Connor Bugni | HGT #4 | Africa

Sources:

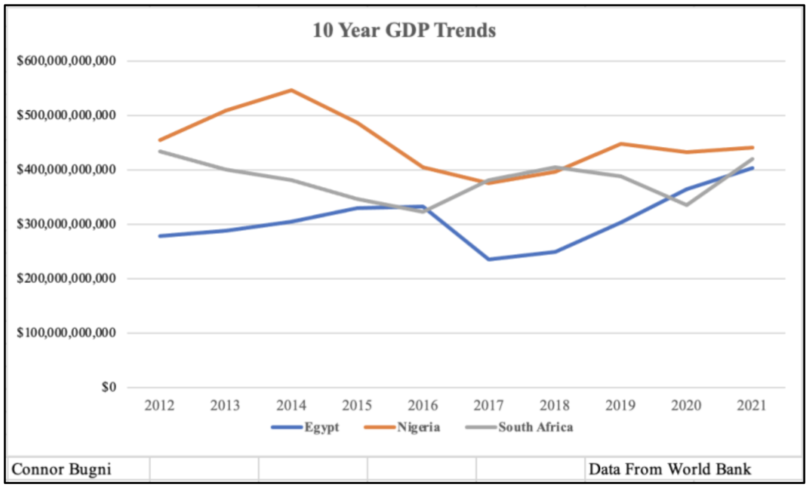
1. *Largest Economies in Africa by GDP* – Trading Economics (Trading)
2. *Nigeria loses $12.6b, 120 Million Barrels of Crude in Nine Months* – The Guardian (Abuja)
3. *The Gross Domestic Product in Nigeria* – Trading Economics (World Bank)
4. *Egypt's Currency Seen Falling Faster than Previous Projections* – Reuters (Eltahir)
5. *South Africa Needs to Expand 5% Consistently to Cut Unemployment* – Bloomberg (Mbatha)
6. *Africa Faces Immediate Pain From Grain Deal's Suspension, but Impact on Ukraine Could Be Delayed* – New York Times (Dahir)

Introduction: The continent of Africa and the countries which compose it are often viewed as the final frontier in the global economy. Although commonly attributed to cultural diversity, geographic difficulties, and less than optimal governance, Africa's shortcomings have not prevented it from competing in a globalized environment. In fact, given its many coveted resources, such as petroleum and precious metals, Africa is well positioned for economic recovery from the Covid-19 pandemic. That said, given the current global economic climate and devastating war going on in Ukraine, Africa is not particularly well-poised for rapid or surprising economic performance. In all likelihood, Africa will experience low-single digit economic (GDP) growth through 2023. Given the risk of socioeconomic and geopolitical factors in addition to other current events, it is my opinion a contraction in GDP is unlikely in the near future, but not entirely ruled out.

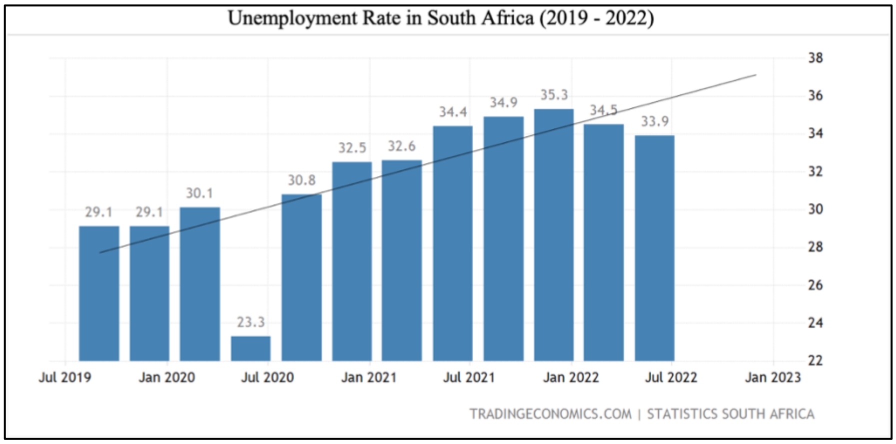
Facts:

- In 2021, Nigeria had a GDP of roughly $441 billion, South Africa a GDP of roughly $420 billion, and Egypt a GDP of roughly $404 billion (Trading)
- Oil production from January – September has declined by 120 million barrels in 2022 compared to 2021 (Abuja)
- September inflation in Egypt was roughly 15%, year-over-year (Eltahir)
- Foreign investors withdrew around $20 billion from Egyptian treasuries in only a few weeks (Eltahir)
- Unemployment in South Africa has been reported at 33.9% in Q2 2022, and more job cuts are not out of the question (Mbatha)
- Grain shortages in Africa stem from the war in Ukraine and have vastly increased the cost of basic food staples (Dahir)
- Civil wars in the Horn of Africa have exacerbated economic difficulties and food shortages (Dahir)

Analysis: To efficiently assess the overall strength of the African economy, it is important to look at the countries with the largest economic contributions. Based on GDP, the three largest economies in Africa in 2021 were: Nigeria, South Africa, and Egypt, respectively (Trading). Nigeria's economy is heavily reliant on the drilling and export of petroleum, and in the first three quarters of 2022, there has been an overall decline of roughly 120 million barrels of oil, compared to the same period in 2021 (Abuja). In effect, the value of this loss equates to roughly 2.7% of total GDP and is by no means negligible.



In response to lower supply, energy prices will have increased, making consumers worse off. Much of this decreased production is a result of criminal activity, pipeline leaks and poor governance (Abuja) and is contributing to the greater overall economic stresses facing Nigeria. Similarly, signs of economic weakness are manifesting in Egypt. To start, inflation is seeing record highs, with the purchasing power of the Egyptian pound down 15% in September, from a year ago (Eltahir). Furthermore, foreign investors have sold off nearly $20 billion in Egyptian treasuries (Eltahir), ultimately signaling a major loss of confidence in the ability of the government to pay back its debts. Should the government default on any of its bonds, there will likely be global credit ramifications and domestic outcry, further disrupting an already weakened economy.



Finally, South Africa is experiencing an unemployment rate incomparable to any other nation in Africa. Quarter 2 unemployment was officially posted at 33.9% (Mbatha) and there is a possibility of more job cuts ahead. When employment is low, consumers have less money to cycle through the economy, and they are more likely to take on debt to make ends meet, neither of which bodes well for the strength of the economy. Considering the aforementioned difficulties facing Africa's largest economies, overall economic performance is unlikely to outperform.

Lessons Learned: After looking at several key economic indicators relevant to the health of the African economy, it is appropriate to conclude Africa does not have a strong economy. Inflation, while only discussed specifically for Egypt, is apparent throughout Africa. Consumers are losing buying power, and this is being exacerbated by surging food prices. The war in Ukraine has greatly hindered the global supply of grains (Dahir), and this has consequently resulted in basic food staples becoming more expensive. Food accessibility has become even more restrictive in a region of the world where hunger is already a rampant problem. Loss of buying power coupled with high unemployment and destructive wars are all valid reasons to be wary of the strength of Africa's economy. Fortunately, the resources supporting the largest industries, petroleum and precious metals, are required globally and will help protect Africa's economies to an extent. These factors taken together ultimately suggest Africa's economy will likely see low-single digit growth, with a real possibility of downside risk.

Implications: While Africa offers valuable resources to the global economy, there are substitutes available if supply chains are disrupted further. This is especially true for petroleum, but options are certainly limited with regards to precious metals. Without access to precious metals, it is possible industries ranging from technology, to automotives, to national defense will experience bottlenecks. Of course, China being Africa's largest trade partner will also be impacted by a constraint on petroleum products and other raw materials necessary for manufacturing. If China's ability to manufacture is inhibited, exports to the rest of the world will inevitably be distressed and global trade hampered. It goes without saying, when supply chains are disrupted, certain markets will undergo spikes of inflation, not necessarily due to loss of purchasing power, but due to limited supply. All in all, the possibility of a weakened global economy is very real in an age of globalization, even if the continent struggling is the final frontier to global trade.