Africa's 2022 Growth Prospects: Poise under Post-Pandemic and Heightening Geopolitical Pressures

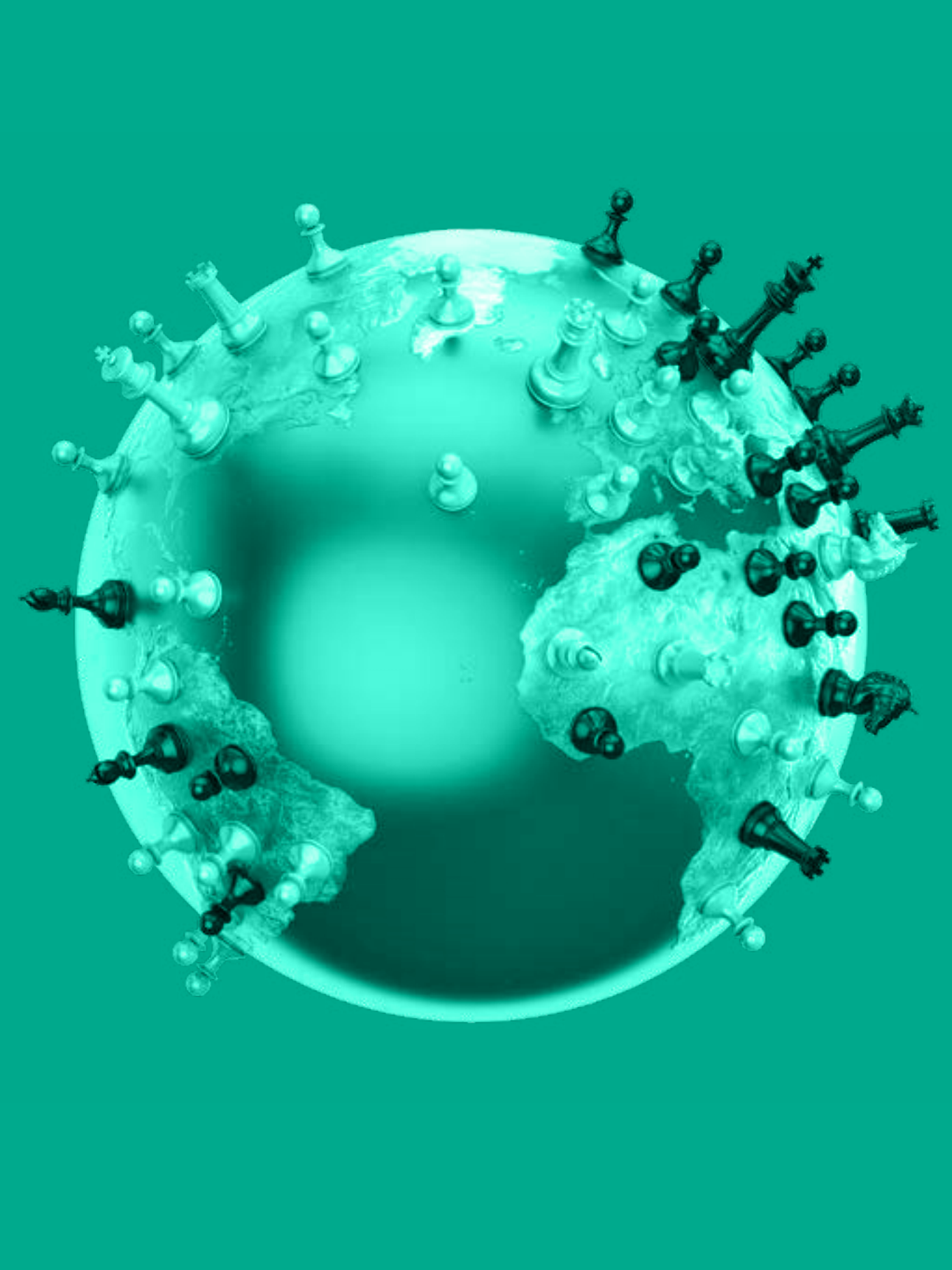
Dr. Hippolyte Fofack



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Dr. Hippolyte Fofack

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Overview

Despite the numerous, lingering negative effects of the pandemic — from global supply chain disruption and rising inflationary pressures to recurrent waves of COVID-19 infections and the emergence of threatening variants — the globalisation of growth resilience will emerge as one of the most important stories when economic historians reflect on this time. In a major and synchronised reversal, growth bounced back in 2021 in one of the strongest post-recession recoveries in decades.[1]

Although the recovery rate was uneven across regions and countries (World Bank, 2021a; IMF, 2021a), output expansion was exceptionally strong in many advanced as well as emerging market and developing economies, the base effect notwithstanding. Botswana's GDP, which expanded by 12.5%, making it the fastest-growing economy in Africa and one of the fastest-growing in the world, exemplifies these circumstances among developing economies.

Owing to substantial fiscal and monetary support, GDP growth was particularly strong in advanced economies, where aggregate output in most countries is expected to regain its pre-pandemic trend path in the near term (IMF, 2022a), though the negative spillovers from the Ukraine crisis could delay the earlier forecast convergence to trend growth.[2] The crucial case in point is the US, where growth rose significantly above potential, skewing the distribution of global growth towards advanced economies.[3]

"In a major and synchronised reversal, growth bounced back in 2021 in one of the strongest post-recession recoveries in decades."

1 An historical assessment shows that the growth rebound from the COVID-19 downturn is the strongest over the last 80 years (World Bank, 2021a). For more details, see https://openknowledge.worldbank.org/bitstream/handle/10986/35647/9781464816659.pdf

2 Per capita income returned to its pre-pandemic levels in more than 40% of advanced economies in 2021, compared to 23% in low-income countries (Reinhart and von Luckner, 2022). For more details, see https://blogs.worldbank.org/voices/return-global-inflation

3 US output expanded by 5.7%, largely above the average over the last 30 pre-pandemic years, including the rebound after the 2008 financial crisis when GDP grew by almost 2.6%. For more details, see https://www.macrotrends.net/countries/USA/united-states/gdp-growth-rate

"Even the region's most affected tourism-dependent economies enjoyed strong rebound..."

Africa, which in recent years has exhibited remarkable growth resilience, bounced back strongly from its first recession in a quarter of a century, with aggregate output expanding by 6.9% in 2021 (up from a 1.7% contraction).[4] Even the region's most affected tourism-dependent economies enjoyed a strong rebound despite their disproportionately large exposure to self-imposed risk aversion behaviour and excess vulnerability to the pandemic's impact on consumer-facing businesses. After contracting by around 15% in 2020 — the sharpest decline in the region — the tourism-dependent economy of Cabo Verde logged 6.9% growth in 2021 (IMF, 2022c).

The globally synchronised recovery reflects several concurrent factors. First, the nature of the policy-induced pandemic downturn (Fofack, 2021a), wherein virus containment measures led to a sharp contraction that precipitated global demand and supply shocks. The lifting of lockdowns and opening of borders facilitated a swift recovery, bringing unemployment rates down sharply, especially in advanced economies (IMF, 2022a).[5] Second, the efficacy of COVID-19 vaccines, which enabled a gradual economic reopening (IMF, 2021a), with the release of pent-up demand boosting domestic consumption and global demand, as well as the reopening of factories to sustain output expansion and trade.

World trade volumes (goods and services), which contracted by 7.9% in 2020, expanded by 10.1% the following year, largely driven by emerging economies. World trade volumes in those markets grew by 11.8%, against 9.5% for advanced economies (IMF, 2022b).[6] Africa's merchandise trade, which contracted by 12.3% in 2020, expanded by more than 28% in 2021, boosted by a dynamic commodity market (IMF Direction of Trade Statistics, 2022). The African Export-Import Bank's (Afreximbank) African Commodity Index rose 55% year-on-year in Q2 2021, with higher prices helping to reduce balance of payments pressures and improving macroeconomic management in a region

4 That performance largely exceeded forecasts released by other major institutions after the pandemics outbreak, including that of the IMF, which forecast in its October 2020 World Economic Outlook that sub-Saharan African output would expand by 3.1% (IMF, 2020), and the World Bank, which forecast an expansion of the same magnitude in its Global Economic Prospects (World Bank, 2020a).

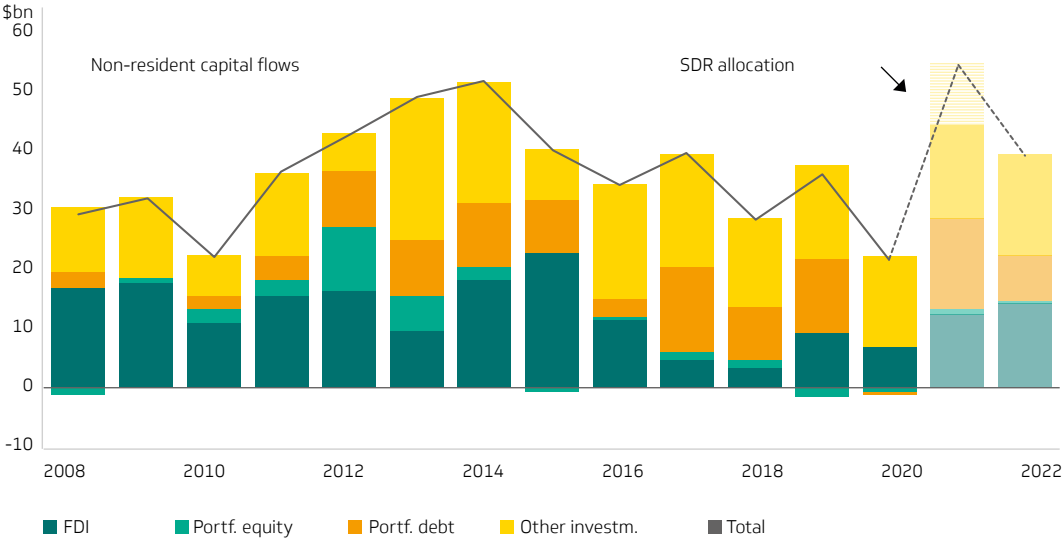
5 For instance, the US unemployment rate has fallen below 4%, down from 15% at the height of the pandemic in April 2020.

6 Emerging and developing market economies, which have been the leading drivers of global trade and suffered a major contraction in 2020, are back in the driver's seat. For more details, see IMF(2022a, 2022b) https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022

where natural resources account for the lion's share of foreign exchange (forex) earnings and government revenues (UNCTAD, 2021a).[7]

Global stock markets closed out 2021 with double-digit gains, buoyed by global monetary largesse, especially from systemically important central banks which emerged as both lenders and market makers of last resort. The FTSE All-World share index rallied by 16.7% in dollar terms, surpassing the previous year's 14.1% gain (Rennison, 2022). Across Africa, the Johannesburg Stock Exchanges All Share Index closed the year recording a 24% gain.[8] Corporate credit spreads

Exhibit 1: Non-resident capital flows to Africa



Source: Haver, IIF

7 According to UNCTAD's latest biennial Commodities and Development Report, 45 African countries have been locked in the commodity-dependence trap (UNCTAD, 2021a). For more details, see https://unctad.org/system/files/official-document/ditccom2021d1_en.pdf

8 Other major stock exchanges recovered from 2020's sharp decline, with the Egyptian Exchange closing 2021 with a 9.8% gain; the Nairobi Securities Exchange a 7.8% gain; and the Nigerian bourse's All Share Index a gain of around 6%. For more details, see https://www.pwc.co.za/en/press-room/african-capital-markets-2021.html

"The International Monetary Fund (IMF) and Afreximbank extended exceptional financial support to African countries, setting new records for disbursements in the process."

shrunk to almost 20-year lows and equity prices soared (with above-average price-to-earnings ratios), largely driven by the performance of US markets, which accounted for the bulk of equity gains globally.

The resumption of capital flows to emerging markets that began in H1 strengthened as the year went on, reaching US$1.27 trillion — excluding the allocation of special drawing rights (SDRs) — in 2021 overall, a 12.3% increase relative to 2020 (IIF, 2021a).[9] According to the Institute of International Finance (IIF), non-resident capital flows to the region bounced back strongly last year, returning to pre-pandemic levels (Exhibit 1).

This was enabled by strong and timely support from international financial institutions, the reversal of portfolio outflows, strong foreign direct investment (FDI) growth and greater access to international capital markets amid improving investor confidence (IIF, 2o21b).[10]

This context was boosted by two key factors: continued accommodative financial conditions, and the effectiveness of counter-cyclical responses by multilateral and development finance institutions (Fofack, 2021a).[11] The International Monetary Fund (IMF) and Afreximbank extended exceptional financial support to African countries, setting new records for disbursements in the process (Amidzic and Pattillo, 2021; Awambeng et al, 2021).[12] The issuance of SDRs by the IMF strengthened countries' external positions and improved the macroeconomic environment.

Although the costs of funds remain higher than in the lead-up to the pandemic's outbreak (IMF, 2021b), the difference in the spread between African frontier markets and comparable emerging economies has narrowed — though recent months have exhibited signs of increasing

9 For more details, see https://www.iif.com/Portals/0/Files/content/4_IIF2021_October_CFR.pdf

10 For more details, see https://www.iif.com/Portals/0/Files/content/1_IIF20211101_CFR.pdf

11 For instance, after falling by 65% to US$7bn in the four months ending in May 2020, foreign-held Egyptian treasury bills increased significantly, to around US$23bn in June. For more details, see https://www.africaneconomics.com/

12 Between March 2020 and December 2021, the IMF approved more than US$36bn in Covid-related short-term financial assistance (under its Rapid Credit Facility and Rapid Financing Instrument) to 44 African countries, around six times its average annual disbursement to the region over the last decade (Amidzic and Pattillo, 2021); Afreximbank disbursed more than US$19.6bn in support of pandemic response measures to its member countries over the same period.

13 Ghana, where yields have risen sharply (plus 250-300 basis points), is one case in point (IIF, 2021b).

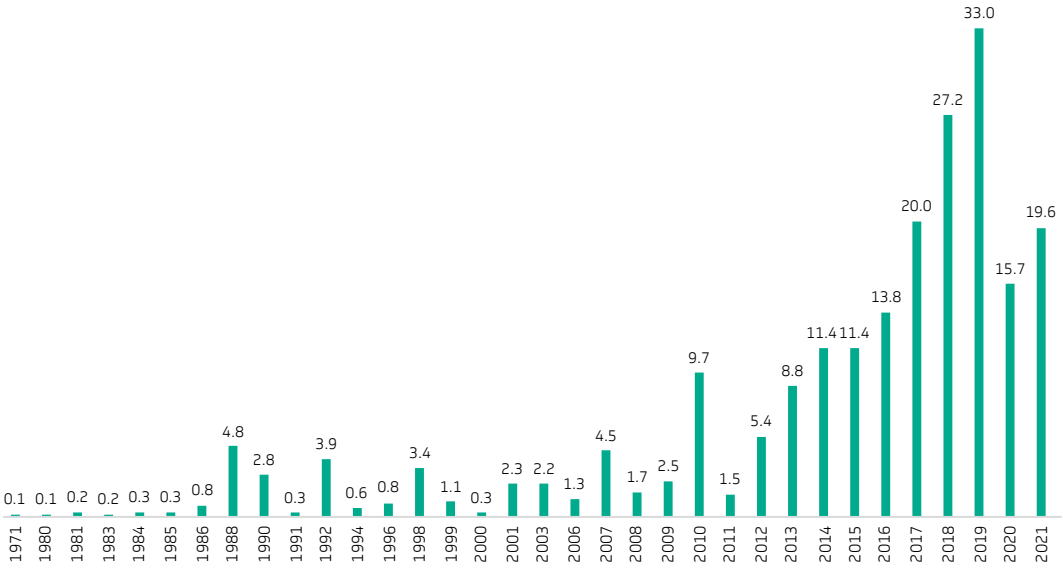
14 A total of nine African countries successfully issued sovereign bonds in 2021, up from five in 2020.

"In addition to the larger size and volume of these African-issued sovereign bonds, most were oversubscribed, illustrating global investors' increasing confidence in the region's growth prospects."

divergence among market assessments of African sovereigns, with increasing yields in a few markets accelerated by the worsening geopolitical crisis (IMF, 2022c).[13] As risk premiums fell from their pandemic record high posted in Q1 2020, several African economies returned to international capital markets, raising non-local currency debt to address the socio-economic fallout from COVID-19 and enhance their recoveries.[14]

Collectively, sovereign bond issuances by African frontier markets reached US$19.6bn in 2021, up from US$15.7bn in 2020 (Exhibit 2). In addition to the larger size and volume of these African-issued sovereign bonds, most were oversubscribed, illustrating global

Exhibit 2: Sovereign Eurobond issuances trends



Sources: Bloomberg and Afreximbank Research

13 Ghana, where yields have risen sharply (plus 250-300 basis points), is one case in point (IIF, 2021b).

14 A total of nine African countries successfully issued sovereign bonds in 2021, up from five in 2020.

Forecasts Signal Resilience in the Face of Geopolitical Tensions

investors' increasing confidence in the region's growth prospects. Sustaining private capital flows into the region to offset the expected decline in official flows as support from international and development financial institutions returns to trend in the post-pandemic era is key to the recovery, especially in light of the shift towards tightening global financial conditions in response to surging inflation and de-anchoring of inflation expectations.

As we closed the second year of the pandemic, the world was increasingly upbeat, with significant progress made on both disease prevention and the treatment of COVID-19 infections. Despite the emergence of highly transmissible variants, the number of Covid-related deaths and patients on ventilators have been trending downward since the peak registered during the fourth wave of infections (IMF, 2022b).[15]

This is especially the case in high-income countries, but also and increasingly so in less affluent economies that have attained herd immunity.[16] Furthermore, the improving effectiveness of vaccines and development of new treatments, such as the antiviral drug Paxlovid, led markets to progressively view the pandemic as a healthcare problem rather than an economic one.



15 To date, the COVID-19 virus has mutated into several variants, including Alpha, Beta, Delta, Gamma and Omicron. Although the exact locations where each originated remain unclear, it is well understood that these variants are thriving in countries with low vaccination rates. For more details, see https://www.project-syndicate.org/commentary/brazilian-solution-vaccine-ip-waiver-stuck-at-wto-by-joseph-e-stiglitz-et-al-2021-12

16 For instance, most recent UK data show that, despite the rising number of cases and patient numbers in December 2021, the number of patients on ventilators has remained mostly flat, as has the number of deaths. For more details, see https://www.ft.com/content/314325ec-822a-4ba4-ae65-3c86213c4c81

"Supply shocks triggered by the Ukraine crisis will place further downward pressure on global growth through several channels, including tourism, commodities, trade and financials."

However, the turning of the calendar to 2022 — which was supposed to definitively mark the transition to post-pandemic normalisation — has been more fraught than anyone expected. Policymakers are having to navigate a high degree of uncertainty and financial market volatility, both of which have been stoked by another policy-induced economic emergency, specifically the globalisation of the Ukraine crisis.

The pandemic-related downturn, which disrupted supply chains and exacerbated inflationary pressures, was a crisis of necessity, with containment measures being the price paid to stem the spread of COVID-19. But the impending slowdown and potential stagflation triggered by Russia's invasion of Ukraine and the Western-led sanctions subsequently placed against Moscow would be — like the Sino-American trade war — another policy-induced economic crisis of choice (Fofack, 2022a).

The Ukraine crisis has greatly undermined the budding post-pandemic recovery, especially with the Western-led economic and financial sanctions against Russia exacerbating supply chain bottlenecks and inflationary pressures. US and eurozone inflation accelerated to 8.5% and 7.5%, respectively in March 2022, the highest levels in decades.

Average inflation is projected at 5.7% in advanced economies and 8.7% in emerging and developing markets, more than 1.8 and 2.8 percentage points higher, respectively, than forecast in January (IMF, 2022b). Across Africa, average inflation has risen slightly to 13.7% in 2022, up 0.7 percentage points from last year. Yields have risen sharply as systemically important central banks fast-track the normalisation of monetary policy to combat inflation.

Heightening geopolitical tensions inflamed by the Ukraine crisis and disruption of trade routes have raised commodity prices, led to food shortages and created the conditions for a perfect storm, raising the risk of stagflation and social tensions in the most vulnerable countries where higher inflation will exacerbate the risk of food insecurity.[17] These include the majority of African countries, where food stuffs comprise around 40% of the region's consumption basket (IMF, 2022c).

17 Although Russia and Ukraine account for less than 3% of global GDP and trade, they are major players in the supply of grains, energy, fertiliser, minerals and other critical inputs for a wide range of downstream production activities.

"Africa's growth forecast for 2022 points to continued fortitude even in the face of heightening inflationary pressures and geopolitical risks."

In light of the Ukraine crisis, the IMF has posted sharp downward revisions to its growth projections from earlier in 2022 (IMF, 2022b). According to its April forecasts, the world economy is now projected to grow by around 3.6% in 2022, down from 4.4% in January 2022 and 5.9% last year. That sharp deceleration is indicative of several factors. In addition to fading fiscal and monetary stimulus and tightening global financial conditions in response to inflation overshoot, the new round of negative supply shocks triggered by the Ukraine crisis will place further downward pressure on global growth through several channels, including tourism, commodities, trade and financials.

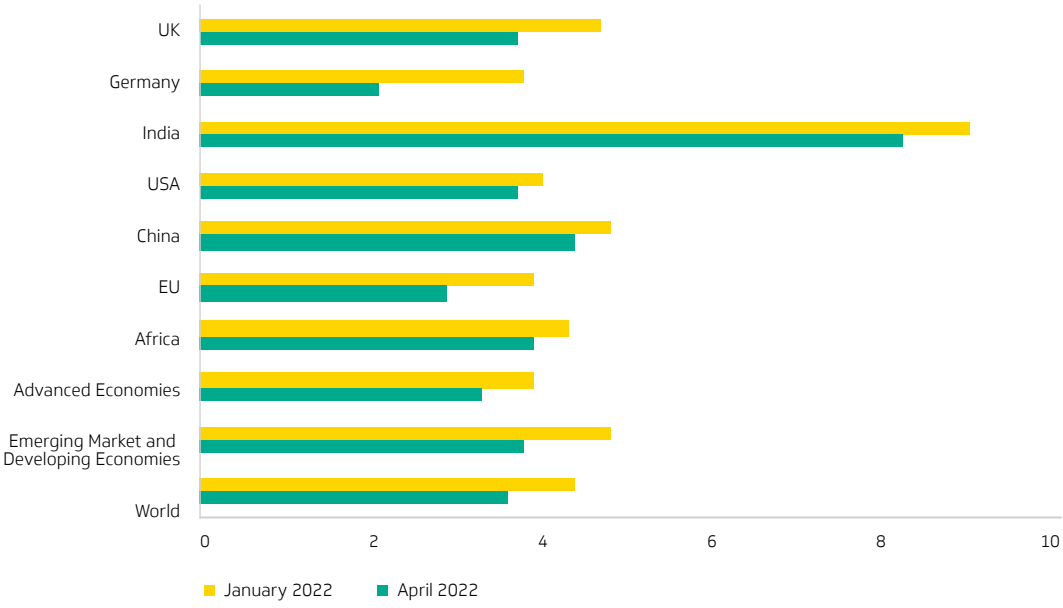
Europe — one of Africa's largest trading partners, which is facing multiple shocks from that geopolitical crisis, including to supply chains, energy prices and trade, in addition to the humanitarian disaster — is particularly exposed. Although EU-Russia trade accounts for just around 2% of total EU trade, the bloc depends heavily on Russia for its energy. The region's January growth forecasts have been revised downward by more than one percentage point to 2.9% (IMF, 2022b). Germany, the largest eurozone economy, is even more affected by the Ukraine crisis and is expected to suffer a much larger growth deceleration, with its GDP expected to expand now by around 2%, down from 3.8% in the IMF's January forecasts (Exhibit 3). And although the US is less dependent on Russia, its forecast output has been revised downward as well to 3.7% from 4%.[18]

Africa's growth forecast for 2022 points to continued fortitude even in the face of heightening inflationary pressures and geopolitical risks. While other parts of the world have suffered sharp downward revisions, the IMF has maintained its growth expectations for Africa. Accordingly, Africa's GDP is projected to expand by around 3.9% this year, slightly less than IMF's earlier forecasts of around 4.3%, and our own forecast of 4.2%. In a sign of increasing resilience, the revised growth forecasts show that the economic expansion of 16 countries (representing around 30% of all African nations) will exceed 5% in 2022, with the asymmetric nature of the commodity price shock emerging as a major growth accelerator for some of the largest economies across the region.

18 Remarkably, these revised forecasts are underpinned by three assumptions: (i) that the conflict will remain confined to Ukraine; (ii) that further sanctions against Russia will not extend to the energy sector; and (iii) that the negative spillovers of the COVID-19 pandemic, both health and economic, will abate this year. For more details, see https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022

"While other parts of the world have suffered sharp downward revisions, the IMF has maintained its growth expectations for Africa."

Exhibit 3: Growth Forecasts Pre- and Post-Ukraine Crisis (%)



Sources: IMF, Afreximbank

However, compared to last year, when the region's aggregate GDP expanded by around 6%, this represents a major braking. Such a deceleration signifies a combination of factors. First, weaker performance in South Africa, where growth is projected to decelerate from 4.6% last year to around 2%. The country, already burdened with persistent large-scale unemployment and structural impediments to growth, had to reintroduce lockdowns in response to the surge in Omicron-related infections (World Bank, 2022). The travel ban to Southern Africa adopted by several

nations could hamper growth in H1 2022.[19] Simultaneously, rising government debt will further constrain the government's capacity to invest in critical infrastructure, though commodity price tailwinds — a consequence of the Ukraine crisis and sanctions on Russia — could broaden the fiscal space to sustain the country on a stronger recovery track.

Second, the increasingly challenging operating environment wherein heightening geopolitical tensions are adversely affecting Africa's political and security conditions, with violence taking hold in the Sahel, Central and East Africa, and increasing political dissatisfaction and worsening security conditions leading to the resurgence of military coups (Bruton, 2020; Fofack, 2022b; IMF, 2022c).[20] These circumstances are diverting scarce resources away from productive public investments and exacerbating risk premiums amid worsening financing conditions. Last year, for example, Fitch Ratings downgraded Ethiopia's long-term foreign-currency issuer default rating to CCC from B. The ratings agency cited, among other factors, the deterioration of Ethiopia's political and security environment following the outbreak of civil war and heightened regional tensions (Fofack, 2022b).[21]

19 Although the Omicron variant has been less lethal than previous iterations, the South African government imposed several restrictive measures to protect the population, including late-nights curfews and guidelines restricting public gatherings to 1,000 people indoors and 2,000 people outdoors. For more details, see https://www.advisory.com/daily-briefing/2022/01/04/south-africa#:~:text=In%20response%20to%20the%20omicron%20wave%27s%20peak%20passing%2C,be%20once%20again%20be%20sold%20after%2011%20pm

20 Since our last Growth Prospects publication, Africa has suffered three successful military coups (Burkina Faso, Chad, Guinea and Mali) and two further attempted coups (Guinea Bissau and Niger). For more details, see https://www.imf.org/en/Publications/REO/SSA/Issues/2022/04/28/regional-economic-outlook-for-sub-saharan-africa-april-2022.

21 In addition to regional conflict, other negative drivers included the large current account deficit and the Ethiopian government's announcement of its intention to make use of the G20 'Common Framework for Debt Treatment beyond the Debt Service Suspension Initiative'. For more details, see https://www.fitchratings.com/research/sovereigns/fitch-downgrades-ethiopia-to-ccc-09-02-2021 and https://www.project-syndicate.org/commentary/africa-second-cold-war-risk-of-lost-decades-by-hippolyte-fofack-2022-01#:~:text=For%20centuries%2C%20colonial%20powers%2C%20and,income%20convergence%20and%20regional%20integration


91.45
16.04
-21.37



Regional Drivers of Growth Resilience

The continued expansion of headline output masks important variations across sub-regions and individual nations. Growth is projected to strengthen in North Africa — the fastest-growing sub-region — lifted by the impressive performance of Egypt, the territory's largest economy. Even amid global growth deceleration, the IMF recently raised Egypt forecast output to 5.9% from 5.2% in January. There is also the improving recovery in Libya, where progress on political settlement of the decade-old conflict and increasing oil production offer scope for further economic gains. This could partly offset weaker growth prospects in other North African nations, where the consequences of heightening geopolitical tensions — including the impact on tourism and disruptions to cereal supply chains (Morocco and Tunisia) and climate shock (Algeria and Morocco) — will be hard felt (World Bank, 2022).[22]

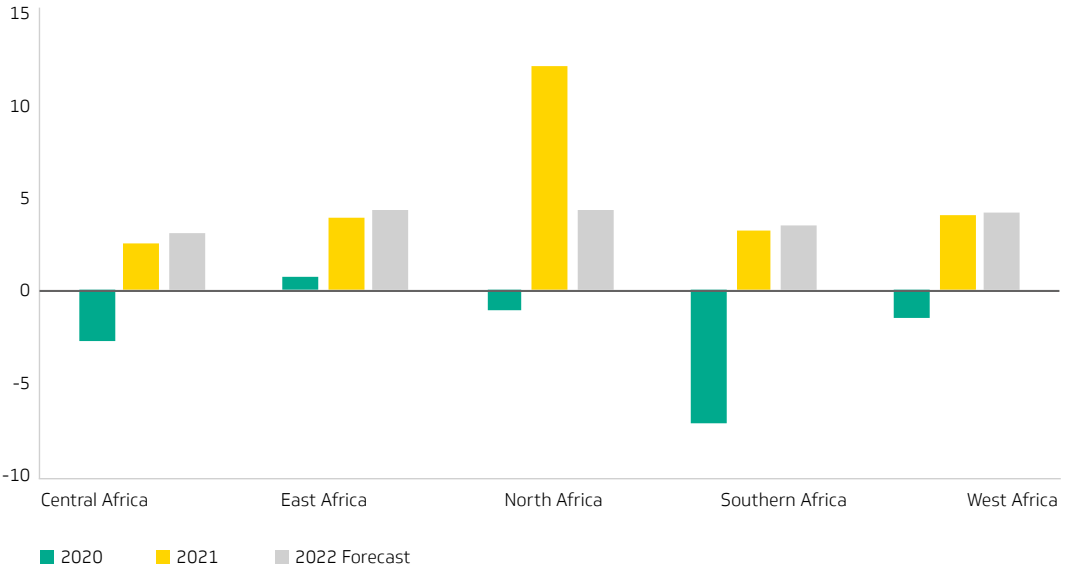
East Africa, which has reliably posted strong growth in recent years and is home to several countries in the list of the top 10 fastest-growing economies in the world, is projected to emerge as the second fastest-growing African sub-region. Its combined output will expand by 4.3%, supported by agricultural commodity exporters, improving manufacturing output and the dividends of large-scale infrastructure investment (Exhibit 4). [23] The sustained injection of patient capital and rise of East Africa's automotive industry is helping to expand opportunities for labour-intensive employment under a proven manufacturing-led growth model and will

"Growth is projected to strengthen in North Africa — the fastest-growing sub-region — lifted by the impressive performance of Egypt, the territory's largest economy."

22 Compliance with the ceasefire agreed in 2020 between the key parties (the Tripoli-based Government of National Accord and the Libyan National Army) augurs well for the recovery process.

23 The Grand Ethiopian Renaissance Dam is one such example of large-scale infrastructure investment. The dam — Africa's largest ever hydroelectric project, which will begin generating power this year — is expected to produce more than 5,000 megawatts of electricity, which at full capacity will double the nation's electricity output.

Exhibit 4: Real GDP growth by region (%)



Sources: IMF, World Bank, Afreximbank Research

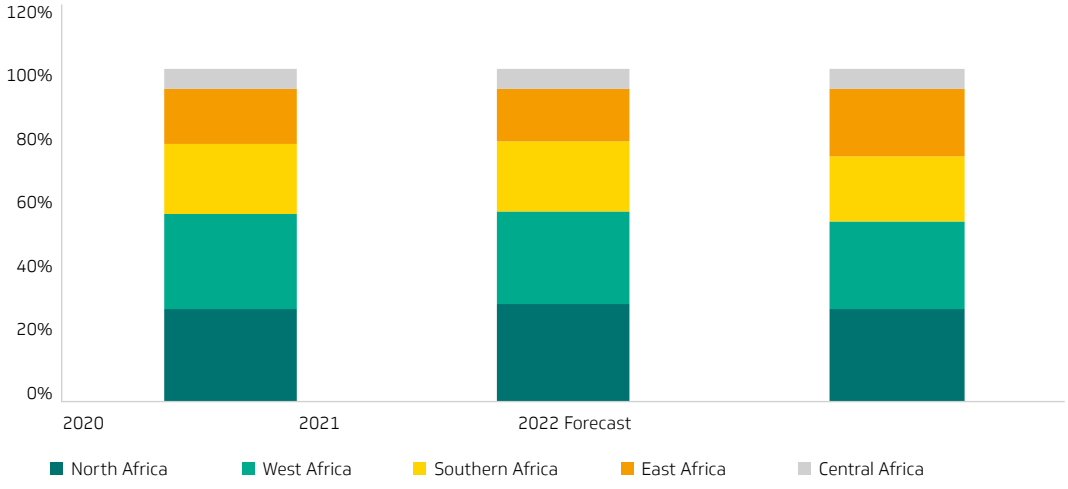
expand the fiscal space to gradually strengthen the foundation of macroeconomic stability.

Despite the protracted negative effects of conflict and insecurity, especially in the Sahel region, members of the Economic Community of West African States (ECOWAS) are also expected to enjoy robust growth in 2022. The sub-region will be supported by the usual assortment of strong performers (Benin, Cote d'Ivoire, Ghana, Guinea and Senegal), and by Nigeria, where the purchasing managers' index (PMI) rose sharply to 57.3 in February 2022, the largest expansion since November 2019. The telecommunications and financial services

sectors, as well as extensive investment in strategic industries, are enhancing growth resilience in Nigeria. The oil sector, too, will benefit from a gradual easing of OPEC+ production cuts and higher prices, which have received another boost from the Ukraine crisis. The latter are expected to remain above the country's fiscal breakeven price of US$62 per barrel.[24]

The Economic and Monetary Community of Central Africa (CEMAC) continues to be the continent's worst-performing sub-region. Despite improving commodity terms of trade — especially for oil-exporting countries, where surging prices have emerged as a major tailwind, allowing Equatorial Guinea, for example, to achieve the impressive growth rate of 6.1% after three consecutive years of contraction

Exhibit 5: Forecast contribution to GDP growth by RECs



Sources: IMF, World Bank, Afreximbank Research

24 In December 2021, the Nigerian parliament approved the country's 2022 budget (US$38bn) anchored against an oil price benchmark of US$62 per barrel. This is far below the current market price, which has soared since the outbreak of war in Ukraine, increasing to more than $130 per barrel, a near 14-year high in March before closing the month of April at around US$110. For more details, see https://www.spglobal.com/platts/en/market-insights/latest-news/oil/122221-nigeria-targets-62b-oil-price-in-2022-budget

(IMF, 2022c) — aggregate growth in the sub-region will average just 3% over the forecast horizon, as an increasingly large number of countries contend with rising insecurity. CEMAC also lags behind similar communities in terms of its contribution to aggregate growth, accounting for around 5% of forecast aggregate output expansion in 2022. In contrast, Southern Africa remains a heavyweight, in spite of its growth prospects being undermined by South Africa's weaker performance. The Southern Africa sub-region is forecast to account for 19% of Africa's aggregate GDP growth in 2022, while West Africa is expected to contribute 27%, East Africa 21% and North Africa 28% (Exhibit 5).

The growth dynamics across individual countries are also uneven, reflecting differences in the severity of the pandemic and responses thereto. With a few exceptions such as Ethiopia, where deteriorating security conditions have emerged as a major drag on growth, Africa's high performers are set to maintain their strong growth trajectories. In these countries, output continues to expand above regional and world averages, supported by the increasing diversification of sources of growth that is expanding manufacturing output and trade. For example, in Rwanda, a country that has consistently been among the fastest-growing economies in the world over the last decade, output is forecast to expand by more than 6.2% in 2022, after the impressive rebound from the pandemic last year.

The projected recovery is also indicative of the relatively strong bounce-back in a few large African economies, with Egypt — which entered the COVID-19 crisis with sizable buffers following years of economic reforms — being one case in point. For the third consecutive year, Egypt is a major growth driver for the region, with forecast GDP expansion of 5.9% in 2022. In addition to reform dividends, which eliminated currency overvaluation and strengthened the business climate to boost competitiveness, the national economy is being well supported by a variety of forces: expanding infrastructure development; a buoyant gas extraction sector; stronger private consumption; and growing remittances and capital inflows (IMF, 2022d).[25]

25 Egypt is one of the top recipients of remittances in the world. Remittance inflows to Egypt were particularly resilient during the pandemic, increasing by more than 13.2% to US$31.4, going against the global trend which saw a decrease of 1.7% between 2019-20. For more details, see https://www.worldbank.org/en/news/press-release/2020/10/29/COVID-19-remittance-flows-to-shrink-14-by-2021 (World Bank, 2021b)

"...in a sign of post-crisis normalisation—tourism-dependent economies seem set to tell the biggest growth story for Africa in 2022."

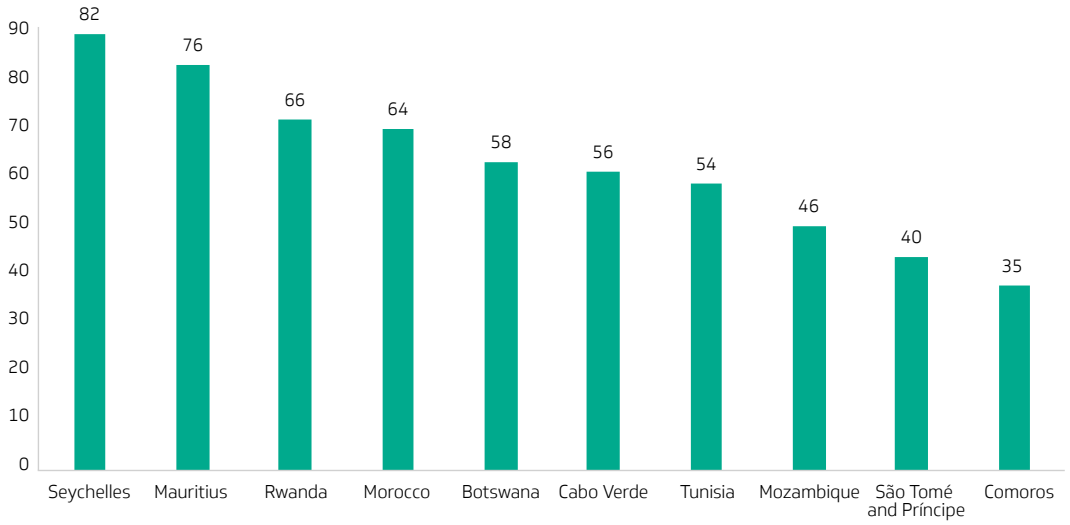
As the only one of the three Africa largest economies (the others being Nigeria and South Africa) where GDP growth expanded strongly even at the height of the pandemic downturn (3.3%), Egypt has become the symbol of growth resilience for the continent. With a boost from its stronger growth forecast, Egypt is projected to account for 17% of Africa's combined output expansion in 2022, up from 16% in 2021. The two largest economies, Nigeria and South Africa, are expected to account for 17% and 15%, respectively of aggregate output of the region.

Kenya, the other relatively large African economy that has demonstrated resilience over the last few years, is forecast to remain on a strong growth trajectory, with output set to expand by 5.7%, up from 7.2% last year. Angola, too, is projected to enjoy a strong rebound, with its GDP expanding by more than 3% in 2022, up from 0.7% last year, supported by higher oil prices and a gradual recovery in energy investments and output, the dividends of sustained structural reforms and improving macroeconomic conditions. After suffering five consecutive years of economic recession (up to the pandemic downturn in 2020), Angola is slated to raise its contribution to Africa's aggregate GDP growth to 4% in 2022. Such developments are rebalancing the regional drivers of growth, with potentially long-term distributional effects that will further enhance the foundation of growth resilience.

The recovery in commodity markets will be another key growth catalyst not only for Africa's two largest oil exporters (Angola and Nigeria) and other smaller ones such as Equatorial Guinea and Chad, but for the whole continent, with the consequences of the Ukraine crisis extending beyond energy to include precious and semi-precious metals. Futures markets suggest oil and gas prices will strengthen further in 2022, by as much as 55% and 147%, respectively (IMF, 2022b). Similarly, prices of base metals, which were already on a rising trend in 2022, will be further supported by the energy transition as the world strives to achieve net-zero emissions targets.

Regional growth remains highly correlated with commodity market dynamics — more

Exhibit 6: Top-10 African Countries Fully vaccinated (% of total population)



Sources: Economist, Afreximbank Research

than 80% of African countries are primary commodities and natural resource-dependent (UNCTAD, 2021a). These resources have been the region's major growth drivers during favourable commodity cycles and will continue to play that role in the near term as heightened geopolitical tensions sustain soaring prices of key commodities.

Furthermore — and perhaps in a sign of post-crisis normalisation — tourism-dependent economies seem set to tell the biggest growth story for Africa in 2022. Island nations (Cabo Verde, Mauritius and Seychelles) are each expected to enjoy strong growth in 2022. The GDP forecast for Mauritius exceeds 6.1% (up from 3.9% in 2021), which would make it one of the fastest-growing economies in the region in 2022.[26] Their resilience highlights the extent to which vaccine initiatives are

26 These island nations were among the most affected by the COVID-19 pandemic and suffered large economic contraction. Seychelles contracted by around 7.7%, Cabo Verde by 14.8%, and Mauritius around 14.9% (IMF, 2022c).

"Lifting the ban on intellectual property protection to decentralise the production of COVID-19 vaccines and address supply bottlenecks is key."

powering the post-crisis recovery. As of end-March 2022, nearly 81% and 76% of the populations of Seychelles and Mauritius, respectively, were fully inoculated, far exceeding the world average of around 60% (Exhibit 6).

But vaccination rates remain dismally low across mainland Africa: less than 15% of the population was fully vaccinated as of end-March 2022, significantly below the average for other regions (IMF, 2022c). The vaccination rate is under 3% in several countries.[27] In a two-speed recovery dictated by, on the one hand, COVID-19 vaccine dynamics and, on the other, the amount of monetary and fiscal support available, Africa's projected growth remains below potential, nearly a full percentage point under its average between 2000-19 (World Bank, 2022; IMF, 2022c).

The pandemic has reversed many of the gains made by the region over the last two decades, including in some of the largest countries (Angola, Nigeria and South Africa) where per capita incomes in 2023 are projected to be 2% below 2019 levels (IMF, 2021b; World Bank, 2022).[28] While progress has been made to address vaccine inequality — including under the auspices of the Africa Vaccine Acquisition Task Team, a partnership between several institutions, including Afreximbank, the Africa Centres for Disease Control and Prevention, United Nations Economic Commission for Africa and African Union — further steps must be taken.

Lifting the ban on intellectual property protection to decentralise the production of COVID-19 vaccines and address supply bottlenecks is key. This will help alleviate strains on those countries that have been the most affected by vaccine nationalism, mainly low-income and emerging market economies with limited fiscal space. Doing so will reduce the risk of COVID-19 mutations and enhance the prospects of collectively transitioning into the post-pandemic world. It will also enable countries to confront a host of other challenges more effectively, including surging inflation, the risk of stagflation and increasing prospects of deglobalisation, all of which are being exacerbated by rising geopolitical tensions.

27 These include both large (the Democratic Republic of the Congo and Nigeria) and small economies (Burundi, Cameroon, Chad, Guinea Bissau, Madagascar, Mali, São Tomé and Príncipe and South Sudan).

28 Per capita income across Africa is not expected to return to its pre-pandemic trend growth before 2024 (IMF, 2021b; Reinhart and von Luckner, 2022).



Improving Macroeconomic Environment

The forecast expansion in output is predicated on several other factors, including the improving macroeconomic and policy environment. In that regard, the exceptional support offered by the IMF has been invaluable. The Fund's unconditional allocation of SDRs worth around US$33bn to African nations in H2 2021 was timely. It had an important impact on macroeconomic buffers and will have positive spillovers for macroeconomic stability and growth in the short and medium term (IIF, 2021b; Amidzic and Pattillo, 2021).[29] The allocation has benefited all countries throughout the region, especially the most vulnerable ones, as they confront ongoing monetary and fiscal challenges while also shoring up external accounts.

Although Africa received less than 5% of the total US$650bn worth of SDRs issued — the allocation was heavily skewed (US$400bn) towards advanced economies, as SDRs are distributed to IMF members in proportion to their quota shares in the Fund — the macroeconomic impact of that allocation is likely to be more significant in developing economies that do not enjoy the exorbitant privilege of issuing a reserve currency and depend heavily on trade for forex earnings.[30] Across Africa, the allocation has created some breathing room on countries' balance sheets, improving their current and fiscal accounts and replenishing forex reserves (IIF, 2021b).

The SDR allocation, which invariably boosted Africa's forex reserves, had a

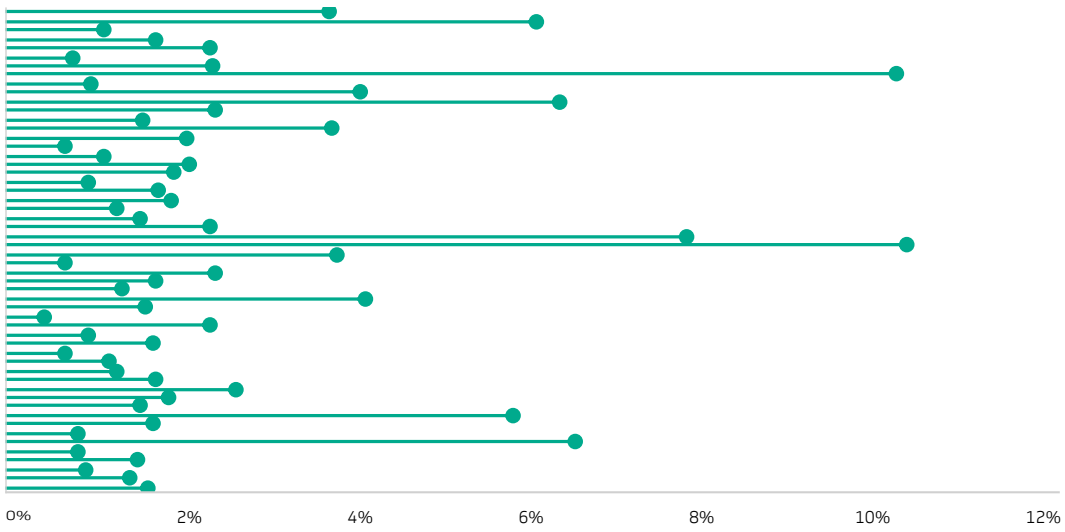
"The SDR allocation, which invariably boosted Africa's forex reserves, had a particularly pronounced impact in countries such as Zambia and Zimbabwe, where it more than doubled existing reserves."

29 For more details, see Fofack (2021a) and Amidzic and Pattillo (2021).

30 To date, the US$650bn SDR allocation is the most ambitious and consequential global response to the pandemic by the international community, both in size and scope. The IMF is encouraging high-income countries with a strong external position to channel their unused SDRs to low-income countries, including through the IMF Poverty Reduction and Growth Trust's concessional window.

particularly pronounced impact in countries such as Zambia and Zimbabwe, where it more than doubled existing reserves. While the three largest economies in the region (Egypt, Nigeria and South Africa) received nearly one-third of Africa's allocation, its economic impact has been most significant among low-income countries, which collectively received US$13bn.[31] For most of these countries the allocation has been substantial relative to the size of their economies (Exhibit 7), accounting for more than 5% of GDP for many (Burundi, Central African Republic, Libya, Sierra Leone and Zambia) and over 10% for others (Liberia and South Sudan).

Exhibit 7: SDR allocation as a share of GDP by Country



Sources: IMF, Afreximbank Research

31 According to the World Bank, low-income countries are nations with a per capita gross national income (GNI) of less than US$1,026. GNI per capita is the dollar value of country's final income divided by its population. The overwhelming majority of low-income countries are in Africa and include Sahelian countries confronting the daunting challenges of extreme poverty, insecurity and climate change.

"Banks' enhanced financial wherewithal augurs well not just for the immediate post-crisis recovery amid heightened volatility, but also for the financing of long-term growth and structural change."

All nations throughout the region are feeling the benefits of these SDRs, which have reduced exposures to exchange rate volatility and assuaged liquidity constraints associated with balance of payments pressures. The allocation has acted as a financial multiplier, enlarging short-term fiscal and policy space to maintain price and financial stability in the face of large exchange-rate swings and fortifying prospects for long-term financial security. By preventing liquidity crises from morphing into solvency crises, they have enhanced the financial soundness of banks, which proved particularly resilient during the crisis.

Although most commercial banks went counter-cyclical, increasing lending to the private sector during the pandemic downturn, non-performing loan (NPL) ratios remained relatively low across the region.[32] For countries where data are available, the increase in NPL ratios was marginal, rising from 6.6% at end-2019 to 7.7% in March 2021 (IMF, 2021b). This perhaps reflects the effectiveness of supportive measures extended by African monetary authorities. These institutions pursued regulatory forbearance during the crisis, reduced reserve requirement ratios (RRRs), relaxed prudential requirements and have been flexible in the application of Basel III rules.[33] These measures have helped free up bank capital with a view to facilitating credit availability and accelerating the post-crisis recovery.

The banking sector has played an especially important role in Nigeria. In that country, temporary relief measures were swiftly extended after the adoption of a policy setting a loan-to-deposit ratio (LDR) minimum threshold, which was intended to spur bank credit to the domestic private sector pre-pandemic.[34] In conjunction with another policy designed to provide cheap funding through a differentiated cash

32 Major reviews of banks' financing have established that private banks and financial institutions tend to be pro-cyclical, over-lending in boom times and restricting credit during and after crises. For more details, see Griffith-Jones (2016).

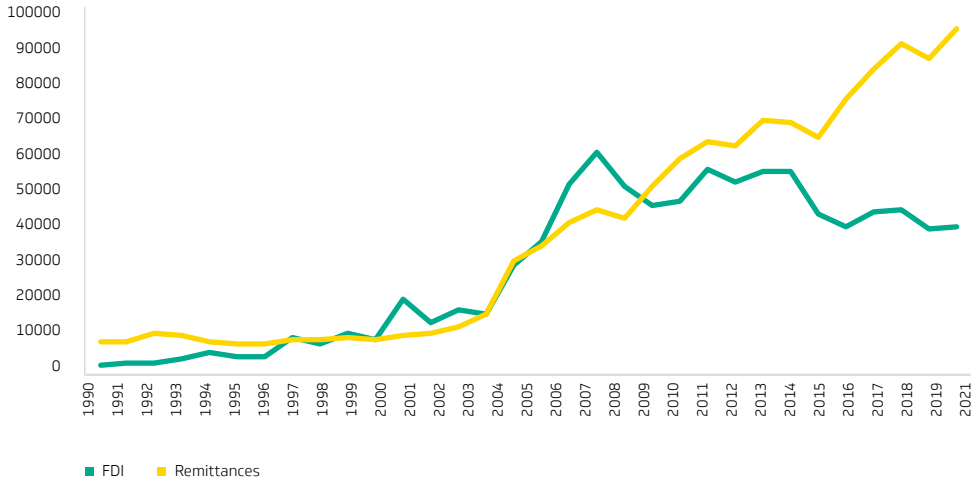
33 However, backpedalling of such forbearance could raise other challenges for borrowers, with negative spillovers for banks and financial institutions.

34 In July 2019, the Central Bank of Nigeria announced a reform raising the required LDR to 60% effective end-September 2019. Upon review of the results of the policy, the central bank raised the ratio to 65%, which banks were expected to comply with by end-December 2019.

reserve requirement, these measures ensured that a significant stream of credit flowed into the economy. Across Nigeria's banking sector, NPL ratios declined to 4.8% in December 2021 (the lowest figure since 2015) from 6.3% in December 2020, when it exceeded the central bank's prudential maximum threshold of 5%.[35]

Banks' enhanced financial wherewithal augurs well not just for the immediate post-crisis recovery amid heightened volatility, but also for the financing of long-term growth and structural change. This is especially relevant for providing robust support to micro, small and medium-sized enterprises (MSMEs), which have been the greatest beneficiaries of

Exhibit 8: Trends of Remittance and FDI Inflows to Africa (in US$bn)



Sources: World Bank, Afreximbank Research

35 While Nigeria's Tier-2 banks maintained an average NPL ratio of 3.8%, Tier-1 banks' NPL ratios stood at 5.1%. For more details, https://businessday.ng/banking/article/banks-bad-loans-fall-to-6-yr-low-on-recovery/

"Unlike FDI and capital flows, which are highly volatile, remittance inflows to Africa have been steady and will continue to support growth through domestic consumption and investment."

credit growth.[36] In effect, in addition to supporting the recovery of Nigeria's economy through counter-cyclical credit expansion, these measures are accelerating the diversification of sources of growth and trade. Building back better is crucial in a country where vulnerability to commodity price cycles has long stymied its ambitions for macroeconomic stability and long-run growth.

Compared to 2019, the growth in credit exceeded ₦4tn (US$9.6bn) and targeted critical sectors such as manufacturing, which has sustained the growth of labour-intensive employment opportunities and acted as a stable vector out of poverty. That industry had been long neglected despite its tremendous potential for effective integration into the global economy — in which trade has been driven by manufactured goods with increasing technological content — and for inclusive growth through the expansion of stable employment opportunities.

Manufacturing received the largest allocation of domestic credit to the private sector last year, a trend that forecasters expect to continue. Policymakers are committing to diversification away from oil and gas, as this will reduce excess vulnerability to boom-bust cycles and sustain the broadening of fiscal space to strengthen the foundation of macroeconomic stability in the medium and long term. At the moment, the oil sector accounts for 95% of Nigeria's forex earnings and 80% of its budgetary revenues.

The relatively low pro-cyclicality and volatility of remittance inflows, which have been on a robust growth trajectory since the early 2000s, is another key driver of growth resilience across Africa (Exhibit 8). Excluding Nigeria, which is the second largest recipient of remittance inflows to the region, inflows into Africa increased by over 4% in 2020, and strengthened further by more than 11% in 2021 (World Bank, 2022b).[37] The resilience of remittance inflows was supported in part by the largesse of fiscal stimulus measures extended to households and corporates in host countries, especially in Europe and North America, and by a reduction of transfer costs as flows shifted from cash-based to digital payments.[38]

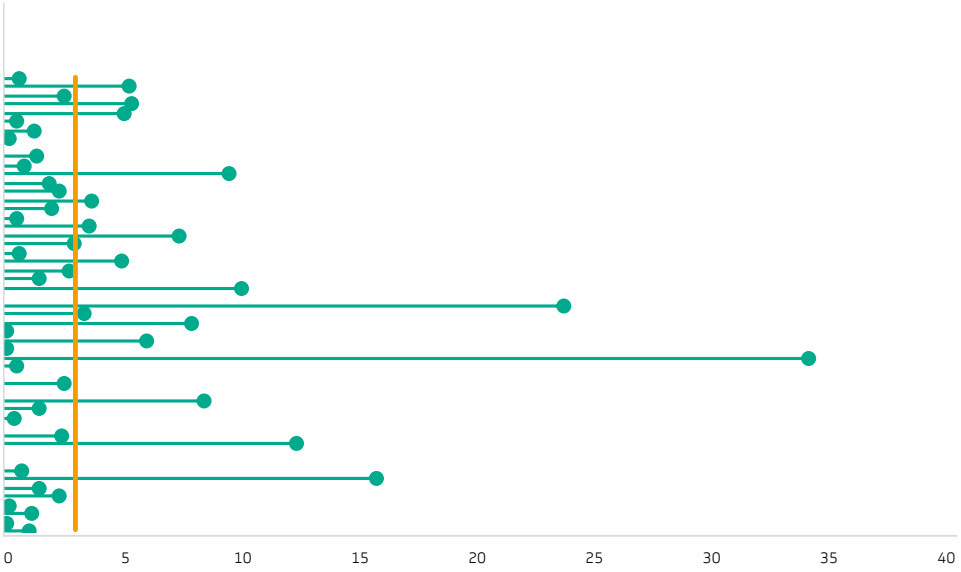
36 A preliminary assessment of the Nigerian Central Bank's LDR programme shows that the policy's development impact has been significant, both in terms of credit growth and economic development (CBN, 2021).

37 For more details, see https://openknowledge.worldbank.org/bitstream/handle/10986/33634/COVID-19-Crisis-Through-a-Migration-Lens.pdf?sequence=5 (World Bank, 2021b)

38 Under the irreversible transition towards digitalisation, the macroeconomic effects of the latter will become even more important over time.

"Through the UKAFPA — a counter-cyclical response for credit facilities — Afreximbank is helping member countries manage the fallout from the Ukraine crisis on regional economies and businesses."

Exhibit 9: Remittances inflows as a share of GDP (2021)



Sources: World Bank, Afreximbank Research

Egypt, Africa's largest recipient of remittances, recorded a 10.8% increase even at the height of the pandemic downturn in 2020. Egypt and Nigeria can be counted among the top 10 recipients of remittance inflows in the world, and together have accounted for around 55% on average of Africa's total remittance inflows over the last three years.[39] But the steady growth of remittances — which

39 India and China have been the top two recipients of remittance inflows globally. Other prominent recipients in decreasing order of ranking include Mexico, the Philippines, Egypt, Pakistan, France, Bangladesh, Germany and Nigeria. For more details, see https://www.statista.com/chart/20166/top-10-remittance-receiving-countries/

"Over the years, Afreximbank has drawn on counter-cyclical support to provide timely financing to soften economic blows during downturns and expand prosperity during upturns."

have overtaken both FDI and official development aid (ODA) as a source of international financial resources flowing to the continent — was just as important in other African nations, including the Gambia and South Sudan where they increased by over 51% and 71%, respectively.

According to World Bank estimates, remittance inflows to Africa are forecast to strengthen further in 2022, supported by the strong and tightening labour market, especially in Europe and North America (World Bank, 2021b). This will engender significant positive economic effects, especially in cases where flows have grown beyond a critical threshold. Empirical studies have established that the impact of a negative international reserve shock on current account reversals becomes less severe when remittances exceed 3% of GDP (Bugamelli and Paterno, 2009; Bahadir et al, 2018). Most African countries have surpassed that threshold, with remittances representing more than 3% of GDP in 20 countries and over 5% in 16 countries (Exhibit 9).[40]

In addition to supporting welfare improvement and poverty alleviation through consumption smoothing, remittances are fuelling investment growth, acting as a more reliable alternative financing source in the face of declining ODA, marginal and highly volatile FDI and a challenging domestic environment of financial repression (Bahadir et al, 2018).[41] Remittances have also emerged as a balance of payments stabiliser, keeping current account deficits under control even in the face of a chronically negative trade balance and reducing the risk of major current account reversals associated with a sharp decrease in the stock of international reserves (IMF, 2005; World Bank, 2021b).

Unlike FDI and capital flows, which are highly volatile, remittance inflows to Africa have been steady and will continue to support growth through domestic consumption and investment. In the coming years, this will dampen fluctuations associated with capital flow reversals and sudden stops, especially as the size of these remittance inflows — which is correlated with population growth and the

40 Remittances have become a major driver of growth and consumption smoothing in Nigeria. They exceeded $25bn in 2018, representing 6.1% of GDP and 83% of the federal government's revenues.

41 Across Africa, the average private credit-to-GDP ratio has remained dismally low, even by developing country standards, sitting at less than 20%. The ratio is around 46% in Latin America, just over 46% in East Asia and significantly higher in advanced economies (70% and higher). For more details, see Bahadir et al (2018).

expanding wealth of the African diaspora — is set to remain on a rising trend. And by boosting the stock of international reserves, the growing and low-cyclical inflows of remittances also reduce the probability of financial crises.

The forecast growth is also supported by a favourable policy environment on the continent, as countries continue to capitalise on dividends from the sustained implementation of economic reforms as well as the macroeconomic benefits of SDRs, which have bolstered the foreign exchange reserves and stabilised the currencies of most countries.

But the expected growth resilience is also underpinned by the swift and bold responses from multilateral and development finance institutions to mitigate fallout from the Ukraine crisis and sustain the recovery from the pandemic downturn. In addition to measures championed by global development finance institutions such as the World Bank and IMF, timely support from leading African institutions — most notably the African Development Bank, through its Africa Emergency Food Plan, and Afreximbank, through its Ukraine Crisis Adjustment Trade Financing Programme for Africa (UKAFPA) — will further enhance growth resilience.[42]

Through the UKAFPA — a counter-cyclical response for credit facilities — Afreximbank is helping member countries manage the fallout from the Ukraine crisis on regional economies and businesses. For instance, the resources provided under the facility are helping countries to meet immediate import prices, smoothing the process of domestic demand adjustment to sustain countries on a strong growth trajectory. Through the facility, Afreximbank is also refinancing over-collateralised loans in a context of surging commodity prices to release more cashflow for use in meeting other urgent needs. The Bank is also helping African sovereign and corporate entities to structure and enter derivatives contracts at today's high commodity prices and stabilise future export earners.

Over the years, Afreximbank has drawn on counter-cyclical support to provide timely financing to soften economic blows during downturns and expand prosperity during upturns (Oramah, 2021). The latest example is the Pandemic Trade Impact

42 For more details, see https://www.afreximbank.com/afreximbank-launches-4-billion-us-dollar-ukraine-crisis-adjustment-trade-financing-programme-for-africa-ukafpa/.

Mitigation Facility (PATIMFA), which enabled the Bank to disburse more than US$8bn as part of its Covid-19 response efforts to help its worst-affected members adjust to the virus-induced macroeconomic fallout. These counter-cyclical financing facilities have also enabled Afreximbank to leverage more resources from other development partners and institutions to fast-track the process of economic recovery and sustain the region on a long-run growth trajectory.



Trading with the World, and with Each Other

Despite supply chain bottlenecks, rising inflation and rapid monetary policy normalisation, Africa's growth prospects remain supported by the favourable global operating environment and demand-side policy measures. This is particularly the case in respect of China — Africa's largest trading partner — which is still deploying monetary stimulus and advocating fiscal expansion to meet its long-term growth target. But the region's growth prospects are also supported by the expected output expansion among other key trading partners, most notably the EU, US and India, where output will continue to expand to drive global demand and sustain the upward trend in commodity markets in the near term.

World trade volume (goods and services) is expected to expand by more than 5% in 2022 and strengthen further next year (IMF, 2022b). Advanced economies will be the leading drivers of trade growth, accounting for a higher share of world trade volume expansion (6.1%, versus 3.9% for emerging economies).

Even though the combination of a broader price surge and elevated geopolitical tensions raised uncertainty and pushed confidence to its lowest level since last September, firms have an upbeat 12-month outlook (S&P, 2022). After the sharp decline in the Purchasing Managers' Index (PMI) — which is seen as a barometer of economic health — in March, manufacturing output responded strongly in April, especially in the US, where the seasonally adjusted S&P Global US manufacturing PMI rose to 59.2, up from 58.8 in March.[43] A reading above 50 indicates expansion of the manufacturing sector.[44]

The pace of expansion of US PMI, the sharpest since July, was driven by a wide range of factors, both domestic and external, including stronger demand, record increases in pre-production inventories, a solid rise in employment and strong export orders, which grew at the fastest rate in almost a year, supported by greater demand in key markets in Asia and Europe. The stronger manufacturing production raised the overall US composite

43 Panel sentiment shows that US output growth achieved one of the fastest expansions since the end of Q3 2021. For more details, see https://www.markiteconomics.com/Public/Home/PressRelease/180bda82053d4983baf9a2e271e6d157 https://www.wto.org/english/news_e/pres21_e/pr889_e.htm

44 In contrast, a reading below 50 represents a contraction of the manufacturing sector compared to the previous month. A reading of 50 indicates no change.

"The tailwinds from post-pandemic reopening could counterbalance the new headwind from heightening geopolitical tensions and strengthen the region's growth profile for H2"

output index to 56 in April, up from a preliminary estimate of 55.1.

The rebound was equally strong within the eurozone, where the S&P Global's final PMI fell to a 14-month low in March, as the Ukraine crisis tightened supply chain bottlenecks, dampened demand and damaged investors' confidence (Reuters, 2022).[45] But business activity accelerated sharply in April as the dominant services industry took advantage of a further loosening of pandemic-era restrictions. The S&P Global's final composite PMI rose to 55.8 in April, largely driven by a strong recovery in services, in which the PMI rose sharply to 57.7, its highest reading since August.

Beyond offsetting the poor performance in manufacturing, the rebound in the services industry — which is the main contributor to growth and employment in the eurozone, accounting for around two-thirds of both EU employment and value added (OECD, 2005; Prohorovs and Solesvik, 2018) — gave a big boost to EU growth. These developments augur well for growth prospects in a region that, in addition to battling inflation, is directly affected by the Ukraine crisis.

The tailwinds from post-pandemic reopening could counterbalance the new headwind from heightening geopolitical tensions and strengthen the region's growth profile for H2, though they could also lead the ECB to fast-track the pace of normalisation of monetary policy by raising its deposit rate sooner than expected.

Corporate capital expenditure and investment are also set to increase. According to simulations from existing econometric models, industrial production — one of the more widely analysed high-frequency indicators — is trending up. It is forecast to expand at an average rate of 3% in the US over the forecast horizon and by significantly more in India and China.

In addition to front-loading infrastructure investment, China's pro-growth fiscal policy will alleviate stringent regulatory constraints that have deterred investment in its corporate sector.[46] Meanwhile, a US-China 'tech war' has emerged as another catalyst of gross capital formation, bolstering Chinese innovation capabilities into overdrive, and boosting its investment in strategic industries like semiconductors. This move up the

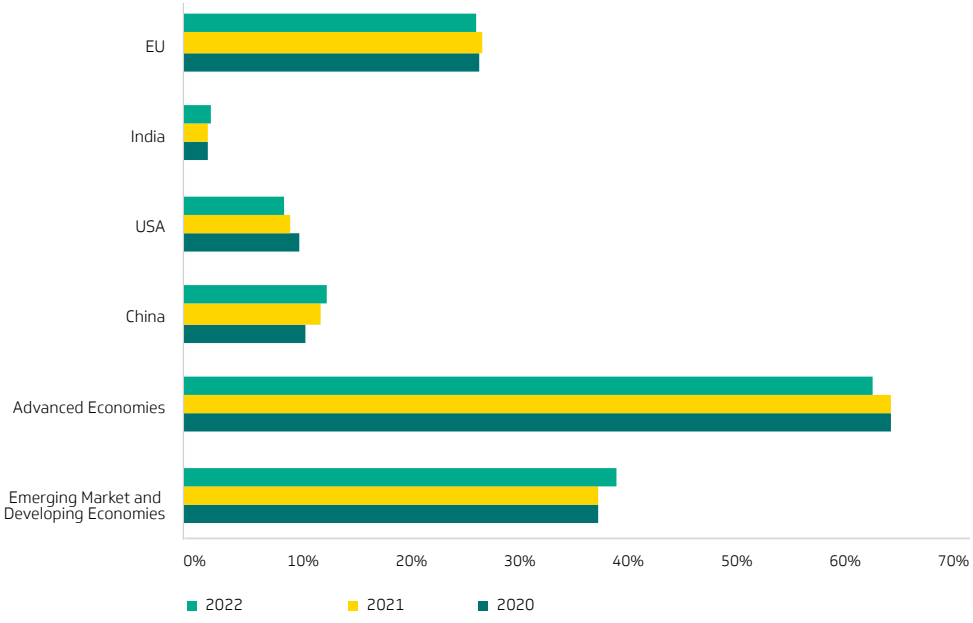
45 The sharp deceleration, which raised the prospect of a recession, was largely driven by the poor performance in the manufacturing sector. For more details, see https://www.reuters.com/world/europe/euro-zone-march-factory-growth-slumped-downturn-possible-pmi-2022-04-01/ https://www.wto.org/english/news_e/pres21_e/pr889_e.htm

46 For more details, see https://www.reuters.com/markets/currencies/china-says-it-will-focus-economic-stability-2022-2021-12-10/https://www.bostonfed.org/publications/current-policy-perspectives/2020/predicting-recessions-using-the-yield-curve.aspx

technological ladder will further sustain the rate of growth of aggregate investment in the near term, with positive spillovers for African trade.[47]

Amid the forecast slower output expansion, the synchronised recovery among Africa's top trading partners will fuel global demand and regional trade, with positive spillovers for African growth including through commodity prices channels. China, the US, EU and India account for the lion's share of global growth (53.3%) (Exhibit 10) and trade (51%), including more than 55% of total

Exhibit 10: Forecast contribution to global growth



Sources: IMF, Afreximbank Research

47 For more details, see https://asia.nikkei.com/Spotlight/Most-read-in-2021/US-China-tech-war-Beijing-s-secret-chipmaking-champions

Exhibit 11: Share of total African trade and total African exports (2019-2021)

	Share of Total African Trade %			Share of Total African Exports %		
	2019	2020	Oct. 2021	2019	2020	2021
USA	4.8	4.6	4.0	5.0	5.0	7.0
India	6.6	5.5	6.0	8.0	6.0	7.0
China	19.2	19.7	22.0	18.0	17.0	18.0
EU	27.0	25.6	23.0	26.0	25.0	24.0
Others	42.4	44.6	45.0	42.0	46.0	44.0

Sources: IMF, Afreximbank Research

African trade, and are the destination of more than half of Africa's total exports (Exhibit 11). India could be a major driver of growth. It has significant catch-up potential following the hit from the Delta variant of coronavirus, and could achieve an even higher growth rate, especially with expected improvements to credit growth (Hatzius et al, 2021; IMF, 2022a).[48]

The GDP deceleration recorded by China in Q4 2021 was largely attributed to growth-constraining reforms and the country's increasingly stringent regulatory environment. Stricter housing, energy and regulatory policies flattened credit growth and depressed investment, with the contribution of gross capital formation to GDP falling sharply in Q3 2021.[49] Concurrently, tight Covid-related travel controls (under the country's zero-Covid policy) and inadequate income support depressed household consumption, even as exports were picking up, contributing 1.9% to (or 20% of) China's GDP growth in the first three quarters of 2021 (IIF, 2022).[50]

However, for the government in Beijing, mitigating the risk of a hard landing and remaining on a strong growth trajectory — with annual GDP growth of least 5%

48 For more details, see https://www.gspublishing.com/content/research/en/reports/2021/11/08/9db5e574-7a17-4317-b50e-d77f1500c7ce.html https://asia.nikkei.com/Spotlight/Most-read-in-2021/US-China-tech-war-Beijing-s-secret-chipmaking-champions

49 The growth of fixed asset investments in infrastructure has been negative since May 2021, and the contribution of gross capital formation to GDP was zero in Q3 2021. For more details, see IIF (2022).

50 For more details, see https://www.iif.com/Publications/ID/4710/China-Spotlight-Policies-Turning-More-Pro-Growth-in-2022

over the medium term — remains the key policy objective if the country is to achieve its long-term goal of doubling per capita income by 2035.[51] In this regard, the Chinese leadership recognised during its most recent annual 'Central Economic Work Conference', held in December 2021, that mistakes had been made in the pursuit of aggressive regulatory and structural policies (IIF, 2022).[52] In its closing communiqué, the leadership stressed the need to control the timing, extent and efficacy of measures when making policy adjustments. They also signalled policy reversals in a sharp pivot towards greater support for near-term economic growth.

The People's Bank of China (PBoC) has already extended some support, cutting banks' RRR on December 15 2021, its second such move last year and cutting the loan prime rate by 5 bps over the same month (Exhibit 12). Central bank authorities also raised the RRR for foreign currency deposits, a move designed to mop up forex liquidity and contain renminbi appreciation (Exhibit 13). In addition to encouraging banks to provide more credit for real estate M&A to minimise bankruptcy and systemic risks, the PBoC committed to more monetary easing in 2022 through liquidity support and interest rate cuts. Under this pro-growth umbrella, easing monetary policy will be accompanied by large fiscal stimulus, drawing on unused resources from the 2021 government fund account (IIF, 2022).[53]

Any injection of additional resources into the economy will strengthen the fiscal impulse and boost Chinese investments, which in recent years have become highly correlated with African exports. According to IMF research, a one percentage point increase in China's domestic investment growth is associated with an average 0.6 percentage point increase in Sub-Saharan African countries' export growth (Drummond and Liu, 2013).[54] The same study found that the impact of China's investment growth is even larger for resource-rich African countries, especially

51 For more details, see https://www.scmp.com/economy/china-economy/article/3108767/china-gdp-xi-jinping-says-completely-possible-double-size

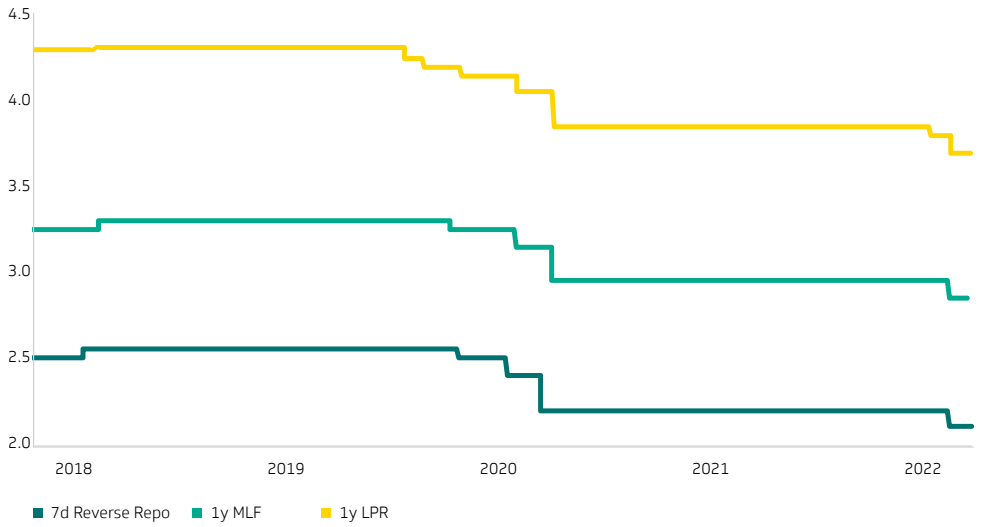
52 While recognising that the external environment was increasingly challenging and fraught with uncertainty, attendees at the conference also stressed that China's economic resilience and robust fundamentals provided a strong foundation for long-term growth. For more details, see https://www.globaltimes.cn/page/202112/1241252.shtml

53 Across the country, municipalities have been encouraged to expedite the issuance of local government special bonds and put funds to work. The IIF estimates that a large portion of RMB2tn (1.7% of GDP) — raised in part through land sales and the issuance of local government special bonds — in the government fund account went unused in 2021 and will be injected into the economy in 2022.

54 For more details, see https://www.imf.org/external/pubs/ft/wp/2013/wp13250.pdf

"Over the last few decades, China's rising tide has buoyed Africa's commodity-exporting boats."

Exhibit 12: Loan prime rate in China (2018-2021)



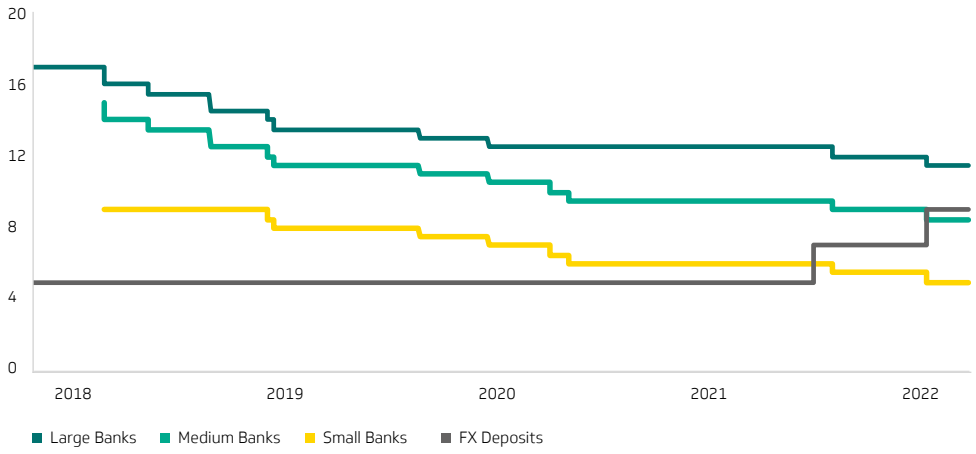
Sources: Haver, IIF

oil exporters like Angola and Nigeria. These two large economies stand to benefit the most from persistently high oil prices and could add a few additional points to regional GDP.

Over the last few decades, China's rising tide has buoyed Africa's commodity-exporting boats. The various supportive measures implemented by Beijing are expected to boost investment growth and fuel global demand. This in turn would sustain the commodity price rally that has dominated the pandemic's post-containment phase — particularly in light of the Ukraine crisis — with significant positive spillovers for African commodity exporters.

Futures markets indicate growth acceleration in the energy space, with natural gas and oil prices rising sharply. In

Exhibit 13: Required reserve ratios in China (2018-2021)



Sources: Haver, IIF

its latest short-term energy outlook from February, the US Energy Information Administration raised its Brent spot average price forecasts.[55] Recent developments have significantly improved the outlook for the energy market. Other commodity sub-indices, including metals and agriculture, are also on a rising trend, boosted by price tailwinds from the Ukraine crisis. In the medium term, the base metals index, which climbed 57% year-on-year, showing the most consistent gains since Q2 2020, will benefit mightily from improving commodity terms of trade and global efforts to decarbonise, owing to its lighter carbon footprint.[56]

Private consumption will also boost global demand and African trade, especially as supply chain disruptions ease.

55 For more details, see https://www.eia.gov/outlooks/steo/report/prices.php

56 For more details, see https://media.afreximbank.com/afrexim/The-Afreximbank-African-Commodity-Index-AACI-Q2_2021.pdf

Concurrently, steps taken by governments to relax containment measures in the face of declining Covid-related casualties have led to a shift in the composition of the household consumption basket — from goods to services — and could further sustain the process of economic recovery (IMF, 2022a).

The Omicron variant has proven less severe than its precursors, with new infections much less likely to lead to deaths. The moderation of containment measures as vaccination initiatives continue and more people build up immunity will further increase mobility and domestic consumption.[57]

Over time, these developments will bolster consumer confidence and assuage individuals' self-imposed risk aversion attitudes. This, in turn, will hasten the recovery of contact-intensive services businesses. The African services industry has increased significantly in the light of rapid urbanisation and accounts for a growing share of GDP and employment (Faccini et al, 2021).[58] This could emerge as a major catalyst, especially in highly depressed sectors such as travel and tourism, but also for the informal economy. The latter has become a major source of income in urban areas and a vector of welfare sustenance in the absence of effective social safety nets.

57 Although the mobility index has not yet returned to the pre-COVID-19 world, it has recovered markedly across all leading economies. For more details, see https://www.google.com/covid19/mobility/

58 For more details, see https://voxeu.org/article/services-jobs-and-economic-development-africa

The AfCFTA as the Industrialisation Accelerator

Another critical driver of near-term growth resilience is the African Continental Free Trade Area (AfCFTA) agreement. The trade integration reform will reinforce macroeconomic stability across Africa as the agreement on the rules of origin, which will become effective later this year, accelerates the diversification of sources of growth and trade (Fofack, 2020; Fofack and Mold, 2021).[59] This will broaden fiscal space and set countries across the region on a path of long-term fiscal and debt sustainability.

Moreover, it will bolster sustained welfare improvement, with the rise of a strong manufacturing base which has been a catalysts of increasing opportunities for labour-intensive employment acting as an elevator out of poverty.[60] Africa's industrial and manufacturing output, which went through a long period of sustained decline towards the end of the last century, giving rise to the premature deindustrialisation argument (Rodrik, 2016) reversed course a decade ago and has been increasing steadily since.[61]

Expressed as a share of GDP, manufacturing exceeds 12% according to most recent estimates, up from less than 10% a decade ago, having declined from 17% when structural adjustment programmes were introduced in the early 1980s (Fofack and Mold, 2021).[62] The revival in manufacturing's fortunes has been strong, especially after adjusting for income and population. Since 2000, manufacturing output has risen 91% in real terms (McMillan, 2014). Manufacturing share of exports has expanded as well, from 35.5% in 2008 to 54.2% a decade later, with exports becoming increasingly more integrated into global value chains (Edwards, 2020).[63]

The sectoral drivers of manufacturing are also increasingly diverse, extending beyond traditional original equipment manufacturers (OEMs) of products with low degrees of automation (such as leather, footwear, and garments) to include technology and fintech industries, which are driving digitalisation (Pilling, 2022) and more sophisticated industries with greater

59 For more details, see https://www.brookings.edu/wp-content/uploads/2020/12/20.12.28-AfCFTA_Fofack.pdf

60 For more details, see World Bank (2020), https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area.print

61 Dani Rodrik has been the leading proponent of the premature deindustrialisation argument. For more details, see https://link.springer.com/article/10.1007/s10887-015-9122-3 https://link.springer.com/article/10.1007/s10887-015-9122-3

62 For more details, see McMillan (2014), https://voxeu.org/article/what-driving-african-growth-miracle and Fofack and Mold (2021), https://www.atlantis-press.com/journals/jat/125966585

63 However, compared to other regions, Europe (89%) and the Americas (77.7%), Africa's manufacturing contributes significantly less to exports. For more details, see https://iap.unido.org/articles/african-manufacturing-firms-and-their-participation-global-trade

"In addition to the emergence of strategic industries such as refineries and cement, the automotive sector has become a magnet for patient capital."

potential for structural change. The latter have become increasingly important, accounting for around half of Africa's growth in output per worker in the first decade of this century (McMillan, 2014; Fox and Signe, 2020).[64]

In addition to the emergence of strategic industries such as refineries and cement, the automotive sector has become a magnet for patient capital. After Volkswagen established a car manufacturing centre in Rwanda, Peugeot and Opel followed suit by opening plants in Namibia to assemble up to 5,000 vehicles per year (WEF, 2021; Fofack and Mold, 2021).[65]

Ghana, too, is now home to assembly plants from Nissan and Volkswagen. Meanwhile, Morocco has been extremely successful in developing its car industry, with around 80% of its exports oriented towards Europe and the rest to domestic and regional markets.[66]

In addition to boosting FDI inflows — empirical evidence shows that joining a free trade area could raise them by around a quarter (Blomstrom and Kokko, 2003; Fofack and Mold, 2021)[67] — the AfCFTA will accelerate the growth of labour-intensive manufacturing industries. Relatedly, through improving economies of scale, the free trade area will afford companies more opportunities to spread the risks of investing in smaller markets.

The World Bank estimates that the continental trade integration reform has the potential to increase Africa's exports by US$560bn (mostly in manufacturing) and boost Africa's income by US$450bn by 2035 (World Bank, 2020).[68] In addition to transforming the region's productivity landscape, the AfCFTA promises to deepen

64 Structural changes refer to a shift leading to the reallocation of economic activity away from less productive sectors of the economy towards more productive ones. For more details, see McMillan (2014), https://voxeu.org/article/what-driving-african-growth-miracle and Fox and Signe (2020), https://medias.afreximbank.net/Building-a-Better-Future-of-Work-for-Resilience-and-Growth-in-Post-COVID-19-Africa.pdf

65 For more details, see World Economic Forum (WEF) White Paper (January 2021), https://www3.weforum.org/docs/WEF_Regional_Value_Chain_Integration_Automotive_Case_Study_2021.pdf

66 The automotive industry is booming in several more countries besides, including Kenya and Nigeria, that have emerged as manufacturing hubs. For more details, see https://www3.weforum.org/docs/WEF_Regional_Value_Chain_Integration_Automotive_Case_Study_2021.pdf

67 For more details, see Blomstrom and Kokko (2003), https://www.nber.org/system/files/working_papers/w9489/w9489.pdf; Fofack and Mold (2021), https://www.atlantis-press.com/journals/jat/125966585

68 For more details, see World Bank (2020), https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area.print

"Relatedly, through improving economies of scale, the free trade area will afford companies more opportunities to spread the risks of investing in smaller markets."

and create new and increasingly competitive regional value chains, as well as to facilitate the emergence of more resilient supply chains (Fofack, 2018).[69]

As well as adding more value to its commodities to integrate global value chains through backward activities, the automotive industry will play a key role in structural transformation. In 2019, intra-continental automotive exports accounted for around 16% of Africa's automotive exports to the world (WEF, 2021).[70] Following current trends, a full implementation of the AfCFTA underpinned by a strict implementation of the rules of origin would greatly increase these numbers.

Estimates show that the value of the African automotive market will reach US$42.06bn in 2027 (up from US$30.44bn in 2021), propelled by large economies in East Africa, including Ethiopia, Kenya, and Tanzania.[71] Ethiopia is slated to achieve the most impressive growth, with demand increasing from 30,380 units in 2020 to 112,814 in 2035.[72]

To support the AfCFTA's implementation and capitalise on its growth potential, governments are developing critical economic infrastructure. This includes the expansion of special economic zones (SEZs) — which have been instrumental in other parts of the world, most notably Asia — in developing regional value chains and boosting countries' participation in global value chains (UNCTAD, 2021b).[73] According to the United Nations Conference on Trade and Development, the number of African countries with SEZ programmes increased from just four in 1990 to 47 (out of 54) in 2020, with most nations hosting several SEZs (Exhibit 14).

A growing number of countries are executing plans to improve domestic production capabilities in manufacturing. In Zambia, the national strategy for the

69 For more details, see Fofack (2018), https://www.imf.org/external/pubs/ft/fandd/2018/12/afcfta-economic-integration-in-africa-fofack.htm and IMF (2019), https://www.imf.org/en/Publications/REO/SSA/Issues/2019/04/01/sreo0419

70 For more details, see World Economic Forum (WEF) White Paper (January 2021), https://www3.weforum.org/docs/WEF_Regional_Value_Chain_Integration_Automotive_Case_Study_2021.pdf

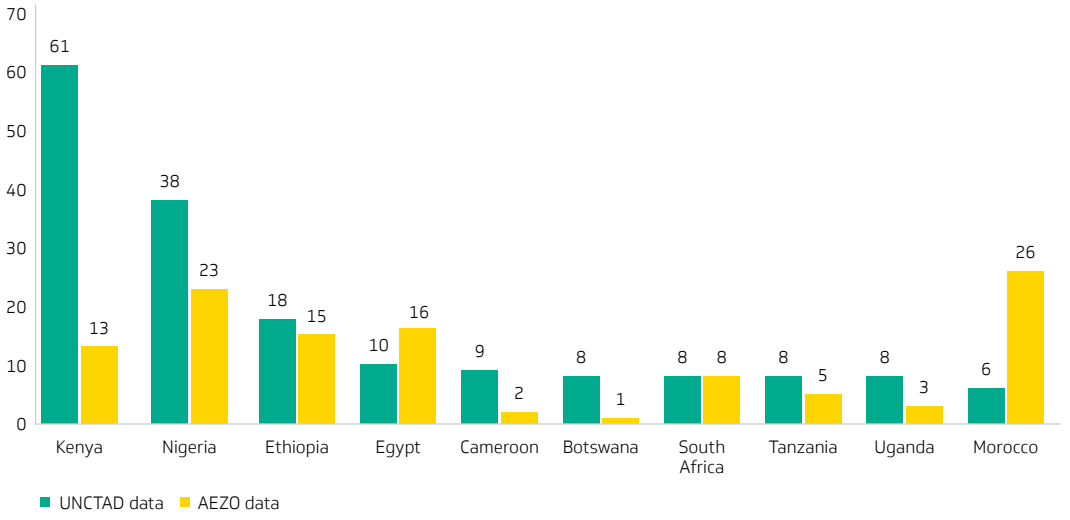
71 For more details, see https://www.mordorintelligence.com/industry-reports/africa-automotive-industry-outlook

72 For more details, see World Economic Forum (WEF) White Paper (January 2021), https://www3.weforum.org/docs/WEF_Regional_Value_Chain_Integration_Automotive_Case_Study_2021.pdf

73 For more details, see UNCTAD (2021), https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf

"To support the AfCFTA's implementation and capitalise on its growth potential, governments are developing critical economic infrastructure."

Exhibit 14: African countries with the most SEZs



Sources: UNCTAD, AEZO, Afreximbank Research

AfCFTA's implementation recognises the critical importance of MSMEs as drivers of growth and export diversification and is facilitating their integration into regional and global value chains (Fofack and Mold, 2021).[74] Likewise, the previously mentioned LDR policy implemented by the Central Bank of Nigeria has been a boon for MSMEs, especially in manufacturing. At the regional level, countries are coordinating their efforts for greater policy alignment. For instance, regional economic communities are working towards more united strategies, starting with industrial policy and trade partnerships with OEMs, and developing

74 Republic of Zambia, Ministry of Commerce, Trade and Industry, Draft National Strategy for Implementation of the Agreement Establishing the AfCFTA (Lusaka, 2020).

"Combined with the rules of origin that prioritise 'Made in Africa' goods, the reordering of supply chains offers another opportunity to accelerate domestic manufacturing in support of intra-African trade."

mutually beneficial bilateral and multilateral country agreements.

Two other factors will further accelerate Africa's manufacturing renaissance under the AfCFTA: first, the reordering of global supply chains, which has been accelerated by both the COVID-19 pandemic and geopolitical realignments — which could lead to the emergence of competing blocs with distinct technological standards and cross-border payment systems (IMF, 2022b) – and, second, the changing nature of China-Africa engagement.

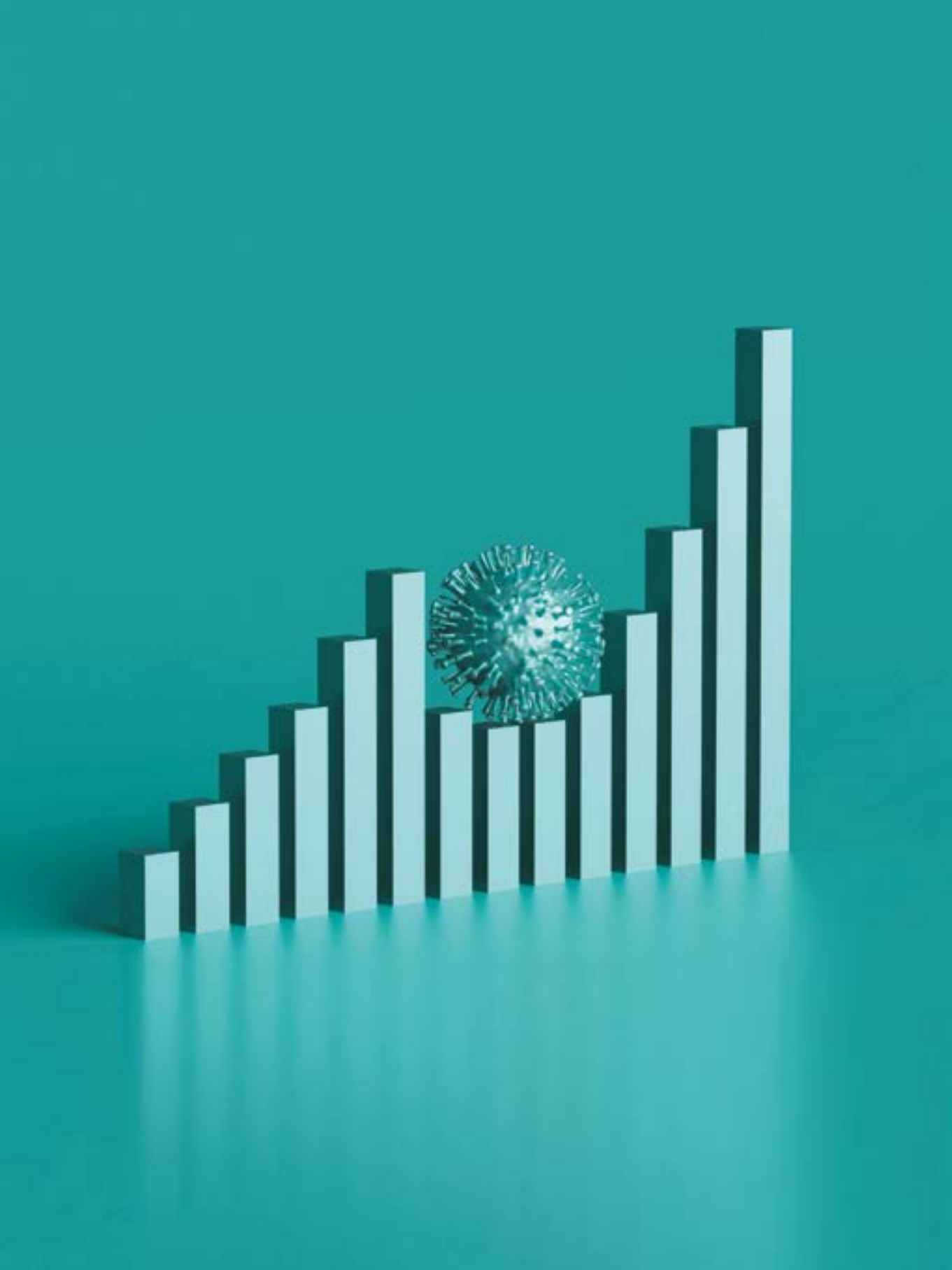
Despite the cost advantages of the just-in-time global supply chain model — characterised by lean inventories and outsourcing to low-cost locations — the pandemic has highlighted its inherent risks and encouraged a shift towards the regionalisation and 'friend-shoring' of supply chains (Yellen, 2022).[75] Combined with the rules of origin that prioritise 'Made in Africa' goods, the reordering of supply chains offers another opportunity to accelerate domestic manufacturing in support of intra-African trade.

The changing nature of engagement — emphasising trade and investment promotion — announced during the eighth Forum on China-Africa Co-operation held last year in Senegal will bolster Africa's manufacturing boom. The Chinese leadership has decided to raise its annual imports from Africa to more than US$300bn (up from US$105bn in 2021) over the next three years and shift compositions to increase the manufacturing content of those imports. This includes the injection of US$10bn in major industrialisation and employment promotion projects in Africa, direct support for the growth of African MSMEs and the establishment of a cross-border renminbi centre.

Beyond reducing the excessive dependency on commodities to rebalance China-Africa trade, such measures will accelerate the process of technology transfer and raise productivity. Ultimately, this will enhance Africa's integration into the global economy, in no small part because global trade growth has historically been higher in more technology-intensive sectors (Fernandez and Palazuelos, 2018).[76]

75 In her Atlantic Council speech articulating the US vision of the world after the Ukraine crisis, Janet Yellen, the US Treasury Secretary, indicated the US will favour friend-shoring of supply chains to trusted countries and trade partners. For more details, see https://www.atlanticcouncil.org/event/special-address-by-us-treasury-secretary-janet-l-yellen/ and https://www3.weforum.org/docs/WEF_Regional_Value_Chain_Integration_Automotive_Case_Study_2021.pdf

76 For more details, see Fernandez and Palazuelos (2018), https://www.sciencedirect.com/science/article/abs/pii/S0954349X17300760



Risks to Africa's Growth Outlook

After showing resilience during the COVID-19 pandemic and in the face of rising geopolitical tensions, Africa's growth is expected to accelerate further in the near term. But the balance of risks to the baseline forecasts for African growth is tilted to the downside. We remain in a challenging global environment, to which inflationary pressures — exacerbated by the Ukraine crisis, as oil-importing countries contend with steeper prices — have added another twist to pandemic-related uncertainty and supply chain problems. Tightening global financial conditions in response to a large inflation overshoot have become a major hazard that could generate disproportionate increases in risk spread, as well as capital flow reversals and heighten stagflationary risks.

The supply chain disruptions and persistent supply-demand imbalances that are fuelling inflation and have lately been compounded by geopolitical tensions were rooted first and foremost in the enduring effects of the pandemic. While significant progress has been made in understanding the dynamics of COVID-19 and effective treatments have been discovered, vaccine inequality and hoarding by rich countries are perpetuating the pandemic and allowing new variants to emerge, especially in countries with low vaccination rates.[77] Although hospitalisations and deaths associated with the Omicron variant are lower compared to its antecedents, governments still reactivated precautionary containment measures. That renewal of travel bans, lockdowns and self-imposed risk aversion behaviour all contributed to inflationary pressures,

"Ending the trade war would reduce the impact of tariffs on trade costs and further alleviate inflationary pressures."

77 Even though achieving higher vaccination rates across all countries is a sure path towards ending the pandemic, vaccine hoarding and nationalism have marginalised low-income countries, where vaccination rates remain dismally low, creating a dangerous environment in which more variants can readily emerge. For more details, see https://www.project-syndicate.org/commentary/brazilian-solution-vaccine-ip-waiver-stuck-at-wto-by-joseph-e-stiglitz-et-al-2021-12

especially in the US, where the tight labour market has sustained buoyant nominal wage growth.

Overcoming dangerous beggar-thy-neighbour policies remains a major challenge that policymakers must address if we are to lessen this virus-spread uncertainty. Swift measures must be taken to enhance global co-operation and diversify the sources of production of vaccines and other lifesaving medical resources. Doing so will help equalise access to vaccines for developing countries, including in Africa. Otherwise, the pandemic will continue to stoke inflationary pressures and hasten the tightening of global financial conditions with monetary authorities resorting to larger rate increases at a time. But strengthening international co-operation must go even further in these extremely difficult circumstances. Ending the trade war would reduce the impact of tariffs on trade costs and further alleviate inflationary pressures.

The new cycle of a sharp increase in interest rates by systemically important central banks is another major downside risk.[78] For African countries, this is magnified by onerous perception premiums, which have long undermined the quest for macroeconomic stability and impeded growth (Fofack, 2021b).[79] These premiums — the overinflated risks perennially assigned to Africa, irrespective of global economic conditions, the region's improving macroeconomic fundamentals or individual nations' growth prospects — raise funding costs, constrain access to capital and could undermine the fragile recovery in a region where the fiscal space for public investment is already very limited.

Aggressive interest rate hikes, in addition to the turbocharged tapering of bond-buying programmes, are intimately related to other risks to Africa's outlook. They could engender a sharp deterioration of global investor sentiment and trigger massive capital flow reversals in a flight to quality. The attendant currency depreciation would raise the costs of servicing external debt, further straining the external and fiscal balances, and enflame inflationary pressures, especially

78 According to IMF estimates, a 25 basis point increase in the US 10-year rate could lower Africa's GDP growth by around 0.25 percentage points through higher borrowing costs and weaker external demand (IMF, 2022c). For more details, see https://www.imf.org/en/Publications/REO/SSA/Issues/2022/04/28/regional-economic-outlook-for-sub-saharan-africa-april-2022

79 Perception premiums have been a major constraint on the path towards fiscal and debt sustainability in Africa, with tremendous costs for growth and economic development. For more details, see https://www.brookings.edu/research/the-ruinous-price-for-africa-of-pernicious-perception-premiums/

in a region where greater exchange-rate passthrough has been one of the most important transmission channels. In a self-fulfilling prophecy, sovereign debt distress would then emerge as a real and present danger, especially in the most vulnerable countries where the expiration of temporary relief measures — such as the G20 Debt Service Suspension Initiative and IMF Catastrophe Containment and Relief Trust — would necessitate the allocation of more already-scarce resources for external debt servicing.[80]

The growth dynamics of Africa's main trading partners remain key to the region's economic outlook. Under the baseline scenario, Africa's forecast growth hinges largely on China, where easing financing conditions and fiscal stimulus measures will sustain investment growth and drive demand for commodities. However, it is possible that the recovery in China and other leading economies will moderate further than expected in 2022, especially if the negative spillovers from the Ukraine crisis persist. If this occurs, it could affect global demand and undermine African growth, as well as countries' capacity to respond effectively to macroeconomic management challenges associated with heightening global volatility, most notably currency gyrations and widening fiscal and current account deficits.

Simultaneously, the increasing rate of conflict intensity sustained by heightening geopolitical tensions threatens to compound the risks to the region's economic outlook. Military spending has become one of the fastest-growing items in government budgets across Africa, especially in conflict-affected countries.

Further increases in military outlays could aggravate the deterioration of fiscal deficits and undermine the ability of more vulnerable governments to respond to various crises, ranging from the post-pandemic fallout to climate-related risks such as extreme weather events and soaring food prices to fallout from the pandemic, including rising poverty and income inequality as well as increasing costs of external debt servicing.[81]

If the security environment continues to decay, it will weigh heavily on Africa's growth outlook by deterring private

80 Although the G20 has endorsed the Common Framework for Debt Treatment, its application remains a challenge (IMF, 2022b). For more details, see https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022

81 For example, in three Sahelian countries where governments have been battling terrorist networks, military expenditures have increased sharply over the last decade, by over 339% in Mali, 288% in Niger and 238% in Burkina Faso. For more details, see https://www.project-syndicate.org/commentary/africa-second-cold-war-risk-of-lost-decades-by-hippolyte-fofack-2022-01

"...to navigate myriad short-term risks, they mustn't lose sight of the long-term benefits of security and structural reforms."

capital and diverting scarce resources away from productive investments, including infrastructure. Sustaining the growth of these investments is critical if we are to capitalise on the competitiveness and productivity gains associated with the AfCFTA. As governments across the region draw on a wide range of instruments and policies — including external and internal adjustments, as well as support from multilateral and development finance institutions — to navigate myriad short-term risks, they mustn't lose sight of the long-term benefits of security and structural reforms. Such measures are essential if countries are to put themselves on the path of robust, inclusive growth and fiscal and debt sustainability.[82]

Realising the AfCFTA, which entered into force last year, was an important milestone on the path towards the diversification of sources of growth and trade in Africa for enhanced macroeconomic stability. The convergence of countries across the region towards the harmonised rules of origin later this year will help cement the agreement as a game-changer for African industrialisation. Ultimately, it will enable the region to capitalise on the accelerated reordering of global supply chains for greater resilience, building back better post-pandemic.

But in the immediate short term, the most important challenge — as systemically important central banks pivot towards inflation-fighting mode — is to effectively pursue the price stability objective without derailing the incipient global recovery, which has been caught in the crossfire in Ukraine. At this critical juncture of heightening global volatility and geopolitical tensions, that balancing act is crucially important for all, and perhaps even more for developing countries where the post-containment growth rebound has been constrained by the smaller size of government support and access to vaccines.

82 The rise of labour-intensive employment opportunities in manufacturing has not only driven productivity growth, but has also been a fundamental driver of economic development. For more details, see https://www.nber.org/system/files/working_papers/w20077/w20077.pdf



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