

## **Africa: Short-term economic outlook improving but continent still faces significant medium-term vulnerabilities**

### *Subdued macroeconomic prospects pose a challenge for SDG progress*

Addis Ababa, X January – The global economy will continue to grow at a steady pace of around 3 per cent in 2019 and 2020 amid signs that global growth has peaked. However, a worrisome combination of development challenges could further undermine growth, according to the United Nations World Economic Situation and Prospects (WESP) 2019, which was launched today.

UN Secretary-General António Guterres cautioned, “While global economic indicators remain largely favourable, they do not tell the whole story.” He said the World Economic Situation and Prospects 2019 “raises concerns over the sustainability of global economic growth in the face of rising financial, social and environmental challenges.”

### **The outlook for Africa is clouded by risks, while substantial structural vulnerabilities remain unresolved**

Aggregate GDP growth in Africa slowed to 3.2 per cent in 2018, from 3.4 per cent in 2017. The continent is expected to grow marginally faster at 3.4 per cent in 2019 and 3.7 per cent in 2020. Supporting this performance is the rising demand for Africa’s exports, together with robust private consumption and sustained investments in infrastructure.

However, aggregate GDP on a per capita basis is projected to increase by only 0.6 per cent in 2018 and by 0.9 per cent in 2019 - insufficient to improve living standards for large segments of the population. The continent would need to at least double the current growth rate in order to make significant progress towards achieving many of the SDGs.

Economic performance and prospects differ widely among the five African subregions. After an estimated expansion of 3.7 per cent in 2019, growth in North Africa is forecast to moderate slightly to 3.4 per cent in 2019 and 3.5 per cent 2020, as external conditions are projected to be stable amid a consistent expansion of European economies—the largest export destination.

East Africa will remain the fastest-growing subregion. GDP growth is projected to accelerate from 6.2 per cent in 2018 to 6.4 per cent in 2019 and to 6.5 per cent in 2020, supported by large infrastructure investments and the expansion of domestic markets.

In Southern Africa, economic growth is projected to pick up modestly from 1.2 per cent in 2018 to 2.1 per cent in 2019 and 2.6 per cent in 2020. In South Africa, the subregion’s largest economy, growth will remain subdued amid socio-political challenges, heightened uncertainty in the mining sector, and weather-dependent agriculture. This will continue to weigh on the performance of other economies in the subregion.

Growth in Central Africa is estimated to accelerate mildly from 2.2 per cent in 2018 to 2.5 per cent in 2019, supported by firming oil production, rising investment and diversification measures. Inflation is projected to remain close to the 3 per cent convergence criteria set by the Central African Economic and Monetary Community.

In West Africa, GDP growth is projected to strengthen to 3.4 per cent in 2019, up from 3.2 per cent in 2018, supported by expanding domestic demand, improving terms of trade and capital inflows. The relatively modest aggregate growth largely reflects the performance of the Nigerian economy, which is projected to expand by only around 2 per cent in 2019. In the eight-country West African Economic and Monetary Union, growth will remain above 6.5 per cent in 2019–2020.

The report also notes that inflation receded in 2018 as exchange rate shocks triggered by the commodity price crash of 2014-15 were absorbed into the price level. Inflation in the continent is expected to continue to moderate in 2019 as exchange rates and food production stabilize in most countries.

### **Risks and policy challenges**

Risks to Africa's economic outlook stem from external and domestic factors. On the external side, the tightening of monetary policies across developed countries—and the strengthening of the US dollar—can limit the capacity to service current debt positions. As monetary conditions are projected to tighten further, the risk of debt defaults could significantly rise and thus increase debt sustainability concerns. Also, a further escalation of trade tensions or a global economic slowdown resulting in lower demand for commodities could substantially impact the economic prospects of African economies.

On the domestic side, the report highlights the weak fiscal positions in several economies as a source of vulnerability. Several African countries are undertaking fiscal reforms, aiming to expand government revenues and to cut down expenditures. This could significantly affect the more vulnerable segments of the population, particularly of those living in poverty. Thus, the implementation of effective fiscal reforms is a crucial challenge for some economies. Also, despite remarkable achievements in peace processes recently in Eritrea, Ethiopia, Somalia and South Sudan, armed conflict and political instability remain a major risk.

For more information, please visit: <http://www.un.org/development/desa/dpad/wesp-report>

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