COUNTRY NOTES
Recent macroeconomic and financial developments

In 2020, the Cameroonian economy was strongly impacted by the combined effects of the COVID–19 pandemic, the persistence of security and political crises and the decline in world oil prices. Among Central African countries, Cameroon was the hardest hit by the COVID–19 pandemic in 2020, from a health and economic perspective. Real GDP contracted by 2.4% in 2020, compared with growth of 3.7% in 2019. This 6.1 percentage point decline in economic activity is largely explained by the fall in world oil prices. The contraction in global demand inherent in the COVID–19 pandemic and the effects of the barrier measures taken in managing the pandemic at the national level have affected the nonoil sector. The activities of the services, manufacturing, and agro-industrial export sectors, particularly trade, have thus experienced a sharp slowdown. Growth has also been affected by the persistence of the security and sociopolitical crises that the country is experiencing and the underperformance of public enterprises, particularly the National Refining Company (SONARA). Inflation has been kept below the Central Africa Economic and Monetary Community 3% convergence threshold (2.9% in 2020, compared with 2.5% in 2019). The Central Bank of Central African States took various measures in 2020 to support the economies of its member states. Thus, the interest rate (TIAO), the main instrument of monetary regulation within this monetary cooperation zone, was lowered by 25 basis points, from 3.50% to 3.25%, in March 2020. New foreign exchange regulations that took effect on 1 March 2019, made it possible to increase the country’s foreign exchange reserves, which at the end of 2020 could cover 7.5 of imports, compared with 6.3 months at the end of 2019. The budget deficit increased from 3.6% of GDP in 2019 to 4.9% GDP in 2020, while the current account deficit rose to 5.2% of GDP in 2020, compared with 3.1% in 2019, mainly because oil exports and remittances declined.

Outlook and risks

Subject to the availability of a vaccine at the beginning of 2021 and the gradual extinction of the COVID–19 pandemic from the second half of 2021, the Cameroonian economy, buoyed by the recovery of the world economy and international trade, could return to prepandemic growth levels as early as 2021. Growth should reach 3.5% in 2021 and 4% in 2022. The external and internal account balances would also improve substantially. Inflation will be 2.3% in both 2021 and 2022, below the 3% standard established by Central African Economic and Monetary Community. This optimistic scenario could be undermined by a worsening of the security and sociopolitical crises at its borders and in two of its English-speaking regions, or if the pandemic does not subside by the middle of 2021, which would cripple the restart of global growth.

Financing issues and options

Cameroon’s level of public debt is worrying. As a beneficiary country of the Highly Indebted Poor Countries initiative, Cameroon significantly reduced its public debt in 2006. But since then it has taken on substantial debt. The stock of public debt rose from 12% of GDP in 2007 to 45.8% of GDP (about two-third external and one-third domestic) by September 2020. Cameroon has the characteristics of a country at high risk of debt distress. China has 61.3% of Cameroon’s bilateral debt, or 27.4% of its total debt, and the African Development Bank holds 30.1% of the multilateral debt, or 12.3% of its external debt. Overindebtedness could be problematic because of the need to support economic recovery in 2021 and to carry out the major structuring projects envisioned in its new national development strategy for 2020 to 2030. Cameroon is eligible for the G20 Debt Service Suspension Initiative (DSSI) announced in 2020 and benefits from a moratorium on noncommercial debt service until 30 June 2021.
Recent macroeconomic and financial developments

COVID–19 had a limited health effect on the Central African Republic. But its economy suffered from the pandemic—both from of weak global demand for agricultural raw materials and mining resources and the slowdown in economic activities and household demand from measures taken to contain the spread of the disease. The economy grew 0.4% in 2020, compared with 4.5% in 2019. The sectors most affected are trade, hotels, mining, and agriculture. Inflation fell to 2.9% in 2020 from 3.5% in 2019, reflecting the combined effect of improved security on the corridor from the port of Douala to the main city Bangui and the fall in demand for foodstuffs following containment measures. The budget balance slipped from a surplus of 0.2% of GDP in 2019 to a deficit of 2.2% of GDP in 2020—the result of a decline in revenue from payments, excise duties, and the value-added tax because of production disruptions and the suspension of some economic activities. The country also experienced a moderate deterioration in the current account balance, which was –5.7% of GDP in 2020, compared with –5.0% of GDP in 2019. This decline reflected a fall in exports from the deregulation of production and global demand linked to the pandemic.

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Outlook and risks

The outlook should be favorable for the economy of the Central African Republic if the pandemic subsides and global demand starts to recover by mid-2021. The African Development Bank projects real GDP growth of 3.3% in 2021 and 5.1% in 2022. The rebound in growth would come from the completion of energy projects and the resumption of agricultural and mining activities. Inflation would hold steady at 2.7% over the next two years, within the limits of the Central African Economic and Monetary Community standard of 3%. Public finance reform efforts should reduce the budget deficit, at 0.2% of GDP in 2021 and 2022. The current account deficit should stabilize at 5.4% of GDP in 2021 and 2022. The main risks to this scenario are political and institutional instability and permanent insecurity in the northern areas of the country, an extension of the COVID–19 pandemic beyond the 2nd half of 2021, and disruptions from troubled elections.

Financing issues and options

The Central African Republic is at high risk of debt distress due to its significant vulnerability to external shocks and to foreign currency risk from its high level of external debt. The stock of public debt stood at CFAF 629.3 billion ($1.1 billion) in 2019, of which 76.5% was external. The debt ratio fell from 50.3% of GDP at the end of 2017 to 47.1% at the end of 2019, below the 70% ceiling imposed by the Central African Economic and Monetary Community. The economic recovery in 2021 and the implementation of major structuring projects within the framework of the Recovery and Consolidation of Peace in the Central African Republic (2017–23) will be financed by fiscal resources, international aid, and public debt. To reduce the vulnerability of its debt, the Central African Republic should pursue a prudent borrowing policy and strengthen the management of its public debt.
Recent macroeconomic and financial developments

Although Chad has had relatively few COVID–19 cases, its economy has been hurt by the global consequences of the pandemic. In 2020 real GDP contracted by 0.6%, compared with growth of 3% in 2019 and 2.4% in 2018. The recession is mainly the result of a temporary suspension of oil production, the main engine of the economy, and the closure of borders to contain the pandemic, which caused a slowdown in trade. Inflation, which had fallen in 2019 to 1%, rose to 2.7% in 2020, following the disruption of supply chains for some basic products. The provision of budgetary grants made it possible to contain the budget deficit, despite higher spending to mitigate the pandemic. The budget deficit was 0.8% of GDP in 2020 compared with 0.3% in 2019. The current account deficit worsened from –4.9% of GDP in 2019 to –13.3% in 2020, mainly due to the suspension of oil production and exports in a period of declining oil prices. There are no recent data on poverty, but it is expected to have risen as a result of the pandemic, which disproportionately affected the most vulnerable. In the latest data, from 2018, 42.3% of the population was in poverty, of whom 49.7% were in rural areas.

Outlook and risks

The Chadian economy should resume growth in 2021 and 2022 if the pandemic subsides to allow a global economic recovery, with increasing demand for raw materials. Growth is expected to reach 6.1% in 2021 and 5% in 2022, driven by a resumption of industrial activities—particularly in cotton ginning, oil production, and the textile industry. If the government continues to clear domestic arrears, there should be a pickup in investment and private consumption. Inflation will average 3% over the next two years.

The budget deficit is expected to worsen slightly to 1.1% of GDP in 2021, due to an increase in public investment and wage spending linked to the opening of 20,000 civil service positions and the upcoming election. However, a return to budgetary balance is expected in 2022. The current account deficit is expected to gradually narrow to 9.8% of GDP in 2021 and 6.2% in 2022 because of the resumption of oil and cotton exports.

Financing issues and options

The decline in oil prices between July 2014 and February 2016 put Chad into a debt crisis. In 2018 its main component of commercial debt (Glencore) was restructured—extending average maturity to 12 years, and reducing the interest rate from 7.5% to 2%, which, coupled with a resumption or refinery production, led to a clear improvement in debt indicators. The outstanding public debt was estimated at $4.89 million in 2019, of which 56% was external. Total debt accounted for 44.2% of GDP in 2019. About 45% of external debt was commercial, 28% multilateral, and 27% bilateral in 2018. Domestic debt was the equivalent of 19.7% of GDP in 2019, compared with 24.7% in 2017 and 8.8% in 2011. The government adopted in January 2020 a domestic debt clearance plan of $878.8 million to revive the economy.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Republic of Congo

Recent macroeconomic and financial developments

The Republic of Congo continues to experience an economic recession as a result of the underperformance of the oil sector due to the decline in production and world oil prices. In 2020, the Congolese economy contracted again by 6.8% after a 0.6% contraction in 2019. Indeed, following the fall in oil prices, Congo, like the OPEC countries, lowered its annual production goal to 110 million barrels from 140 million barrels. The nonoil sector contracted by 11%—with construction (−9.9%); trade, catering, and hotels (−18.2%); manufacturing industries (−8.2%); and other services (−15.7%) all registering serious declines in output. Domestic demand, investment, and exports also fell. Inflation remained under control at 2.4%, compared with 2.2% in 2019. Financing health response plans and providing support to the economy resulted in a drop of the budget surplus from 4.8% of GDP in 2019 to 0.6% in 2020. Declining oil exports pushed the current account into a deficit of 4.2% of GDP in 2020 after being in a surplus of 2.3% of GDP in 2019.

Outlook and risks

The Congolese economy is expected to rebound in 2021 and 2022 if the world economy does, which assumes a subdued pandemic. Real GDP should grow 1.2% in 2021 and 1.5% in 2022. This rebound will be driven by the increase in oil production, growth in services, and the revival of investment. Inflation is expected to be 2.6% in 2021 and 2.8% in 2022. The budget balance should show a surplus of 0.4% of GDP in 2021 and 0.7% of GDP in 2022. The current account deficit should be contained at 3.0% of GDP in 2021 and 3.5% in 2022. But a continuation of the pandemic beyond the first half of 2021 would derail this scenario by keeping oil prices down, increasing pressure on budgetary and external accounts as well as on the Congolese financial sector, which depends heavily on oil revenues.

Financing issues and options

Congo’s public debt situation is worrying. The stock of public debt increased by an average of 25% a year between 2014 and 2018, in connection with public investment program initiated to accelerate municipalization of the national territory. The outstanding debt, which was 83.3% of GDP at the end of 2019, is expected to increase to 104.2% of GDP in 2020. Because it could not agree with commercial creditors, Congo was unable to relaunch its economic and financial reform program with the International Monetary Fund, and it was suspended in 2019. As a result, Congo could not receive external financing expected from development partners. The debt ratio is expected to reach 99.8% of GDP in 2021 and slip to 94% in 2022. Debt restructuring should prove essential in the short to medium term to restore Congo’s fiscal space for economic development. Economic development should be accompanied by an increased mobilization of domestic resources by broadening the tax base, rationalization of public expenditure, and implementation of the domestic debt clearance program supported by the “Brazzaville Club.”

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The Democratic Republic of Congo (DRC) experienced in 2020 its first recession in 18 years as a result of adverse impacts of the COVID–19 pandemic across the world. The DRC’s real GDP contracted by 1.7% in 2020 after increasing by 4.4% in 2019 and 5.8% in 2018. This reflects, first, the slowdown in the extractive industries because their contribution to growth decreased from 0.28% in 2019 to 0.17% in 2020. Then, measures taken to contain COVID–19, such as lockdowns and restrictions on transport, hurt nonextractive activities whose contribution to growth collapsed from 4.1% in 2019 to −1.9% in 2020—such as manufacturing, buildings and public works, commerce, and market services. This led to the closure of several companies and weakened local demand. Despite high prices for mining products, the current account deficit deteriorated from 3.8% of GDP in 2019 to 5.4% of GDP in 2020. Social spending to mitigate the effects of COVID–19, combined with reduced tax revenue led to a slight worsening of the public deficit from 0.8% of GDP in 2019 to 1.2% of GDP in 2020. To combat inflation and the depreciation of the Congolese franc against the US dollar, the central bank raised the policy rate from 7.8% to 18.5%. Still, inflation rose from 4.5% in 2019 to 13% in 2020 as a result of the containment measures and monetization of the budget deficit. The Congolese franc depreciated 12.4% against the US dollar between 2019 and 2020.

Outlook and risks

The economic outlook for the DRC for 2021 and 2022 is favorable if the pandemic is brought under control and global demand recovers. Real GDP is expected to grow by 3.3% in 2021 and 4.5% in 2022, driven by higher prices for major mining products, such as copper, and recovery in both consumption and investment. The pursuit of public and monetary financial reforms should help bring inflation down to an average of 11.7% over 2021–22, due to the facilitation of imports and better supply to urban centers. The recovery in the extractive sector is expected to boost mining exports and to improve export earnings. However, the current account would remain structurally in deficit, averaging 4.0% of GDP over 2021–22. The 2023 elections are expected to result in increased public spending. As a result, the budget deficit should deteriorate to 1.4% in 2021 and 2.5% in 2022. The current account deficit is projected to narrow to 4.0% of GDP in 2021 and 3.7% in 2022. In sum, real GDP per capita growth is expected to rise by 0.1% in 2021 and by 1.4% in 2022 after falling by 4.9% in 2020 due to the drop in production and demographic pressure. This scenario could be upended by a continuation of the COVID–19 pandemic well into 2021, security and sociopolitical unrest, falling commodity prices, and declining world demand for minerals.

Financing issues and options

With a debt-to-GDP ratio at 21.2% in 2020, or $10.175 billion, the DRC is among the least indebted countries in Africa. But it has significant financing needs. External debt represents two-thirds of public debt and is mainly contracted with multilateral donors. The domestic portion is mainly budget arrears. The financing gap was estimated at $631 million in 2020. The participation of the DRC in the G20 debt moratorium, African Development Bank budget support, and other donors’ resources should reduce that financing gap and provide an alternative to the prohibited monetization of the public deficit, as agreed by authorities as of 18 August 2020.
Equatorial Guinea

Recent macroeconomic and financial developments

Equatorial Guinea’s economy has suffered from the effects of the COVID–19 pandemic. The drop in global demand and oil prices occasioned by the crisis coupled with the drop in household consumption and the slowdown in business activities due to measures to contain the spread of the disease exacerbated the country’s already serious growth problems. Real GDP shrank 6.1% in 2020, compared with 5.6% in 2019. It was the eighth consecutive recession year due to growth problems in both the oil (−7.2%) and nonoil sectors (−4.7%). On the demand side, investment contracted by 35%. But even though output fell, prices rose. Inflation was 3% in 2020, up from 1.2% in 2019, the result of a pandemic-spawned decline in the terms of trade and a worsening monetary situation. As a result, the Bank of Central African States gave up trying to reduce liquidity in the banking system and proposed a series of measures to support the economies in the Economic and Monetary Community of Central Africa (CEMAC) by cutting the policy interest rate and the marginal lending facility rate (from 3.5% to 3.25%, and from 6% to 5%, respectively). The country faced a budget deficit estimated at 4.7% of GDP in 2020, despite the fiscal consolidation the country has been carrying out under a 2017 agreement with the International Monetary Fund (IMF). The fiscal consolidation helped generate a budget surplus of 1.6% of GDP in 2019 and 0.5% in 2018. The current account deficit widened to 9.9% of GDP in 2020, compared with 5.9% in 2019, because of the deterioration in the terms of trade and a 41.5% drop in oil exports.

Outlook and risks

The economy is expected to grow 2.6% in 2021, a projection based on the successful completion of a large gas project and the recovery of the world economy by the second half of the year. But the country is expected to return to recession in 2022, with a real GDP decline of 4.4%. The inflation rate is expected to settle at 2.9% over the next two years, remaining within the CEMAC limit of 3%. The budget is expected to be in a deficit of 2.4% of GDP in 2021 and 1.5% of GDP in 2022. The current account balance is expected to remain in deficit at 6% of GDP in 2021 and 5.6% the following year. The country’s main risk factor, beyond the persistence of the pandemic, remains the lack of diversification of its oil-based economy, to which is added the structural weakness of inadequate human capital. Indeed, the country has a capacity deficit, particularly in terms of public finance management and governance, that hinders effective implementation of its economic and social transformation policy.

Financing issues and options

Equatorial Guinea’s external debt remains low at around 11.1% of GDP in 2019. However, significant domestic arrears have accumulated since the onset of the commodities crisis, resulting in a public debt-to-GDP ratio of 41.1% in 2019, up from 12.6% in 2014. China is the main external creditor of Equatorial Guinea, holding about 75% of the external public debt. The stock of public debt is mainly linked to domestic arrears, but the increase in external debt is likely to exacerbate the country’s future vulnerability. The government is committed to improving public debt management practices. Under the reform program supported by the IMF, the country’s debt strategy will essentially consist of not contracting any new guaranteed loans or new guaranteed loan facilities for three years. The additional financing contracted in the fight against COVID–19 will increase the amount of public debt to 54.6% of GDP in 2020. That should fall to 48.7% of GDP in 2025.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments
The Gabonese economy was hit hard by the global economic slowdown linked to the COVID–19 pandemic. Real GDP contracted 2.7% in 2020, after growing 3.9% in 2019—reflecting a 21% drop in national oil production, a fall in oil prices and a slowdown in nonoil sector activity that resulted from measures to contain the spread of COVID–19. Inflation increased to 3% in 2020 from 2% in 2019, largely due to supply disruptions. The deterioration of the economic situation caused a decline in public revenues, and the pandemic boosted spending on health and social protection expenditures. As a result, the country had a budget deficit of 5.2% of GDP in 2020, compared with a surplus of 1.4% in 2019. The current account deficit widened to 9.5% of GDP in 2020 from 0.3% due to falling oil prices and disruptions in supply chains.

Outlook and risks
The Gabonese economy should rebound if the pandemic improves in the second half of 2021. Real GDP is expected to grow 2.1% in 2021 and 3.8% in 2022. The recovery would not be inflationary, with the inflation rate at 3% in 2021 and 2.5% in 2022.

Better mobilization of nonoil revenue and control of current expenditure will lead to a decrease in the budget deficit to 3.4% of GDP in 2021 and 1.7% in 2022. The current account balance should remain in deficit at 6.4% of GDP in 2021 and 3.6% in 2022. This optimistic scenario could be undermined if the pandemic continues beyond the third quarter of 2021, which would retard the global economic recovery, put significant downward pressure on raw materials prices, and affect growth, public accounts, and the current account.

Financing issues and options
Gabon’s public debt is mainly medium to long term and 66% is external. Gabon’s debt-to-GDP ratio in 2019 was 58.7%, down from 60.6% in 2018, thanks to public finance reforms and prudent debt management. But the increased financing needs caused by the pandemic will boost the debt ratio to 74.7% of GDP in 2020. Debt service, which represented 37% of public revenue in 2019, will be 88.5% in 2020 as the country repays just over half of the outstanding eurobond 2024. Public debt remains broadly viable in 2020 but is vulnerable to interest and currency risks. After 2021, a decrease in borrowing is programmed to contain the increase in public debt aggregates, with an anticipated debt level for 2021 of 70.5% of GDP.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
EAST AFRICA
Burundi fell into a recession in 2020, largely the result of the effects of the COVID–19 pandemic. Real GDP contracted by 3.3%, after growing 4.1% in 2019. The pandemic hit hardest at industry, which saw a 4.5% decline in output, and services, whose output fell 1.8% compared with 2019. On the demand side, investment fell by approximately 3%. A decline in agricultural production combined with rising prices of imported products resulted in a sharp rise in prices. Inflation rose by 8.5 points to 7.6% in 2020, compared with –0.7% in 2019. The budget deficit doubled to 8.7% of GDP in 2020, compared with 4.2% in 2019, as current expenditures shot up about 4%. Because weak global demand caused a 4.4% decline in coffee export prices and a 10.4% decline for tea, trade and current account deficits deteriorated. The current account deficit was 19.1% of GDP compared with a deficit of 17.8% in 2019. That resulted in a reduction in foreign exchange reserves, which could cover less than 30 days of imports at the end of 2020. The exchange rate between the Burundian Franc and the US dollar fell by 3.8% between May 2019 and May 2020.

Outlook and risks
If the pandemic is under control by the second half of 2021, an economic recovery could occur with projected growth rates of 3.5% in 2021 and 2.1% in 2022. Inflation would come down to 5.4% in 2021 and 3.2% by 2022 from 7.6% in 2020. Thanks to measures to increase tax revenue in the 2020–21 Finance Law and the prospect of a drop in current spending, the overall budget deficit is expected to decrease to 7.9% of GDP in 2021 from 8.7% in 2020. However, the current account will continue to run a large deficit due to the pressure on prices on agricultural raw materials and the revival of imports linked to the economic recovery. The risk factors that could disrupt this scenario include a possible drop in global demand that would hurt coffee and tea exports as well as a decrease in foreign aid grants from donors. Moreover, given the limited size of the formal sector, there are also risks to achieving tax revenue increases.

Financing issues and options
Burundi’s public debt is 70% domestic and has risen sharply since 2015, when civil unrest caused external funding to dry up. In 2020, public debt represents around 63.7% of GDP. External debt is 18.4% of GDP in 2020 compared with 36% in 2012, when Burundi satisfied the criteria for the full amount of debt relief available under the Heavily Indebted Poor Countries initiative (HIPC). Due to the structural trade deficit and the continued increase in domestic debt linked to the persistent budget deficits, Burundi’s risk of debt distress remains high. The implementation of a comprehensive reform of public finances aimed at achieving a balanced budget over time is a key priority for public debt sustainability.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The economy of the Comoros was hit hard by the adverse effects of the COVID–19 in 2020 after being hit hard in 2019 by Cyclone Kenneth. The country chose a noncontainment strategy but closed its borders and instituted a curfew. The archipelago’s economic isolation led to a decline in real GDP of −0.9%, compared with 2% growth in 2019, due to a drop in exports of cash crops and tourism. The service sector, which represents more than 50% of GDP, was strongly affected because of restricted international travel. On the demand side, the growth in the investment rate fell to 1.8% in 2020 from 10.5% in 2019, while consumption generally stagnated. Comoros has a high propensity to import, so pegging the Comorian franc against the euro made it possible to stabilize inflation at 3.1% in 2020, compared with 3.7% in 2019—despite an increase of 1.4% in the money supply between December 2019 and June 2020. The Comoros managed to maintain a high level of foreign exchange reserves, enough to cover 6.2 months of imports. The budget deficit amounted to 3.6% of GDP in 2020, compared with 2.1% in 2019, due to lower tax revenues and increased public spending linked to the COVID–19 crisis. Thanks to remittances, which grew by 73.8% between the first half of 2019 and the first half of 2020, and the support of development partners, the current account deficit should widen slightly to 4.3% of GDP in 2020, compared with 3.2% in 2019.

Outlook and risks

The Comorian economy should grow 3.5% in 2021 and 4.5% in 2022 if the pandemic subsides enough to permit the reopening of borders, remittances continue strong, the prices of export products recover and the support of development partners continues. The country intends to continue its monetary policy under its membership of the Franc Zone, which should reduce the inflation rate to 1.9% in both 2021 and 2022. A recovery should allow consolidating public finances to reduce budget deficits to 2.4% of GDP in 2021 and 2.3% in 2022. The expected return of external resources and financing should gradually reduce the current account deficit to 3.6% of GDP in 2021 and 2.8% in 2022. This outlook would be undermined if the pandemic were to extend beyond the first half of 2021, delaying the restart of the global economy.

Financing issues and options

In 2012, the Comoros achieved the full reduction in debt it was eligible for under the Highly Indebted Poor Countries initiative, which enabled to reduce public debt from 40.3% of GDP in 2012 to 18.7% in 2013. Public debt rose to 26.5% of GDP in 2019, largely because of increased bilateral borrowing to finance public infrastructure and support state-owned enterprises. Public debt grew by 1.5% between June 2019 and June 2020. However, the risk of debt distress is considered moderate. The country should optimize its financing prospects by strengthening the mobilization of domestic resources, improving the governance of state-owned enterprises (which hold part of the public debt), further developing the financial sector, continuing to supervise the flow of remittances from the diaspora, and further improving the business environment.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Djibouti has not faced as severe an outbreak of COVID–19 as some countries. After the first reported case, measures to curb the spread of COVID–19 were taken by the government, including a curfew, a lockdown, a broad range of social distancing, and a mass testing campaign. These measures yielded positive results that led to the lifting of the lockdown and opening up of the country. The government maintained minimum security measures such as social distancing, mask-wearing, and systematic testing at entry points into the country.

Overall, its economy has suffered from the pandemic’s weakening of global demand, which caused a sharp slowdown in re-export activities from the Doraleh terminal—Djibouti’s main growth engine. Real GDP growth slowed to 1.4% in 2020 from 7.8% in 2019. Total revenues, excluding grants, fell from 19.4% of GDP in 2019 to 17.5% of GDP in 2020, which led to a widening of the budget deficit to 2.3% of GDP from 0.5% of GDP in 2019. The value added by the services sector, which usually generates nearly 70% of Djibouti’s growth, increased only 2% in 2020, compared with 8.2% in 2019. The COVID–19 crisis has also resulted in a sharp deceleration of investments, which increased by only 10.3% of GDP in 2020 after growing by 26.3% of GDP in 2019. Inflation remained stable at about 3.5% in 2020, despite steps by the central bank to foster growth—including an exceptional overdraft mechanism and temporary easing of bank capital requirements, which resulted in money supply growth of 9.39% from September 2019 to September 2020. A decline in foreign direct investment (FDI) and port revenues weakened the current account balance, which showed a deficit of 9.2% of GDP in 2020, compared with a surplus of 13% of GDP a year earlier.

Outlook and risks

The Djiboutian economy should recover well—with projected real GDP growth rates of 9.9% in 2021 and 8.1% in 2022—if the global pandemic subsides. Djibouti’s growth prospects are supported by a rapid recovery of port activities as international trade and world demand perk up. Free zones and the expected return of FDI would also support the economic recovery. This return to activities and investments with the support of development partners should bring Djibouti’s economy back to its precrisis situation, with decreasing budget deficits projected at 2.0% of GDP in 2021 and 1.2% in 2022. The current account is projected to be in surplus by 13% in 2021 and 11.1% in 2022. Pursuit of monetary policy based on pegging the national currency to the US dollar should lead to low and stable inflation of 3.4% in 2021 and 2.4% in 2022. However, should the pandemic persist beyond the second half of 2021, this scenario could be delayed or compromised.

Financing issues and options

Because the country makes public investments in major infrastructure projects, Djibouti’s public debt has increased sharply—from 50.2% of GDP in 2015 to an expected 72.9% in 2020—and could become a potential vulnerability for the country. Financing the economy could be boosted by greater fiscal discipline, strengthened domestic resource mobilization, improved management of state-owned enterprises, and diversifying its external financing sources.
Eritrea was affected by a locust invasion and the COVID–19 pandemic, which combined to impede economic activity in 2020. Real GDP is expected to decline by 0.6%, compared with growth of 3.8% in 2019. Pandemic-related disruptions of supply chains and working hours, and containment measures such as travel restrictions hurt growth. Subdued private consumption and investment, together with reduced net exports, also contributed to the decline in GDP. After deflation of 16.4% in 2019, prices rose 4.7% in 2020—in part because of COVID–19-induced disruptions in regional and global supply chains. The fiscal deficit widened to 5.2% of GDP in 2020, compared with 1.6% in 2019. The deterioration was due to increased public spending to mitigate the impact the pandemic at the same time that revenues fell. The fiscal deficit was financed by drawing down government deposits with the central bank and concessionary borrowing. The current account surplus decreased to an estimated 10.1% of GDP in 2020 from 12.1% in 2019, reflecting a narrowing savings–investment gap, as savings dropped in line with subdued economic activity. The excess savings relative to investments reflects in part a business regulatory environment that has not been conducive to investment and job creation. Poverty remains pervasive, as the working poor (with incomes below $3.10 a day at purchasing power parity) are estimated to account for 75.2% of total employment.

The outlook is positive, with real GDP growth projected to recover to 5.7% in 2021 before moderating to 3.7% in 2022. Economic recovery will be driven by a rebound in metal exports following a gradual improvement in global demand and prices. A recovery in private consumption and increased investment demand are expected to support growth in 2021. The ongoing civil disturbance in the Tigray region of neighboring Ethiopia, climate change shocks, and limited financial inflows constitute the main downside risks to growth. Inflation is projected at 2.6% in 2021 and will decline to 1.9% in 2022, as domestic production continues to expand. The fiscal deficit is projected to narrow to 4.4% of GDP in 2021 and to 1.3% in 2022, as domestic revenues grow in tandem with the economic recovery. The current account surplus is projected to increase to 10.8% of GDP in 2021 before moderating to 10.5% in 2022, driven by fluctuations in national savings. Poverty and income inequality are expected to worsen because the services sector, which accounts for 30.3% of total employment, was most affected by the COVID–19 containment measures. A global economic recovery will boost remittance inflows, a key source of livelihoods in Eritrea, and mitigate the severity of poverty and income inequality.

Eritrea's gross public debt reached 189.2% of GDP in 2019, up from 185.8% in 2018, and the country is in debt distress. The growth in gross public debt was driven by primary deficits and high real effective interest rates, with real GDP growth partially offsetting the buildup in public debt. Gross public debt is projected to decline to 185.6% of GDP in 2020 and 165.7% in 2022, due to government efforts to accelerate debt servicing. Strong policy adjustments, notably fiscal consolidation will be beneficial, but debt restructuring is necessary to ensure a gradual return to debt sustainability. The Quality of Policies and Institutions score, as measured by the Country Policy and Institutional Assessment, is less than 2.69, reflecting weak capacities, including debt management. In this context, high economic growth involving greater participation of the private sector and fiscal reforms—notably domestic resource mobilization, fiscal consolidation, and institution strengthening—should be an integral part of policy measures to ensure debt sustainability.

**Recent macroeconomic and financial developments**

**Financing issues and options**
Ethiopia's economy grew by 6.1% in 2020, down from 8.4% in 2019, largely because of the COVID–19 pandemic. Growth was led by the services and industry sectors, whereas the hospitality, transport, and communications sectors were adversely affected by the pandemic and the associated containment measures to prevent the spread of the virus. The fiscal deficit, including grants, increased slightly during 2020, financed mainly by treasury bills. Tax revenue increased by 16%, but the tax-to-GDP ratio declined to 9.2% in 2020 from 10% in 2019 due to delayed implementation of tax reforms. Total public spending remained stable, in line with the country’s fiscal consolidation strategy. In 2020 inflation reached 20.6%, well above the 8% target, due to pandemic-induced supply chain disruptions and expansionary monetary policy. In November 2020, the official exchange rate was devalued by about 8% to 35.0 birr per US dollar. Export revenues increased by 12% in 2020, as exports of gold, flowers, coffee, and chat increased while imports declined by 8.1%. This helped narrow the current account deficit to 4.4% in 2020 from 5.3% in 2019. Service sector exports declined by about 6%, mostly because of lower revenue from Ethiopian Airlines. Foreign direct investment (FDI) fell 20% to 2.2% of GDP, and personal remittances declined by 10% to 5.3% of GDP. Poverty was projected to decline from 23.5% in 2016 to 19% by end of 2020. But pandemic-driven job losses, estimated at as many as 2.5 million, will impede poverty reduction.

Outlook and risks
The medium-term economic outlook is contingent on the resolution of the COVID–19 crisis, the pace of the economic recovery, and such other shocks as civil strife and climate change. Real GDP growth in 2021 is projected to fall to 2%, then recover to about 8% in 2022, led by a rebound in industry and services. Monetary policy is expected to remain flexible in response to the government’s financing requirements. Increased use of open-market operations is expected to reduce inflation gradually. The fiscal deficit is projected to increase as tax policy reforms are delayed due to COVID–19. The current account is likely to deteriorate in 2021 before improving in 2022 as service exports gradually pick up. The key downside risks to the economic outlook include low investor confidence, in part due to sporadic domestic conflicts, weakness in global growth, and climate change.

Financing issues and options
Ethiopia’s financing requirements are significant given its large physical and social infrastructure needs and low tax-to-GDP ratio, which averaged 10% from 2017 to 2020. The primary deficit plus debt service was estimated at nearly 4% of GDP. As of June 2020, total public debt was about 57% of GDP, slightly more than half of which was external. Since 2017, Ethiopia has been classified at high risk of public debt distress due to weak export performance coupled with increased import-intensive public infrastructure investments. The International Monetary Fund’s 2019 debt sustainability analysis estimated the net present value of debt-to-exports at 247.6% and debt service-to-exports at 24.6%; the highest sustainable levels are 180% and 15%, respectively. Ethiopia benefited from the G20 Debt Service Suspension Initiative, and the government is taking measures to contain the debt burden as part of the so-called Home-Grown Economic Reform agenda, which includes fiscal consolidation, expanding public financing sources, a moratorium on nonconcessional borrowing, harnessing grants and concessional loans, and debt restructuring. Gross reserves amounted to $3.1 billion in 2020, or 2.5 months of imports and are unlikely to provide an alternative source of development financing in the short term. Expansion of public debt in the context of large public expenditure requirements could constrict the fiscal space and lead to repayment risks, especially since $1 billion in eurobonds come due in December 2024. Further reforms in public finance and investment management are needed to improve the efficiency of public expenditures.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Kenya’s economy has been hurt by the COVID–19 pandemic. In 2020, GDP growth is expected to decelerate to 1.4% from 5.4% in 2019. Growth is supported by agriculture, while weaknesses in services and industry have had a dampening effect. Domestic demand is subdued while external demand has neither helped nor hurt growth. Expansionary fiscal, monetary, and financial policy measures were introduced to mitigate the impact of the pandemic on businesses and households. Inflation is expected to ease to 5.1% because of lower aggregate demand. The fiscal deficit is expected to widen to 8.3% of GDP—the result of revenue shortfalls and pandemic-related spending increases to deal with health issues and to mitigate the damage to household income and businesses. The current account deficit is expected to narrow to 5.4% of GDP, supported by a sharp reduction in the oil import bill. Foreign exchange reserves declined to $7.8 billion (4.8 months of import cover) at the end November 2020 from $8.96 billion (5.6 months of import cover) at the end November 2019. The local currency weakened by 8.9% to KSH 110 to the US dollar at the end November 2020 from KSH 101 to the dollar a year earlier. The financial sector was affected by spillover effects from major sectors; the capital market was the hardest hit. The Nairobi Securities Exchange share index fell 20% between 30 September 2019 and September 2020, and market capitalization fell 2% over the same period. The pandemic did serious social damage. Nearly 2 million people are estimated to have fallen into poverty, and nearly 900,000 lost their jobs.

**Outlook and risks**

The growth outlook is positive. The economy is projected to grow by 5.0% in 2021 and 5.9% in 2022. The rebound assumes that economic activity will normalize due to a full reopening of the economy, the Economic Recovery Strategy being successfully implemented, and Kenya capitalizing on an expected improvement in external liquidity and benefiting from initiatives to meet its external financing needs. The external initiatives could include debt refinancing, restructuring and debt service relief, and additional concessional loans. Inflation is projected to remain within the Central Bank of Kenya’s target range of 2.5% to 7.5%, and fiscal and current account deficits are forecast to narrow as a result of improved revenue collection and exports. Downside risks to the outlook could emanate from delays in the full reopening of the economy, failure to secure external financing to execute the budget, a slowdown in global growth, and disruptive social conditions during the run-up to the 2022 elections.

**Financing issues and options**

Public debt surged to 72% of GDP in 2020 from 61% in 2019, driven mainly by public investment in infrastructure, debt management-related challenges, and the COVID–19 crisis. Kenya is now in high risk of debt distress as determined by the International Monetary Fund. Addressing the emerging fiscal and debt vulnerability risks would require growth friendly reforms, soliciting external financial assistance, concessional credit, and debt refinancing and restructuring. The growth–friendly reforms could entail revenue-related steps to improve tax compliance, widening the tax net by reviewing the list of tax-exempt and zero-rated items, formalizing the informal sector, ensuring that public expenditures reach their intended targets, and deepening the domestic financial market to support private and public sector credit growth.
Recent macroeconomic and financial developments

Real GDP in Rwanda was estimated to contract by 0.4% in 2020 due to the COVID–19 pandemic, after growing 9.4% in 2019. Trade, transportation, and tourism services have been the sectors most affected by the global pandemic. COVID–19 also hurt investment and exports. Rising food prices, stoked by disruptions to regional and domestic supply chains, contributed to a 6.6% increase in inflation in 2020. That was far higher than the 2.4% in 2019 and breached the central bank’s 5% policy target. The National Bank of Rwanda reduced the key policy rate to 4.5% in April 2020 from 5.0% in 2019 to stimulate growth, but private sector credit remained subdued, expanding by 10.2% in 2020, compared with 12.6% in 2019. Low tax yield and elevated health and social protection spending caused the fiscal deficit to grow to 8.3% of GDP in 2020, compared with 7.3% in 2019. The deficit was financed by COVID–19 budget support loans and grants from cooperating partners. Low exports and reduced foreign direct investment resulted in a current account deficit equivalent to 16.5% of GDP in 2020, compared with 9.3% in 2019. Gross reserves shrank. In 2020 they could cover 2.4 months of imports, compared with 4.5 months in 2019. Low external inflows contributed to a 4.6% depreciation of the Rwandan franc against the US dollar. The financial sector remains stable and well capitalized, with a capital adequacy ratio of 23.7% in June 2020, above the 15% regulatory threshold.

The latest available data show an unemployment rate of 22.1% in May 2020, compared with 15% a year earlier. Unemployment growth reflects the virtual shutdown of such major industries as transport, food, and hospitality during the lockdown and is like to increase the poverty rate—which was 38.2% in 2017, the most recent data available.

Outlook and risks

Growth is projected to rebound in 2021 and 2022, supported by high infrastructure spending on Bugesera airport and a pick up in the tourism sector as the effects of the pandemic dissipate. The implementation of the African Continental Free Trade Area is expected to boost intraregional trade, which will support growth—especially if Rwanda increases its share of intraregional exports. Inflation is expected to abate to within the policy target as reopened borders increase the food supply and domestic containment measures ease further. The fiscal deficit is projected to narrow to 7.8% of GDP in 2021 and to 7.2% in 2022 due to a planned fiscal consolidation in the 2021/22 fiscal year. The current account deficit is projected to narrow to 10.4% of GDP in 2021 and further improve to 9.1% in 2022, mainly because a rollout of COVID–19 vaccines should trigger a rebound in tourism and foreign direct investment. The downside risks to the outlook include trade disruptions due to simmering regional political tensions, a decline in the fiscal space due to a rising debt burden, and a resurgence of the COVID–19 virus.

Financing issues and options

Rwanda’s public debt was 58% of GDP in 2019 due to elevated spending on key infrastructure investment and a decline in aid flows. The COVID–19 crisis caused an increase in health-related spending and a decline in tax revenues, resulting in an increase in public debt to 66% of GDP in 2020, which is expected to reach 72% of GDP in 2021, above the safe debt ratio of 65%. In anticipation, the country’s debt distress was raised from low to moderate by the International Monetary Fund and World Bank, effective in June 2021. An urgent fiscal adjustment to a safe debt ratio of 65% of GDP is required to avoid the risk of slipping into high debt distress. The planned transition to private sector–led growth, the use of blended finance and derisking strategies to fund infrastructure projects, drawing on reserves, and renegotiating debt will help avoid overburdening the public balance sheet. Capacity building in the management of fiscal risks from private-public partnerships should be prioritized to support a fiscal consolidation strategy.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team. Data on the budget balance correspond to Rwanda’s fiscal year, which runs from July 1 to June 30.
Recent macroeconomic and financial developments

The economy of Seychelles will contract by an estimated 12% in 2020, after growing 4.7% in 2019. The contraction was the result of the COVID–19 pandemic, which significantly damaged both tourism earnings and fisheries because of disruptions to supply chains and weaker external demand. Growth was also affected by reduced household consumption and investment performance due to the pandemic. Pandemic-induced supply disruptions pushed inflation to 4.1% in 2020 from 1.8% in 2019. Tax collections were estimated to decline in 2020 at the same time that social expenditures increased to mitigate the impact of the pandemic. As a result, the tax-to-GDP ratio declined to 27%, below the average of 32% over the previous five years. That made for a fiscal deficit of 5.0% of GDP, compared with a surplus of 4.5% in 2019. Lower export and tourism earnings contributed to a widening of the current account deficit to 32.3% in 2020 from 15.9% in 2019. The reduction in tourism revenues was also expected to lead to a decrease in foreign exchange reserves to $563 million in December 2020 from $580 million in 2019. The pandemic also caused downward pressure on the exchange rate, which depreciated from an average rate of SCRs 13.8 to the US dollar in 2019 to 21.2 in December 2020. Seychelles’ financial sector is reasonably well developed and capitalized. Asset quality, as measured by the ratio of non-performing loans to gross loans, has improved over time reaching 3.5% in 2018. As businesses could find it difficult to pay their debts due to the pandemic, non-performing loans could rise in 2020, but problem loans are also likely to be mitigated by government measures, including a moratorium on loan payments by businesses.

Poverty and social indicators are among the best in Africa. Extreme poverty, living on less than $1.90 in purchasing power parity per day, was 1.1% in 2019. However, because the unemployment rate rose to 4.8% in the first quarter of 2020 from 2.3% in the last quarter of 2019, the poverty rate is also likely to rise.

Outlook and risks

The medium-term economic outlook is positive. Real GDP is projected to grow 4.6% in 2021 and 5.8% in 2022 as economic activity increases and tourist arrivals rebound. Investor confidence is likely to be strengthened by the smooth transition to a new leadership after the opposition won in the October 2020 elections, which bodes well for the country’s medium-term economic outlook and its ability to sustain its recently acquired high-income status. The fiscal and current account deficits are projected to narrow to 1.0% and 31.1% respectively in 2021 and to 1.3% and 27.9% in 2022. Insufficient economic diversification and vulnerability to external shocks (more than 25% of GDP comes from tourism) and climate change pose the main risk to the outlook.

Financing issues and options

After defaulting on its international debt payments almost a decade ago, the country started a debt restructuring that aimed reaching a debt-to-GDP ratio below 50% by 2021, from 150% at the peak. The country was on track until the pandemic, when it had to increase borrowing to offset a loss in domestic revenue. Its debt stock was estimated at about 85% of GDP in 2020, a sharp increase from 57% in 2019, suggesting the likelihood of debt distress. The country received support from cooperating partners, including the International Monetary Fund ($31.2 million), the World Bank ($15 million), and the African Development Bank ($10 million). A renewed and strengthened focus on debt management is key to ensuring continued growth and avoiding a repeat of debt-related macroeconomic risks. Policy actions should include first, further expenditure rationalization by focusing on critically needed areas and revenue mobilization by widening the tax base (30 companies account for 80% of total tax collection), and second, economic and market diversification and improvements in the business environment to attract investment, accompanied by a renewed focus on debt management and restructuring.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Somalia was affected by several shocks during 2019 and 2020—drought, floods, locust invasions, and the COVID–19 pandemic. As a result, real GDP, which grew 2.9% in 2019, shrank by 1.5% in 2020, mainly because of COVID–19 containment measures such as travel restrictions and supply and value chain disruptions. Growth has also been affected by reduced foreign direct investment, as investors shied away during contentious elections that were postponed, a shrinkage in remittances because of the global recession, and bans on livestock exports by the Gulf countries. Financial sector development is still nascent and there is no scope for monetary policy because of dollarization and currency counterfeiting. Annual inflation was estimated to decrease to 4% in 2020 from 4.7% in 2019, due to tax relief on food essentials and improved food supply. The Somali shilling remained relatively stable, depreciating by less than 1% between January and November 2020 as widespread dollarization reduced the supply of counterfeit currency. A structural trade deficit persists; exports continue to lag imports. Lower exports and reduced net financial inflows are expected to aggravate the current account deficit in 2020, estimated at 12.8%. Seven of 10 Somalis survive on less than $1.90 per day, and the COVID–19 crisis has likely increased poverty, as the 4.4% decline in real per capita income would suggest.

Outlook and risks

The economic outlook is clouded by uncertainty about the pandemic’s course, which will require a strategic approach to reopening the economy. Containment measures are gradually being relaxed, but social distancing is likely to become more difficult as people seek to restore livelihoods and businesses return to normal operations. Growth is expected to recover to 2.9% in 2021 and 3.2% in 2022, which is still below pre-COVID–19 projections. A recovery in household expenditures and agriculture, especially livestock exports, will drive growth if other Gulf countries follow Saudi Arabia’s move to lift a ban on imports of livestock from Somalia. The key downside risks include the climate and a decline in financial flows, notably development assistance and remittances, due to COVID–19. Inflation is projected to remain below 5% because of an improved food supply. While a balanced fiscal position is expected, due to conditions imposed for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, the current account deficit is projected to widen to 12.8% in 2021 and 12.9% 2022. Poverty and unemployment are expected to increase due to reduced remittances, which will disproportionately affect women, youth, and displaced persons.

Financing issues and options

Somalia became eligible for interim debt relief under the HIPC initiative in March 2020, which set the country on a course to sharply reduce its debt levels. The International Monetary Fund’s 2020 debt sustainability analysis indicates that even with the interim debt relief, Somalia will remain in debt distress, as its debt will still be about 43.3% of GDP in 2024, above the 30% sustainability threshold. Somalia’s debt was 55.3% of GDP when it became eligible for HIPC interim debt relief. It largely fulfills its financing requirements from donor contributions. Domestic revenues were 3.9% of GDP in 2018 and 4.6% in 2019 and financed an average of 71% of the national budget during those two years. Considering Somalia’s debt distress rating and the expectation that it will start honoring due debt repayments by 2024, the HIPC negotiations on debt restructuring should aim for comparability of treatment by non-Paris Club creditors to allow Somalia to secure a 9% debt-to-GDP ratio in 2024 when it is expected to reach the completion point of the HIPC initiative. Domestic revenue mobilization efforts and implementation of the new Public Financial Management framework are expected to expand the fiscal space for pro-poor spending. Gross reserves were low at 1.4% of GDP in 2020, equivalent to less than one month of imports, and are therefore not expected to complement the public financing sources in the short term.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.

COUNTRY NOTES
South Sudan

Recent macroeconomic and financial developments
South Sudan’s nascent economic recovery—driven by the 2018 Revitalized Peace Agreement, rising oil prices, and a resumption in oil production—was derailed in 2020 by locust invasions, floods and the COVID–19 pandemic. Economic activity was disrupted by measures to contain the spread of COVID–19—social distancing, and restrictions on movement and business operating hours. The service sector, which accounts for 6.1% of GDP, was particularly hard hit. Floods and locusts hammered the agriculture sector, which accounts for 15% of GDP and employs 80% of the population. The oil sector, which accounts for 70% of GDP and more than 90% of public revenues, was damaged by the collapse of global oil prices. Public and private consumption, the key growth drivers on the demand side in 2019, were also hurt by COVID–19. As a result, real GDP growth is expected to decline by 3.6% in 2020 after expanding by 7.4% in 2019. Supply shocks induced by flooding, locust invasions, and COVID–19 disruptions coupled with monetization of the government budget deficit and currency depreciation, increased inflation to an estimated 31.1% in 2020 from 24.5% in 2019. The South Sudan pound depreciated by 10% in November 2020 relative to the same period in 2019, to SSP 176 per US dollar. Falling global oil prices have reduced government revenues by 40%, increasing the fiscal deficit to 4.9% of GDP in 2020 from 2.5% in 2019. Reduced oil export receipts and a slowdown in financial inflows, mainly remittances and foreign direct investment, widened the current account deficit to 4.5% of GDP in 2020 from 2.7% in 2019. Reduced oil export receipts and a slowdown in financial inflows, mainly remittances and foreign direct investment, widened the current account deficit to 4.5% of GDP in 2020 from 2.7% in 2019. Banking, which dominates the financial sector, has been affected by the COVID–19 containment measures. Credit to the private sector, which fell by 20% in 2019, dropped another 40% in 2020, reflecting subdued economic activity and the high cost of finance. The economic slowdown is also expected to aggravate poverty and unemployment, with disproportionate effects on youth and women.

Outlook and risks
A peace dividend and the projected rebound in oil production and exports will support partial economic recovery, with real GDP expected to grow by 0.1% in 2021 and 2.5% in 2022. Inflation is expected to drop to 23.3% in 2021 due to the easing of containment measures, especially the reopening of borders with Kenya and Uganda, which will facilitate imports of food and other essentials. Public financial management reforms and the recovery of global oil prices will reduce the fiscal deficit to 1.2% of GDP in 2021, with external borrowing expected to bridge the public financing gap. The current account deficit is expected to fall to 2.3% of GDP in 2021 because of improved global oil prices. A breach in the peace accord, oil price fluctuations, and climate change, are the main downside risks to the growth outlook.

Financing issues and options
South Sudan’s debt risk rating improved from debt distress to high risk in October 2020, due to the restructuring of the country’s commercial debt with Qatar National Bank, which accounts for 46% of external debt. Debt restructuring and the clearance of arrears owed to Sudan also helped reduce external debt to an estimated 28.3% of GDP in 2020 from 38% in 2019. Commercial loans accounted for 81% of the total external debt as of June 2020, followed by multilateral (8%) and bilateral (11%) loans. While focusing on domestic resource mobilization is important, the government should also expand the fiscal space by enhancing fiscal transparency, accountability, and reporting. Improving the transparency of resource-backed loans and building the capacity to design and implement prudent macroeconomic policies will support debt sustainability in the medium to long term. Reforms to accelerate economic diversification and reduce reliance on oil are equally important. Institutional and capacity limitations are the key challenges to implementing such reforms. Gross reserves were equivalent to less than one month of imports in 2020 and so too low to be an alternative source of financing in the short term.
Recent macroeconomic and financial developments

Real GDP was estimated to have shrunk by 8.4% in 2020 after shrinking by 2.5% in 2019. The COVID–19 pandemic’s effect on commodity prices, trade, travel, and financial flows contributed to subdued economic activity. Reduced private consumption and investment as well as disruptions in value and supply chains also affected growth. Containment measures such as lockdowns took their toll on the service sector, with 58% of GDP, and the industrial sector, with 22%. Inflation escalated to an estimated 124.9% in 2020, compared with 82.4% in 2019, mainly due to a 118% currency depreciation and monetization of the fiscal deficit. Public revenues decreased by 35% in 2020, while the pandemic spurred a big increase in spending, worsening the fiscal deficit to 12.4% in 2020, compared with 11.3% in 2019. The fiscal deficit, which accounted for 40% of government revenues in 2019, has primarily been financed by advances from the central bank. Reduced demand among Sudan’s major trading partners in the Persian Gulf lowered exports, but imports also declined. As a result, the current account deficit narrowed to 12.6% of GDP from 15.1% in 2019. Private sector credit as a percentage of GDP dropped by 4 percentage points during the first half of 2020, reflecting the pandemic-related economic slowdown. In July 2020, the government adopted an accommodative monetary policy by reducing the cash reserve ratio, boosting credit to private sector to an estimated 12% of GDP at the end of 2020, still below the 14% of GDP it reached in 2019. While non-performing loans decreased from 3.5% in 2019 to 3% in 2020, returns on assets decreased to 1% from 1.8%, reflecting reduced profitability due to the sharp economic contraction. Subdued economic activity increased poverty from 48.3% in 2019 to an estimated 56% in 2020.

Outlook and risks

Sudan’s economy is projected to remain in recession in 2021, with a return to modest growth expected in 2022. Agriculture and mining will drive growth on the supply side, and private consumption and investment on the demand side. The improved political outlook and Sudan’s recent removal from the States Sponsor of Terrorism List (SSTL) by the United States will stimulate financial flows, benefiting growth. Poverty is projected to come down by 0.5 percentage points in 2022, reflecting the improved economic outlook. Reduced foreign exchange from remittances and foreign direct investment is expected to lower imports, including fuel and food supplies, and increase inflation in 2021. However, the prioritization of public spending and tighter monetary policies will reduce inflation from 129.7% in 2021 to 57.5% in 2022. Fiscal and current account deficits are expected to improve because of planned reforms to accelerate the economic recovery. The key downside risks include low public revenues, which may trigger further monetization of the deficit, and further depreciation of the local currency.

Financing issues and options

The 2020 debt sustainability analysis conducted by the International Monetary Fund and World Bank found that Sudan was in debt distress. Total public debt reached 201.6% of GDP in 2019, of which 80% was external. The share of total external debt in arrears increased to 85% in 2019 from 80% in 2017. The bulk of external debt in 2019 was owed to bilateral creditors ($41.5 billion, or 76% of total external debt), about equally divided between Paris and non-Paris Club creditors, followed by commercial (14%) and multilateral (10%) lenders. Sudan’s removal from the SSTL is expected to accelerate the country’s eligibility for Heavily Indebted Poor Countries (HIPC) initiative relief, and discussions are under way on the possibility of debt relief. However, repayment of the country’s commercial debt obligations has constrained the fiscal space for growth-generating public investments. This lack of fiscal space necessitates urgent reforms to broaden the tax base by rationalizing tax exemptions and improving tax administration. Improvements in governance are also necessary to crowd in private investment and finance. Gross reserves were low at $1.1 billion in 2020, representing about 2 months of imports and are thus not expected to augment public financing sources in the short term.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Tanzania

Recent macroeconomic and financial developments
Growth slowed to 2.1% in 2020 from 6.8% in 2019 because of COVID–19. Growth was driven mainly by construction and manufacturing on the supply side and investments on the demand side. Monetary policy has been accommodative to support credit and economic growth, with a reduction in the policy rate from 7% in August 2018 to 5% in May 2020, where it remains. Inflation fell to 3.3% in 2020 from 3.5% in 2019, due to a steady decline in food prices. Exchange rates remained stable, partly due to the Bank of Tanzania’s interventions to ensure stability in the foreign exchange market. The government’s fiscal consolidation has helped to reduce recurrent expenditures, but the adverse effect of COVID–19 on revenues increased the fiscal deficit slightly from 2.0% of GDP in 2019 to 2.3% of GDP in 2020—which still is lower than the government target of 5%. The deficit was financed largely by domestic borrowing. The current account deficit improved slightly to 3.2% of GDP from 3.4% in 2019 due to better export performance, particularly gold exports. The non-performing loans ratio increased from 9.8% in December 2019 to 11.0% in April 2020, mainly because of liquidity constraints in the private sector, in part due to COVID–19.

The number of Tanzanians living below the poverty line has increased as the pandemic caused weakness in sectors with high employment potential, notably agriculture and manufacturing. It was estimated that the pandemic could push an additional 500,000 Tanzanians below the poverty line. Inequality is also likely to have widened further during the pandemic.

Outlook and risks
The economic outlook is positive, with real GDP projected to grow 4.1% in 2021 and 5.8% in 2022, due to improved performance of the tourism sector and the reopening of trade corridors. Energy and fuel price increases are expected to persist in 2021, raising overall inflation to 3.9% in 2021 and 3.4% in 2022. Spending on large infrastructure projects and depressed revenue performance are expected to widen the fiscal deficit to 3.2% of GDP in both 2021 and 2022, financed mainly by external borrowing. The current account deficit is projected to grow to 3.9% of GDP in 2021, due to the lingering effects of COVID–19 on merchandise exports and increased imports of capital goods for large infrastructure projects. It is expected to narrow to 3.3% of GDP in 2022. The major downside risks to the outlook include business regulatory bottlenecks that constrain private sector activity and uncertainties regarding the pandemic. Poverty and unemployment are expected to remain high due to depressed private sector activity.

Financing issues and options
Tanzania’s total public debt stood at 39.2% of GDP in October 2020, with external debt accounting for 73.0% of the total. Domestic public debt increased slightly from 26.1% of the total in October 2019 to 27% in October 2020, partly because of increasing financing needs. Increased public spending requirements and a reduction in grants increased the financing needs from 1.8% of GDP in 2018 to 2.8% of GDP in 2020, and they are projected to further increase to 3.2% and 3.4% of GDP in 2021 and 2022 respectively. Large financing needs increased nonconcessional debt from 1.2% of GDP in 2018 to 1.7% of GDP in 2020, and it is projected to reach 2.0% of GDP in 2022. The risk of external public debt distress is low, but the pandemic is likely to increase vulnerabilities caused by reduced public revenues and decreased capacity for concessional borrowing. Maintaining debt sustainability will require keeping debt financing costs low, increasing exports, and improving domestic resource mobilization to substitute for expensive commercial debt. Furthermore, the government can benefit from innovative development financing mechanisms such as equity financing of public investments, creation of an asset class for public projects, and increased use of public-private partnerships. Gross reserves at $4.8 billion, or 5.6 months of imports in November 2020, were below the Southern African Development Community target of 6 months and are thus not expected to cover short-term financing needs.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team. Data on the budget balance correspond to Tanzania’s fiscal year, which runs from July 1 to June 30.
Recent macroeconomic and financial developments

The COVID–19 pandemic and subsequent lockdowns to prevent the spread of the virus damaged Uganda’s economy. Real GDP declined by 0.5% in 2020, after growing 7.5% in 2019. Tourism and hospitality were severely hurt by global travel restrictions and local containment measures. Other sectors that were adversely affected include manufacturing, retail and wholesale trade, and education. The Bank of Uganda reduced the policy rate in April to 8% and then in June to 7%, to provide stimulus to businesses. Nevertheless, the central bank kept inflation at 3.8%, well under the 5% medium-term target. The fiscal deficit widened to 6.6% in 2020 from 5.2% in 2019 as the government directed spending towards public health, including increased testing and cross-border surveillance of COVID–19. The government also provided support to business, but overall, the economy remained subdued, reducing tax revenues. Government borrowing increased to cover revenue shortfalls. The debt-to-GDP ratio rose to 40.8% in June 2020 from 35.9% a year earlier. The financial sector has come under increasing pressure as a result of the decline in economic activity. Non-performing loans rose, and private sector credit slowed. Non-performing loans increased to 6.0% of gross loans in 2019–20 from 3.8% a year earlier. Between May and October, credit expansion grew 8%, compared with 15% between January 2018 and May 2019.

Outlook and risks

Uganda’s economic outlook is challenging. However, a pickup in the global economy in 2021 could boost Uganda’s exports, and if COVID–19 containment measures are less stringent, household consumption would recover. The rise in demand is already improving business activity, as evidenced by the rise in the Purchasing Managers Index to above 50, the threshold for improving business activity. Tourism will remain subdued, but manufacturing, construction, and retail and wholesale trade should rebound in 2021—though they are likely to remain below pre-COVID–19 levels. The budget deficit will remain elevated at 7.3% in 2021 but is projected to decline in the medium term, reaching 6.0% in 2022. The need for investment in infrastructure, including roads, power, and water, will continue to drive the deficit. The finance minister has indicated a potential funding gap of 1.6% of GDP in 2021. Key domestic risks stem from a flare-up in COVID–19 cases, low tax revenue mobilization, weak implementation of public investment, and a rise in uncertainty after the January 2021 elections. External risks include continued weakness in the global economy and a rise in regional insecurity.

Financing issues and options

Although debt levels have been rising since the multilateral debt cancellation in 2006, Uganda has prudently managed its debt, currently classified as low risk of debt distress. However, with the slowdown in the economy in 2020, the government increased its financing needs. Gross financing needs are projected to reach 11.4% of GDP ratio in 2021. The African Development Bank projects that the rising financing needs will drive the debt-to-GDP to 48.8% by June 2021 and to just above 50% in June 2023. These levels are sustainable but leave little room to accommodate adverse shocks. Relatively strong foreign reserves of 4.9 months of imports cover could be deployed to support short-term financing needs. A key concern is the rise in interest payments, 22% of domestic revenue in 2020–21, driven by an increase in non-concessional borrowing. To maintain debt sustainability, Uganda must prioritize concessional financing, and limit nonconcessional financing to high-return projects. In the medium term, authorities will need to strengthen domestic resource mobilization and improve the business environment to make the country attractive to foreign and local investors. If the economy does not provide the required upswing, the authorities should cut spending to reduce the primary deficit, estimated at 4.5% of GDP in 2021, to a sustainable level.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook Team. Data on the budget balance correspond to Uganda’s fiscal year, which runs from July 1 to June 30.
NORTH AFRICA
**Recent macroeconomic and financial developments**

The COVID–19 pandemic had a strong effect on Algeria in 2020. In addition to the health toll, the pandemic added to other adverse developments, mainly the fall in oil prices, and plunged the Algerian economy into recession. Real GDP shrank by 4.7% in 2020, after growing a paltry 0.8% in 2019. The measures put in place to contain COVID–19 had serious consequences for the service and construction sectors, cut many jobs. The fall in revenues from oil and gas exports contributed to a further widening of the public and external deficits. The budget deficit more than doubled in 2020 to 13.6% of GDP from 5.6% in 2019 under the combined pressure of a drop in hydrocarbon revenues, which constitute a large share of public revenues, and high public spending to mitigate the economic effects of the health crisis. The current account deficit widened to 14.8% of GDP in 2020 from 10% in 2019 due to the country’s heavy dependence on hydrocarbon exports and structurally high imports. As a result, the level of foreign exchange reserves has gradually declined, sufficient to cover only 12 months of imports at the end of 2020, compared with 13.6 months at the end of 2019. To provide banks with additional liquidity to finance the economy, the Bank of Algeria sharply lowered the reserve requirement ratio to 3% in September 2020 from 12% in February 2019. In 2020, inflation was 2.4%, compared with 2% in 2019. However, if the government resorts to monetary financing of the budget deficit, it could, over time, impede the monetary policy objective of limiting inflationary surges.

**Outlook and risks**

Growth could return as soon as 2021 if vaccines lead to global control of the pandemic, which would revive the global economy. In this scenario, a substantial rebound in real growth, estimated at 3.4% of GDP, would take place in 2021 and continue in 2022. A return to a high level of growth would allow a substantial reduction in the overall budget deficit to 10.3% of GDP in 2021 and 8.7% in 2022. The trend would be similar for the current account deficit, which would shrink to 13.8% in 2021 and 11.1% in 2022. However, Algeria should deepen the measures to widen the tax base initiated in the 2021 finance law and set up a program to diversify its economy with a view to limiting domestic public debt. Otherwise, the Algerian economy’s heavy dependence on hydrocarbons will continue to hamper its medium-term development prospects.

**Financing issues and options**

Because authorities decided against borrowing externally, Algeria’s public debt is essentially domestic. It has increased sharply since 2016 to finance a deficit born of rising spending and falling hydrocarbon prices. At the end of 2019, while the external public debt represented less than 1% of the GDP, domestic debt, including guarantees, was a little more than 46% of GDP and could further increase in the years ahead.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Egypt’s economic growth has been strong and resilient since the economic reforms initiated in 2016. It is one of the few African countries expected to record a positive growth in 2020, at 3.6%, despite the adverse impact of the COVID–19 pandemic. The economy grew at a slower rate than in 2019 (5.6%) but did not enter a recession, thanks to high domestic consumption. The tourism sector—which accounts for about 5.5% of GDP and 9.5% of employment—was shut down from mid-March to 1 July 2020. Despite pandemic-related expenditures and revenue shortfalls, the fiscal balance excluding the cost of government debt is expected to remain positive, at 0.5% of GDP. This fiscal buffer, a consequence of the fiscal consolidation reforms, helped keep the overall deficit broadly unchanged at 8% of GDP in 2020—compared with a 7.9% deficit in 2019 that benefited from a primary surplus of 2%. Public debt was estimated to increase to 90.6% of GDP in 2020 from 86.6% in 2019, reversing three years of continuous decline. During the first half of 2020, exports dropped by 6%, while imports fell 21%, which helped narrow the current account deficit to 3.1% of GDP in 2020 from 3.6% the year before. The smaller current account deficit also reflected the strength of remittances, estimated at 8% of GDP in 2020.

Following the move to a flexible exchange rate regime in 2016, Egypt experienced a period of double-digit inflation, but inflationary pressures have been trending downward since the summer of 2017. In 2020, price pressures were muted, especially on food products, and inflation declined to 5.7%, from 13.9% in 2019, which allowed monetary policy to be accommodative. To stimulate economic activity, the bank of Egypt cut the overnight lending rate by 300 basis points on 12 November. Another 50 basis points on 24 September, and to 9.25% on 12 November.

Outlook and risks

Real GDP growth is expected to slow to 3% in 2021 because of continued weakness in net exports, mainly tourism receipts. Tourism earnings, which totaled 25% of exports in 2019, are likely to have declined in 2020 due to the closure of international airports and restrictions on local travel. The outlook for tourism in the short term remains weak. Overall, exports, which decreased in 2020, should remain subdued in 2021 due to the weak external environment, especially in Europe, which accounts for 35.5% of Egypt’s exports and is the main source of tourists. Similarly, private investment could remain subdued in 2021 but benefit from the improved investment climate over the medium term. Private consumption will remain the main growth driver.

Financing issues and options

Liberalization of the capital account in 2016 attracted foreign investors to the domestic debt market. But the pandemic caused a significant reversal of capital flows, which put pressure on reserves and the current account. The pandemic also exacerbated Egypt’s already large refinancing needs, with 60% of the country’s public debt at a maturity of one year or less. To bridge the financing gap, Egypt accessed funding from COVID–19-related facilities. It received $8 billion from the International Monetary Fund ($2.8 billion from the coronavirus rapid financing initiative and $5.2 billion in a one-year stand-by arrangement). The African Development Bank provided $300 million, and the World Bank $450 million. On 21 May 2020, the country also tapped the international capital market, issuing a $5 billion bond, its largest issuance to date, that was largely oversubscribed. Credit facilities from international financial institutions and bond issuances boosted foreign exchange reserves to $40.06 billion at the end of 2020. External debt rose to 36% of GDP, but the new borrowing helped lengthen the average debt maturity. Total public debt is projected to increase to 90.6% of GDP in 2021 before steadily declining to 77.2% by 2025. Egypt must further lengthen the maturity of its debt and diversify its investor base to manage its refinancing risk and mitigate its rollover risk. Moreover, the country needs to continue implementing structural reforms to catalyze private sector development and enhance domestic resource mobilization.
Libya’s real GDP was estimated to shrink by 60.3% in 2020 in the face of multiple shocks. The country experienced an intensification of the civil war, including a blockade of major oil fields from January to early October 2020, a decrease in oil prices that reduced income from already depressed oil production and the rapid spread of COVID–19, which further damaged the country’s fragile economy and health system. The closure of the oil fields led to a sharp decline in exports that, coupled with low oil prices, resulted in an estimated $10 billion or more in lost revenues. Libya’s fiscal and current account balances dramatically deteriorated in 2020 to deficits equivalent to 73.8% of GDP and 59.8% of GDP, respectively, wiping out the fiscal and current account surpluses recorded in 2019. Foreign exchange reserves also decreased, from $77 billion to $63 billion in June 2020, the lowest level since 2016 (equivalent to 58 months of imports).

The Central Bank of Libya decided to endorse a new exchange rate starting on 3 January 2021 to harmonize itself and the parallel market exchange rates. This implies a sharp depreciation of the Libyan dinar, from LYD 1.35 per US dollar to LYD 4.48 per dollar, which is expected to push up prices. The banking system, dominated by state-owned banks, has suffered recurrent liquidity crises since 2014 due to the loss of confidence in the formal system.

With a population of around 6.8 million—including 585,000 migrants and refugees and 400,000 internally displaced persons—and a political conflict that has divided the country into east and west, Libya finds it increasingly difficult to ensure a coordinated and inclusive developmental approach. Access to basic services is hindered by continuous fuel shortages, electricity, and water cuts, and a poor health system.

**Outlook and risks**

The political and security situation remain fragile and volatile, despite a ceasefire agreement in October 2020 between the warring factions. Without a significant improvement in the security situation, a sound economic recovery is difficult to achieve in the short to medium term. Despite the easing of the oil blockade, Libya remains vulnerable to low international prices and demand for oil, should the COVID–19 pandemic persist. In such an environment, foreign exchange reserves could decline further, and the domestic financing capacity of the country could be severely impaired.

However, Libya’s economic prospects for 2021 are slightly more upbeat than in 2020, with the resumption of oil production in November 2020, and could mitigate the effect of low prices. The economy is projected to grow by 37.5% in 2021 and 54.9% a year later. Fiscal and current account balances are also expected to improve at 8.9% of GDP in 2021 and 31.2% of GDP in 2022, thanks to the projected increases in oil revenues and exports in 2021. Inflation is projected at 10.5% in 2021, due to the depreciation of the national currency and persistent supply constraints.

**Financing issues and options**

While Libya’s external debt is among the lowest in the world, estimated at 5.8% of GDP in 2017, domestic debt has increased significantly over the recent years, reaching 155% of GDP in 2020. Historically, Libya had limited need for external borrowing, thanks to its abundant foreign earnings and reserves from hydrocarbons. However, the political and security crisis significantly reduced government revenue, and foreign direct investment (FDI) has not flowed into the country since 2014. Consequently, the stock of FDI has not changed since 2013, at $18.5 billion. The ministry of finance representing the government of national accord covers its financing needs borrowing from the Central Bank of Libya. However, continuous borrowing from the central bank combined with the depletion of foreign reserves, is not sustainable and carries potentially serious macroeconomic consequences. A strong debt management policy should be implemented to handle the recent increase of public domestic debt.
Recent macroeconomic and financial developments

The deterioration of the global economy in 2020 from the COVID–19 pandemic caused real GDP in Mauritania to contract by 3.6% in 2020, after growing 5.9% in 2019. The budget fell into a deficit of 4.1% of GDP in 2020, after being in surplus the year before, because of a significant drop in tax revenues during an economic slowdown, a decline in export revenues, the easing of taxes on some necessities, and a significant increase in health spending to fight COVID–19 infections. The slowdown in the world economy not only affected foreign trade but also foreign direct investment in Mauritania, which fell from a forecast $937 million to $594 million. The current account deficit reached a record 17.6% of GDP, due to a one-third drop in iron ore exports and a halt in exports of fishery products. Official foreign exchange reserves remained stable in 2020 at $1.135 billion, enough to cover 5.1 months of imports. Inflation, estimated at 2.7% in 2020, remained below the target of 4% set by the monetary authorities, but slightly higher than the 2.3% rate in 2019.

Outlook and risks

Growth is projected to return in 2021, assuming the global pandemic subsides and the global economy revives. That would mean a recovery in global demand for iron, which is Mauritania’s main engine of growth. Real GDP is forecast to grow 2.8% in 2021 and 4.2% in 2022, underpinned by the resumption of public and private investment and structural reforms.

The public finance situation should gradually improve as economic activity resumes and emergency measures to fight the pandemic are lifted. The budget deficit should gradually decrease to around 2.3% of GDP in 2021 and 1.7% of GDP in 2022. The current account deficit should also narrow—to 14.3% of GDP in 2021 and 13.7% in 2022—because of an increase in exports. The development of the Grand Tortue/Ahmeyim (GTA) offshore gas field during 2021–22, which is projected to begin production in 2023, should also buoy the short-term economic outlook. However, this outlook could be undermined if the pandemic continues beyond the second half of 2021, if metal and oil prices fall, and if there are climate shocks.

Financing issues and options

A primary surplus of 3.5% of GDP in 2018 and 1.7% in 2019 made it possible to reduce Mauritanian public debt to 62% of GDP in 2019 from 65% in 2018. Debt solvency ratios also improved in 2019—for example, debt service fell to 14.1% of export revenue in 2019 from 17.4% in 2018. However, total public debt, almost exclusively external, remains high and vulnerable to external shocks. The debt includes arrears to Kuwait (estimated at 12.8% of GDP), which the authorities have tried to settle for several years. According to the debt sustainability analysis conducted by the International Monetary Fund, the risks of external and public debt distress are high in Mauritania. Public external debt as a percentage of GDP is expected to rise to 69% in 2020 and 70% in 2021, and to decline slightly to 68% in 2022—well above the 40% of GDP that is considered sustainable.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The economy of Morocco has suffered dire consequences from the COVID–19 pandemic, experiencing its first recession in more than two decades in 2020. Real GDP declined by –5.9% in 2020, after growing 2.5% in 2019. The economy also is vulnerable to poor rainfall, so on top of damage from a strict three-month lockdown to contain the spread of COVID–19, a drought also hurt rural incomes, which further reduced domestic demand. Unemployment rose to 12.7% at the end of September 2020 from 9.2% at the end of 2019.

The disruptions of global value chains and the sudden slowdown in Morocco’s main trading partners (Spain, France, Italy, and Germany) also reduced demand for exports, which fell by 10.1% over the first 10 months of 2020. During the same period, lower domestic production and consumer demand reduced imports by 16.6%. However, remittances increased by 1.7% over the first ten months of 2020. Nevertheless, the current account deficit was expected to widen to 7.6% in 2020 from 4.1% in 2019, mainly due to lower tourism receipts. Tourist arrivals dropped by 78% through September 2020. Lower tourism earnings, coupled with subdued domestic demand, reduced tax revenues at the same time the government incurred high pandemic-related expenditures. The fiscal deficit nearly doubled, reaching about 8% of GDP in 2020, from 4.1% in 2019. The need to finance the deficit increased borrowing, pushing government debt to 76.9% of GDP in 2020 from 65.8% in 2019. Public debt was already high prior to the pandemic, mainly as a result of borrowing to finance government’s ambitious infrastructure investment program over the past decade.

Inflation is expected to remain low. On 9 March 2020, Moroccan authorities widened the fluctuation band of the dirham to increase the ability of the economy to absorb external shocks and improve competitiveness. The Bank Al-Maghrib has hardly intervened in the foreign exchange market despite decreasing its benchmark interest rate by 25 basis points in March 2020 and by another 50 basis points to 1.5% in June 2020. Over the past decade, Morocco improved by more than 50 places its position in the World Bank’s Doing Business ranking. In 2020, Morocco ranked 53rd of 190 countries.

Outlook and risks

Real GDP growth is projected to rebound to 4.5% in 2021 as the economy recovers from a severe contraction and agriculture thrives. During the third quarter of 2020, exports of automotive parts and phosphate and derivatives rebounded and are expected to strengthen more in the near term as global demand improves. This is likely to offset any continued weakness in the tourism, hotels, and restaurants sector. Consequently, the current account and fiscal deficit are expected to narrow, while inflationary pressure should remain subdued. Still, the country battles significant social and regional development disparities as well as youth unemployment. Rethinking the development model to enhance inclusive growth is the mission of a special commission named by the king.

Financing issues and options

Morocco has rapidly accessed emergency funding from donors, including $3 billion from the International Monetary Fund and $460 million from the African Development Bank to mitigate impact of the pandemic. In September 2020, Morocco also issued a 1 billion Euro bond. These inflows bolstered foreign exchange reserves, which are sufficient to cover around 8.1 months of imports and three times the debt due in the short term. In 2019, the total debt of the treasury was MAD 650 billion (about $73.1 billion) and the public external debt was MAD 346 billion (about $39 billion). General government debt carries a maturity of more than six years, and more than half of Morocco’s external debt is owed to multilateral institutions. Consequently, the refinancing risk of the kingdom is minimal, and starting in 2021, the debt-to-GDP ratio is expected to decline steadily, reaching 70% by 2025.
Recent macroeconomic and financial developments

COVID–19 has infected many Tunisians and severely damaged the economy in this North African nation, which is heavily dependent on Europe. Real GDP contracted by 8.8% in 2020, after growing 1% the year before, due to the general decline in economic activity and the hardening of financing conditions designed to fight inflation. Production fell in all sectors except agriculture and fishing. The service sector (including tourism), which traditionally drives growth, has been hit hard by the consequences of the pandemic. But the biggest shock from the pandemic was a sharp drop in investment and exports. Inflation, however, declined in 2020 to 5.9%, from 6.7% the year before, because of a slowdown in domestic demand and a sharp drop in energy prices. The budget deficit grew to 13.1% of GDP, compared with 3.5% the year before because of a strong increase in spending to deal with the pandemic while at the same time revenues fell. The pandemic-related revenue decline put an end to a fiscal consolidation effort under a 2018 program with the International Monetary Fund. After being in deficit by 8.5% of GDP in 2019, the current account stabilized at a deficit of 8.1% of GDP in 2020, due to a sharp drop in imports and remittances.

Outlook and risks

Tunisia’s real GDP should rebound and grow 2% in 2021 and 3.9% in 2022, if the pandemic recedes and allows a restart of the global economy, especially in Europe, upon which Tunisia relies heavily. Inflation is expected to continue to decline over the medium term to around to 5.7% in 2021 and 4.3% in 2022, due to prudent monetary policy. The budget deficit is expected to improve to 8.6% of GDP in 2021 and 8% in 2022.

The current account deficit is also expected to narrow over the medium term to 4.1% in 2021 and 3.6% in 2022 as the recovery continues. The major risks to this scenario are a third wave of the pandemic, political instability at the national and regional level, an increase in popular protests against social conditions, insufficient access of companies to financial resources, and a slower-than-expected recovery of European economies on which Tunisian exports depend heavily.

Financing issues and options

The Tunisian public debt, 70% of which is external, will reach 90% of GDP in 2020, continuing the worrisome upward trend that began in 2011, when it was about half as big. Tunisia is vulnerable to exogenous shocks, mainly to currency risk because of the high concentration of external debt. The cost of servicing the debt absorbs around 28% of the budget, at the expense of development spending necessary to improve Tunisia’s long-term competitiveness. The financial difficulties of public establishments and enterprises is another area of concern. At the end of 2019, the debt of public enterprises represented 13% of GDP. However, the recent external debt sustainability analysis conducted by the IMF concluded that Tunisia’s debt is sustainable because a large portion of it is concessional and the portfolio has relatively long maturities.
SOUTHERN AFRICA
Recent macroeconomic and financial developments

Angola’s oil-driven economy has been in recession since 2016, leading to an increase in its debt-to-GDP ratio from 57.1% in 2015 to an estimated 120.3% in 2020. To promote macroeconomic stability, private investment, and a more diversified economy, major reforms were introduced over the past two years—including a value-added tax, a fiscal responsibility law, a liberalization of the exchange rate regime, and a private investment and privatization law. However, the COVID–19 pandemic has unwound some gains from these measures. Real GDP was estimated to contract by 4.5% in 2020, compared with pre-COVID–19 estimates for 2020 that indicated the end of a long recession with 1.2 GDP growth. Reduced oil exports, Angola’s main revenue source that accounts for about 95% of the country’s exports, caused the fiscal deficit to widen to an estimated 4.5% of GDP. Lower oil export earnings will increase the current account deficit to an estimated 2.1% of GDP from a surplus of 6% in 2019. Inflation, estimated at 24.6% in 2020, was driven by a cumulated 36% devaluation of the currency through mid-December.

The pandemic sped efforts to implement the country’s first cash-transfer program, KWENDA, which aims to reach 1.6 million poor families. However, lower oil revenues hampered the government’s capacity to fully protect livelihoods from the effects of the pandemic. As a result, the socioeconomic situation worsened. The unemployment rate rose to 34.0% in the third quarter of 2020 compared with 30% a year before, with youth unemployment rising to a high of 56.4% from 54.2% in the third quarter 2019. The pandemic is expected to exacerbate the 2019 official poverty incidence of 40.6%.

Outlook and risks

The change to a flexible exchange rate regime in 2019 helped mitigate the impact of lower oil prices on international reserves. The major prepanademic reforms might contribute to a V-shaped recovery in 2021; GDP is projected to grow 3.1%, assuming the private nonoil sector performs better. In addition, the recovery in the Brent oil price from about $30 per barrel in March 2020 to more than $50.40 per barrel in mid-December 2020 will increase fiscal revenues. Inflation was estimated to drop to 14.9% in 2021 following the monetary easing needed during the crisis, which also put pressure on inflation. The major risk associated with the Angolan economy is low oil prices in 2021; however, if the oil price recovery persists, the budget deficit could narrow to 2.2% of GDP, and the current account could return to a surplus position of 4.0% of GDP in 2021.

Financing issues and options

The recent exchange rate depreciation was the main contributor to changes in Angola’s public debt, about 80% of which is denominated in foreign currencies. However, the major macroeconomic reforms implemented before the COVID–19 pandemic increased the resilience of the country to external shocks and, as a result, the International Monetary Fund, after the reprofiling of interest and principal payments under the G-20 Debt Service Suspension Initiative, considers that the debt is sustainable.

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**Source:** Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Botswana’s economy contracted by an estimated 8.9% in 2020, after growing by 3.0% in 2019, as the COVID–19 lockdown and other movement restrictions constrained economic activity. On the supply side, mining output declined significantly, mainly due to falling global demand for diamonds. Nonmining output also shrank, from both the pandemic-induced domestic restrictions and weaker global markets. The subsectors most affected were trade, construction, manufacturing, hotels and restaurants, and transport. Subdued aggregate demand also hurt investment and consumption.

Monetary policy was accommodative to support growth, taking advantage of the prevailing low inflation. Lower demand and fuel prices contributed to a reduction in the annual inflation rate from 2.8% in 2019 to 1.9% in 2020, below the Bank of Botswana’s target range of 3%–6%. The central bank reduced its policy rate to 3.75% in October 2020, after maintaining it at 4.25% from April to September 2020 and at 4.75% from September 2019 to March 2020. The fiscal deficit was estimated to widen to 8.7% of GDP in 2020 from 4.2% in 2019, as COVID–19-related spending rose and tax revenues fell due to reduced economic activity and imports. The deficit is being financed through domestic and external borrowing and a drawdown in reserves. Botswana’s public debt, estimated at 17% of GDP in 2020, is low and sustainable. The current account deficit widened to 11.2% of GDP in 2020 from 7.6% in 2019, mainly because of the fall in diamond prices and reduced Southern African Customs Union (SACU) revenues. International reserves declined to a still relatively high $5.3 billion at the end of November 2020 (enough to cover 10.9 months of imports), from $6.2 billion in December 2019.

Outlook and risks

Real GDP growth is projected to recover to 7.5% in 2021 and 5.5% in 2022, based on a revival in domestic demand as the effects of the pandemic recede and a rebound in commodity prices as economies reopen globally. Upside risks to the growth outlook hinge on the steadfast implementation of business environment reforms and government interventions against COVID–19, including the Economic Recovery and Transformation Plan (ERTP). Downside risks include lower diamond demand if the global economic recovery is weakened by renewed waves of infection. There are also threats from persistent drought and the adverse effects of poor economic conditions in South Africa on Botswana’s exports and SACU receipts. The fiscal deficit is projected to narrow to 6.3% of GDP in 2021 as domestic revenues pick up. The current account deficit could improve to 7.4% of GDP in 2021, depending on how fast the diamond and tourism industries revive. Inflation is expected to be within the central bank’s medium term 3%–6% target range, but could be higher if the recovery in global commodity prices is faster than anticipated and the constraints on aggregate supply are sustained by the potential reinstatement of worldwide lockdowns. Reverting to this form of extreme social distancing could dampen economic activity and aggregate demand and keep inflation lower than projected. Growth prospects continue to be clouded by Botswana’s relatively high poverty, unemployment, and inequality, particularly among youth and female-led households, both likely to be disproportionately affected by the pandemic.

Financing issues and options

The estimated cost of the ERTP is $1.3 billion (7.6% of GDP) over two and a half years. Because of its low debt levels, Botswana can fund the plan from both domestic and foreign sources. On the domestic side, the government has increased its bond issuances by 50%. Other options include increasing domestic revenue mobilization and reprioritizing public expenditure. The government also has the fiscal space to borrow externally.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team. The fiscal years start in the named April and conclude the end of March in the following year.
Recent macroeconomic and financial developments

The Lesotho economy was estimated to contract by 5.2% in 2020 from modest growth of 0.6% in 2019. This reflects measures to mitigate the COVID–19 pandemic and low external demand, which adversely impacted the mining and manufacturing industries. Estimates of growth in the mining industry (textiles and clothing, construction) and services were revised downwards by 34.5, 29.3 and 9.9, and 4.2 percentage points in 2020, respectively.

Lesotho’s economy is closely linked to South Africa’s with imports from South Africa, mainly foodstuffs, constituting about 80% of its total imports. The decline in imports from South Africa contributed to food shortages in Lesotho, fueling inflationary pressures. Hence, inflation was estimated to decline only marginally, to 5.0% in 2020 from 5.2% in 2019. The fiscal deficit was estimated to widen to 10.2% of GDP in 2020 from 5.6% in 2019, largely driven by a 25% increase in government expenditures mainly on the wage bill and government spending on health care to fight the pandemic. Much of the financing gap is expected to be met through foreign borrowing unless the government undertakes substantial fiscal adjustments to curb the widening fiscal deficit and the associated accumulation of foreign debt, which could threaten debt sustainability. External debt stood at 36.1% of GDP in 2020, well below the convergence criterion of 60% of GDP set by the South African Development Community (SADC). The decline in exports to both South Africa and the United States and reduced investments from China and South Africa, coupled with dwindling incomes and transfers, led to a deterioration in the current account, deficit from 6.0% of GDP in 2019 to 7.2% in 2020. The widening current account deficit also reflected a 26.6% decline in diamond exports and a 21.2% decline in textile exports. It will be financed by a drawdown in foreign reserves. The banking sector remains stable with non-performing loans declining marginally from 3.2% in 2019 before increasing to 4% in the second quarter of 2020.

Outlook and risks

Lesotho’s growth trajectory and recovery are highly dependent on the path of the pandemic in South Africa given the close economic ties between the two countries. The economy is projected to grow by 4.1% in 2021 and 4.4% in 2022, owing to mining and construction associated with the second phase of Lesotho Highlands Water Project. Inflation is projected to decline further to 4.9% in 2021 and 4.8% in 2022, owing to subdued demand arising from the second wave of the pandemic in neighboring South Africa, the main trading partner. The fiscal deficit is projected to remain elevated at more than 10.0% of GDP in the medium term, owing to massive health-related spending if the crisis continues in 2021 and the revenue allocation from the Southern African Customs Union declines due to weak economic activity in the region. The current account deficit is projected to deteriorate further to 8.6% in 2021 and 12% in 2020, reflecting low external demand and dwindling incomes and transfers from migrants in South Africa.

Financing issues and options

Total public debt is projected to increase to 62.8% of GDP in 2021 due to the pandemic, breaching the SADC convergence criterion of 60% of GDP. Lesotho’s risk of external debt distress has, therefore, been revised from low in 2019 to moderate. Going forward, Lesotho needs capacity strengthening for domestic resource mobilization, drawing down reserves, renegotiating debt, attracting concessory financing, deploying remittances for infrastructural development, and fiscal consolidation to reduce the wage bill from its current level of 24% of GDP (three times the average for sub-Saharan Africa). The textile industry needs to source inputs from alternative countries to alleviate overdependence on China.
Recent macroeconomic and financial developments

The COVID–19 pandemic put a brake on Madagascar’s four years of economic growth. After real GDP growth of 4.4% in 2019, the country went into a recession in 2020, with real GDP declining 4%. Manufacturing, mining, and services were hardest hit because of containment measures, while agriculture performed well. The crisis also put pressure on the financial sector, prompting the central bank to inject liquidity into the system. But prices were contained. Inflation was 4.2% in 2020, compared with 5.6% in 2019. The current account deficit deteriorated to 3.5% of GDP in 2020, compared with 2.3% in 2019, because of a drop in exports, an abrupt halt in tourism, and a decline in foreign direct investment. The pandemic hurt public finance. Tax revenues fell, while spending increased significantly as the government took steps to mitigate the COVID–19 crisis. As a result, the budget deficit deteriorated to 6.3% of GDP in 2020 from 1.4% in 2019.

Outlook and risks

If the pandemic subsides during the first half of 2021, the outlook is favorable for a return to growth, with real GDP projected to grow 3.5% in 2021 and 4.5% in 2022. But the impact of the crisis will continue to be felt in public finances in 2021. The financing needed for economic recovery was estimated at $820 million in 2021, resulting in a budget deficit of 4.6% of GDP in 2021, which would narrow to 3.8% in 2022. On the demand side, the recovery should be supported by a rebound in both public and private investment and a resumption of exports—nickel, cobalt, and vanilla—as the global economy and international trade recover. However, the current account deficit is expected to remain high at 5% of GDP in 2021 and 4.5% in 2022. Job losses estimated at 27% in the formal sector are expected to gradually decline in 2021 as the economy recovers. The main risks to the outlook are a new wave of COVID–19 infections and weather shocks, such as drought, cyclones, and floods.

Financing issues and options

Debt sustainability indicators worsened in 2020 because of the COVID 19 crisis. The debt-to-GDP ratio deteriorated to 44.8% in 2020 from 38.7% in 2019. In 2020, public debt was mainly external. Madagascar owed foreign creditors an amount equivalent to 32.6% of GDP, while domestic debt was 12.2% of GDP. Slightly more than three-quarters of the foreign debt was owed to multilateral institutions, 19% was bilateral, and about 5% was commercial. Domestic debt was mostly in treasury bills. With a low ratio of tax revenues to GDP, Madagascar may need to focus on increased mobilization of public revenues to support the financing of economic recovery and to preserve the long-term sustainability of its debt.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Growth in Malawi’s economy decelerated in 2020 to 1.7% from 5.7% in 2019. The slowdown in GDP growth was driven by the outbreak of COVID–19, which necessitated a partial lockdown of the economy, resulting in subdued economic activities—mainly in tourism, the accommodation and food subsectors, transportation, and agriculture. Other sectors affected by disruptions from the COVID–19 pandemic disruptions were manufacturing and mining and quarrying. Weak global demand hurt Malawi’s tobacco and other agricultural exports, and inflows of foreign direct investment (FDI). The fiscal deficit was an estimated 7.7% in 2020, a deterioration from 4.7% deficit in the previous year. The deterioration was driven by $345 million in spending to respond to the pandemic, interest payments amounting to 5.3% of GDP, and a rerun of the 2019 presidential election. The fiscal deficit pushed the debt-to-GDP ratio to 65% in June 2020 from 62% in 2019 and was financed by borrowing and budget support.

Monetary policy was accommodative to support recovery from the pandemic. The policy rate was reduced to 12% by November 2020 from 16% at the start of the year. Although the foreign exchange market experienced some pressures caused by COVID–19, average annual inflation decreased to 8.8% in 2020 from 9.4% in 2019, mainly because of reduced fuel prices implemented as part of COVID–19 response measures. The current account deficit worsened to 13.3% of GDP ($1.64 billion) in 2020 because of a decline in exports, tourism receipts, and investment inflows. International reserves stood at 3.1 months of imports in 2020, supported mainly by budget support receipts. The financial sector remained stable and capitalized, with the ratio of non-performing loans improving marginally to 5.4% in June 2020 from 5.6% in December 2019. Private sector credit growth declined to about 16.9% in October 2020 from 17.7% a year earlier.

Outlook and risks

Real GDP growth is projected to grow at 3.3% in 2021 and 6.2% in 2022. The prospect for a recovery to the prepandemic level is not expected until 2022, mainly because of the uncertain effect of COVID–19 infections. The projected growth will be driven by recovery in the tourism and agriculture sectors, exports, FDI, and public investments in infrastructure (airport, roads, energy). The downside risks to the projected recovery relate to a potential second wave of COVID–19 infections, bad weather, and fiscal overruns due to revenue underperformance. The fiscal deficit is projected to widen to 10.2% in 2021, raising the debt-to-GDP ratio to 66% in 2021. The current account deficit is forecast to narrow to 12.5% of GDP in 2021 as exports rebound, then tick up to 12.9% in 2022. A rebound in domestic economic activity and a projected increase in oil prices may have pushed inflation from 8.8% in 2019 to an estimated 9% in 2020, but improved food production should help bring it down to 7.8% in 2022.

Financing issues and options

Traditionally, the domestic debt market has covered government financing needs. Since 2012, Malawi has experienced frequent weather-related shocks, including cyclone Idai in 2019, and the COVID–19 pandemic, resulting in persistent fiscal imbalances and elevated public debt levels. The emerging financing gap of $243 million (2.9% of GDP) in October 2020, combined with the COVID–19 financing needs of 3.9% of GDP, will be financed from external sources, domestic debt, and official reserves—also projected to improve to 3.3 months of imports in 2021 from 3.1 months of imports in 2020. The government is prioritizing fiscal consolidation, including strengthening domestic resource mobilization through the 2017–22 public financial management reforms program.
Recent macroeconomic and financial developments

Drastic and fast action by the government of Mauritius to lock down and isolate the island allowed the country to record only 315 cases and 10 deaths from COVID–19 between January and December 2020. But the protocol that allowed the island nation to escape the worst of the pandemic entailed a very high cost for the economy. In just one year, Mauritius lost 18 percentage points of growth. Real GDP was estimated to contract by 15% in 2020, against positive real GDP growth of 3% in 2019. The tourism and hospitality industry, which traditionally contribute around 24% of GDP and account for 22% of employment with significant spillover effects on the whole economy (transport, agriculture, wholesale and retail trade, and administrative and support services), incurred an estimated 75% loss in value added. At the same time exports of seafood, textiles and apparel, and sugar were hurt by disruptions in global demand. Only the information and telecommunication sector grew, supported by heavy use of technological and teleworking services during the lockdown. The financial services sector also registered a positive growth of 1.1%. An increase in prices of imported products and the depreciation of the rupee. As a result of the economic downturn, unemployment doubled in the third quarter of 2020 to 10.9% from 6.7% a year earlier. Poverty remained contained because the government decided to increase the level of existing social protection schemes, with priority given to the most vulnerable segments of the population.

Outlook and risks

The medium-term outlook is for a strong recovery with real GDP growth projected to average 7.1% over the next two years. Still, the fiscal deficit is projected to widen to 10.8% of GDP in 2021, fueled by high public investment and continued support to businesses and jobs. The deficit will narrow in 2022 to 5.0%, with economic recovery supporting growth in tax revenues. The current account deficit is projected to improve starting in 2021 because of improvement in the trade balance and a gradual recovery in tourist receipts as air links resume between Mauritius and Europe, the main source of tourists. Inflation is projected to rise, averaging 3.4% over the medium-term as domestic demand increases. The main risk to the outlook stems from a potential second or a third wave of COVID–19 in key tourism markets.

Financing issues and options

Mauritius’ public debt trajectory raises concerns. After a substantial decrease in public debt to 48.6% of GDP in 2013 from 63.7% in 2008, Parliament established a statutory debt limit of 60% of GDP through the Public Debt Management Act. However, staying below that level has proved challenging. Domestic debt represents 88% of the country’s public debt and is mainly held in government bonds by the banking sector. Public external debt (12%) is limited to multilateral creditors on concessional terms with long maturities. The high concentration of domestic public debt ensures some protection against foreign exchange risk. Over the short to medium-term, the pandemic could worsen Mauritius’ public debt profile due to elevated spending. Public debt is projected to be 76.1% in 2021, against 64.6% in 2020. To achieve the statutory public-sector debt target of 60% of GDP would require a significant fiscal consolidation and improvement in revenues. Despite signs of deterioration, public debt remains sustainable, and the debt service moderate (9% of budget in 2020/2021). Debt restructuring may not be an option for the government in the short term. Projected growth recovery in the next two years will allow containing debt at levels compatible with sound economic development.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The onset of the COVID–19 pandemic caused a sudden stop to Mozambique’s good economic performance. Real GDP contracted by an estimated 0.5% in 2020, the first decline in 28 years, after growing 2.2% in 2019. A slowdown in construction, tourism, and transport, and a decrease in demand for commodities exports were the main drivers of the deceleration. Economic activity was also hurt by the escalating conflict in the northern province of Cabo Delgado, which has displaced more than 250,000 people and resulted in more than a thousand deaths. The economic contraction was expected to drag 850,000 people below the international poverty line in 2020, an increase of 1.2 percentage points to 63.7% of the population, according to the World Bank, while GDP per capita was expected to contract by –3.4% in 2020.

Despite negative growth, a slight increase in inflation was expected for 2020, from 2.8% in 2019 to 3.1%, pushed by a 21.7% depreciation of the metical against the US dollar. The Monetary Policy Committee reduced the policy interest rate by 250 basis points from March through August, to 10.25%, to ensure liquidity and minimize potential credit crunches in the private sector. Nevertheless, non-performing loans, which were already high at 10.2% in 2019, increased to 12.6% in June 2020 as businesses struggled to meet their obligations. Both the fiscal and external balance deteriorated. The fiscal deficit was estimated to reach 7.0% of GDP in 2020, larger than the 2.7% deficit in 2019, pushed by lower revenues from tax relief and the economic slowdown and increasing public debt, which already was high at 108.4% of GDP in 2019. The current account deficit was estimated to widen to 30.8% of GDP in 2020 from 19.9% in 2019, mainly because of lower export earnings. International reserves remained at 7 months coverage of imports until November 2020, excluding megaprojects, the same as in December 2019.

Outlook and risks

Growth prospects are more positive for the medium-term, with GDP expected to grow by 2.3% in 2021 and 4.5% in 2022, when it will surpass the pre-pandemic level on the back of gas investments. Inflation is expected to average 5.3% during 2021–22, pushed mostly by domestic demand during an economic recovery. Higher domestic growth and international demand for commodities are expected to generate more tax revenues and support resumption of the fiscal consolidation process. The budget deficit will narrow to 5.4% in 2021 and to 3.0% in 2022. The current account deficit will fall to 25.6% in 2021 but will remain elevated at 24.8% in 2022, above the pre-pandemic level of about 20%. Poverty would fall to 63.1%.

The main risks to such a recovery are climate shocks, low commodity prices, and increasing military disturbances in the center and north of the country—which could increase military expenditures, disrupt regional commerce, and limit creating local content and jobs associated with the megaprojects value chain.

Financing issues and options

The already constrained national budget and the high levels of public debt offer limited fiscal space to stimulate private sector-led growth and leverage social programs to increase the coverage of vulnerable groups to minimize the short and medium term impacts of the pandemic. To open room for such policies, the country should pursue financing options backed by donors’ grants or highly concessional loans to reduce the impact on the budget during the crisis, while allowing for the resumption of fiscal consolidation in the medium term. Debt service reductions from the G20 debt moratorium should be used to offset the loss in tax revenues. In the medium-term, the country should explore fiscal and tax policies to stimulate the domestic nonextractive sector to foster job creation and reduce the economy’s vulnerability to commodity shocks.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The COVID–19 pandemic hit Namibia’s economy hard—it is expected to shrink by 7.9% in 2020 because of declines in tourism, retail, trade and investments, health, and education. That followed poor performances in previous years; the economy contracted in 2019 and 2017 and registered anemic growth in 2018 because of poor performance in construction and mining, persistent drought, and weakening demand for Namibian exports.

The Bank of Namibia has maintained an accommodative policy stance to support a revival of the domestic economy. It reduced the policy rate by a cumulative 275 basis points to 3.75% in 2020. Inflation was on a downward trend during the 2016–20 period, reflecting steady decline in housing prices and transport costs. The fiscal deficit was estimated to widen to 12.5% of GDP in 2020 from 4.9% in 2019, due to a surge in pandemic-related spending and lower revenues. The increased expenditure in 2020 and subsequent fiscal deficit will require large public debt financing, with the public debt-to-GDP expected to rise substantially in financial years 2020/21 and 2021/22. The current account deficit narrowed from 3.4% of GDP in 2018 to 1.7% of GDP in 2019, before widening slightly to 1.9% of GDP by the end of 2020. The country’s reserves could cover 4.5 months of imports as at mid-2020, compared with 3.9 months in 2019, and are expected to remain at that level in the short to medium term.

Outlook and risks

The economy is projected to grow by 2.6% in 2021 and 3.3% in 2022, on the back of a steady recovery in financial services, tourism, retail and wholesale trade, and the mining industries—combined with an improvement in the regional and global economic environment. But the economy still faces substantial risks and challenges in the short to medium term. For instance, if the pandemic continues, the revival of critical sectors such as tourism, agriculture, and retail and wholesale trade would be slower than anticipated. Furthermore, sluggish global economic growth would hold down exports and foreign direct investment inflows. The fiscal deficit and public debt levels are expected to remain elevated as the government implements its ambitious economic recovery program of NAD 8.1 billion ($0.5 billion), and limits the fiscal space needed for infrastructure and human capital investment. Inflationary pressures are expected to rise in 2021 and 2022 with anticipated increases in prices of housing, utilities, and food and nonalcoholic beverages, coupled with a steady depreciation of the Namibian dollar, which fell by 7% against the US dollar during 2020. Furthermore, the negative net exports will continue to weigh on aggregate demand despite the anticipated narrowing of the current account deficit in 2021. Other factors that risk eroding Namibia’s economic outlook include high unemployment levels and widening income inequality, which have been exacerbated by the pandemic.

Financing issues and options

The fiscal deficit is likely to be largely financed by local debt issuance in the medium term. This will push total public debt to 67.5% of GDP in 2020 and 68.4% in 2021, up from 58.4% in 2019. Domestic debt and guarantees already account for approximately 72% of total debt. Namibia’s highly liquid financial sector provides a large resource pool, particularly through pension funds and insurance companies, whose assets amount to the equivalent of 120% of GDP. The financial sector has the potential to develop long-term innovative financing instruments to fund national development projects and programs. The government established dollar- and South African rand-denominated sinking funds, with proceeds initially set aside to fund the redemption of eurobonds maturing in 2021 and 2025. However, with funds from those sinking funds subsequently prioritized to fund the post-COVID–19 economic recovery program, government is in discussions with investors to roll over the 2021 eurobond for another 10 years. Moreover, there are also plans to establish a sovereign wealth fund in 2021 to contribute to socioeconomic development.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team. Data for the budget balance as a % of GDP reflect a financial year that begins April 1 and ends March 31 the following year.
Recent macroeconomic and financial developments

The economy of São Tomé and Príncipe contracted by an estimated 6.4% in 2020, after growing by 2.2% in 2018 and 1.3% in 2019. The contraction in output, for the first time in a decade, is attributed to a sharp decline in tourism and service sectors, which were severely hurt by weak external and domestic demand and COVID–19 containment measures. Subdued aggregate demand also hurt the hotels and restaurants, transport, construction, and manufacturing sectors, while cocoa exports were disrupted by widespread international border closures.

Monetary policy was accommodative to support growth. To help bank lending to a distressed private sector, the central bank reduced the minimum reserve requirements—from 21% in 2019 to 17% in 2020 for foreign-currency denominated accounts and from 18% to 14% for domestic currency accounts. Annual inflation increased to 9.1% in 2020 from 7.7% in 2019 due to pandemic-related shortages of food and other essential goods. The fiscal deficit was estimated to widen to 5.0% of GDP in 2020 from 2.4% in 2019, as spending related to COVID–19 increased and tax revenues fell. The deficit is being financed through external borrowing. Public debt rapidly rose to 104.9% of GDP in 2020 from 94.8% in 2019. The current account deficit widened to 17.5% of GDP in 2020 from 16.6% in 2019, mainly due to the reduction in tourism and cocoa receipts. Nonetheless, official reserves improved to four months of import cover from three months in 2019, boosted by budget support inflows. The banking sector remained stable, but non-performing loans increased to 28% in June 2020 from 26.7% a year earlier, as weak economic activity caused by the pandemic put pressure on borrowers’ ability to repay their loans.

Outlook and risks

The economy is projected to grow by 2.1% in 2021 and 5.4% in 2022, underpinned by increased export demand for cocoa, chocolate, and palm oil and the resumption of tourism as global economic conditions improve. Growth will also be helped by an uptick in the service sectors as domestic demand strengthens. Improvements in export receipts and tourism earnings will help narrow the current account deficit and bolster international reserves in 2021. Furthermore, the government is implementing macroeconomic and structural policy reforms—such as fiscal consolidation and strengthening the central bank’s independence. It is also committed to continue investment in public infrastructure to improve the business environment. Nevertheless, the economy is likely to face significant headwinds, including a potentially longer shock from the COVID–19 pandemic and a sluggish global economic recovery. This could slow recovery of the tourism sector and dampen the demand for the country’s exports. The medium-term growth outlook could also be weighed down by accelerated fiscal consolidation, as the government pursues measures to improve the macroeconomic environment. Lastly, growth prospects will be clouded by an increase in poverty due to job losses triggered by the pandemic.

Financing issues and options

The country’s public sector debt is high, driven mainly by oil imports for power generation, accounting for 22% of total imports in 2020. According to the International Monetary Fund’s 2020 Debt Sustainability Analysis, the country is classified as being in debt distress due to prolonged unsettled external arrears, but public debt is deemed sustainable in the long term. Public debt is projected to decrease to 100.2% of GDP in 2021 and 96.4% in 2022 due to ongoing investment in alternative power sources and fiscal reforms, which could reduce external borrowing to cover oil imports. The introduction of a value-added tax of 15% in 2020 will improve revenue collection and bolster the fiscal position, which, in turn, will create fiscal space for investment in public infrastructure.
Recent macroeconomic and financial developments

South Africa’s real GDP growth was 0.2% in 2019. The pandemic and the containment measures to curb the spread of the virus further damaged the economy. Real GDP contracted by 8.2% in 2020, the result of a decline in construction, transport and communication, manufacturing, and mining. On the demand side, all components declined, with the largest contraction, 32.4%, recorded in investment. The Reserve Bank of South Africa cut the policy rate by a cumulative 300 basis points in 2020, from 6.5% to 3.5%, to support businesses and households affected by the pandemic. Inflation was estimated to decline to 3.4% in 2020, within the reserve bank target of 3%–6%. The budget deficit was estimated to widen significantly to more than 14% of GDP, mainly due to spending pressures to contain the economic impact of the pandemic. The country will, however, record its first current account surplus in 2020, estimated at about 1% of GDP, because of the high price of the gold it exports, a low bill for fuel imports, and increased agricultural exports.

Despite the pandemic, the South African banking sector remains sound, with a capital ratio of 16.3%, which is above the 10% regulatory requirement. Domestic credit to private sector reached $280 billion in November 2020, an increase of 3.5% from December 2019, when it was 139% of GDP. Lingering economic weaknesses prompted the three major credit rating agencies to downgrade South Africa’s local and foreign currency credit rating to subinvestment grade. Nevertheless, real private investment expanded by 33.2% in the third quarter of 2020. Social indicators are likely to remain weak due to the severity of the pandemic and legacy issues of low human development. About 2.6 million people have lost their jobs since March 2020, bringing the unemployment rate to 30.8% in September 2020 from 23.3% in December 2019.

Outlook and risks

Real GDP growth is projected to rebound to 3.0% in 2021, but the pace of the recovery will slow to 1.6% in 2022 due to continued structural constraints such as unreliable electricity supply and job regulations. The inflation rate is projected at 4.2% in 2021 and is expected to stay within the reserve banks’ target range of 3%–6% for 2022. The current account surplus is expected to erode, since a recovery in oil prices could raise the import bill. Public debt could reach more than 90% of GDP in the medium term, with projections that it will stabilize at 95% in 2026. The 2020 Medium Term Budget Policy Statement (MTBPS) in October 2020 projected a significantly larger budget deficit and slower debt consolidation in the medium term. These projections will raise risks due to the high debt-service costs and deteriorating balance sheets of state-owned enterprises and the continued weaknesses of the financial position of municipalities.

Financing issues and options

The 2020 MTBPS proposed steps to reduce the public service wage bill and investment driven by state-owned companies in order to narrow the fiscal deficit and stabilize the debt-to-GDP ratio over a five-year period. The treasury expects to reduce the wage bill—the major driver of the fiscal deficit—by nearly $1.8 billion through 2023–24. The proposal has already raised the risk of widespread strikes by the 1.3 million public sector workers. Also, calls for debt guaranteed by the government to support higher levels of capital investment will be discouraged. This could push South African Airways into liquidation and the electric utility Eskom to adopt tariffs that reflects its costs, which would be efficient but unpopular. In 2020, the South Africa government committed itself to investment in public utilities through strong private sector participation. South Africa’s gross international reserves increased slightly from $52.4 billion at the end of March 2020, covering 6.9 months of imports, to $53.8 billion at the end of November 2020, covering 8.3 months of imports. This progress mainly reflects foreign borrowings received on behalf of the government from multilateral banks, including the African Development Bank, to cope with the pandemic crisis.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Africa’s fiscal year, which runs from April 1 to March 31.
Recent macroeconomic and financial developments

eSwatini’s economy contracted by an estimated 3.2% in 2020 after growing by 2.2% in 2019. Manufacturing declined sharply as export-oriented industries were constrained by temporary business closures, disruptions in global value chains, and weak demand. Construction dropped as the COVID–19 pandemic upended input supplies. Investment weakened, and consumption, a key driver of aggregate demand, retreated, crippling the performance of key services such as wholesale and retail, tourism, and hospitality. However, information and communication services performed well, due to increased demand for online services. Agriculture also posted marginal gains, thanks to favorable weather and continued investments.

The fiscal deficit worsened to 8.6% of GDP in 2020, from 5.3% in 2019, prompting the government to approach international financial institutions for budget support. Gross public debt, which includes domestic arrears, rapidly rose to nearly 48% of GDP from 38% in 2019, well above the government’s threshold of 35% of GDP. Authorities are committed to clearing domestic arrears, which remain high at about 5% of GDP. The current account surplus declined to 1.2% of GDP in 2020, but official reserves improved to four months of import cover, boosted by budget support inflows. Monetary policy was accommodative to support growth during the pandemic. The discount rate was gradually lowered from 6.5% in March 2020 to 3.75% in July. Inflation increased from 2.6% in 2019 to around 4% in 2020, stoked by supply constraints, elevated food prices, and a weakening domestic currency—which hit its lowest exchange rate to the US dollar in April 2020, having depreciated by 22% since January 2020. The banking sector remained stable and adequately capitalized, but non-performing loans increased, and year-on-year private sector credit fell by 0.4%.

Outlook and risks

The economy is projected to grow by 1.4% in 2021, underpinned by a modest recovery in all sectors. Agriculture, manufacturing, and construction are expected to lend greater impetus to recovery, while an expected strengthening of domestic demand will reignite services growth. Planned reforms to make it easier to do business, along with the clearance of domestic arrears, should stimulate private investment. Risks to recovery include a longer pandemic, inadequate progress on a COVID–19 vaccine, and external developments. Medium-term growth is expected to be tepid, weighed down by accelerated fiscal consolidation and a decline in projected Southern African Customs Union (SACU) receipts. As a result, the fiscal deficit will slightly decline but remain elevated. According to the International Monetary Fund’s 2020 Debt Sustainability Analysis, if eSwatini implements its 2021–23 fiscal adjustment plan (totaling 6.5% of GDP), public debt will rise to about 50% of GDP in 2021, reach a high of 53% of GDP in 2023, then gradually decline. The current account surplus and international reserves are expected to improve as export demand recovers. Upside inflation risks include higher food prices and increases in water and electricity tariffs. The projected appreciation of the lilangeni/rand to near prepandemic levels is expected to minimize the pass-through effect of oil price increases on inflation.

Financing issues and options

eSwatini’s public debt level is largely driven by a persistent fiscal deficit. Government has increasingly relied on the domestic market to finance the deficit and has accrued significant domestic arrears. External financing is mainly limited to capital project loans. Continued implementation of public financial management reforms, including fiscal consolidation and strengthening domestic revenue mobilization, are crucial to achieving fiscal sustainability, increasing fiscal space, and stabilizing public debt. Increased access to long-term concessional financing can further improve the fiscal position and ease government’s liquidity constraints. A fiscal rule that imposes a ceiling on annual spending of SACU receipts while saving excess revenue could help insulate the budget from volatility of SACU transfers and bolster external buffers.
Recent macroeconomic and financial developments

The economy of Zambia fell into a deep recession due to the adverse impact of the COVID–19 pandemic. Real GDP contracted by an estimated 4.9% in 2020, after growing by 4.0% in 2018 and 1.9% in 2019. The output contraction is the result of an unprecedented deterioration in all the key sectors of the economy. Manufacturing output fell sharply as supply chains were disrupted, while the service and tourism sectors were hurt as private consumption and investment weakened due to measures taken to contain the spread of COVID–19. Mining output, which declined initially due to falling global demand for copper, is recovering amidst production disruptions in South America. Sustained commodity price increases beyond the current forecast could lead to lower economic contraction.

Even before the pandemic, the economy was experiencing serious macroeconomic challenges, such as high inflation, widening fiscal deficits, unsustainable debt levels, low international reserves, and tight liquidity conditions. Price levels and the financial sector have not stabilized, despite government efforts to deploy monetary easing in 2019 and 2020. Inflation has been rising, mainly driven by the pass-through effects of the depreciation of the kwacha and elevated food and transport prices. Following the outbreak of COVID–19, inflation rose to 17.4% in 2020 and is projected to remain above the target range of 6%–8% in 2021. The external position also worsened in 2020, with dwindling reserves (averaging 1.6 months import cover), and will remain depressed in 2021 due to copper price and output fluctuations, rising public debt payments, and elevated nonoil imports. The government’s pursuit of expansionary fiscal policy for public investments, despite falling revenues, has resulted in widening fiscal deficits (8.3% of GDP in 2019 and 11% of GDP in 2020). The expansionary fiscal policy, mainly financed by external and local borrowing, caused Zambia’s public and publicly guaranteed debt to hit 91.6% of GDP in 2019 and 104% in 2020. It will remain elevated in the medium term.

Outlook and risks

The economy is projected to grow by 1.0% in 2021 and 2.0% in 2022, underpinned by recovery in the mining, tourism, and manufacturing sectors. The recovery in international demand and copper prices are positive developments, while a reduction in COVID–19 cases will boost activity both in manufacturing and tourism. However, the economy faces substantial risks that a second wave of the pandemic will impede global economic recovery and stifle demand for copper. A second wave could also undermine the revival of such critical sectors as tourism and manufacturing. Failure to effectively implement the Economic Recovery Programme, which is intended to resolve most of the critical economic constraints—such as debt sustainability and stabilization of the macroeconomic environment—could also pose a high risk to Zambia’s economy. In the banking sector, the ratio of non-performing loans is expected to increase and contribute to a drying up of bank liquidity, dampening private sector activity. Against this backdrop, poverty is expected to increase due to significant job losses in the service sector (on average, 30.6%), manufacturing (39%), personal services (39%), and tourism (70%).

Financing issues and options

Zambia’s stock of public debt increased to an unsustainable 104% of GDP on 30 September 2020 and is expected to rise slightly in 2021 before decreasing in the medium term because of improved coordination between fiscal and monetary policy, as espoused in the Economic Recovery Programme. To attain debt sustainability, Zambia must stop accumulating new external debt, increase domestic revenues, curb runaway public spending, and create a stronger institutional public financial management framework. To avoid a severe liquidity crunch, the government has initiated a creditor engagement strategy aimed at securing immediate debt service relief with its external creditors.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments
Before the COVID–19 pandemic, Zimbabwe’s economy was already in recession, contracting by 6.0% in 2019. Output fell because of economic instability and the removal of subsidies on maize meal, fuel, and electricity prices; suppressed foreign exchange earnings; and excessive money creation. The onset of the COVID–19 pandemic and continued drought led to 10% contraction in real GDP in 2020. Inflation soared, averaging 622.8% in 2020, up from 226.9% in 2019. Foreign exchange reforms were instituted in June 2020, which dampened an inflation that raged an annual rate of 838% in July. Fiscal and current account deficits also recovered after July, but both deteriorated for the year as a whole. The budget deficit rose from 2.7% in 2019 to 2.9% in 2020, while the current account went from a surplus of 1.1% of GDP in 2019 to a deficit of 1.9% in 2020. The exchange rate depreciated ZWL2.5 in February 2019 and stabilizing around ZWL82 to the US dollar in December 2020. Poverty stood at 70.5% in 2019 while unemployment remained high at over 21%. The banking system is stable. Banks have some room to increase credit. The loan-to-deposit ratio was 38.8% in 2020 against a benchmark of 70%. Non-performing loans are at 3.23%, well under the regulatory benchmark of 5%. The capital adequacy ratio is more than three times the regulatory requirement of 12%.

Outlook and risks
Modest economic recovery is projected in 2021, if effective measures are taken to stabilize foreign exchange and avoid excessive money creation. But the outlook is clouded by a number of factors. The pandemic and government policies to contain the disease will affect production levels across all sectors—although a partial easing of border closures may help. The industrial and mining sectors are equally faced with reduced competitiveness, low commodity prices, and interruptions in electrical service that disrupt output. The problems are exacerbated by debt distress and arrears, and low international reserves that can cover less than one month of imports. Zimbabwe’s economic situation will remain challenged in 2021, although the foreign exchange reforms, especially the weekly Forex auctions, introduced in June 2020 could create price stability and create room for modest economic recovery.

Financing issues and options
Zimbabwe’s total public debt is $11.1 billion (53.9% of GDP), of which 95.6% is external, including $6.4 billion in arrears to international financial institutions, bilateral, and private creditors. Zimbabwe has been in default since 2000. A Staff Monitored Program with the International Monetary Fund to help Zimbabwe implement economic policies from May 2019 to March 2020 collapsed in September 2019. The government and the Fund have not agreed to a new arrangement, which would be aimed at helping Zimbabwe clear its arrears. As a result, the country will have to continue to rely largely on domestic resource mobilization and borrowing from non-Paris Club members like China. The international financial institutions will not resume lending until debt arrears are cleared.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
WEST AFRICA
Recent macroeconomic and financial developments

From a health perspective, Benin seems to have fared better than many other countries during the COVID–19 pandemic. But the economic effects of the pandemic have been significant in a country considered among the best-performing in Africa. Benin’s real GDP growth was estimated to have slowed to 2.3% in 2020, following 6.9% in 2019 and 6.7% in 2018. The slowdown in growth on the supply side reflects the underperformance of commerce, transport, agriculture, and hotels and restaurants—the sectors most affected by the pandemic. On the demand side, the slowdown in growth in 2020 is linked to lower investment and private consumption. Inflation doubled from −0.9% in 2019 to 2% in 2020, mainly because of higher food prices. Tax revenue fell 6.5%, and spending increased 14.3% in 2020 due to the slowdown in economic activity and higher health and social spending. The budget deficit was 3% of GDP in 2020, compared with 0.5% in 2019. The current account deficit improved slightly to 4.0% of GDP in 2020 from 4.7% in 2019—due to a 4.6% decline in the value of imports.

Outlook and risks

If COVID–19 is brought under control by the middle of 2021, the global economy could restart, which would allow Benin’s growth rate to recover to 4.8% in 2021 and 6.5% in 2022—driven by trade, transport, and agriculture. Inflation is expected to be 1.8% in 2021, below the 3% convergence criterion of the West African Economic and Monetary Union.

The fiscal balance is expected to improve to 3% of GDP in 2021 and 2.7% the following year. The current account balance should deteriorate slightly to 4.4% of GDP in 2021 and 4.5% in 2022, because of an expected 11.5% increase in imports over those two years.

Financing issues and options

The outstanding public debt is 46.1% of GDP in 2020, compared with 41.4% in 2019, and is expected to average 40.9% of GDP over 2021–22. Benin is expected to have additional financing needs equal to 3% of GDP in 2020. External debt accounts for 55.54% of total debt in 2020—56% of which is owed to multilateral lenders (mostly on concessional terms), 12.7% is bilateral, 17% is commercial, and 14.2% is in eurobonds. China holds more than half of Benin’s bilateral debt. The risk of debt distress will be moderate through 2022. To hold down debt risk, the country should strengthen the mobilization of domestic resources by broadening the tax base, prioritizing treasury bonds with longer maturity, and seeking concessional external resources.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Burkina Faso’s real GDP contracted by 0.2% in 2020, compared with an increase of 5.7% in 2019, caused mainly by a slowdown in activity in trade, transport, tourism, and hotels, much of it the result of measures taken to contain the spread of COVID–19. The inflation rate rose to 1.4% in 2020, mainly due to higher food prices, after falling to −3.2% in 2019. An increase in public spending, combined with lower revenue, led to a deterioration in the budget deficit of 5.4% of GDP in 2020 after a deficit of 3.5% of GDP in 2019. The current account balance recorded a surplus of 1.2% of GDP in 2020 after being in a deficit of 3.4% of GDP in 2019. This performance is the result of an increase of 21% in the value of gold exports and 13% in cotton exports while the import value of petroleum products fell by 20% because of the drop in economic activity.

Outlook and risks

If the pandemic is brought under control by the beginning of the second half of 2021, permitting the global economy to restart, real GDP would grow by 5.1% in 2021 and 5.2% in 2022, as the service sector recovers and public investments increase. The inflation rate is expected to increase to 2.1% in 2021 and 2.7% in 2022 due to an increase in food prices. The budget deficit would continue to deteriorate, to 6.3% of GDP in 2021, because of an increase in public investment to stimulate post-COVID–19 economic recovery and security spending, before decreasing to 5.3% in 2022.

An expected recovery in imports would worsen the current account balance, but the balance would remain in surplus in 2021 and 2022. The two main risk factors to this optimistic scenario are a deterioration in the security situation—there is terrorist activity in the country—as well as a continuation of the pandemic into the second half of 2021, which would retard a global economic recovery.

Financing issues and options

Burkina Faso continues to present a moderate risk of debt distress. The financial resources needed to deal with current economic, health, and security issues will increase total public debt to 50.1% of GDP by the end of 2021, compared with 46.4% of GDP in 2019. External debt would increase from 22.0% of GDP in 2017 to 25.0% of GDP in 2020. Domestic debt will grow to 25.1% of GDP in 2020 from 15.5% of GDP in 2017 due to increased issuances of treasury bonds. Public debt service stood at CFAF 345.1 billion in 2019, up 34.8% from 2018. Domestic debt service represents 76.7% of total debt service. About 30.4% of the debt portfolio is denominated in floating currencies, particularly the US dollar, which exposes Burkina Faso to the risk of exchange rate volatility. Debt sustainability indicators are likely to deteriorate if the country does not urgently adopt a strategy to extend the average maturity of its domestic debt. Moreover, with a tax-to-GDP ratio of only 15.5% of GDP in 2020, increased mobilization of domestic resources remains a central issue for the country, if it is to finance the infrastructure of development. Finally, reforms to contain and put the wage bill on a sustainable path are very important. The upward trend in the wage bill, which was estimated at 62.4% of tax revenue in 2020, risks considerably reducing the fiscal space needed to finance domestically investments.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Cabo Verde

Recent macroeconomic and financial developments

Containment measures and disruptions in global and regional supply chains due to the COVID–19 pandemic combined to cause Cabo Verde’s economy to shrink by 8.9% in 2020. That was a sharp contrast to the 5.7% growth in 2019, which was driven by transport, tourism, construction, and retail trade. The government adopted fiscal and monetary stimulus measures and enhanced social protection and employability programs to mitigate the impact of pandemic. But they were insufficient due to the severity of the shock to key economic sectors. Inflation dropped by 0.1 percentage point between 2019 and 2020, mainly due to an exchange rate peg to the euro and lower energy costs. However, revenue shortfalls caused the fiscal deficit to widen to 10.4% of GDP in 2020 from a 1.8% deficit in 2019. The estimated 69% drop in tourism revenues caused the current account to be in a deficit of 15.6% of GDP in 2020, reversing a surplus of 0.3% the previous year. The high ratio of non-performing loans to gross loans, at 12%, diminishes the quality of banking sector assets and heightens risks—which erodes financial sector stability. Nearly 20,000 jobs were lost in 2020, and the unemployment rate is projected to double to 19.2%, with joblessness highest among young people (41%). Poverty was estimated at 35.5% of the population in 2020, compared with 29.3% in 2019.

Outlook and risks

Growth is projected to average 4.6% during 2021 and 2022—as economic conditions improve and fewer global supply chain disruptions combine to drive private consumption and investment in transport, tourism, energy and information and communications technology. Tax revenue losses are likely to remain high, and although the fiscal deficit is projected to narrow, it will remain elevated at 9.1% of GDP in 2021. A reduction to 6.2% in 2022 is projected on the back of improved revenues, as economic recovery gains pace. The major threats to the outlook emanate from fiscal risks ahead of the March 2021 presidential elections and the possibility of another wave of COVID–19 infections in Europe. Inflation is projected at 1.3% in 2021 and is expected to remain broadly low in the medium term, mainly because of low fuel prices and subdued aggregate demand. The effect of the pandemic restrictions on economic activity could exacerbate non-performing loans as firms struggle to service their borrowings. Exports could recover but will remain below pandemic levels, and remittances will remain subdued in the near term. The current account deficit is projected to narrow but remain high at 10.1% of GDP in 2021, with a further reduction to 7.1% in 2022.

Financing issues and options

Rising public investment spending and support to state-owned enterprises (SOEs) has raised public debt. Cabo Verde’s public debt was estimated at 152.4% of GDP in 2020, compared with 124.2% in 2019. External debt accounts for 72%, and domestic debt 28%, of the total. Public external debt is highly concessional, with an average maturity of 22 years and an average interest rate below 1%. Major creditors are multilateral (46.2%) and bilateral (24.2%) donors, while commercial loans represent 29.6% of public borrowing. Although public debt is assessed as sustainable, both external and total debt are at high risk of distress. Measures aimed at increasing domestic revenue mobilization, rationalizing expenditures and limit additional support to SOEs, should be a main component of the government’s fiscal consolidation strategy. Priority should be on obtaining more new loans on concessional terms, seeking other financing options such as exchanging debt for development and multicreditor debt swaps, and exploring options for debt renegotiation and concessional loans while the authorities seek debt relief under the G20 Debt Service Suspension Initiative to ensure sustainability of public debt.

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Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Côte d’Ivoire

Recent macroeconomic and financial developments
Real GDP rose 1.8% in Côte d’Ivoire in 2020, well below its 6.4 growth in 2019, as the effects of COVID–19 disrupted most sectors of the country’s economy. Weakened global demand hit Côte d’Ivoire’s export sectors hard: export agriculture (which contracted by 2.2%), agro-food industries (–1.3%), forestry (–16.5%), mining (–4.8%), petroleum products (–26.9%), and transport (–1.8%). Inflation rose from 0.8% in 2019 to 1.8% in 2020, on the back of higher food and transport prices in a country that suffers one of the highest COVID–19 infection rates in West Africa. Financing extra health spending and economic support led to a doubling of the budget deficit from 2.3% of GDP in 2019 to 5.5% of GDP in 2020, mainly financed by loans, projects and programs, and borrowing from the regional financial market. The current account deficit has nearly doubled from 1.9% of GDP in 2019 to 3.5% in 2020 due to rising imports and falling exports.

Outlook and risks
The 2021–22 outlook will be conditioned by the global control of the COVID–19 pandemic by the second half of 2021 and the implementation of the National Development Plan (PND) 2021–25, which aims to maintain a stable sociopolitical environment and increase the mobilization of domestic resources. The Ivorian economy should rebound strongly with real GDP growing 6.2% in 2021 and 6.5% in 2022, driven mainly by agriculture, construction, petroleum products, transport and trade, investment, and consumption. At the same time, inflation is expected to ease to 1.4% in 2021 and tick up to 1.6% in 2022. The budget deficit is expected to be reduced to 4.3% of GDP in 2021, then to 3.3% of GDP in 2022, under the effect of the economic recovery. The current account deficit is expected to narrow slightly to 3.3% of GDP in 2021 and to 2.9% in 2022 as exports pick up. The main risk factors to this optimistic scenario are a continuation of the pandemic into the second half of 2021, the deterioration in the internal sociopolitical situation and in the prices of the country’s main export products, and a poor mobilization of internal and external resources.

Financing issues and options
The stock of total public debt increased by an average of 14% per year between 2015 and 2019, in line with the financing needs of the public investment program of the PND 2016–20. Outstanding public debt, which was 37.9% of GDP at the end of 2019, is expected to grow to 41.7% of GDP in 2020 and stabilize at an average of 42.5% of GDP during 2021–22, well below the 70% threshold set by the West African Economic and Monetary Union. In 2019, 65.7% of public debt was external—half of it consisted of $1 billion in eurobonds issued in April 2020, and a quarter of it is owed to multilateral institutions. Slightly less than 20% is bilateral, with the rest commercial. The risk of overindebtedness appears moderate over 2020–40, both for external debt and for total public debt. The capacity to cope with large external shocks, however, remains limited. With little access to concessional resources, the authorities should favor semiconcessional financing over commercial financing, while strengthening domestic resource mobilization efforts by broadening the tax base.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
The Gambia

Recent macroeconomic and financial developments

Containment measures introduced to limit the COVID–19 pandemic helped cause The Gambia’s GDP to contract by an estimated 2.4% in 2020, after growing 6.2% in 2019. On the supply side, the tourism and trade sectors were the most affected, while on the demand side, subdued domestic and external demand hurt the economy. The government responded with expansionary fiscal policy—health spending increased by 0.5% of GDP and food assistance increased by 0.7%. Monetary and financial policies were also eased—the policy rate was cut by 200 basis points to 10% to boost liquidity. Subdued aggregate demand pushed down inflation to an expected 6% in 2020 from 7.1% in 2019. The fiscal deficit widened to 3.7% of GDP in 2020 from 2.4% in 2019 as a result of increased spending amid a shortfall in revenue collections. The decline in remittances and tourism receipts widened the current account deficit to 8.6% of GDP from 5.3% in 2019. Foreign exchange reserves expected to drop by $10 million in 2020 to $258 million (3.7 months of import cover) while the foreign exchange rate stabilized at GMD 51 to the US dollar throughout the year. Public debt increased to 83.1% of GDP in 2020 from 81% in 2019—because of large fiscal deficits and government efforts to prop up state-owned enterprises (SOEs). The financial sector, although well capitalized and liquid, remains vulnerable to spillover effects of the pandemic on the ability of firms in the tourism, trade, and real estate sectors to service their loans. These three sectors account for 54% of total credit and one-third of non-performing loans. The pandemic has hurt social indicators. An estimated 20,000 jobs were lost in 2020, the unemployment rate was about 40%, and the poverty level was estimated at 48.6%.

Outlook and risks

The outlook is positive, if the economy reopens, good rains aid agriculture, global demand improves, structural reforms are instituted on non-performing SOEs, monetary policy is accommodative, and negotiations to restructure public debt continue as a complement to fiscal consolidation efforts. Real GDP is projected to pick up gradually—growing by 3.2% in 2021 and 5.1% in 2022. Inflation is projected to decline marginally to 5.9% in 2021 and 5.7% the following year. The fiscal deficit is projected to narrow to 3.2% of GDP in 2021 and 2.3% in 2022, while the current account deficit will widen to 10.4% of GDP in 2021 and 10.1% in 2022. Downside risks to the outlook emanate from possible spending pressures during the 2021 presidential election. Failure to secure external assistance and a delay in reopening economies are other potential downside risks.

Financing issues and options

The Gambia’s efforts to lift growth to its precrisis level could be constrained by adherence to stricter fiscal rules under an International Monetary Fund program and National Development Plan provisions for fiscal austerity. Therefore, The Gambia should explore external assistance to support its post-COVID–19 growth recovery. In this regard, The Gambia could capitalize on its past and ongoing debt restructuring and debt service deferment experiences. The G20 Debt Service Suspension Initiative, deferred payments, and debt restructuring of bilateral and multilateral credits have helped improve The Gambia’s debt distress rating to high risk from being in debt distress. The Gambia could also immediately introduce growth-friendly revenue enhancement measures—such as broadening the tax base, improving tax compliance, and streamlining exemptions. In the short to medium-term, the country could pursue deepening the financial sector to support private sector credit growth. Priority should be on obtaining new financing on highly concessional terms, seeking other financing options such as exchanging debt for development and multicreditor debt swaps, and exploring options for debt renegotiation to bring public debt onto a sustainable path.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The COVID–19 pandemic significantly curtailed Ghana's economic growth momentum. Real GDP growth was estimated to decelerate from 6.5% in 2019 to 1.7% in 2020, due to the slump in oil prices and weakened global economic activity. Nonetheless, growth will be sustained by a budding recovery in construction and manufacturing sectors, combined with favorable gold and cocoa prices. Inflation is expected to reach 10% in 2020 from 8.7% in 2019 due to pandemic-related interruptions in supply chains and expansionary monetary policy aimed at mitigating the economic impacts of COVID–19. The fiscal deficit is expected to widen to 10.5% of GDP in 2020 from 4.8% in 2019 due to revenue shortfall from weak economic activity and unanticipated increased health expenditure. The current account deficit is expected to narrow to 2.5% of GDP in 2020 from 2.8% in 2019 because of reduced demand for imports. Foreign exchange reserves maintained the previous year’s level of 4.0 months of import cover as of October 2020. The Ghana cedi depreciated by 3.1% in 2020, compared with a 10% depreciation in 2019. Ghana remains at high risk of debt distress in the International Monetary Fund’s 2019 Debt Sustainability Analysis because of solvency and liquidity risks. The public debt-to-GDP ratio reached 71% in September 2020 from 63% a year earlier. A banking sector reform, including recapitalization of banks and liquidation of insolvent financial institutions, has enhanced the overall resilience of the sector. Firm and household surveys reveal that during the partial lockdown, about 770,000 individuals experienced reduced wages, and 42,000 lost their jobs.

Outlook and risks

The economic outlook is good in the short to medium term, contingent on an increase in demand for Ghana’s exports, improved business confidence, and successful implementation of the Ghana COVID–19 Alleviation and Revitalization of Enterprise Support program. Growth is projected to increase to 4% in 2021 and 4.1% in 2022. Inflation is expected to ease to 8.2% in 2021 and 8%, in 2022—in the midpoint of the Bank of Ghana’s target band of 6%–10%. The fiscal deficit is projected to narrow to 7.2% in 2021 and 5.7% in 2022, driven by an expected increase in revenue collection in a recovering economy. However, the current account deficit is expected to widen to 2.8% of GDP in 2021 and 3.2% in 2022 as import volumes resume their prepandemic levels. Downside risks to the outlook emanate from a possible second wave of the virus and heightened fiscal and debt pressures.

Financing issues and options

Ghana’s ability to push economic growth to its precrisis level is expected to be constrained by fiscal and debt risks. The country is only expected to return to its fiscal responsibility budget deficit threshold of 5% of GDP in 2024. The public debt as at the end of 2019 had cost escalation risks because almost 50% of external debt was commercial. It also showed refinancing and foreign exchange rate risks, since 90% of the domestic debt has short- to medium-term maturities, and 70% of the foreign currency debt was denominated in US dollars. To overcome these risks, domestic resource mobilization needs to be complemented with external financial assistance, including concessional loans. While maintaining the foreign exchange reserves buffer, government should actively engage its creditors in exploring other financing options including renegotiating and restructuring debt, and debt service suspension.
Recent macroeconomic and financial developments

The Guinean economy has been resilient in the face of the global pandemic. Real GDP grew 5.2%, only slightly less than 5.6% in 2019 and far more than the 1.4% forecast at the start of the pandemic. This remarkable performance is linked to the strong 18.4% increase in mining activity in 2020, compared with 8% in 2019, the result of a recovery in Chinese demand for bauxite and aluminum, of which Guinea has been the major supplier since displacing Australia in 2017. But the pandemic hurt nonmining sectors, whose growth fell to 2.5% in 2020 from 5.1% in 2019, largely because of delays of major projects and the temporary closure of borders and measures to contain COVID–19, which disrupted agricultural, manufacturing and service activities. Those disruptions also led to an increase in inflation to 10.4% in 2020 from 9.5% in 2019. The central bank narrowed the differential between the official and parallel exchange rates to limit the inflationary impact of imported capital and consumer goods. A fall in tax revenues and spending increases to mitigate the effects of pandemic combined to raise the budget deficit to 3.1% of GDP in 2020, compared with 0.5% in 2019. It will be financed through advances from the central bank and the issuance of treasury bills. The massive importation of capital goods for major projects and the reduction in exports are expected to widen the current account deficit from 11.7% in 2019 to 13.3% in 2020. It would be financed by foreign direct investment in mining.

Outlook and risks

Medium-term growth is expected to reach 5.6% in 2021 and 5.1% in 2022, stimulated by a substantial energy supply from the new 450-megawatt Souapiti dam, new mining projects, and higher infrastructure spending. The budget deficit should gradually shrink to 2.5% in 2021 and 2.3% in 2022, the result of rationalization of public expenditure, a reduction of subsidies on electricity tariffs, improved taxation more suited to the nonmining sector, a broadening of the tax base and the strict application of the fiscal provisions of the mining code. New mining production should increase exports, and starting in 2022, reduce the current account deficit currently financed by foreign direct investment. The level of international foreign exchange reserves is expected to improve to cover more than 4 months of imports in 2021 and 2022, compared with 3.8 months in 2020.

Financing issues and options

Guinea’s debt is sustainable, with a moderate risk of external debt distress. In 2019, the total public debt outstanding represented 36.5% of GDP, about 53% of it domestic. In 2020, the outstanding amount could reach 40.2% of GDP, about 60% it external. This moderate level of indebtedness should make it possible to undertake new concessional borrowing to finance priority spending and new investments in the country’s national strategy to combat COVID–19. The authorities should focus on a prudent external borrowing policy in the future, while enhancing the effectiveness and efficiency of public investments.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The containment measures introduced to limit the spread of the COVID–19 pandemic have retarded Guinea-Bissau’s growth momentum. Real GDP is expected to contract by 2.8% in 2020, reversing a steady acceleration since 2015. The 2020 rate is below the 4.5% recorded in 2019 and the lowest since the coup d’état in 2012, when the economy contracted by 2.0%. Lower cashew nut prices and sales are the main factors behind the reversal in growth—Guinea-Bissau’s agriculture-based economy is dependent on cashew nut exports, which suffered from lockdowns and closure of borders. Inflation is expected to rise to 1.9% in 2020, because of a pandemic-related supply shock to the prices of essential items. However, the inflation in 2020 is still below the 3% West African Economic and Monetary Union (WAEMU) convergence criterion. Guinea-Bissau’s fiscal position in 2019, at –4.6% of GDP, is projected to worsen to –7.8% of GDP in 2020, mainly because the cashew trade is an important source of revenue. Trade restrictions will also worsen the current account deficit to 11.4% of GDP in 2020, from deficits of 8.5% in 2019, and 1.6% in 2018.

Outlook and risks

Growth is expected to rebound to 2.9% in 2021 and 3.9% in 2022, an outlook based on large-scale vaccination against COVID–19 and a resumption of trade activities. Political stability will be crucial to attract investment and stimulate private sector engagement. Inflation is expected to remain stable—at 2% in 2021 and 1.9% in 2022. A slight improvement will be observed in in both the budget deficit—at 5.3% of GDP in 2021 and 4.6% in 2022—and the current account balance, which will be in a deficit of 4.4% in both years.

Financing issues and options

Guinea-Bissau has very limited fiscal space to respond countercyclically to an economic downturn and needs to reprioritize expenditures toward critical public health services. The public debt situation has deteriorated rapidly, with estimates at end-2019 showing that total public debt had climbed sharply to 69% of GDP from 50.9% of GDP in 2018. External debt stood at 25% of GDP at end-2019, compared with 12% of GDP in 2018. The impact of the pandemic on public finances is likely to further increase the country’s indebtedness, putting more pressure on the sustainability of its debt. The most recent audits of domestic debt suggest that arrears accumulated from 1974 to 1999 amounted to CFAF 14.3 billion (1.7% of GDP), and arrears from 2000–07 were CFAF 88.7 billion (10% of GDP). On external debt, international financial institutions are the main creditors. Authorities need to address tax policy administration and strengthen the national tax framework to raise domestic revenues. Guinea-Bissau’s tax-to-GDP ratio, estimated at 9.4%, is below the WAEMU average of 15%.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.

COUNTRY NOTES
Recent macroeconomic and financial developments

Real GDP was estimated to contract by 3.1% in 2020, its third year of decline in the past five. The 2020 result reflects a pandemic-induced reduction in external demand for its major exports. Domestically, the service sector, particularly wholesale and retail trade, and the hospitality industry were the hardest hit. Inflation was estimated to decline to 17.2% in 2020 from 23% in 2019 on account of subdued aggregate demand caused by pandemic-related containment measures. The fiscal deficit was estimated to narrow to 3.5% of GDP in 2020 compared with 4.5% in 2019 as the government limited expenditures to available budgetary resources in line with International Monetary Fund’s (IMF’s) Extended Credit Facility (ECF) program. The current account deficit was estimated to narrow to 21.3% of GDP from 21.7% because of a lower oil import bill. Gross official reserves declined to 2.3 months of import cover at the end of June 2020 from 2.4 months a year earlier. Declining reserves prompted a 2.6% depreciation in the exchange rate from LRD 193 per US dollar in June 2019 to LRD198 per dollar in June 2020. Public debt increased to 49% of GDP at the end of September 2020, compared with 38% of GDP in September 2019—an increase attributed to government borrowing from the Central Bank of Liberia (CBL). Since December 2019, Liberia has been implementing the IMF’s ECF program, which aims to create a sound macroeconomic policy environment and to address underlying structural bottlenecks.

Outlook and risks

In 2021, real GDP growth is forecast to rebound to 2.8% due to increased demand for Liberia’s key exports of iron ore, gold, diamond, and rubber—assuming major importing countries in Europe and Asia cope with the COVID–19 pandemic. Inflation is projected to decline to 13%, the exchange rate to stabilize, the fiscal deficit to remain below 5% in the medium term, and the current account deficit to narrow on the back of continued adherence to fiscal discipline and tight monetary policy that is aligned with the IMF’s ECF program. Downside risks to the outlook could emanate from high vulnerability to external shocks and prolonged COVID–19 pandemic.

Financing issues and options

As part of the ECF program, the government has committed to debt rules, which among other things, limit external borrowing to concessional terms and require reduced domestic borrowing from the central bank. This approach is supported by the ongoing implementation of Domestic Resource Mobilization Strategy, which aims to increase domestic revenues by expanding the revenue base and minimizing tax losses, and to financial deepening and capital market development. These efforts may not be enough to create the fiscal space needed to support a resilient recovery. Policy options for increasing fiscal space could include anchoring fiscal policy on debt sustainability, deepening the financial market to enhance private financing, and seeking external assistance in debt relief, debt service suspension, debt restructuring, and concessional loans in the immediate term to create fiscal space.
Recent macroeconomic and financial developments

The COVID–19 pandemic, combined with a military coup d’état in August 2020, drove the economy from strong growth of 5.1% in real GDP in 2019 to a recession in which real GDP shrank by 2% in 2020—a loss of 7.1 percentage points. This recession was driven by a contraction of 3.5% in the secondary sector and of 5.5% in the tertiary sector, a falloff in net exports because of weak global demand, and a contraction in public investment as public program resources were diverted to social sectors. The recession was also attributable to a decline in private investment and private consumption. Inflation, which fell by 2.9% in 2019 due to record cereal production, is expected to rise by 0.5% in 2020 because of supply disruptions. The budget deficit deteriorated sharply from −1.8% of GDP in 2019 to −6.1% of GDP in 2020, mainly because of lower tax revenue. The financing need for 2020 will be covered at 97.3%—through budget support from the International Monetary Fund at 40%, the World Bank at 42%, the African Development Bank at 9.8%, and the West African Development Bank at 5.5%. The current account deficit, however, improved from −4.2% of GDP in 2019 to −1.7% of GDP in 2020, mainly because of a massive drop of 14% in imports and a tiny decrease of only 0.3% in exports.

Outlook and risks

Assuming a gradual extinction of COVID–19 at the start of the second half of 2021 related to the availability of a vaccine in early 2021 would allow the recovery of the global economy, real GDP in Mali would grow by 4.0% in 2021 and 5.7% in 2022. Growth would be driven by a resumption of activities in the secondary and tertiary sectors and, a rebound in exports, domestic demand, and bank credit. Rising oil prices would boost the inflation rate to 1.5% in 2021 and 2.1% in 2022. The budget deficit would narrow to −4.5% of GDP in 2021 and −3.1% of GDP in 2022, with tax revenue revived by the resumption of economic activity and reforms. The current account deficit would improve to −1.1% of GDP in 2021 due to the recovery in exports supported by the recovery of the extractive industries but would deteriorate to −2.3% of GDP in 2022 due to an increase in the oil bill and a rise in imports associated with public development investments. Terrorist activity also remains a key downside factor.

Financing issues and options

Public debt is 56% external and 44% internal. Domestic debt consists of 81% of government-issued securities and 19% of loans. External debt is 73% from multilateral institutions, and 27% bilateral. Public debt is expected to increase from 40.5% of GDP in 2019 to 44.8% of GDP in 2020 in response to the health and political crises, but with a moderate risk of debt distress. The action plan of the 2020–22 Transition Roadmap should maintain this increase at 46.2% of GDP in 2021 and 47.2% of GDP in 2022. Tax revenues are low, at 13.3% of GDP in 2020 compared with a regional standard of 20%, which offers plenty of space for reforms to broaden the tax base. The restructuring of domestic debt initiated in 2019, due to the high concentration of debt maturity, must be completed to reduce the pressures on public finances.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Niger was able to manage the health aspects of COVID–19, but the pandemic slowed the economic dynamism that the country has displayed in recent years. Real GDP grew 1.2% in 2020 after growing 5.9% in 2019 and 7% in 2018. Security issues, such as terrorist activity, and the closure of borders hurt growth. On the supply side, the service and extractive industry sectors were most affected by the health crisis. On the demand side, consumption and foreign investments (from China and Europe) declined sharply. Because of supply disruptions, the inflation rate was 2.8% in 2020, compared with a 2.5% deflation in 2019. The budget deficit increased further to 5.7% of GDP in 2020, as the COVID–19 crisis triggered increased health spending and already low tax revenues fell. The current account deficit rose to 12% of GDP in 2020 from an already high 12.5% of GDP in 2019, mainly because of lower export earnings.

Outlook and risks

If the global pandemic is brought under control in the first half of 2021, the world economy will strengthen, and Niger’s real GDP could grow 6.9% in 2021 and 7.8% in 2022. This return to strong growth would be underpinned by control of the pandemic at the local level, continuation of major infrastructure projects, and especially the exploitation of new oil fields. Inflationary pressures are expected to be contained—with a 0.5% inflation rate projected for 2021 and 2% for 2022.

The budget deficit would gradually decline—to 4.4% of GDP in 2021 and 3.5% in 2022—mainly due to additional tax revenues from increased economic activity. On the other hand, the current account deficit should deteriorate markedly in 2021 to 16.2% of GDP because of an increase in imports for investment projects before falling significantly in 2022 to 10.9% of GDP as oil production from the new fields increases exports. However, presidential and legislative elections early in 2021 and the continued fragile security situation put the optimistic economic forecast at risk.

Financing issues and options

Niger’s public debt increased significantly between 2014 and 2017, going from 22.2% of GDP to 39.6% of GDP, then stabilizing at around 39% between 2017 and 2019. But the effects of the pandemic drove public debt to nearly 50% of GDP in 2020, which presents a moderate risk of debt distress. External public debt, about 25% of GDP, is largely concessional and held by multilateral creditors. Niger has also recently reduced its more expensive domestic short-term debt in favor of longer-term and less expensive external financing. Niger should pursue reforms to improve public debt management, while giving priority to concessional financing. The country should also strengthen measures to mobilize more domestic public resources, while examining the possibility of improving the taxation of the extractive sector.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Nigeria’s economy entered a recession in 2020, reversing three years of recovery, due to fall in crude oil prices on account of falling global demand and containment measures to fight the spread of COVID–19. The containment measures mainly affected aviation, tourism, hospitality, restaurants, manufacturing, and trade. Contraction in these sectors offset demand-driven expansion in financial and information and communications technology sectors. Overall real GDP is estimated by the Bank to have shrunk by 3% in 2020, although mitigating measures in the Economic Sustainability Programme (ESP) prevented the decline from being much worse.

Inflation rose to 12.8% in 2020 from 11.4% in 2019, fueled by higher food prices due to constraints on domestic supplies and the pass-through effects of an exchange rate premium that widened to about 24%. The removal of fuel subsidies and an increase in electricity tariffs added further to inflationary pressures. The Central Bank of Nigeria cut the policy rate by 100 basis points to 11.5% to shore up a flagging economy. The fiscal deficit, financed mostly by domestic and foreign borrowing, widened to 5.2% in 2020 from 4.3% in 2019, reflecting pandemic-related spending pressures and revenue shortfalls. Total public debt stood at $85.9 billion (25% of GDP) on 30 June 2020, 2.4% higher than a year earlier. Domestic debt represented 63% of total debt, and external debt, 37%. High debt service payments, estimated at more than half of federally collected revenues, pose a major fiscal risk to Nigeria. The current account position was expected to remain in deficit at 3.7% of GDP, weighed down by the fall in oil receipts and weak external financial flows.

The economy is projected to grow by 1.5% in 2021 and 2.9% in 2022, based on an expected recovery in crude oil prices and production. Stimulus measures outlined in the ESP and the Finance Act of 2020 could boost nonoil revenues. Improved revenues can narrow the fiscal deficit to 4.6% and the current account deficit to 2.3% of GDP in 2021 as global economic conditions improve. Reopening borders will increase access to inputs, easing pressure on domestic prices and inflation, projected at 11.4% in 2021. Downside risks include reduced fiscal space, should oil prices remain depressed. In addition, flooding and rising insecurity could hamper agricultural production. Further depletion in foreign reserves from $35 billion (7.6 months of import cover) could lead to sharp exchange rate depreciation and inflationary pressures. A potential relapse in COVID–19 cases could exacerbate these risks. High unemployment (27%), poverty (40%) and growing inequality remain a major challenge in Nigeria.

Nigeria’s public debt is relatively sustainable at 25% of GDP. But debt service payments are high, and the country’s ability to attract external private financial flows is hurt by macroeconomic imbalances and policy uncertainty. During the first half of 2020, Nigeria received $7.1 billion in foreign investment. This was half the amount it received in the corresponding period of 2019. Nigeria’s financing requirements require improved domestic revenue collection. Currently, nonoil revenue collections are equivalent to 4% of GDP. The revenue yield in 2020 from an increase in the value-added tax rate to 7.5% from 5% was less than projected because of subdued economic activity. Broadening the tax base could strengthen Nigeria’s fiscal buffers, if structural reforms to enhance compliance are supported and illicit financial flows are tackled. Remittances and sharia-compliant sukuk bonds also offer potential financing options. In 2019, remittances totaled $23.8 billion (5.3% of GDP), but the effect of the COVID–19 pandemic in key source markets could reduce this figure. The third issuance of sukuk bonds of 150 billion naira ($395 million) in June 2020 attracted 669.1 billion naira, of which 162.5 billion naira was allotted to finance 44 critical road projects. Use of foreign reserves as a financing option in the medium term is impaired by lower oil receipts, the main source of foreign exchange.

Outlook and risks

Financing issues and options

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The COVID–19 pandemic hit Senegal hard, leading a once robust economy to fall into recession. After increases of 6.7% in 2018 and 5.3% in 2019, real GDP contracted by 0.7% in 2020—due to a slowdown in tourism (–17.0%), transport (–8.8%), and trade (–0.6%), as well as a decline in investment and external demand. Inflation rose to 1.9% in 2020 from 0.9% in 2019 due to the restrictive measures to contain COVID–19 and the continued easing of monetary policy. The crisis hit fiscal position from both sides. Tax revenue fell and health spending rose, resulting in a deterioration of the fiscal deficit to 6.0% of GDP in 2020 from an average of 3.7% in 2018–19. The fall in external demand led to a deterioration of the current account deficit from 7.9% in 2019 to 10.3% of GDP, which was financed by donors because of the low level of foreign direct investment and the decline in remittances.

Outlook and risks

If the pandemic is brought under control in the first half of 2021, growth is expected to rebound to 5.1% in 2021 and 6.0% in 2022, driven by the resumption of public investments and the hydrocarbon sector in tandem with the resumption of global growth. Even so, inflation will be stable—at 2.1% in 2021 and 1.8% in 2022. Senegalese authorities remain committed to rationalizing public spending and mobilizing domestic revenue to reduce fiscal deficit to 5% of GDP in 2021 and 4.2% in 2022. Similarly, the current account deficit will fall to 8.2% in 2021 and 7.1% in 2022, as exports resume and remittances pick up. This scenario could, however, be called into question if the COVID–19 pandemic persists as observed in December 2020.

Financing issues and options

The pandemic led to a slowdown in domestic revenue mobilization, which declined from 17.5% of GDP in 2019 to 16.5% in 2020, driving an increase in debt to 68.6% of GDP in 2020 compared with 64.1% in 2019 and 61.4% in 2018. Nearly 83% of total debt is external—30% of it owed to commercial lenders, 42% to multilateral institutions, and 28% to bilateral lenders. However, the risk of debt distress remains moderate. To ensure fiscal sustainability, the authorities have launched the Medium-Term Revenue Mobilization Strategy and will rely on concessional borrowing while reforming the debt management institutional framework. Total public debt stock is projected at $9.8 billion in 2021, 8.2% more than in 2020, and will represent 65.3% of GDP, below the convergence threshold of the West African Economic and Monetary Union.
Sierra Leone

Recent macroeconomic and financial developments
Sierra Leone's economy has been hurt by the COVID–19 pandemic. Real GDP was estimated to contract by 2.7% in 2020 after growing by 5.4% in 2019. The decline was attributable to weak external demand for major exports, particularly diamonds, and to declines in the mining, transport, trade, and tourism sectors. Inflation was estimated to pick up to 17% in 2020 from 14.8% in 2019, because of supply chain disruptions and transportation restrictions. The budget deficit was expected to widen to 5.7% of GDP from 2.9% in 2019, because of a revenue shortfall arising from lower economic activity. The decline in exports caused the current account deficit to widen to 15.6% of GDP from 13.5% in 2019. At the end of September 2020, foreign exchange reserves were $565 million (4.2 months of import cover), compared with $506 million (3.5 months of import cover) in 2019. The exchange rate remained stable at SLLs 9,845 to the US dollar at the end of 2020. The stock of public debt increased to 77% of GDP as of 30 November 2020 from 70% in 2019 a year earlier. Sierra Leone’s debt is classified as being at high risk of debt distress, largely due to heightened solvency and liquidity risks arising from the COVID–19 pandemic. The country is implementing an Extended Credit Facility (ECF) arrangement with the International Monetary Fund. The ECF plans to support the government’s reform agenda of creating fiscal space to finance policy priorities of the National Development Plan (NDP).

Outlook and risks
Upside risks to the outlook are predicated on the assumption that the economy would fully reopen, the ongoing policy and structural reforms supported by the NDP be implemented, the economic stimulus program continue, and external financial assistance in grants, concessional loans, debt service suspension, and restructuring be secured. In that scenario, growth is projected to accelerate to 3.1% in 2021 and 4.3% in 2022. Inflation is projected to ease to 13.6% in 2021 and to 11.3% in 2022; the fiscal deficit will narrow to 4.1% of GDP in 2021 and 3.6% in 2022; and the current account deficit will be reduced to 14.4% of GDP in 2021 and 13.5% in 2022. Downside risks to the outlook emanate from delays in the full reopening of the economy, a potential slowdown in global demand, and weak international assistance to supplement growth recovery efforts.

Financing issues and options
The high debt burden coupled with limited fiscal and monetary policy space could constrain Sierra Leone’s effort to increase growth to its precrisis level in the near term. The ECF program, which was introduced prior to the pandemic, continues to guide policy and budgeting in Sierra Leone. In particular, the 2020 budget was anchored on the NDP. Despite credits and grants from international financial institutions in 2020 to help the country meet urgent balance of payments and fiscal needs from the pandemic, the country needs increased external financial assistance to support a resilient recovery. External assistance could aim to create fiscal space through debt relief, restructuring, suspension of debt service payments, and concessional lending. In the medium to longer-term, the country should also complement ongoing domestic revenue mobilization efforts by deepening ongoing financial sector reforms to support domestic credit market growth.

<table>
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<th>Real GDP growth (%)</th>
<th>Real GDP per capita growth (%)</th>
<th>CPI inflation (%)</th>
<th>Budget balance (% of GDP)</th>
<th>Current account (% of GDP)</th>
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</tbody>
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Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.
Togo did not feel the brunt of COVID–19 infections, but the effects of the pandemic halted its dynamic economic performance. Real GDP, which grew 5% in 2018 and 5.5% in 2019, grew only 0.4% in 2020, because of a decline in foreign direct investments, portfolio investments, and migrant remittances and the slowdown in global trade. Despite a prudent monetary policy, inflation more than doubled, from 0.7% in 2019 to 1.6% in 2020, mainly due to the supply disruptions. The budget deficit grew sharply, from 0.8% of GDP to 4.7% of GDP, as tax revenue fell and health spending increased as the government sought to fight the pandemic. The current deficit grew slightly, from 2.2% of GDP in 2019 to 3.2% in 2020. The current account deficit was kept from rising more because of a slowdown in imports.

**Outlook and risks**

The Togolese economy will recover soon if the pandemic subsides and global economic growth resumes. Real GDP will grow 4.3% in 2021 and 5.6% in 2022, driven by the agricultural sector and the resumption of investment in transport, energy, and the manufacturing sector. Inflation would remain high, compared with prepandemic levels, at 1.9% in 2021 and 2.1% in 2022. The budget deficit will only improve slowly because the government will maintain public expenditure to support investment and the revival of economic activity. The budget deficit will be 4% of GDP in 2021, and 3.4% in 2022. The deficit will be financed by a greater effort to collect taxes efficiently and more monitoring of exemptions and the tax base, among other things. The current account deficit should decline to 2.8% of GDP in 2021 and 2.3% in 2022 as exports increase.

**Financing issues and options**

The risk of debt distress is moderate. Fiscal consolidation from 2017 to 2019 and debt reprofiling to extend loan maturities made it possible to reduce the debt-to-GDP ratio from 80% in 2016 to 68.67% in 2019. Domestic debt represents 65.8% of outstanding public debt. Other technical adjustments and a further extension of maturities with some creditors because of the pandemic reduced the debt-to-GDP ratio to 57.8% in 2020. The recovery of the economy and public investment, as well as the payment of deferred maturities, will increase the debt ratio to 60% of GDP in 2021 before it stabilizes at around 57% of GDP over 2022–25. Recent debt sustainability analysis by the Togolese government indicates a moderate risk of external debt distress but a high risk of overall public debt distress due to the high level of domestic debt.

Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.