic vulnerability tends to be greater for countries that are dependent on the export of key natural resources or that have restrained financial resources to buffer shocks (Crisis Group, 2023). Their economic vulnerability to shocks, and thus their limited ability to manage crisis conditions, can result in severe economic deterioration, with lower output growth, slumps in external demand and export revenues when key export sectors or products are affected, reduced fiscal space and onerous debt burdens. In such a situation, promoting a stable economic environment and resilient trade sectors will be important steps towards building a bulwark to the polycrisis.

The lack of diversification of many economies in Africa is a major concern for trade (UNCTAD, 2022b), since they are poorly buffered in times of economic and other crises that have an impact on output. This chapter assesses the performance of economies in Africa during periods of shocks from two main perspectives: first, exposure to shocks and the effect due to macroeconomic and structural vulnerabilities; and second, the effects of exposure to shocks and of a specific crisis according to vulnerability by country grouping. A stable macroeconomy provides an anchor for the economy. In addition, macroeconomic policies are useful in ensuring economic adjustments that absorb shocks efficiently. Conversely, a diversified structure ensures that the economy can absorb shocks through the long term, thereby safeguarding the economy against vulnerability.

Walking on eggshells: Risks to the outlook

Between 2000 and 2023, economies in Africa emerged as attractive destinations for trading and investments. A key variable, often regarded as an indicator of interest for investment, is GDP growth.[1] In Africa, economic growth averaged 4.1 per cent between 2000 and 2023. According to the 2024 world development indicators of the World Bank, the average annual percentage change was 1.7 percentage points higher than the global average of 3.1 per cent between 2000 and 2010. Similarly, between 2011 and 2020, weighted average GDP growth in Africa was 3.1 per cent, compared with the global average of 2.4 per cent. Due to the COVID-19 pandemic shock effect, on average, the economy in Africa contracted by 3.4 per cent in 2020.

[1] In this chapter, a distinction is made between growth and decline in output. An increase in the level of output at the end of a period over and above the initial level of output at the start of the period is defined as growth in output. By contrast, where output at the end of a period is lower that the initial level of output at the start of the period, the decline is referred to as a contraction in output. In this case, the standard period used to measure output levels is usually a fiscal or calendar year.

Economic growth picked up to an average of 5% between 2021 and 2023, **higher than the global average of 4.7%**

However, data from the world development indicators showed that growth picked up to an average of 5.0 per cent between 2021 and 2023, higher than the global average of 4.7 per cent over the same period.

Nonetheless, despite growth above the global average, countries in Africa experienced transient growth with unequal results within and between countries. For commodity-dependent exporters, where commodity dependency indicates that commodities constitute more than 60 per cent of the value of their exports, on average, periods of high prices led to an increase in output (UNCTAD, 2023d). By contrast, regional-specific effects, such as the Arab Spring, which began in 2010, led to a decline in output. Further, the COVID-19 pandemic, which began in late 2020, had adverse effects for most countries in Africa, with the impact of the pandemic affecting economic output into the medium term.

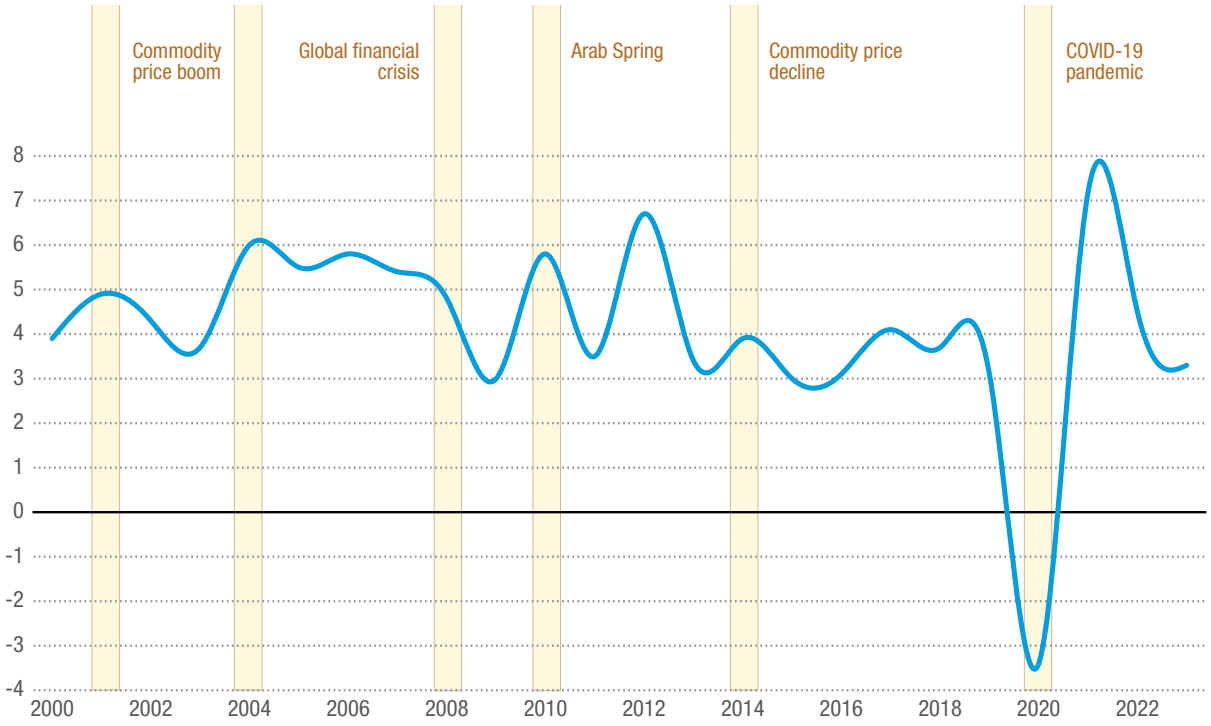
Figure II.1 provides an overview of the weighted average economic growth in Africa in the two decades to 2022. Its economy grew on average by 4.9 per cent, underpinned by commodity price increases in 2001 and 2004. Nevertheless, the period after 2008 and up to 2009 saw a dip in economic growth due to the global financial crisis, which lowered global demand for African goods. The Arab Spring had unfavourable effects on economic growth. Libya and Tunisia, which were among the top 10 economies in Africa in terms of GDP per capita at the time of the Arab Spring, saw their output decline, while GDP growth fell in Egypt, with spillover effects for other economies in Africa that export goods to North Africa.

Economic growth moderated to a low of 2.8 per cent in 2015 due to the delayed effects of declining fuel prices, which began in 2014 (figure II.1).

Figure II. 1

Historical view of shocks to the economy of Africa: Average gross domestic product growth

(Annual Percent change)



Source: UNCTAD, based on World Development Indicators database (World Bank), 2024.

Fuel exporters such as Angola, Gabon and Nigeria were adversely affected, with the shock affecting fiscal revenue and leading to inflationary pressures in Nigeria. By contrast, fuel importers such as Malawi, Rwanda, Uganda and the United Republic of Tanzania saw improved trade balances as lower fuel import prices reduced current account balances (International Monetary Fund, 2015a).

Finally, the COVID-19 pandemic had adverse far-reaching impacts on all economies in Africa. The measures taken by most countries to contain the pandemic had twofold effects:

- Increased spending on medical supplies, as well as the implementation of fiscal stimulus measures for most economies, meant that fiscal pressures mounted, while internal demand and, therefore, output decreased significantly.
- As other economies adopted similar measures, demand for African goods dropped, further compounding the already dire effects of the pandemic. Trade-in-services export-oriented economies, such as those with dominant tourism sectors, for instance, Cabo Verde and Mauritius, were most affected, since the accommodation and food service activities hardest hit by the pandemic.

In addition to the aforementioned shocks, other external shocks, such as climate change, had growth-limiting impacts on agricultural product export economies. For instance, droughts in 2010–2011 in East and Southern Africa (International Organization for Migration, 2023) led to lower-than-expected agricultural output. For countries dependent on the export of agricultural products, this has detrimental effects on trade balances, which can lead to pass-through inflationary effects, rising unemployment and vulnerability risks. While growth rates were broadly above the global average between 2000 and 2023 (with the exception of 2003, 2007 and 2021), the shocks experienced during the various polycrisis generated adverse effects on African countries, with the impact and magnitude of the shocks largely dependent on an individual country's vulnerability (see chapter I). The following sections analyse the variables that provide a broad overview of vulnerability among African countries and the possible implications of vulnerability for risk to trading and investments.

Trade patterns during a system-wide crisis

Economic and trade resilience of countries **are best assessed during times of major crisis events**

The economic and trade resilience of countries are best assessed during times of major crisis events that can cause severe stresses to economic systems with interlinked effects on other systems. A recent system-wide crisis that has brought unprecedented impacts on various systems is the COVID-19 pandemic, a health-related crisis that created a global demand and supply crisis and disrupted many industries and economies. This section will, therefore, assess the pattern and composition of trade of countries in Africa during the period including the crisis, 2019–2021, to provide a better understanding of the structural vulnerabilities of African countries and to guide the policy actions needed to strengthen bulwarks to shocks.

With about 16 per cent of the world population living in Africa, its trade volumes are disproportionately small, representing less than 2.9 per cent of world trade in 2022 (African Export-Import Bank, 2023). The low trade volume reflects the challenging economic placement of Africa in the world economy, where it is relatively weak and hence dependent on stronger economic regions, while also being especially vulnerable to external shocks. According to 2024 data from the United Nations Comtrade database, Africa has five main trading partners, accounting for over 50 per cent of all of its imports and exports, namely China, the European Union, India, South Africa and the United States.

In 2022, **intra-Africa trade values stood at 16%**, whereas in Europe, 68% of trade was intraregional, and in Asia, 59%

Since Africa relies significantly on the socioeconomic, trade policy and political situation of its trading partners (UNCTAD, 2018a), it is especially vulnerable to the policies and factors that affect demand for and supply of goods and services. While Africa has not been targeted by these policies, it has suffered the consequences thereof, for example, falling commodity prices and lower demand for imports in China (Devermont and Chiang, 2019; World Bank, 2019).

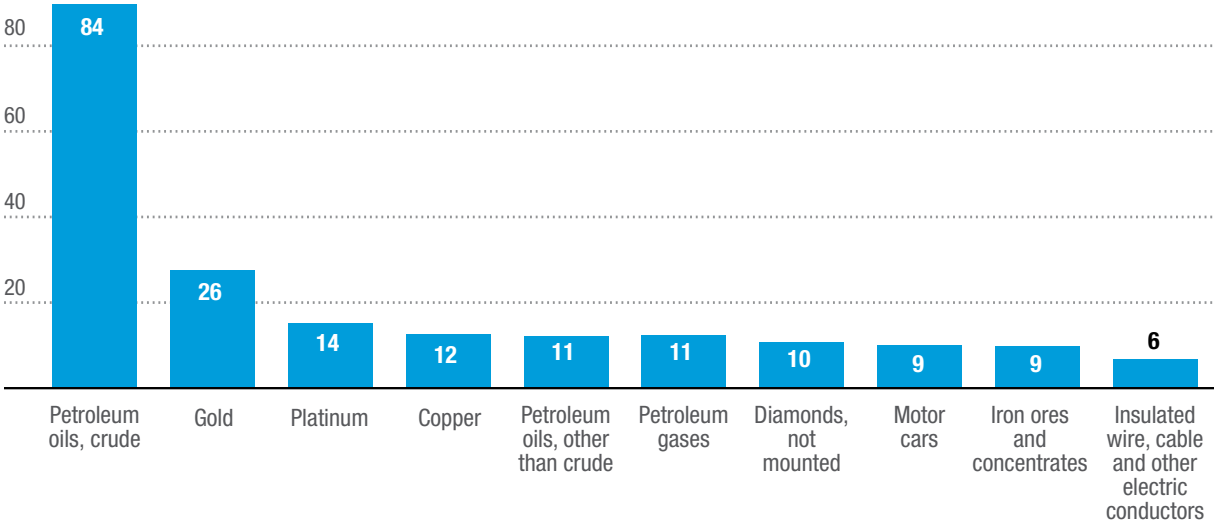
Moreover, the overreliance of Africa on a few key trading partners becomes more evident when comparing the share of intra-African trade with those of other regions. In 2022, intra-Africa trade values stood at 16 per cent, whereas in Europe, 68 per cent of trade was intraregional, and in Asia, 59 per cent (UNCTAD 2023e). Moreover, apart from some commodities, such as cobalt, manganese and graphite, the dependency is mostly one-sided: Africa is more dependent on its trading partners for imports, with a less-than-proportionate number of exports. This imbalance weakens its position in the global trade environment, where Africa is overdependent and underrepresented.

Further fragmentation could have serious, wide-reaching effects on Africa. The International Monetary Fund (2023a) hypothesized that if trade tensions persisted, under an extreme scenario of a division into two trading blocs with China and the United States and the European Union, Africa would be hit hardest, with an expected 4 per cent decline in GDP after 10 years. Similarly, in this scenario, foreign direct investments and other development flows toward Africa could drop by $10 billion. Further fragmentation and heightened trade protectionism measures by its main trading partners could have damaging effects on the continent.

Nevertheless, Africa remains vulnerable, due to its dependence on China and the United States and the respective trade policies and political climates of these two trading partners. Strengthening intra-African trade could help dampen some of the effects, while mitigating some of the other risks posed by current trade structures.

In addition, the distance from countries in Africa, with the exception of South Africa, to their top trading partners, is relatively large, which exacerbates the vulnerability of trade in Africa.

Figure II. 2
Top African merchandise exports, 2019–2021
(Billions of dollars)



Source: UNCTAD, based on data from the United Nations Comtrade database.

The implications of such distances are greater dependencies on external factors, such as fuel prices for transportation or the functioning of trade routes, which can be hindered easily, as seen during the disruption in the Suez Canal in 2021 (UNCTAD, 2024g).

A look at export products shows that crude oil is the most prominent (figure II.2), accounting for more than 20 per cent of all exports. Gold is the second-most important export, representing 6 per cent of exports. Other leading exports are platinum, copper and non-crude oil. According to data from the United Nations Comtrade database, most of the top products are basic commodities; the top 10 products make up almost half of all exports. Thus, African trade, in particular exports, is characterized by a lack of diversification, with dependency on the export of basic commodities, resulting in low productivity growth (UNCTAD, 2022b).

Moreover, with little or no value added for commodity exports from countries in Africa, policies that strengthen value addition within the continent, for instance, refineries or other processing plants such as a precursor facility in the Democratic Republic of the Congo (see UNCTAD, 2023f) could boost local economies, while prompting investment in local infrastructure. Notably, the untapped potential for oil refineries is apparent when trade patterns are considered; crude oil is the main export product, while non-crude oil is the most imported good. Commendable policies have been implemented to encourage private sector participation, for example, the newly built Dangote Petroleum Refinery in Nigeria that started production in late 2023.

In addition, a more in-depth analysis of the top two export products by country emphasizes the lack of diversity. On average, Angola and Nigeria were the main exporters of petroleum in 2019 and 2021,[2] with both countries accounting for 73 per cent of petroleum exports, based on data from the United Nations Comtrade database. Cameroon, Congo, Egypt and Gabon were also among the leading exporters of crude petroleum oil over the same period, albeit with much lower volumes, compared with Angola and Nigeria. The latter, as the largest economy on the continent and the principal oil exporter, plays a large role in the economic landscape of Africa.

With regard to gold, the second-most exported product in terms of value, the situation is not as extreme in terms of single dependencies. However, the leading 10 gold exporters export more than 80 per cent of the trade volume, South Africa being the largest exporter, followed by Burkina Faso, the United Republic of Tanzania, Egypt, Côte d'Ivoire, Uganda, Zimbabwe, Senegal, Rwanda and Namibia. Given that gold prices rose sharply between 2019 and 2021, exporting countries, especially South Africa, were able to benefit greatly (Minerals Council South Africa, 2021).

Owing to its dependence on basic commodities, the African economy is highly dependent on the prices of these commodities. While this can be positive, as in the case of gold in recent years, it can also have serious consequences when prices suddenly change, for example, during the Arab Spring, when oil prices fluctuated widely. As most trade in Africa is in basic commodities, it is especially susceptible to price fluctuations and adverse shocks in prices.

An analysis of imports shows that the major imports of Africa are mostly comprised of petroleum products and motor vehicles (figure II.3). The top two imported products are non-crude oil and motor cars, with Nigeria, South Africa, Egypt, Morocco and Kenya being the leading importers. Given that they are among the largest economies in Africa, they are also the main importers.

Owing to its dependence on basic commodities, **the African economy is highly dependent on the prices of these commodities**

[2] The choice of analysis for the period 2019–2021 is twofold: first, the period captures the COVID-19 pandemic; second, there is scant country data after 2022, since most African countries generally report trade data with a delay of two years.

A particularly challenging aspect of the import structure in Africa is that **it relies on imports of grains, such as wheat and rice**

Together, the five countries account for 55 per cent of oil imports and 70 per cent of vehicle imports (data from the United Nations Comtrade database). The dominance of the principal five economies in imports is understandable, since they benefit from economies of scale. Notwithstanding, there is great potential for these leading economies to unlock value added opportunities in intra-African trade markets.

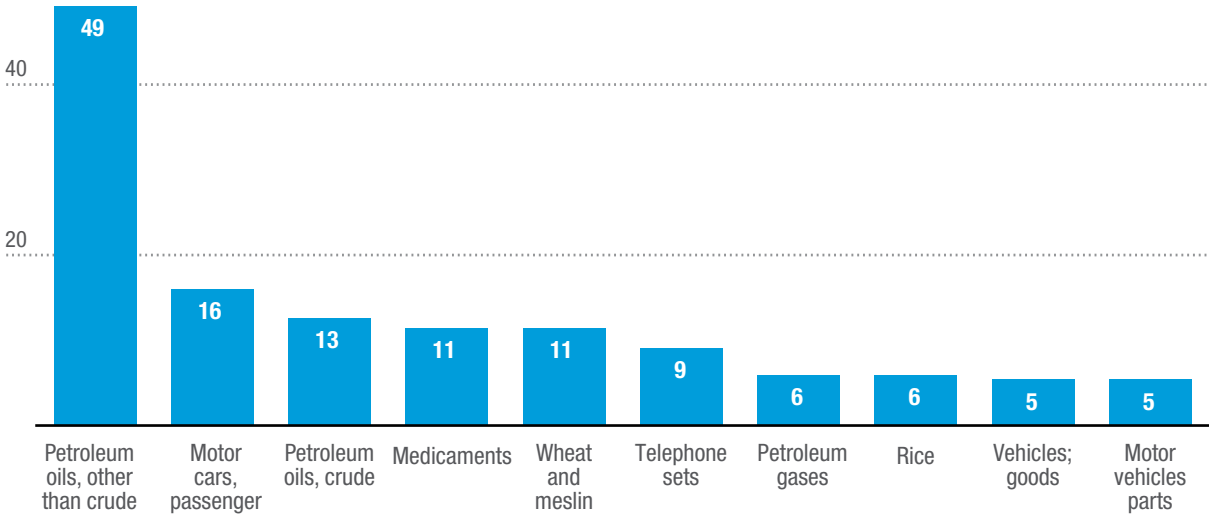
Other major imports are medicines, grains and rice and telephone sets, based on data from the United Nations Comtrade database. The top 10 products account for 28 per cent of imports, and show a more diversified import structure. While this is positive in the sense that there are less crucial dependencies on single goods, it can be a disadvantage when external shocks, such as the pandemic in 2020, affect the countries producing these import goods, leaving the continent vulnerable without sufficient access to essential goods, for example, fuel or medicine (Rackimuthu et al., 2021).

However, with the establishment of the African Continental Free Trade Area, the potential for further expansion of the pharmaceutical sector is growing, as well as the potential to counteract dependencies (UNCTAD, 2023f).

A particularly challenging aspect of the import structure in Africa is that it relies on imports of grains, such as wheat and rice, as evidenced by their presence among the top 10 imports. Grain imports are further affected by climate change, which has an adverse impact on crops and harvests in general, leading to a twofold problem, namely, Africa is disproportionately affected by climate change, especially droughts, which has a negative impact on local crops; and, at the same time, as other regions of the world are adversely affected by climate change, the supply is further decreasing, and Africa, with its growing population and dependency on outside supply, is left in a frail position.

As depicted in figure II.3, the structure of the African economy remained relatively unaltered between 2019 and 2021.

Figure II. 3
Leading African merchandise imports, 2019–2021
(Billions of dollars)



Source: UNCTAD, based on data from the United Nations Comtrade database.

The structure of the African economy remained relatively unaltered

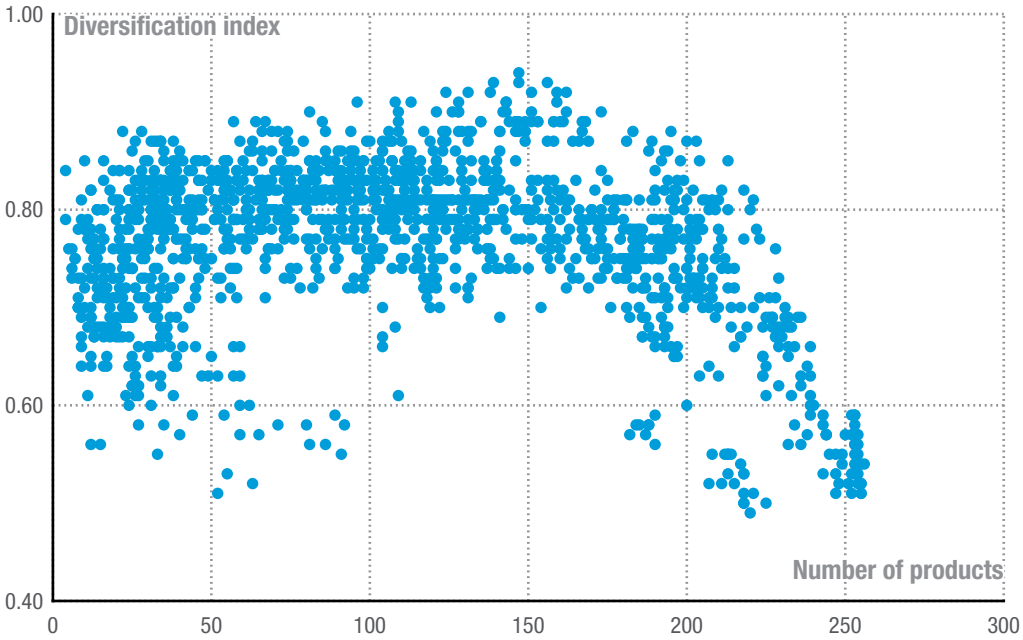
Intuitively, diversification is contrary to David Ricardo's theory of comparative advantage, which broadly states that a country should specialize in the production and export of goods for which it has a comparative advantage.

However, diversification for African countries remains a more suitable solution, since it acts as an economic buffer and is defined by the production and export of more goods, rather than specialization in a few.

Thus, the number of goods a country exports is useful in determining a country's level of diversification (figure II.4). While economies in Africa remain to a large extent undiversified, the average masks between-country differences. For instance, Egypt, Kenya, South Africa and Tunisia exported the most goods in 2022 and achieved the highest scores in the UNCTAD diversification index in that year.

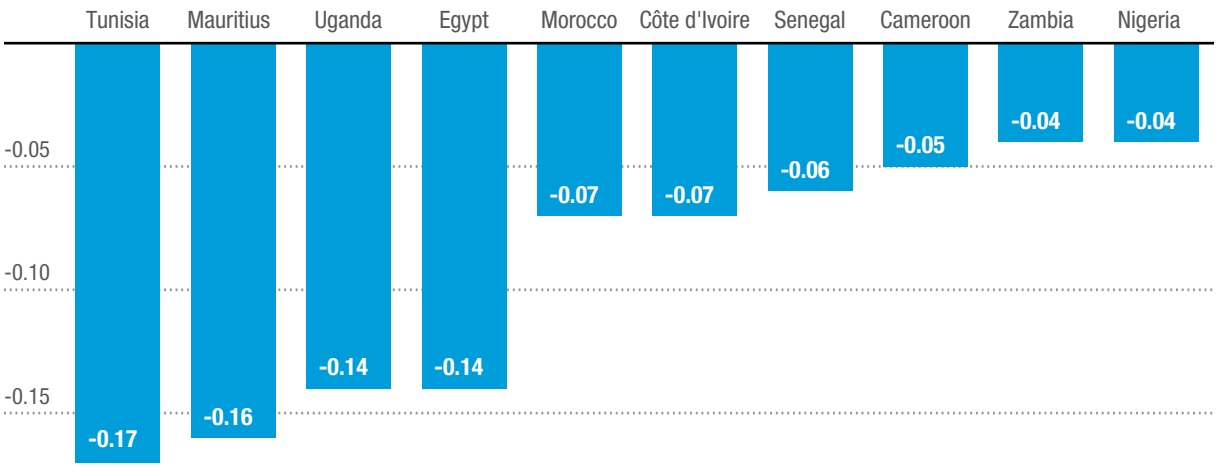
Nonetheless, this picture of the more diversified economies in Africa has varied considerably over time. Between 1995 and 2023, Cameroon, Côte d'Ivoire, Mauritius and Uganda were among the top 10 countries that converged towards global trade patterns in terms of exports, an indication that the share of exported goods rose relative to the world average of the same goods (figure II.5). An increase in the number of goods initially expands a country's diversification relative to the world at a fast pace. However, beyond a certain number of goods, a country's diversification, compared with that of the rest of the world, grows at a slower pace. In addition, although South Africa remains the most diversified economy in terms of number of goods exported – 254 in 2023, according to data from the UNCTADstat database – export diversification has moderated in recent years, as indicated by the changing pattern in the diversification index.

Figure II. 4
More export products associated with diversification



Source: UNCTAD, based on data from the UNCTADstat database.

Figure II. 5
Countries that converged toward the world pattern, Exports: 1995 – 2023
(Change in the UNCTAD Diversification Index)



Source: UNCTAD, based on data from the UNCTADstat database.

Headwinds were broadly disruptive for investments

Generally, the investment growth trajectory in Africa is adversely affected by shocks. An assessment of gross fixed capital formation[3] on the continent shows that growth patterns were influenced by various shocks between 2011 and 2023 (figure II.6). For instance, in tandem with the commodity price shocks of 2014, growth in gross fixed capital formation declined from 11.4 per cent in 2014 to 4.8 per cent in 2015. Similarly, the effects of the pandemic saw gross fixed capital formation contract by 4.1 per cent in 2020. Nonetheless, the growth rate picked up in 2021 and remained on an upward trajectory to 2023.

An overview of the landscape of State-owned investors in Africa, such as central banks, sovereign wealth funds and public pension funds in 2023 shows central banks to be the largest investors, with a portfolio of $394 billion, followed by public pension funds, with a portfolio of $250 billion (Global Sovereign Wealth Fund, 2024; UNCTAD, 2024d). Sovereign wealth funds, which are important for State-owned investors in Africa, stood at $146 billion in 2023. Nonetheless, the total of State-owned investments in Africa, valued at $793 billion in 2023, remains low, accounting for 1.5 per cent of global State-owned investments.

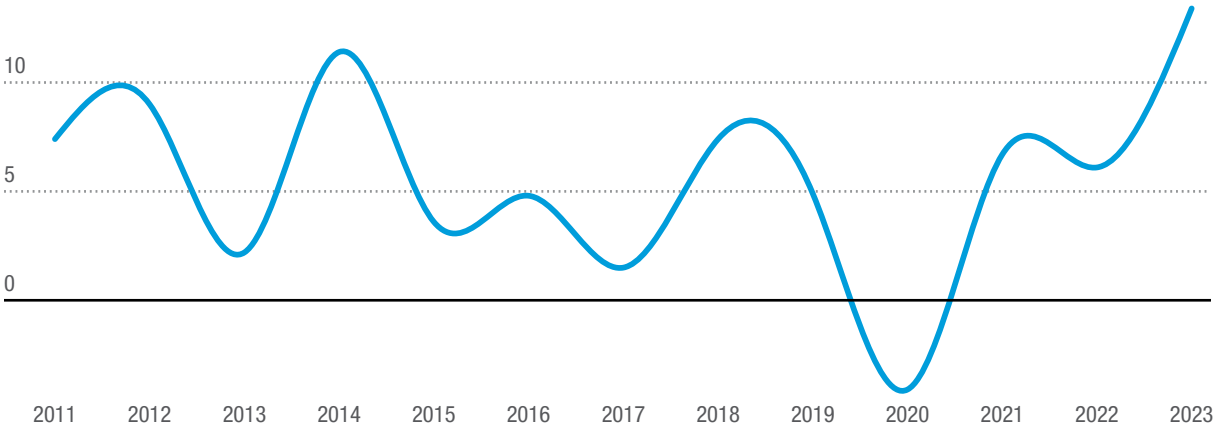
Within Africa, there are variations in the values of State-owned investors. For instance, South Africa, with the largest State-owned investor portfolio of $218 billion in 2023, had a larger share of public pension funds ($157 billion) than central bank investors ($61 billion). Other countries that had sizeable State-owned investor funds included Algeria, Egypt, Libya, Morocco and Nigeria (figure II.7). Investments, whether private, public, domestic or from external sources, strengthen a country's resistance to vulnerability (see chapter I, section "Economic shocks").

[3] According to the definition of the World Bank meta data for the world development, gross fixed capital formation is as follows: "Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains and so on); plant, machinery and equipment purchases; and the construction of roads, railways and the like, including schools, offices, hospitals, private residential dwellings and commercial and industrial buildings. According to the System of National Accounts, 2008, net acquisitions of valuables are also considered capital formation."

Figure II. 6

Disruption of investments caused by shocks to the economy in Africa: Average gross fixed capital formation growth rate

(Annual percentage change)



Source: UNCTAD calculations, based on the World Development Indicators database (World Bank).

Macroeconomic drivers of economic vulnerability

Macroeconomic variables have utility for a country's trading. On one hand, they provide an assessment of trade performance in the short to medium terms; on the other hand, a well-managed macroeconomy strengthens trade performance. For instance, the exchange rate, which is a measure of a country's currency in terms of another, is imperative in assessing the demand for exports from a country, versus the country's demand for imports. Thus, the adoption of exchange rate policies and their effective implementation ensure that an economy has adequate buffers to prevent external inflation pass-through effects during periods of external shocks. In general, well-implemented macroeconomic policies can provide buffers that ensure an economy is able to absorb shocks in the short to medium terms without causing irreparable damage to the economy.

The present analysis reviews macroeconomic risks based on three key variables that capture output, fiscal policy and monetary policy, as follows:

- Growth in GDP (annual percentage change). This is a measure of the growth rate of output from one period to the next at constant prices (real GDP). Growth in GDP is a beneficial first-order indicator in assessing the level of economic activity in an economy. In assessing this parameter, the analysis of trading and investment variables could be an initial step in determining whether a country is exposed or vulnerable to risks.
- Fiscal balance deviation. This is a measure of the deviations from projected net government lending and borrowing between 2010 and 2022.[4] Fiscal balance is an important variable for trading and investments for two reasons. First, research shows

[4] The World Bank metadata glossary defines net lending and borrowing as follows: "net lending (+)/net borrowing (–) equals government revenue minus expense, minus net investment in nonfinancial assets. It is also equal to the net result of transactions in financial assets and liabilities. Net lending and borrowing is a summary measure indicating the extent to which a Government is either putting financial resources at the disposal of other sectors in the economy or abroad, or utilizing the financial resources generated by other sectors in the economy or from abroad" (https://databank.worldbank.org/metadataglossary/World-Development-Indicators/series?search=net%20borrowing%20and%20lending).

Investors will invest in economies with the **least business compliance and infrastructure (public goods) hurdles**

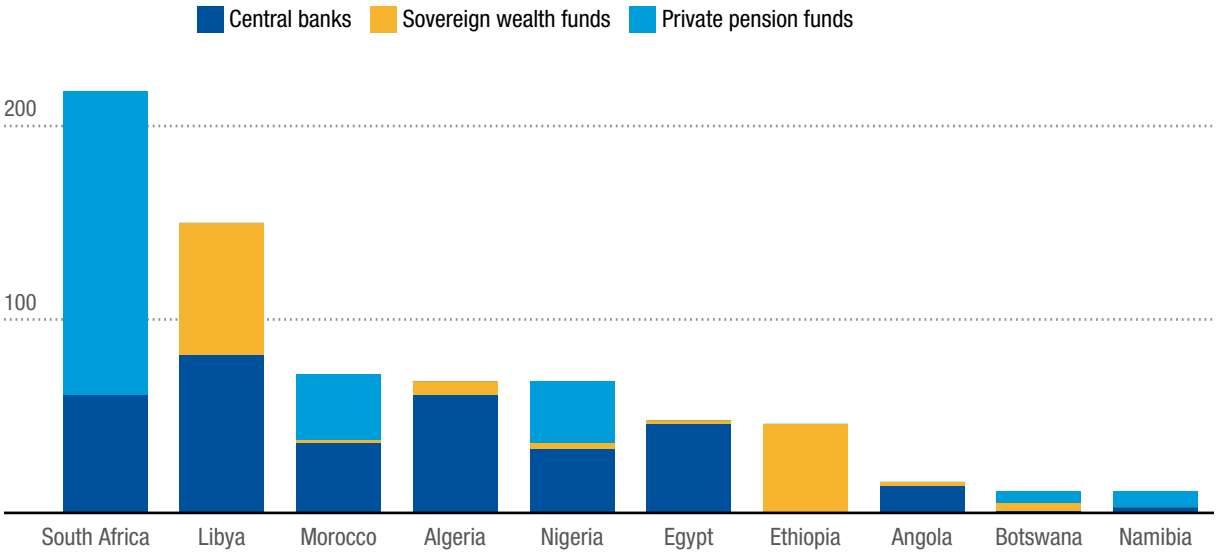
that government investments in infrastructure play an important role in attracting foreign direct investment. For instance, the United Nations Industrial Development Organization (2011) notes that while investment should typically go to where the highest returns are achieved, investors will invest in economies with the least business compliance and infrastructure (public goods) hurdles. Thus, strengthening infrastructure investment spending such as port logistics may attract foreign direct investment and therefore, the reallocation of supply chains into African economies (Nketiah-Amponsah and Sarpong, 2019; UNCTAD, 2023f). Second, for most countries in Africa, government spending has an impact on the external account through imports of machinery and capital equipment; in addition, the stock of debt, which is the accumulation of the flow of debt in the long term, affects the exchange rate, and thus trading and investing, during periods of shock.

- Average year-on-year inflation. This is an indication of the effectiveness of the monetary policy regime. In terms of trading, imported inflation, or inflation caused by the rise in the price of imported goods and services, makes imports expensive, thereby moderating trade growth.

This chapter considers the structure of an economy according to export dependency in the analysis of the macroeconomic risks to countries in Africa. These countries are grouped according to the following criteria, as outlined in UNCTAD (2023d):

- Dependence on minerals, ores, metals, fuels, lubricants and related materials exports. This grouping consists of the following 28 countries: Algeria, Angola, Botswana, Burkina Faso, Burundi, Cameroon, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Libya, Mali, Mauritania, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sierra Leone, South Africa, South Sudan, United Republic of Tanzania, Zambia, Zimbabwe.

Figure II. 7
State-owned investors, by leading African countries
(Billions of dollars)



Source: UNCTAD, based on Global Sovereign Wealth Fund, 2024.

- Dependence on agricultural product exports. This grouping consists of the following 16 countries: Benin, Cabo Verde, Central African Republic, Côte d'Ivoire, Eritrea, Ethiopia, Gambia, Guinea-Bissau, Kenya, Madagascar, Malawi, Senegal, Seychelles, Somalia, Sudan; Uganda.
- Dependence on items other than commodities. This grouping consists of the following 10 countries: Comoros, Djibouti, Egypt, Eswatini, Lesotho, Mauritius, Morocco, Sao Tome and Principe, Togo, Tunisia.

Commodity prices and demand are key underlying risk factors for African economies

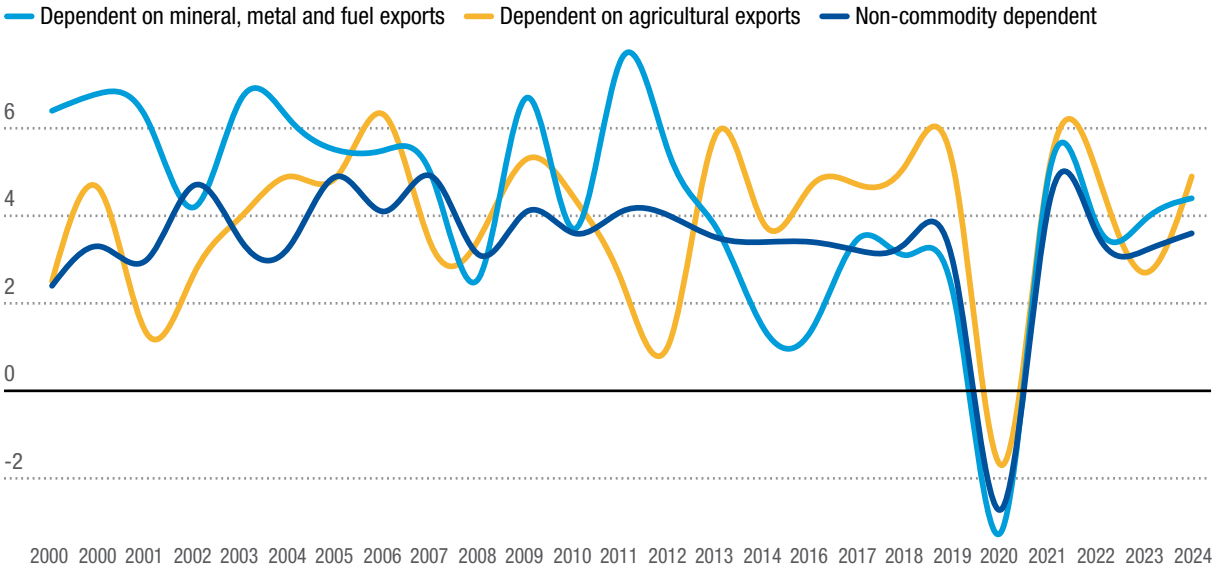
For the most part, GDP growth for all three country groupings was positive, save in 2020, when, on average, all three experienced a contraction in output due to the pandemic. On average, between 2000 and 2023, GDP growth in mineral-, metal- and fuel-dependent countries averaged 4.3 per cent, which indicates that the demand for, and price of, commodity exports were favourable, despite periods of shocks such as in 2014 during the commodity price decline, and the pandemic in 2020 (figure II.8).

Notwithstanding, according to the 2023 commodity price index in the UNCTADstat database, there were intermittent periods when GDP growth tapered off, for instance, between 2008 and 2010, owing to lower-than-expected demand stemming from the global financial crisis, despite an initial rise in fuel prices, followed by another dip in GDP growth in 2014, owing to a decline in fuel prices. Since the output of minerals, metals and fuels in export-dependent economies is largely determined by three factors – commodity reserves, the price of the commodity in question and demand for the commodity – then, unless commodity prices and demand increase significantly, an economy dependent on minerals, metals and fuels will be more likely to experience inflationary pressures (figure II.8).

Figure II. 8

Weighted average growth in gross domestic product, by commodity export group

(Annual percentage change)



Source: UNCTAD, based on data from the World Economic Outlook database (International Monetary Fund).
Note: Values for 2021, 2022 and 2023 are estimates; values for 2024 are forecasts.

Economic diversification. More diversified economies tend to have less volatility in GDP growth

Agricultural export-dependent economies experienced GDP growth rates averaging 3.8 per cent between 2000 and 2023. The output of economies depending on agriculture is determined by labour productivity, agriculture commodity prices, demand for agricultural products from trading partners and agriculture production technology. For instance, reliance on weather patterns for agriculture production, rather than on other technologies, such as irrigation, means that economies are susceptible to climate change-related upsets.

Finally, GDP growth for non-commodity–dependent export economies averaged 3.4 per cent between 2000 and 2023. Despite lower-than-average economic growth compared with the previous two country groupings, GDP growth for non-commodity–dependent export economies was less volatile. Low volatility is underpinned by the assumption of relatively more diversified economies, with economies less affected by global and covariate shocks, since not all sectors are affected by shocks at the same time.

In addition, the assumption of relative diversification for non-commodity-dependent export economies means that output production will depend on differing technologies in different sectors (UNCTAD, 2023f). The possibility of production in different sectors means that labour productivity is higher than in commodity export-dependent economies.

Based on the GDP growth analysis for the three defined country groupings between 2000 and 2023, it can be concluded that the following key risks have adverse effects on output:

- Commodity prices. As these prices tend to drive output, especially for commodity-dependent export economies in Africa, any volatility due to global supply or demand dynamics can have an impact on export revenues and economic output.
- Labour productivity. Countries that depend on agriculture, with a high portion of labour in the agriculture sector (UNCTAD, 2023f), and those that depend on production technology, are likely to experience more volatility in GDP growth on average, compared with more diversified economies, where labour is more spread out among sectors.
- External demand for domestic output. During periods of economic crisis, such as the global financial crisis and the pandemic, when external demand for domestic products declines, demand is likely to be much lower than an economy's actual production capacity.
- Economic diversification. More diversified economies tend to have less volatility in GDP growth, since production in more sectors means that there are buffers in place in the event of shocks to a given sector.

Imprudent fiscal adjustments are a key risk for macroeconomic sustainability

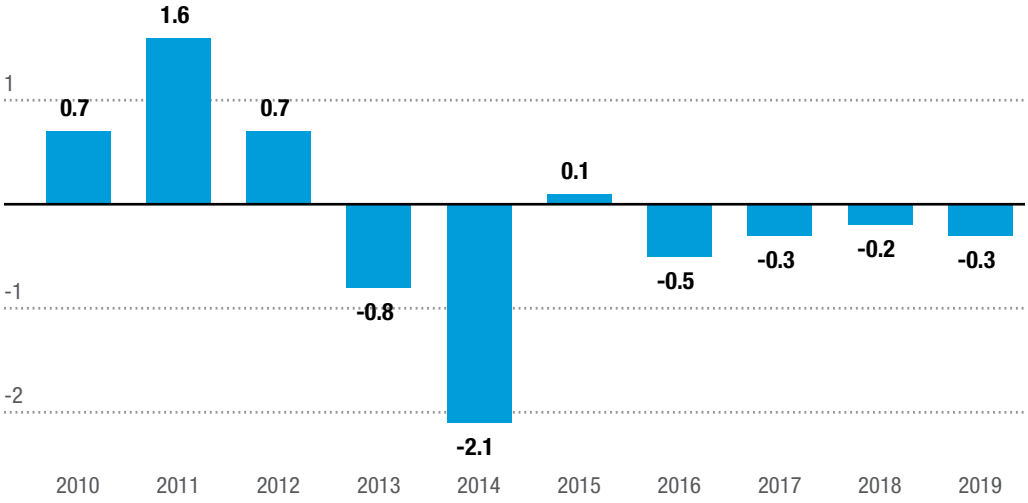
In utilizing fiscal policy, Governments normally aim to achieve the following three main objectives: the redistribution of wealth, the regulation of activities that may be broadly harmful to society and the provision of public goods (International Monetary Fund, 2011). Nonetheless, it is often the case that in fulfilling these objectives, Governments make less than optimal adjustments, with detrimental effects on the economy.

A key indicator of fiscal adjustments that trend toward risk is debt. Debt could either be a flow or stock variable, that is, the government fiscal deficit,[5] or the stock of a government's debt.[6]

[5] Fiscal deficit is used to mean net general government lending and borrowing, usually with a defined period of a fiscal or calendar year.

[6] The stock of government debt is defined as all government or public debt measured as a share of a country's GDP.

Figure II. 9
Average fiscal balance deviations, 2010–2019
(Percentage of gross domestic product)



Source: UNCTAD, based on various years of the World Economic Outlook database (International Monetary Fund).

Additionally, the terms and cost of debt, and whether debt is procured domestically or externally, could have implications for risk. For instance, externally procured debt has additional variable costs that are dependent on a country's exchange rate. Similarly, deviations from planned macroeconomic variables have an impact on borrowing costs in the form of interest rates on future debt.

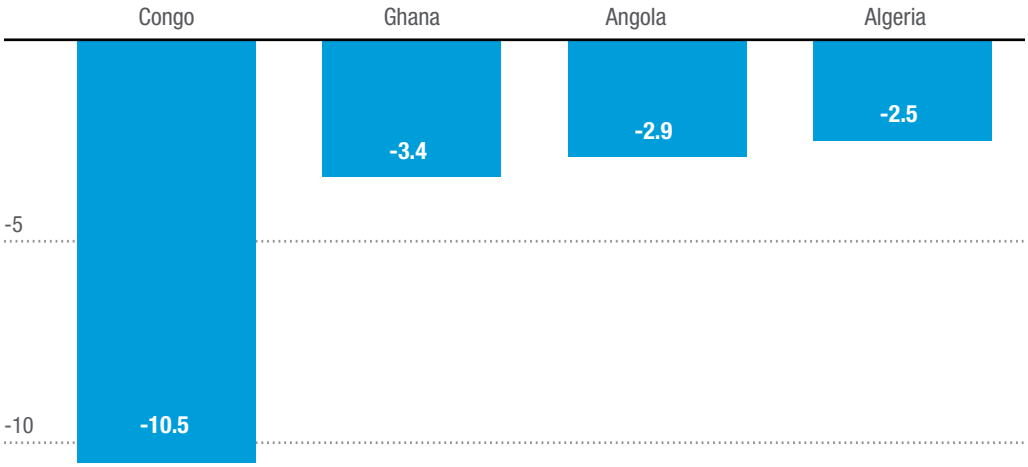
Based on data from the International Monetary Fund World Economic Outlook database,[7] this section focuses on the deviations between the planned or estimated and actual flow variable of debt, that is, the deviations between planned or estimated and actual government net lending and borrowing. A deficit or negative deviation means that a country spent more than planned in each period. The analysis compares the forecast of fiscal balances in the 2011 and 2015 World Economic Outlook databases, where the estimates of government net lending and borrowing start after 2010 and after 2015, respectively, with the 2023 database, which reports actual government net lending and borrowing numbers.

The average general government fiscal balance deviation between planned or forecast and actual borrowing was a deficit of 0.1 per cent of GDP from 2010 to 2019. In 2020, the fiscal deviation was a deficit of 3.4 per cent of GDP. Between 2010 and 2019, the year with the highest deficit deviation was 2014, at 2.0 per cent of GDP (figure II.9).[8] In 2014, the large deviation in fiscal deficit, compared with planned fiscal deficit, was underpinned by a drop in commodity prices, as the all-group commodity price index fell by 6.1 per cent in 2014, compared with the 2013 annual average (UNCTAD, 2015). The decline in commodity prices was broad-based, with the price of agricultural raw materials falling by 9.9 per cent, food by 5.9 per cent, vegetable oil seeds and oils by 5.8 per cent and minerals, ores and metals by 8.5 per cent (UNCTAD, 2015).

[7] See www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases#sort= per cent40imfdate per cent20descending.

[8] The analysis does not include Libya and South Sudan, which had exceptionally large planned and actual balances during the period under review.

Figure II. 10
Overview of fiscal balance deviation performance, by country, 2010–2019
(Percentage of gross domestic product)



Source: UNCTAD calculations, based on various World Economic Outlook databases (International Monetary Fund).

Not only do deviations from planned fiscal policy targets often pose risks for economies in the short to medium terms, they also tend to set in motion an adverse deviation from the longer-term sustainability path. For instance, the four countries that had the highest deviations from planned fiscal policy targets on average between 2010 and 2019 were the Congo, with a fiscal deficit deviation of 10.5 per cent of GDP; Ghana, with a fiscal deficit deviation of 3.4 per cent of GDP; Angola with a fiscal deficit deviation of 2.9 per cent of GDP; and Algeria, with a fiscal deficit deviation of 2.5 per cent of GDP (figure II.10).

All four countries had deviations from planned deficits well above the Africa-wide average of 0.1 per cent of GDP. Two of the four countries, the Congo and Ghana, are among the 68 countries listed in the low-income countries debt sustainability analysis of the International Monetary Fund and the World Bank. As of November 2023, both countries are in debt distress.

An in-depth look at the case of Ghana reveals that increasing fiscal deviations from the planned fiscal targets were the largest between 2012 and 2014, and between 2018 and 2020. The increase in the initial period between 2012 and 2014 occurred despite an expected increase in revenue from the start of oil exports in 2011. Nonetheless, in Ghana, expenditure trended upward due to the increasing public services wage bill (International Monetary Fund, 2015b). To smoothen expenditure, Ghana issued 15 Eurobonds, amounting to $14 billion, from 2013 to 2021 (Government of Ghana, 2023), with the consequent accommodative fiscal policy leading to a rise in debt, to 92.3 per cent of GDP in 2022, compared with 33.8 per cent of GDP in 2012.[9] Consequently, Ghana is currently undergoing debt restructuring and is working on an agreement with the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative. Additionally, the country belongs to an extended credit-facility programme of the International Monetary Fund worth $3 billion, that was agreed in 2023 (see box II.1).

[9] See www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases#sort= per cent40imfdate per cent20descending.

Box II. 1
UNCTAD sovereign debt life cycle: Insights from Ghana

The UNCTAD life cycle of sovereign debt is a conceptual framework for analysing debt in five stages, namely, the way in which debt is incurred, debt instruments and issuance, structure of debt management, debt sustainability and options for debt workout (see table).

The framework is useful in examining sovereign debt. A key objective of sovereign debt analysis using this approach is to diagnose challenges at each stage of the cycle and identify policy options to address the challenges. The stages within the framework are interdependent, and policy options should be holistic to ensure effective solutions for debt management and debt sustainability. This approach is applied to the analysis of the case of Ghana.

As at July 2024, Ghana was classified as a lower middle-income country. This classification is based on the World Bank income classification, with lower middle-income countries falling within the per capita income threshold of $1,136 to $4,465. The classifications use the metric gross national income per capita and are calculated using the Atlas method, at current values[a]. As at 2023, gross national income per capita in current values was $2,340. As a lower middle-income country, Ghana is precluded from the International Monetary Fund list of countries that are eligible for concessional lending through the Poverty Reduction and Growth Trust. However, it can benefit from official development assistance, as well as concessional lending from other multilateral institutions, such as the African Development Bank and the World Bank.

As a member of the International Monetary Fund but without Trust status, Ghana had the option of going to the market to finance its fiscal deficit, which it did, between 2013 and 2018. Between 2013 and 2018, the Eurobond market was favourable for countries in Africa such as Ghana since, after the financial crisis, investors sought higher yields. However, the tenor on market-issued debt during this period was short, while the terms were not beneficial; that is, the structure of market debt usually does not include grace periods before the start of payment, and the cost of debt is likely to be determined by risk factors as stated in a country's credit rating.

For instance, in March 2015, Moody's Investors Service downgraded the country's credit rating from B2 to B3. The downgrade was a consequence of deteriorating macroeconomic conditions, despite an agreement with the International Monetary Fund for access to a three-year $940 million credit facility aimed at restoring macroeconomic stability. Included among the deteriorating variables mentioned as key factors that led to the downgrade were rising inflation, fiscal deficit and debt-to-GDP levels. In addition, the Ghanian currency had depreciated by 30 per cent as at March 2015.

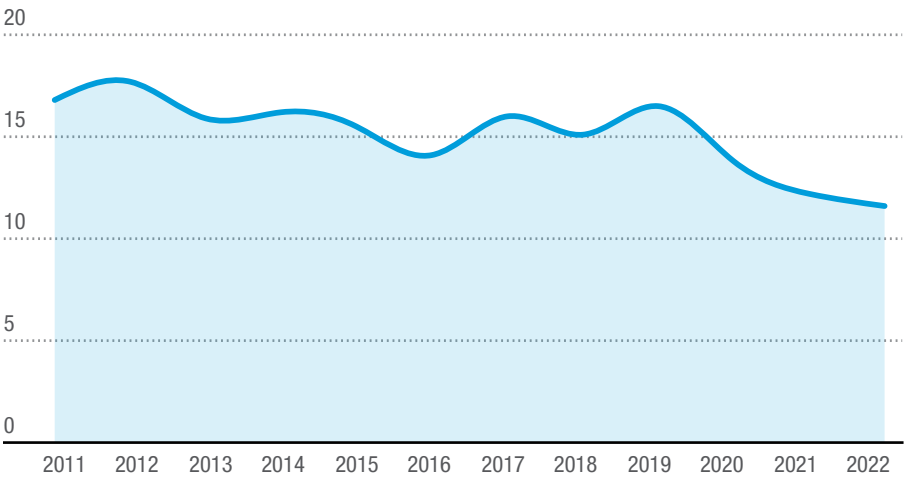
Annual average year-on-year inflation stood at 15.5 per cent in 2014, while fiscal deficit stood at 10.9 per cent in 2014, with debt to GDP increasing from 60.3 per cent in 2013 to 72.2 per cent in 2014. As a result, the share of concessional debt as a total of external debt declined from 15.9 per cent in 2013 to 15.1 per cent in 2018 (see figure I). In addition, the average grace period on new external debt commitments decreased from 6.4 years in 2013 to 2.5 years in 2018, while average interest on new external debt commitments increased from 1.9 per cent in 2013 to 3.1 per cent in 2018 (see figure II). There was an increase in the average grace period on new external debt commitments in 2018, in part due to an almost 100 per cent rise in the value of multilateral programme loans, from $249.5 million in 2017 to $479.1 million in 2018.

Framework for analysing the life cycle of the sovereign debt of Ghana

Life cycle stage	Description
Access to finance and markets	Concessional finance and affordable long-term capital Between 2012 and 2018, fiscal deviations, compared with fiscal targets, averaged 3.8 per cent of GDP. As a result, the country turned to financial markets for access to finance.
Debt issuance	Increased access to markets for developing countries The period after the financial crisis saw access to Eurobond markets increase for countries in Africa, as investors sought high yields. As a result, between 2013 and 2018, Ghana issued five Eurobonds of $1 billion each.
Debt management	Debt management strategies Countries have been increasingly empowered to manage debt, including through the UNCTAD Debt Management and Financial Analysis System. In this regard, Ghana has publicly issued periodic debt management strategy reports through the Ministry of Finance website since 2013. In addition, quarterly issues of the Public Debt Statistical Bulletin have been posted on the website since 2017, and annual borrowing and recovery plans since 2019.
Debt servicing, repayment and resilience	The effects of the recent polycrises resulted in challenging macroeconomic conditions, with implications for external debt repayments. Owing to unforeseen multiple economic shocks leading to an onerous debt service burden, Ghana restructured its debt.
Debt resolution or workout	Ghana debt workout As of March 2024, Ghana had successfully restructured its domestic debt and was working toward restructuring its foreign debt.

Source: UNCTAD, 2024h.

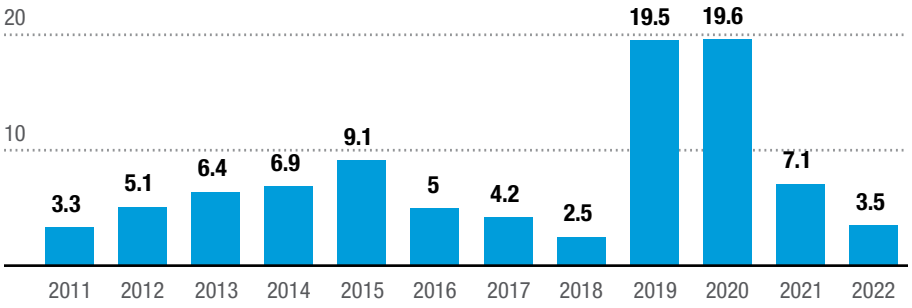
Figure I
Concessional debt trends, 2011–2022
(Percentage of total debt)



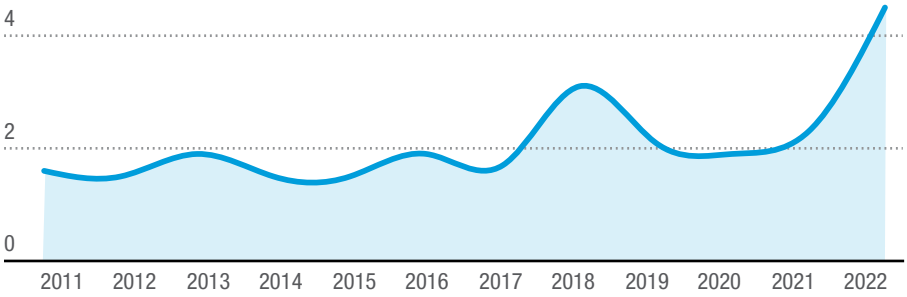
Source: UNCTAD calculations, based on data from the International Debt Statistics database (World Bank).

Figure II
Effects of concessional debt on terms of debt

(a) average grace period on new external debt commitments



(b) average interest on new external debt commitments



Sources: Government of Ghana, 2019; Reuters, 2015; UNCTAD, 2024h.
[a] See https://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Source: UNCTAD, based on data from the International Debt Statistics database (World Bank).

Rising prices have a moderating effect on all economies in Africa

An analysis comparing real GDP[10] and inflation provides insights into how a relative lack of diversification might affect economies that are not at full production capacity, such as the 54 economies in Africa.

Therefore, in analysing the third component of macroeconomic risks – inflation – real GDP growth is used, taking two key aspects into account, namely, the underlying structure of the economy through the nature of exports and inflation (price effect).

Mining- and energy-dependent economies

The output of mineral-, metal- and fuel-dependent exporting economies is likely to depend on commodity prices and demand from other countries (UNCTAD, 2022b). Thus, a rise in the prices of mineral, metal and fuel commodities often results in an increase in real GDP growth as demand for and earnings from commodity exports expand. Accordingly, when seen from the angle of inflation and employment, a rise in commodity prices is likely to lead to lower inflation, as demand for and increase in the price of commodities strengthens the exchange rate in mineral-, metal- and fuel-dependent exporting countries, thereby reducing the cost of imported goods and services. This analysis is based on the assumption that mineral-, metal- and fuel-dependent exporters have less diversified economies and are dependent on imports for consumption.[11]

For instance, a review of the average annual inflation (percentage change) for mineral-, metal- and fuel-dependent exporters shows that real GDP growth rates mirror inflation. Between 2000 and 2007, when annual year-on-year inflation declined from 38.2 to 3.9 per cent, the real GDP growth rate averaged 5.9 per cent over the same period. An increase in production capacity raises demand for the exporting country's currency and reduces the prices of imports. Nonetheless, with a decline in demand for minerals, metals and fuels due to the global financial crisis, the real GDP growth for mineral-, metal- and fuel-dependent exporters declined on average from 4.9 per cent in 2008 to 2.9 per cent in 2009, with an ensuing rise in inflationary pressures to 16.8 per cent in 2008, thereafter moderating to 8.3 per cent (figure II.11). Of the 28 countries listed as depending on the export of minerals, metals and fuels, eight[12] belong to the Central African Economic and Monetary Community or to the West African Economic and Monetary Union, which means they have fixed exchange rates that are pegged to the currency of France, that is, the Euro.

Economies that operate fixed exchange rate regimes tend to have high exchange rate pass-through leading to high inflation (Ha et al., 2019), due to shocks that bring commodity prices down, since, as export values decline, imports become more expensive. Expensive imports are in some cases compounded by restrictions placed on imports to maintain the exchange rate (depending on currency reserves), thereby leading to inflation from increased domestic demand for limited import products.

Agriculture-dependent countries

According to the World Development Indicators database of the World Bank, of the 16 economies that are classified as agricultural commodity-dependent exporters, only four[13] had agriculture value added as less than 20 per cent of GDP on average between 2000 and 2023.

[10] In this analysis, real GDP – GDP growth at constant prices – is used. Real GDP is corrected for inflation.

[11] This assumption is important, since it means that when there is a commodity price boom, inflationary pressures are eased due to the effect on currency, that is, the relative demand for the exporting country's currency compared with that of the mineral-, metal- and fuel-importing country.

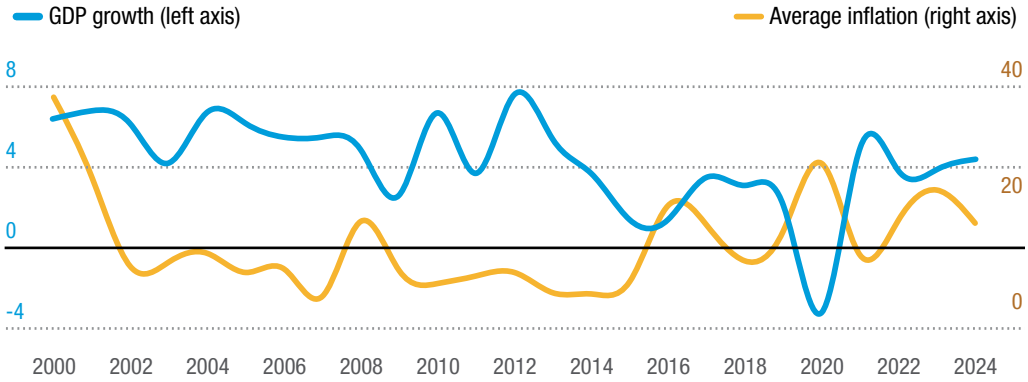
[12] Burkina Faso, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Mali, Niger.

[13] Cabo Verde, Eritrea, Senegal, Seychelles.

Figure II. 11

Inflation-moderated growth in gross domestic product for mineral-, metal- and fuel-dependent exporters

(Percentage)



Source: UNCTAD, based on data from the World Economic Outlook database, October 2024 (International Monetary Fund); UNCTAD, 2023d.

The agricultural export-dependent economies with the highest agriculture value added as a share of GDP between 2000 and 2023 were Ethiopia (39.2 per cent), Guinea-Bissau (36.3 per cent), the Central African Republic (33.5 per cent), the Sudan (27.8 per cent) and Madagascar (27.4 per cent).

Factors that might adversely affect output in agricultural export-dependent economies are external shocks, such as weather-related upsets, and internal shocks that affect labour supply and crop production technologies. A reduction in output growth, that is, moderating GDP growth, will often lead to increased inflation due to two effects: first, domestic demand for agricultural products outstrips supply, resulting in higher prices; and second, as agricultural commodity exports decline, imports become more expensive, that is, inflation occurs through the exchange rate pass-through effect.

Small and medium-sized enterprises with operations in the agricultural sector, for example, agroprocessing firms, will be adversely affected by shocks in the sector. This is particularly true of shocks that lead to inflationary pressures, especially where SMEs do not have linkages to larger firms and lack access to financing which would enable them overcome potential hurdles (World Bank, 2018).

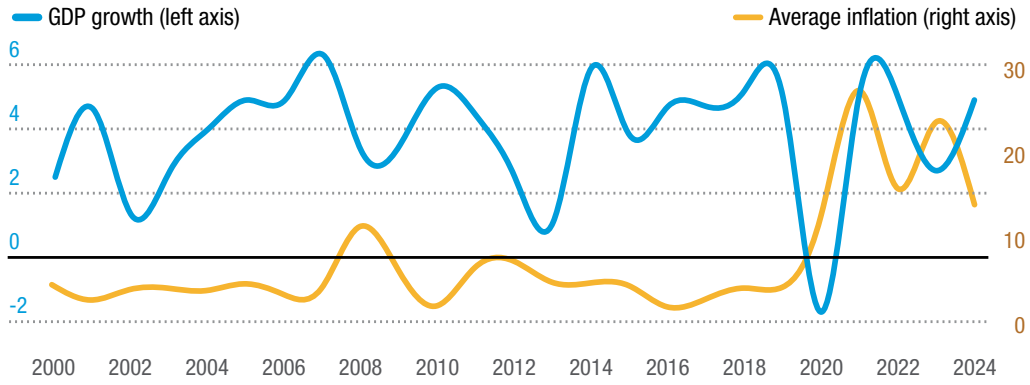
Thus, the annual average year-on-year inflation change for economies that depend on agricultural commodity exports mimics real GDP growth rates, and in some instances, has a delayed inflation reaction, that is, years of high inflation are preceded by a previous period reduction in real GDP growth rates. For instance, a decline in GDP growth to 3.3 per cent in 2008, compared with 6.3 per cent in 2007 due to weather-related shocks in some regions such as Eastern and Southern Africa (Haile et al., 2019), led to an increase in average annual year-on-year inflation to 13.9 per cent in 2008, compared with 6.6 per cent in 2007 (figure II.12). Similarly, the drought periods in various regions of Africa [14](International Organization for Migration, 2023) saw GDP growth fall to 5.0 per cent in 2019, compared with 5.2 per cent in 2018, with a consequent rise in inflation to 15.1 per cent in 2020, although a part of the increase in inflation can be explained by the effects of the pandemic.

[14] East Africa, Central Africa, West Africa, Horn of Africa.

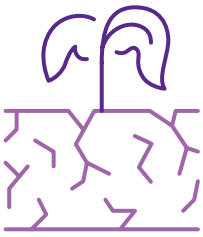
Figure II. 12

Impact of global shocks on prices and economies of agriculture-dependent exporting countries in Africa, 2000–2024

(Growth in gross domestic product and percentage change in inflation)



Source: UNCTAD, based on data from the World Economic Outlook database, October 2024 (International Monetary Fund); UNCTAD, 2023d.



Droughts have become a frequent phenomenon in Africa, **occurring every three years**, compared with every six prior to 2015

Haile et al. (2019) note that droughts have become a frequent phenomenon in Africa, occurring every three years, compared with every six prior to 2015. In East Africa, droughts have had deleterious impacts on agricultural commodity-dependent economies such as Ethiopia, Kenya and Somalia. In addition to climate-related shocks, other economic shocks, such as the COVID-19 pandemic, had negative effects on output growth and inflation. Owing to the pandemic, which affected labour supply and productivity, output declined significantly for economies with agriculture as a large share of GDP value added. Their output contracted by 1.7 per cent in 2020, compared with a GDP growth rate of 5.0 per cent in 2019 as annual average year-on-year inflation increased to 15.1 per cent for agricultural commodity-dependent exporters over the same period (figure II.12).

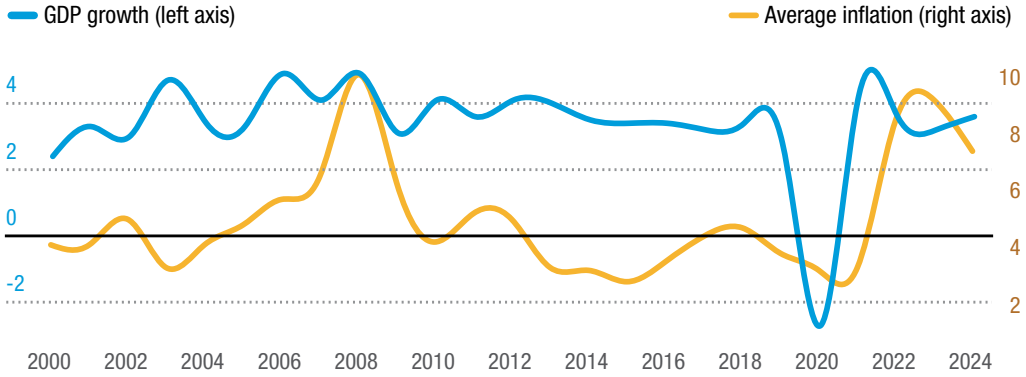
Non-commodity-dependent countries

Unlike mineral-, metal- and fuel-dependent export economies and agricultural commodity-dependent export economies, non-commodity-dependent export economies do not have a distinct relationship between real GDP growth and inflation. This was especially the case after 2008 (figure II.13). This is not surprising, since non-commodity-dependent economies tend to be the more diversified economies in Africa. The diversification of economic sectors, therefore, provides buffers in situations where economic shocks affect one sector, since other sectors provide a source of income from exports, in addition to having less impact on domestic output.

While South Africa is classified as a metal-, mineral- and fuel-dependent export economy, in 2022, the country was the fourth most diversified economy, with an UNCTAD export diversification index measure of 0.6 (Tunisia had the highest score for export diversification in Africa). Consequently, South Africa has one of the more stable exchange rates in Africa, which has a moderating effect on imported inflation (see box II.3).

Nonetheless, in situations of broad-based economic shocks such as the pandemic, a contraction in output in non-commodity-dependent economies will often result in high inflation and increased unemployment. For instance, in Egypt, inflation trended upward between 2007 and 2019, averaging 12.8 per cent over the entire period. High and rising inflation began during the global

Figure II. 13
Price effects on non-commodity-dependent export economies
(Growth in gross domestic product and percentage change in inflation)



Sources: UNCTAD, based on data from the World Economic Outlook database, October 2024 (International Monetary Fund); UNCTAD, 2023d.

financial crisis and persisted beyond the beginning of the Arab Spring in December 2010. The political crisis had adverse effects on the economy of Egypt, the real GDP growth of which averaged 3.8 per cent between 2012 and 2018. Nonetheless, macroeconomic and structural policy reforms carried out alongside political reforms saw the economy withstand the pandemic. The country experienced a relatively low annual average year-on-year inflation rate of 5.7 per cent and a corresponding GDP growth rate of 3.6 per cent in 2020, compared with the group average contraction in GDP by 2.7 per cent.

For mineral-, metal- and fuel-dependent exporters, a rise in prices often implies an increase in real GDP growth. While this effect is contrary to the expectation that a price hike has adverse effects on non-diversified economies, increase in commodity prices is a signal that either the value or demand for commodities has increased, thereby leading to an increase in output.

Agricultural commodity-dependent exporters are affected by agricultural production processes that rely on rainfall, thereby engendering their vulnerability to climate change. The effects of an overheating or underperforming economy are directly addressed in Goal 8 of the Sustainable Development Goals (decent work and economic growth), since a high-inflation environment and an economy performing below capacity generally lead to job loss. When employment and economic growth are adversely affected, the achievement of Goals 1 (no poverty), 2 (zero hunger), 3 (good health and well-being) and 10 (reduced inequalities) is severely compromised.

Economic vulnerability in times of global shocks

External shocks have a dampening effect on economies in Africa, with shocks engendered in two ways: shocks that are manifested by the economy's structure or the macroeconomy, and shocks that are manifested by second-order effects through partner economies, for instance, through a reduction in demand for goods from economies in Africa. External shocks are often the most difficult to predict, with responses to such shocks being reactionary rather than mitigating.

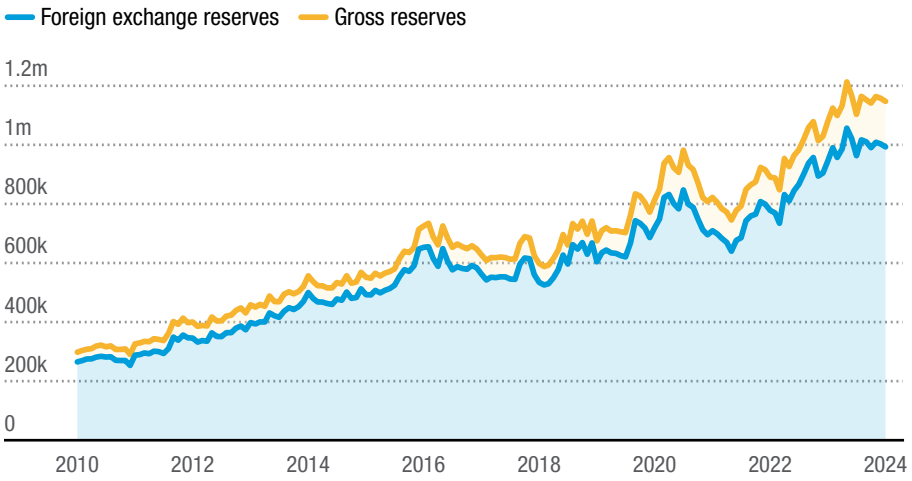
Box II. 2
Exchange rates: The case of South Africa

Between January 2010 and May 2024, the reserve position of South Africa increased in absolute terms by 289 per cent, from R298,016 million to R1,160,761 million. The reserve position is largely underpinned by foreign exchange reserves, with a small percentage attributable to gold reserves.

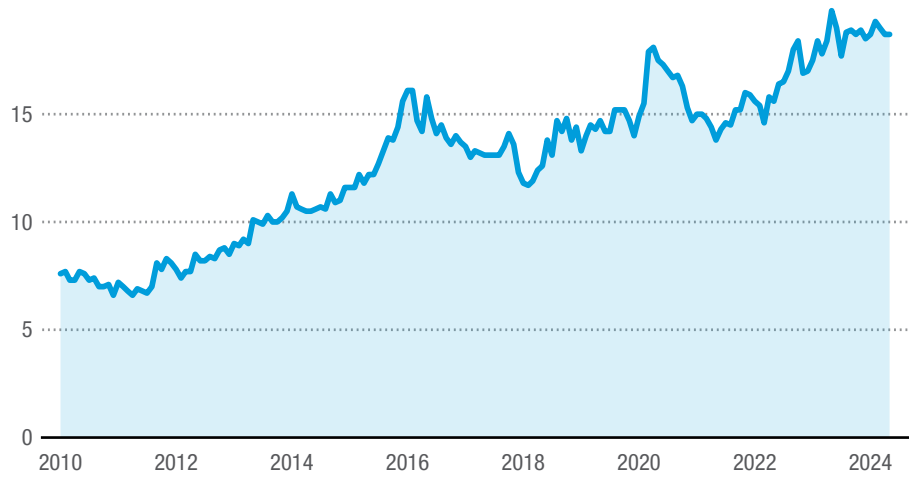
The exchange rate of the rand to the dollar depreciated by 147 per cent between January 2010 and May 2024. The largest depreciation occurred in 2016 and 2020. In 2016, the depreciation was strengthened by lower-than-expected production in the mining and manufacturing sectors, owing to falling commodity prices and external demand, which led to lower-than-expected exports in minerals and metals, such as coal, gold, platinum and iron ore. By contrast, the depreciation of the rand against the dollar in 2020 was an impact of the pandemic, which affected production and therefore, exports from South Africa.

South Africa: Trends in (a) reserve position (SA Rand, Millions) and (b) exchange rate (SA Rand/USD)

(a)



(b)



Source: UNCTAD, based on data from the South African Reserve Bank, 2020.

The following three key factors define the context of the exchange rate of the South African rand:

- The monetary policy framework is based on inflation targeting, with a range of 3 to 6 per cent for the year-on-year increase in consumer price index headline inflation.
- South Africa operates a floating exchange rate framework.
- South Africa is part of the Common Monetary Area, a common currency area that also includes Eswatini, Lesotho and Namibia.

Although South Africa is a member of the Common Monetary Area, the rand is acceptable as legal tender in Eswatini, Lesotho and Namibia, while the reverse is not true.

Source: UNCTAD, based on South African Reserve Bank, 2020.

This section reviews the manifestation of external shocks in economies in Africa, and how they affect these economies. The three shocks discussed are as follows:

- Commodity price shocks, with a focus on fuel prices.
- The COVID-19 pandemic, with a focus on trade-in-services exporters.
- Shocks relating to the environment, climate change and the weather, with an emphasis on agricultural commodity-dependent exporters.

Commodity price shocks in the case of fuel prices

Similarly to the analysis of inflation and GDP growth discussed previously, fuel-dependent exporters have relatively undiversified economies, which means they are dependent on imports for consumption. Moreover, dependency on imports for consumption has implications for inflation (UNCTAD, 2024h).

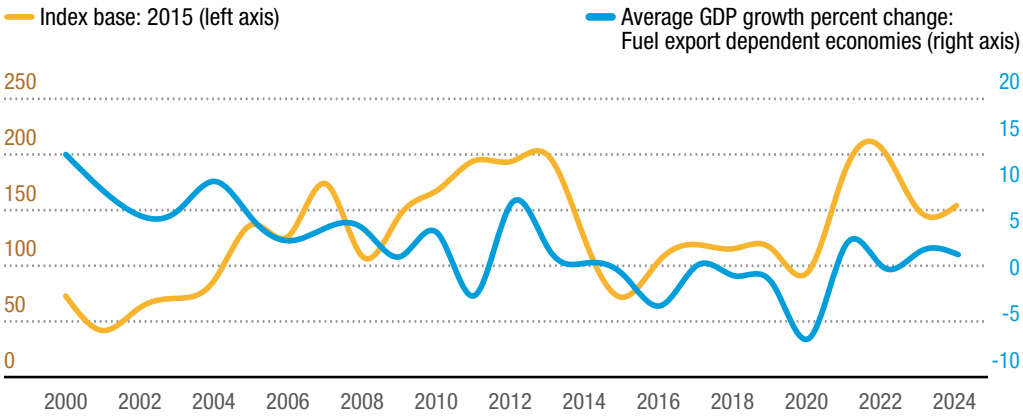
For instance, as depicted in figure 28, the dip in fuel prices between 2000 and 2001 saw a corresponding decline in GDP growth for fuel-exporting countries in Africa, from 14.0 per cent in 2000 to 7.4 per cent in 2002. Consequently, inflationary pressure through imported inflation intensified in those countries, due to declining export prices as import prices either remained the same or increased. By contrast, a rise in the fuel price index from 145.6 in 2009 to 167.6 in 2010 saw a corresponding increase in GDP by 2.5 percentage points from 3.0 per cent in 2009 to 5.5 per cent in 2010, an indication of growth in production capacity driven by the rise in price. The dip in fuel prices between 2014, with the fuel price index declining from 198.8 in 2013 to 122.1 in 2014 and 71.1 in 2015, saw a corresponding decrease in GDP growth for fuel-exporting countries in Africa from 3.7 per cent in 2013 to 2.3 per cent in 2014 and 1.0 per cent in 2015. As in the 2000–2002 period, pass-through inflation from imports led to an increase in inflation in fuel-exporting countries.

According to data from the United Nations Comtrade database, fuel-exporting economies in Africa tend to export crude oil, while reimporting refined fuel for domestic needs. Fuel prices, therefore, have two important implications for fuel-exporting economies.

First, notwithstanding the economic structure, they tend to be undiversified; moreover, the structure within the fuel sector is undiversified. The sector thus depends more on crude oil production without moving further up the value chain to refine fuel for exports (UNCTAD, 2023f).

Figure II. 14

Parallel movement between fuel prices and growth in gross domestic product for fuel-dependent exporters, 2000–2024



Source: UNCTAD, based on data from the UNCTADstat database and the World Economic Outlook database (International Monetary Fund).
Note: Index base: 2015 (taken at the end of each calendar year).

Perhaps the most significant risk to economies in Africa to materialize between 2000 and 2023 **was the COVID-19 pandemic**

Crude oil fuel production depends to a large extent on capital equipment, in addition to either highly specialized or low-skilled labour. This means that the fuel sector does not necessarily absorb much middle-skilled labour in the economy, since resources tend to be reallocated from the more productive tradables sector to the non-tradables sector serving the fuel industry (International Monetary Fund, 2012). For instance, although the fuel refinery capacity for economies in Africa is about 1.3 million barrels per day, only 30 per cent of this capacity was operational in 2022 (Reuters, 2022). In 2023, the Dangote Petroleum Refinery in Nigeria came into operation, with a capacity of 650,000 barrels per day. Since then, as the country with the largest capacity for fuel production, Nigeria has produced over 1.3 million barrels of oil per day. If the current refining capacity in Africa were fully operational, including that of the Dangote Petroleum Refinery, it would only be able to handle one and a half of the equivalent of the country's fuel production capacity. Consequently, the overall undiversified nature of the economies of fuel exporters not only poses structural risks to the economy when fuel prices fluctuate, through risks to output, but to vulnerable low-skilled workers, as well.

Second, fuel exporters face significant risks to macroeconomic stability. An example of the challenges of fuel export dependence in relation to the price of fuel may be seen in the Congo. While national debt sustainability and inflationary pressures are an apparent manifestation of the risks to macroeconomic stability, other effects, such as social sector spending on education, health care and social protection, are not always obvious at the outset. Nonetheless, effects on social sector spending have far-reaching consequences with intertemporal effects. For instance, low levels of spending on education, health care and social protection in the present has implications for labour and socioeconomic vulnerabilities in the future.

COVID-19 pandemic: Trade-in-services exporters find opportunity in crisis

Perhaps the most significant risk to economies in Africa to materialize between 2000 and 2023 was the COVID-19 pandemic. This health pandemic had far-reaching economic implications for economies worldwide. Nonetheless, impacts on individual countries varied, as some countries were affected far worse than others.

Due to the nature of the pandemic, the effects had significant repercussions in the contact sectors, which had serious consequences for the service sectors. For example, to mitigate the spread of the virus, the restaurant and accommodation sector had to put in place restrictions on the number of people having access to their establishments.

As of March 2024, trade-in-services statistics from 2005 to 2022 are available for 33 countries in Africa. The top five exporters of trade in services in absolute terms between 2019 and 2021, on average, were as follows: Egypt ($20.6 billion), Morocco ($16.2 billion), South Africa ($11.2 billion), Ghana ($8.9 billion) and Ethiopia ($4.9 billion). Other countries with trade-in-services exports of more than $1 billion were Kenya, Nigeria, Tunisia, the United Republic of Tanzania and Algeria (figure II.15).

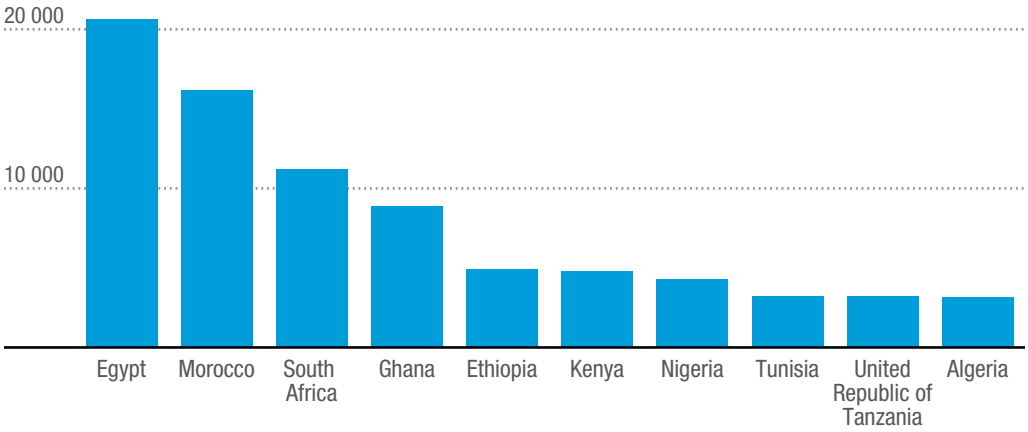
The pandemic caused a decline in the GDP growth of several countries in Africa. For example, of the 10 countries with the highest average trade-in-services exports between 2019 and 2021, six experienced negative impacts, namely, Algeria, Kenya, Morocco, Nigeria, South Africa and Tunisia. Furthermore, Morocco, South Africa and Tunisia experienced a contraction in output of more than 6 per cent. While the effect of the pandemic on trade in services contributed substantially to the contraction in output, especially in countries with large tourism sectors such as Tunisia, in some countries, the decline in output could be attributed to other factors during the pandemic. For instance, in South Africa, output growth in 2019 had already sustained a downward trend before the pandemic.

However, there were some exemplary cases, such as Egypt and Ethiopia (see box II.3). Egypt, the top trade-in-services exporting country between 2019 and 2021, recorded actual GDP growth of 3.4 per cent in 2020. In the same year, Ethiopia and the United Republic of Tanzania also registered GDP growth, of 6.1 per cent and 4.8 per cent, respectively.

Figure II. 15

Trade-in-services exporters adversely affected during the pandemic: Average 2019–2021

(Millions of dollars)



Source: UNCTAD, based on data from the UNCTADstat database.

In Egypt, ongoing macroeconomic and structural reforms ensured that the economy was well placed to mitigate the shocks of the pandemic. Among the policy actions taken was the announcement of a fiscal stimulus exceeding $6 billion, to alleviate the effects of the pandemic through targeted support, such as an increase in pensions and social protection spending for vulnerable populations that lost incomes during the pandemic (International Monetary Fund, n.d-b.). Additionally, monetary policy strengthened fiscal policy action by reducing the central bank rate and applying open-market operations through guarantees for the tourism, agriculture and manufacturing sectors.

Yet Egypt and Ethiopia are exceptions with regard to the impact of the pandemic. Egypt provides a meaningful example of how good policies can strengthen resilience to risk exposure. Ethiopia provides an alternative narrative of how opportunities can arise from crisis situations, for most economies. Be that as it may, the pandemic has eroded positive gains that most countries in Africa took two decades to build. Thus, unforeseen risks emanating from, for instance, the social sector, such as the pandemic, could have resounding impacts on economies. Four years after the pandemic, its far-reaching effects, for example, of lost schooling time on future human capital, have yet to be estimated.

Environmental impacts

Article 1 of the United Nations Framework Convention on Climate Change defines

Box II. 3
Ethiopia: An opportunity in crisis

The economy of Ethiopia is classified as being dependent on agricultural commodities for merchandise exports. It is one of the few economies that displayed agility and flexibility during the pandemic, resulting in gains to output through trade-in-services exports. Between 2019 and 2021, the transport sector accounted for 70 per cent of total trade in services in the country. Yet the total value of transport in trade in services declined from $3.5 billion in 2019 to $2.7 billion in 2020 due to the pandemic. However, revenues from transport rose in 2021 to $4 billion, based on data from the UNCTADstat database.

The main contributor to transport trade in services in Ethiopia is Ethiopian Airlines. In 2020, the airline operated 116 international routes and 23 domestic routes. However, at the onset of the pandemic, the carrier announced the cancellation of flights on 80 routes. By July 2020, the carrier had resumed operation on 40 routes. Although the airline lost revenue from passengers, it responded to the crisis by converting some passenger carrier aircrafts to cargo carriers.

The COVID-19 response webpage of Ethiopian Airlines notes that the airline had extended its global cargo reach to 74 destinations, and by March 2020, had carried 45,848 tons of cargo, which included pharmaceuticals, medical supplies and health-care products, to different destinations. As a result, the revenue from trade in services provided a buffer for the loss in revenue from merchandise trade during the pandemic, thereby smoothing the shocks from the pandemic on the country's economy.

In addition, Ethiopia was one of the few countries that did not institute border closings as a measure to mitigate the pandemic.

Source: UNCTAD, based on International Monetary Fund, n.d-b.

climate change as follows: "a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods."

Two key features within the conceptual definition of climate change are human action and the alteration of the global atmosphere. The frequency and intensity of climate change over time is likely an indicator of the alteration of the global atmosphere, which in addition to climate variability, has been observed over similar time periods in the past.

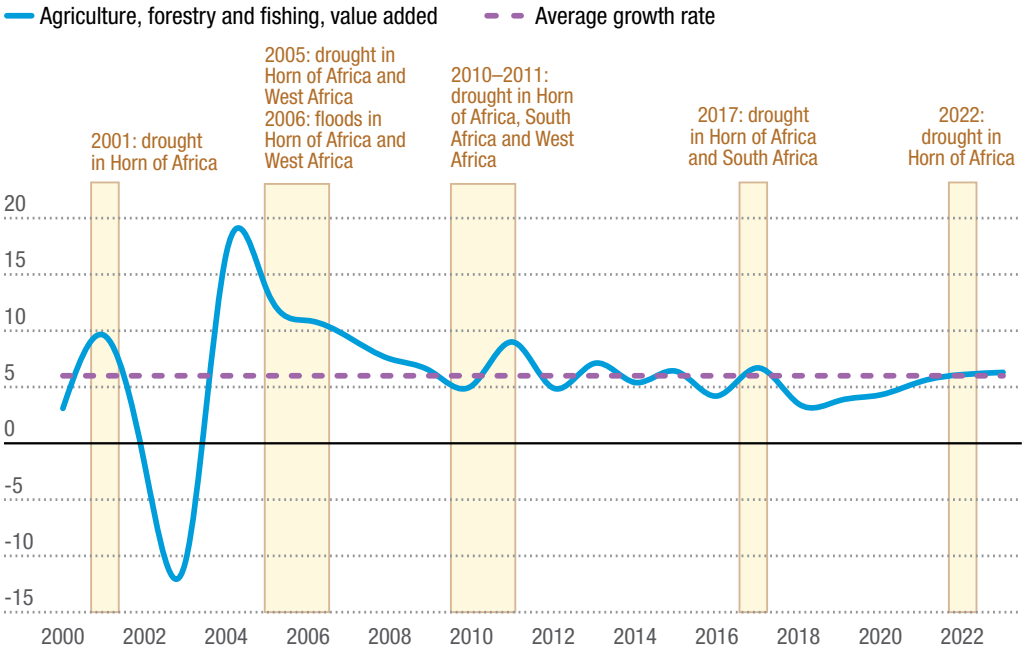
In East Africa, Wainwright et al. (2019) observe that the long rainfall season of March–April–May has been shortening since 1985, thereby confounding the use of climate projections in what has become known as the East African climate paradox. Generally, the drought and flood seasons have increased in frequency and intensity. Between 2020 and 2022, the region spanning East Africa and the Horn of Africa is reported to have experienced five failed rainfall seasons, with serious consequences for livelihoods (International Organization for Migration, 2023), surpassing the previous drought seasons of 2010–2011 and 2016–2017. The International Organization for Migration (2023) estimated that in October 2023, at least 23 million people were affected by food insecurity in the region. Of the nine countries in the region, six (Eritrea, Ethiopia, Kenya, Somalia, the Sudan and Uganda) are agricultural commodity-dependent exporters. Two of the six, Ethiopia and Somalia, reported that agriculture value added contributed to more than 45 per cent of their GDP on average between 1973 and 2022. Thus, periods of weather-related shocks have adverse effects for economic growth, as depicted in figure II.16.

Generally, the drought and flood seasons **have increased in frequency and intensity**

Figure II. 16

Ethiopia: Effects of weather-related shocks on an agricultural commodity exporter

(Percent change)



Source: UNCTAD, based on data from the World Economic Outlook database (International Monetary Fund) and the Famine Early Warning Systems Network.

Climate change effects are particularly challenging for agricultural commodity-dependent export economies, as varying weather conditions, especially during planting seasons, directly affect agricultural output. Yet climate change has dual effects that magnify the effect on agricultural commodity-dependent export economies through the labour effect. For instance, the West and Central Africa regions have in recent years suffered the effects of environmental and climate change events, with varying results, including effects on food security and mass migration (International Organization for Migration, 2023). Consequently, not only do flooding and drought have an impact on agricultural production, but they lead to migration, making labour as a factor of production in agriculture scarce.

Conclusion

Between 2002 and 2023, economies in Africa experienced upsets that had adverse effects on economic growth and sustainable development, despite the perception that Africa was an attractive region for trade and investments, given its above-average economic performance. Risks to trading and investments can be manifested either through internal or external risks, as discussed in this chapter.

In particular, the chapter explores the internal risks to trading and investments that occur either through deviations from macroeconomic policy targets, or through unbalanced or undiversified economic structures.

Since macroeconomic policy anchors an economy, deviations from macroeconomic targets, such as fiscal or monetary policy targets, may lead to unsustainable intertemporal macroeconomic variables, which would result in adverse exposure to risk for countries in Africa. For instance, deviations from fiscal balance targets could lead to unsustainable debt, which heightens the risks to exposure and directly affects investments into economies in Africa, either through higher premiums or by making economies undesirable for investments. Similarly, deviation from planned monetary policy targets could have adverse impacts on prices.

Moreover, the analysis finds that economies in Africa are relatively undiversified, with overreliance on the production and export of primary commodities. Lack of diversification leaves economies in Africa vulnerable to both internal and external shocks, with direct implications for trading and investing in Africa. For instance, price shocks to economies that are dependent on exports of minerals, metals and fuels, often lead to cyclical effects that can foster economic vulnerabilities.

Lastly, external shocks emanating from the global polycrisis compound the effects of macroeconomic and structural risks, often leading to increased vulnerabilities, thus dimming the prospects for investing and trading on the continent.