Eastern Africa outlook 2024: Navigating growth, inflation, and fiscal reforms against a backdrop of rising sovereign debt and geopolitical challenges

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Rising above sovereign debt and regional conflicts to lead Sub Sahara Africa's GDP Growth

Sub-Saharan Africa emerges from 2023 with cautious optimism as analysts forecast signs of modest recovery and resilience in Africa's macroeconomic landscape. The region is poised to witness a stable median GDP growth rate of 3.3%, signalling a recovery phase across most nations. [1] Despite this growth, the storm is not over yet, and the region will require a miracle to create millions of jobs, manage climate change related crisis and continue investing in regional infrastructure.

This resurgence is especially pronounced in the **Eastern Africa bloc,** which, despite grappling with the security challenges in Sudan and a resurgence of piracy in Somalia, is leading the pack with an impressive regional growth average of 6.5%. However, this promising growth trajectory is not without its hurdles. The region faces significant fiscal pressures, primarily driven by escalating sovereign debts that are tightening financial conditions and posing a substantial challenge to sustained economic stability.

This intricate balance of growth and economic challenges sets the stage for another demanding year for Sub-Saharan Africa.

Taking Somalia as a case in point, 2024 brings a glimmer of hope and optimism, even as it navigates through complex issues. Somalia's case is a reminder that progress, like Rome, wasn't built in a day.

After navigating through decades of internal conflicts, drought, and security challenges, the country achieved a significant milestone in November, when it became the eighth nation to join the East Africa Community (EAC), alongside Kenya, Uganda, Tanzania, Rwanda, Burundi, South Sudan, and the Democratic Republic of the Congo (DRC). This accession marks a pivotal step for Somalia, opening doors for enhanced regional trade and fostering improved relations within the East African Community.

The United Nations Security Council acknowledged Somalia's progress towards peace by unanimously deciding to lift its long-standing arms embargo. This decision is anticipated to enhance Somalia's ability to bolster its security forces, manage arms and ammunition more effectively, intensify anti-terrorism efforts, and strengthen overall national security and stability.

Lifting Somalia's arms embargo has generated concern from some stakeholders who fear that this could end up so badly given the delicate security situation and threat posed by Al Shaabab.

[1] https://www.fitchratings.com/research/sovereigns/sub-saharan-african-sovereigns-outlook-2024-11-12-2023

The Africa Union peace mission, which has been providing security, was scheduled to leave Somalia in December; their departure was rescheduled to allow for transition and orderly departure.

Another set of latest good news for Somalia was the announcement in December by the International Monetary Fund (IMF) and the World Bank of Somalia's debt relief to the tune of US$4.5 billion after the country completed the Heavily Indebted Poor Countries (HIPC) initiative. [2]

Dept relief is critical for Somalia and will mean resources can be refocused on rebuilding the country's economy, reducing poverty, restoring security and peace, and promoting job creation.

Ethiopia: With an external debt of approximately $30 billion, the nation exemplifies the struggles faced by many countries grappling with escalating sovereign debt. This debt burden severely limits Ethiopia's fiscal flexibility, compelling the government to prioritise debt repayment and interest over investment in critical sectors. The country's recent default on its Eurobond payments, which were due in December 2023, is a sign of Ethiopia's economic vulnerabilities.[3]

This financial crisis is not an isolated incident but rather the culmination of various compounding factors. Among these are the impacts of the climate crisis, which have severely affected Ethiopia's agriculture sector, a cornerstone of its economy. Frequent droughts and floods have become a recurring menace, disrupting agricultural productivity and food security. Additionally, the slow recovery from the COVID-19 pandemic has further strained the economy, impeding growth and development initiatives.

The political scene in Ethiopia adds another layer of complexity to the country's outlook for 2024. Persistent security challenges, particularly in the Tigray and Oromo regions, have not only exacerbated humanitarian concerns but also contributed to economic instability.

These conflicts strain government's resources and focus, diverting attention from essential economic reforms and development projects. The instability in these regions also hinders foreign investment and tourism, both vital for Ethiopia's economic health.

Amidst these challenges, Ethiopia is making strides with significant economic reforms, particularly in opening key sectors such as telecommunications and financial services. These reforms are being lauded by regional and international investors, signalling a potential shift in the country's economic dynamics. This opening up of previously state-dominated sectors is a strategic move that could address the longstanding issue of foreign exchange (FX) shortages.

By attracting foreign investment and enhancing competition and efficiency in these sectors, Ethiopia aims to bolster its foreign currency reserves, which are crucial for stabilising the economy and facilitating international trade. Additionally, these reforms could act as a catalyst for broader economic growth, encouraging more inclusive and sustainable development. However, the success of these initiatives hinges on the government's ability to maintain a stable political environment, particularly in addressing ongoing conflicts and security concerns. The interplay between Ethiopia's political stability and its ambitious economic reforms will be critical in shaping the country's economic outlook for 2024, potentially setting a precedent for resilience and growth in the face of adversity.

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[2] https://www.imf.org/en/News/Articles/2023/12/13/pr23438-imf-and-world-bank-announce-us-4-5-billion-in-debt-relief-for-somalia#:~:text=WASHINGTON%2C%20DC%3AThe%20Executive%20Boards,country%20of%20US%244.5%20billion.

[3] https://www.nasdaq.com/articles/fitch-cuts-ethiopias-eurobond-to-default-after-missed-payment

Kenya's economic and political landscape presents a multifaceted picture. Economically, the country is projected to experience modest growth, with an expected GDP increase of around 6%. Agriculture, tourism, and other industries that continue to innovate and show resilience are the main drivers of this growth.

Kenya's high debt levels, close to 70% of GDP, significantly overshadow its economic prospects. This debt load is a major source of worry, especially given the problems with fiscal mismanagement and ongoing accusations of corruption. These factors not only strain the national budget but also impact investor confidence and economic stability.

It's important to keep an eye on Kenya's upcoming $2 billion Eurobond, which is due in June 2024. The Kenyan government faces a critical task in addressing this significant debt to prevent a default and preserve its financial reputation. Successfully managing this repayment in June could offer Kenya a temporary respite from fiscal strain, giving some breathing room until it faces the next round of Eurobond repayments, amounting to $1.9 billion, scheduled for 2027-2028.

Kenya may need to consider alternative financial strategies, such as restructuring the debt, negotiating for extended maturity terms, or seeking favourable refinancing options. These approaches could alleviate immediate fiscal pressures while safeguarding critical sectoral investments.

Implementing additional tax burdens on an already taxed populace or divesting state-owned enterprises may not be the most feasible solutions.[4]

Kenya's political landscape is complicated, with the fallout from the contentious elections of August 2022 still causing political divisions. Reform initiatives aimed at reducing corruption and improving fiscal management are prevalent in the political arena. Yet, these reform initiatives often encounter obstacles in the form of systemic challenges and entrenched interests that resist change.

These political dynamics have a direct impact on the business climate. Frequent and sometimes abrupt changes in tax laws and regulatory policies create a challenging and often uncertain environment for businesses. This unpredictability affects both investment decisions and operational stability, posing a deterrent to foreign investment and complicating financial planning for businesses operating within the country.

As Kenya progresses through 2024, the management of its sovereign debt, coupled with astute economic and political decisions, will be pivotal in determining its economic path and influence within both the regional and global economic landscape. [5]

Uganda is forecast to grow at an impressive 6.7% in 2024.[6] The East African Crude Oil Pipeline (EACOP) project is at the forefront of the burgeoning oil and gas sector, which is what is primarily driving this growth trajectory. The EACOP, a landmark initiative, is a symbol of

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[4] https://pages.eiu.com/rs/753-RIQ-438/images/EIU-Africa-outlook-2024.pdf?version=0&mkt_tok=NzUzLVJJUS00MzgAAAGQVGPtBMKRQmSXNkdUMt9ePxQNoU5MDIl_WBsCz4Gto0LCECf_UeExIqKSWbxyfME1S_aLqM8auUTCZ8vzmwKkIK0O1OmVgW7gCjFJ4LdLVfbfZA

[5] https://pages.eiu.com/rs/753-RIQ-438/images/EIU-Africa-outlook-2024.pdf?version=0&mkt_tok=NzUzLVJJUS00MzgAAAGQVGPtBMKRQmSXNkdUMt9ePxQNoU5MDIl_WBsCz4Gto0LCECf_UeExIqKSWbxyfME1S_aLqM8auUTCZ8vzmwKkIK0O1OmVgW7gCjFJ4LdLVfbfZA

[6] https://www.afdb.org/en/countries/east-africa/uganda/uganda-economic-outlook

Uganda's resource wealth but also a beacon of new economic opportunities, promising to stimulate various sectors and create employment.[7]

Beyond oil and gas, agriculture remains the bedrock of Uganda's economy. This sector, traditional yet dynamic, continues to support a significant portion of the population, contributing substantially to the GDP and ensuring food security. Complementing this is the expanding services sector, notably in areas like information and communication technology, which is rapidly becoming a vital cog in Uganda's economic engine.

Fiscal Issues and Inflation: Fiscal issues temper Uganda's robust growth. The country's debt-to-GDP ratio, hovering around the 50% mark, is indicative of substantial investments in infrastructure and energy. These investments, while essential for long-term growth, necessitate astute debt management to avoid potential fiscal pitfalls.

Inflation, another critical economic indicator, is projected at around 6.5%. This rate, although manageable, requires prudent monetary policies to maintain economic stability and safeguard the purchasing power of Ugandans. The balancing act between stimulating growth and controlling inflation will be a crucial test for the nation's economic policymakers.[8]

On the political front, President Yoweri Museveni's long-standing tenure (3 decades) provides a degree of continuity and relative calm. However, this continuity comes with its own set of challenges, notably concerns regarding democratic processes and governance reforms. The political climate in Uganda, therefore, remains a watchpoint, with implications for policy consistency and the investment environment.

Tanzania's macroeconomic outlook for 2024 is shaping up to be positive, reflecting the ongoing efforts of President Samia Suluhu's administration in terms of political and economic reforms. According to the African Development Bank, the country is expected to witness a significant uptick in real GDP growth, reaching 6.3% in 2024.

The ongoing investments in the country's infrastructure projects are also a major contributor to this growth. Key among these is the focus on the liquid petroleum gas (LPG) sector and pipeline projects. These initiatives are central to enhancing Tanzania's energy sector and opening new avenues for economic growth and development.

The strategic development of LPG infrastructure is particularly crucial for Tanzania, considering the country's vast natural gas reserves, estimated at over 57 trillion cubic feet. The government's plans to expand LPG infrastructure, including storage facilities and distribution networks, aim to increase the accessibility and affordability of gas for domestic use, reducing reliance on imported oil and wood fuels. This shift not only boosts energy security but also aligns with environmental sustainability goals.

The East African Crude Oil Pipeline (EACOP), co-developed with Uganda, is expected to cost $5 billion, reflecting an increase from the original estimate of $3.5 billion. This cost escalation is attributed to rising prices for key inputs like steel and increased loan costs. EACOP, primarily financed through a 60-40 debt-to-equity split, is a crucial component in commercialising Lake Albert's oil resources. The 1,443-km pipeline, running from Hoima in Uganda to the Indian Ocean port of Tanga in Tanzania, represents a significant investment and is expected to have substantial economic impacts for the region. The pipeline project, despite facing environmental criticism, is

[7] https://www.fitchsolutions.com/bmi/country-risk/stronger-growth-uganda-2024-26-09-2023#:~:text=Fixed%20investment%20growth%20will%20remain,associated%20infrastructure%20projects%2C%20gathers%20pace.&text=Stronger%20domestic%20demand%20in%202024,heavily%20on%20Uganda's%20trade%20balance.

[8] https://www.afdb.org/en/countries/east-africa/uganda/uganda-economic-outlook

anticipated to play a pivotal role in boosting both Tanzania's and Uganda's economies and enhancing regional energy infrastructure.

The Democratic Republic of Congo (DRC) is poised for significant economic growth in 2024, with a forecasted real GDP growth of 6.8%. The mining industry, particularly the production of cobalt and copper, which are essential for international trade, is the main driver of this growth. However, the economy faces challenges such as rising inflation due to elevated import costs and a depreciating currency. The persistent current account deficit, driven by higher import prices and terms-of-trade deterioration, is expected to be balanced by external financing, leading to increased international reserves.

The DRC's reliance on its mineral resources' contracts starkly with infrastructural and governance challenges. Politically, the country grapples with instability, especially in its eastern region, where ongoing conflicts and recent escalations in North Kivu and Ituri provinces have led to displacement. The withdrawal of East African Community forces from Kinshasa, following the DRC's refusal to renew their mandate, raises concerns about the impact on the country's stability and its East African Community membership.

The just-concluded December general elections are pivotal for the DRC's future, with early results showing incumbent President Tshisekedi leading. Businessman Moise Katumbi and former energy executive Martin Fayulu are trailing in second and third places, respectively.[9]

The DRC's integration into the East African Community presents opportunities for increased regional trade and investment, but managing internal security and political dynamics remains a significant challenge for its leadership.

Rwanda's macroeconomic outlook for 2024 is characterised by strong growth and a declining fiscal deficit. The economy is projected to grow by 8.0%, driven by the recovery in agricultural production, exports, and conference tourism. Inflation is expected to reduce to 5.6%, with fiscal consolidation and increased domestic revenue contributing to a decrease in the fiscal deficit.

The current account deficit is also anticipated to narrow. The decreasing inflation and fiscal deficit indicate a stabilising economy. However, they must remain cognizant of geopolitical risks and global economic impacts.

The Kigali Financial Centre plays a crucial role in promoting investment by facilitating access to financial services and fostering a conducive environment for business. It's a strategic hub for attracting regional and international investments, which is crucial for Rwanda's economic development.

Sudan's conflict in Darfur, South Kordofan, and the Blue Nile has resulted in hundreds of thousands of deaths and displacements, disrupting the economy and exacerbating poverty and unemployment. Infrastructure, including schools and healthcare, has been destroyed or damaged, costing Sudan's economy profoundly, including lost development opportunities and resource diversion to military expenditure.

Sudan faces political and economic challenges in 2024, with modest 3.8 percent economic growth and high inflation. This instability could impact regional peace, stability, and trade. To achieve stability, Sudan needs political reconciliation, economic reforms, and international support.

To conclude, the Eastern bloc Eastern Europe is set to experience a landscape of modest economic recovery characterised by a stable median GDP growth rate, indicative of a recovery phase across most nations. However, the region grapples with significant challenges, primarily

[9] https://www.reuters.com/world/africa/latest-results-congos-disputed-election-2023-12-29/

due to escalating sovereign debts that exert fiscal and monetary constraints, posing risks to sustained economic stability.

Despite these challenges, opportunities abound, particularly in the infrastructure and energy sectors, which are key drivers for future growth and development in the region. This intricate balance of growth, economic challenges, and opportunities sets the stage for a dynamic yet challenging year ahead for Eastern Africa.

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