NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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MAY 2023

African Economic Update (East, Central, West)

A MARKET INTELLIGENCE REPORT

Summary

- In the face of international and domestic shocks, sustaining – and promoting inclusive – economic growth remains a challenge in major economies across East (Ethiopia and Kenya), Central (Rwanda and Uganda) and West Africa (Ghana and Nigeria). Most countries are grappling with high inflation, while also engaging in debt restructuring negotiations with external creditors. Corruption in governance and trade continues to pose a challenge for African economies.

- In many instances, in-country partnerships remain important to successfully navigate cultural and customary business practices and requirements. Sectors such as agritech and services, such as in climate resilience and waste management, present opportunities for New Zealand businesses. There are also opportunities for investment in dairy, mining, renewable energy in the region.

Report

Ethiopia: anticipating an economic rebound

Following a peace agreement brokered in November 2022 between the federal government and the Tigray People's Liberation Front (TPLF), the United Nations Development Programme (UNDP) forecasts that Ethiopia's economy will rebound with five percent growth in 2023. UNDP also projects that despite ongoing global headwinds, including high oil and fertiliser prices, Ethiopia's economic performance will rank in the top third of African economies for 2023 (above the IMF projected average of 3.7 percent).

Inflation, high debt distress, as well as shortages of foreign currency continue to be major challenges for the Ethiopian economy. Headline inflation reached 34.2 percent in March 2023, reducing the purchasing power of consumers. Meanwhile, plans for Ethiopia to liberalise its financial sector have not materialized. The government has issued a proclamation allowing foreign banks to operate in Ethiopia – but challenges still remain around oversight and regulatory issues. Currently, no foreign banks are operating in Ethiopia.

Foreign investors face a number of challenges operating in Ethiopia. Restrictions on foreign exchange, constraints around repatriation of funds, as well as restrictive customs regulations and shipping constraints pose significant hurdles. Local banks are also not suited to accommodate international investors. Despite these challenges, there is scope for New Zealand business investment, particularly in agritech (global agritech conglomerates Bayer AG and Corteva AgroSciences both operate in the country).

Kenya: a positive outlook paired with cost-of-living challenges

Kenya enjoys a positive economic outlook in East Africa, bolstered by the country's free market-led economy, a well-established democracy and independent government institutions. President William Ruto has embarked on an array of economic reforms to revive the post-pandemic stagnated economy. Growth is projected to hover around 5 percent with inflation at 9 percent, well below the regional average.

Despite a positive outlook, Kenya still faces a number of economic and governance challenges that affect trade, notably constrained fiscal space due to servicing high debt. The country recently saw nation-wide protests driven in part by public dissatisfaction at the rise in the cost of living.

Despite these difficulties, Kenya currently presents the most favorable business environment for New Zealand businesses seeking to invest in East Africa. A number of New Zealand companies operate in the country, including in the agritech, geothermal and construction sectors. The Ruto administration has prioritized the development of a climate change resilient agricultural sector, which could present opportunities for New Zealand businesses seeking to engage in this space. Considering all factors, Nairobi will likely continue to be a commercial hub for the region given the ease of establishing business and travelling in and out of the country.

Rwanda: promising growth trajectory; favorable business environment

Like other countries in the region, Rwanda has struggled to contain inflation. Year-on-year inflation stood at 19 percent at the end of 2022. But Rwanda has also managed to register remarkable growth in recent years: according to the World Bank, the country averaged 6.18 percent growth in GDP per year for the last five years. The IMF projects Rwanda's GDP to grow by 6.2 percent in 2023 and 7.5 percent in 2024 respectively.

Rwanda is one of few African countries with minimal red tape when it comes to business and investment for foreign investors. The country is ranked among the safest countries in Africa. A recently introduced investment law avails preferential treatments for foreign investors which includes repatriation of capital and assets, exemptions from capital gains tax, as well as a seven-year corporate tax holiday for investments in key sectors such as Energy and ICT. Rwanda is part of the East African Community consumer base – a market of 200 million people and a combined GDP of US$305 billion.

Uganda: low inflation and high growth

Meanwhile, Uganda's tight monetary policy has meant that the country has managed to contain inflation to 7.8 percent. Uganda's economy has also proven resilient to economic shocks, and is forecast to register 7.3 percent growth in 2023. Foreign currency reserves are relatively steady, currently standing at US$3.6 billion.

Uganda offers a reasonable business environment with few caveats. The country has a liberal financial system and the 2019 Investment Code Act allows capital repatriation. Uganda continues to struggle in its efforts to tackle corruption, however, while long term political uncertainty poses a certain level of risk for foreign investors. Furthermore, the passage of new legislation, the "Anti-Homosexuality Bill 2023" risks spurning international investors.

Ghana: seeking debt relief as growth is set to contract

Ghana’s economy faces strong headwinds, including a slowdown in growth, currency depreciation against the US dollar, as well as high inflation. Economic growth has contracted from 5.4 percent in 2021 to 3.2 percent in 2022, and is projected to further slow to 1.6 percent in 2023. The West African nation’s currency, the Cedi, depreciated significantly in the last year, losing 36.3 percent of its value against the US dollar in 2022. Meanwhile, inflation has accelerated – reaching 54.1 percent in December 2022. According to the World Bank, Ghana’s foreign reserves have also fallen in the past year, from US$9.1 billion to US$5.6 billion.

In addition, Ghana is saddled with a significant debt burden. As of December 2022, Accra’s interest payments on debt accounted for at least 70 percent of the government’s revenue, while its GDP-to-debt ratio had exceeded 100 percent. The International Monetary Fund (IMF)'s approval this month of a $3 billion credit loan will help Ghana restore macroeconomic stability, but the required fiscal consolidation measures are likely to be unpopular and may increase political volatility ahead of the 2024 general election.

Notwithstanding these macroeconomic challenges, Ghana’s market potential remains attractive for businesses that envisage long-term investment. The country has solid institutions and is politically stable. There is positive momentum in the STEM space, and growing market potential in financial technology with an expected revenue growth of 17 percent by 2024. Ghana also offers investment incentives, such as a ten-year tax holiday for foreign investors that engage in non-traditional sectors.

One notable challenge to doing business in Ghana is navigating the legal procedures to establish and run a business successfully. Many foreign investors find it useful to retain legal support.

Nigeria: a new administration looks to revive the economy

Nigeria’s President elect, Bola Tinubu, faces an array of challenges as he prepares to take office in May, including widespread insecurity and economic instability (Nigeria has experienced two recessions in the past five years). A recent rollout of new banknotes (as part of a currency redesign and replacement policy aimed at tackling high inflation) led to a widespread cash shortage, negatively affecting consumer confidence.

The new administration will also have to grapple with Nigeria's debt. While Abuja's debt-to-GDP ratio is low when compared with contemporaries, its debt servicing burden is among the highest globally. According to the IMF, the federal government spent 96.3 percent of its revenues in 2022 paying interest.

Tinubu has set out an ambitious eight-point economic agenda for his administration, with a goal of realising 12 percent growth. As part of his package of economic reforms, Tinubu has vowed to remove a costly fuel subsidy (seen by economists as unsustainable), ramp up oil production, and boost agricultural production – which could present potential opportunities for New Zealand businesses. But Nigeria can be seen as a challenging business environment, not least due to ongoing security concerns.

Comment

In many respects, East Africa represents a long-term investment. Issues such as the conflict in Sudan and growing tensions in DRC will likely continue to put pressure on African economies in the near to medium term. But like South East Asia before it, Africa is a major emerging market and offers considerable prospects for supply chain diversification and consumer growth. The continent has a young and growing population and its consumer base is expanding rapidly. By 2050, a quarter of the world's population, and one in three working-age people, will live in Africa.

Continental initiatives launched by the African Union, such as the African Continental Free Trade Area (AfCFTA) and the integration of Regional Economic Communities (RECs) have the potential to boost intra-African trade and offer a first-mover advantage for foreign investors. The gains to be realised are substantial: the IMF projects, for instance, that the AfCFTA could boost Africa's income by up to US$450 billion by 2035. The test will be which countries can turn potential into – inclusive – prosperity.

Plans to expand critical infrastructure throughout the continent are also in the pipeline. A recent study presented by UNDP at the "African Roundtable on Climate Initiatives" in Addis Ababa highlighted continental efforts to streamline supply chains, integrate RECs and build an overarching continental infrastructure network in the coming decades. And as the continent looks to mitigate and adapt to the impacts of climate change, the need for net-zero emissions technologies present significant new opportunities for investment.

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