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Business Cycles in Africa: Unravelling the Dynamics of Sub-Saharan Africa's Economic Growth

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Abstract
This research delves into the intricate dynamics of Africa's economic landscape against the backdrop of the global economic surge, surpassing rates unseen since the oil price shocks of the 1970s. The study shows a continuous period of robust global growth since 2004, characterized by low inflation and even distribution among nations, defying expectations given the increasing contribution of unstable emerging markets. The study sheds light on Africa's evolving economic scenario, marked by a growing awareness of sectoral fragmentation, oil price variation, and infrastructure development. Examining macroeconomic fundamentals in 2022, we note improvements in fiscal deficits but an increase in current account deficits, exchange rate fluctuations, and elevated inflation, driven by global factors. Moreover, the study unveils the enduring fragility of Africa's econo'Ic and social situation, affected by armed conflicts, unfavourable weather conditions, and declining trade. Despite abundant natural resources, the region contends with persistent poverty, positioning it as one of the most impoverished globally. The plots highlighted the historical economic gaps, emphasizing the formidable hurdles that have impeded Sub-Saharan Africa's growth, particularly in comparison to East Asia & Pacific and Latin America & Caribbean. The disparities underscore the need for strategic interventions, including diversifying export bases, strengthening fiscal management, and promoting inclusive growth. The study concludes with a call for coordinated efforts to address the complex challenges, fostering sustained and inclusive economic growth across the continent.

Keywords: GDP, Macroeconomic fundamentals, Volatility

1. Introduction

The global economy has witnessed a remarkable surge in growth, surpassing the rates observed in any period since the oil price shocks of the 1970s (IMF, 2007). This unprecedented expansion is characterized not only by its magnitude but also by its widespread distribution among nations. The intricate interplay of economic forces, technological advancements, and shifting global dynamics has contributed to this era of unparalleled growth, reshaping the economic landscape on a global scale (Xinyi, 2017).

Since 2004, the global economy has experienced a robust and continuous period of growth, comparable to the strong economic growth observed in the late 1960s and early 1970s. Meanwhile, inflation has remained at a low level. Recent global growth has not only been substantial, but it has also been evenly distributed among countries. The level of growth instability has decreased, which may appear particularly unexpected given that the increasingly unstable emerging market and developing countries contribute more to the global economy (IMF, 2007).

Due to the growing awareness among African leaders, the value of sectoral fragmentation in the continent is increasing, and the decision to disconnect from global markets is becoming more justifiable in several aspects (Oloyede, Osabuohien, and Ejemeyovwi 2021). Certain nations benefit significantly from historically elevated oil prices, while others grapple with the difficulties and scarcity of power supply. Additionally, certain individuals experienced production insufficiency due to elevated costs and reduced reliance on the transportation system, as well as inadequate infrastructure, which commonly restricts trade within Africa (World Bank, 2019). Mengesha (2009) argues that this also highlights Africa's impoverishment, limited share in global trade, and sluggish advancement in infrastructure development. Several African economies have increasingly embraced regional trade agreements (RTAs) in recent decades as a means to enhance economic progress and promote international trade. These regional agreements aim to promote trade between countries by reducing transaction costs such as tariffs and non-tariff barriers. They also aim to overcome limitations in cooperation among countries in order to establish an African Common Market (Foroutan, 1992; Olayiwola et al., 2015; Osabuohien et al., 2019).

Africa's real gross domestic product (GDP) experienced a growth rate of 3.8 percent in 2022, which is lower than the 4.8 percent growth rate in 2021. The deceleration in growth was primarily ascribed to the tightening of global financial conditions and the disruptions in supply chains, which were further intensified by Russia's invasion of Ukraine, resulting in a dampening effect on global economic expansion. The growth was hindered by the lingering consequences of the COVID-19 pandemic as well as the increasing influence of climate change and severe weather occurrences (Africa Development Bank, 2023). Moreover, Africa's economic and social situation has consistently been fragile and vulnerable to disruptions, both internal and external shocks (Ulku, 2004). Numerous African nations grapple with the aftermath of civil wars and armed conflicts, adversely impacting their economic growth and development. Scholars such as Ulku (2004) and Nkurunziza & Bates (2004) posit that armed conflicts, unfavourable weather conditions, and declining trade have contributed to a contraction in economic growth in Africa. Despite the continent's abundant natural resources, it continues to contend with high levels of poverty, positioning it as one of the most impoverished regions globally. To provide additional clarity on this assertion, we examined and compare the trajectory of GDP per capita across developing regions. The Figure 1.1 below provides a compelling visual representation of the enduring challenge faced by sub-Saharan Africa (SSA) in terms of economic growth when compared to its counterparts in other developing regions, notably East Asia & Pacific and Latin America & Caribbean.

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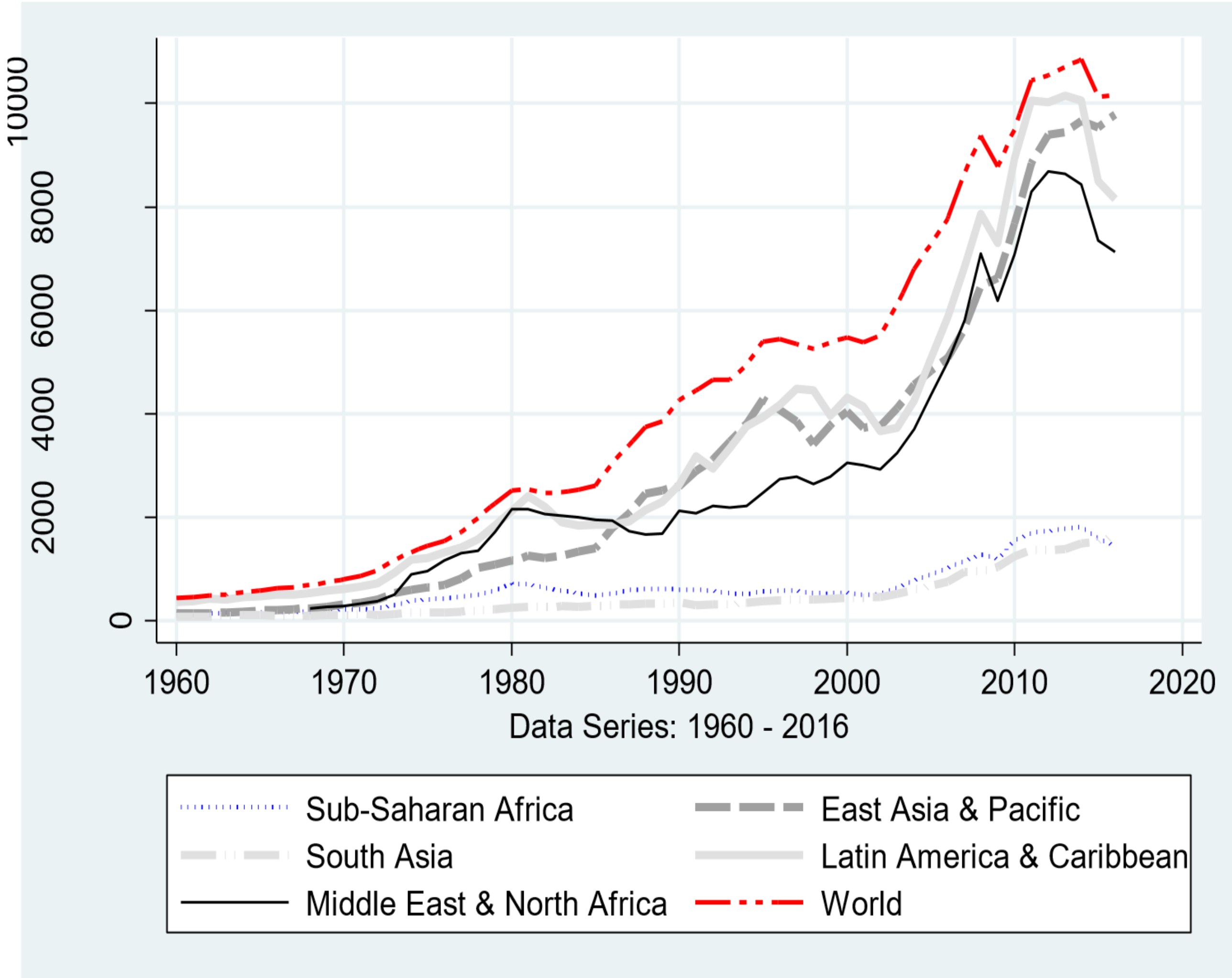
Figure 1.1 GDP per capita growth by regions, current US$, 1960-2016

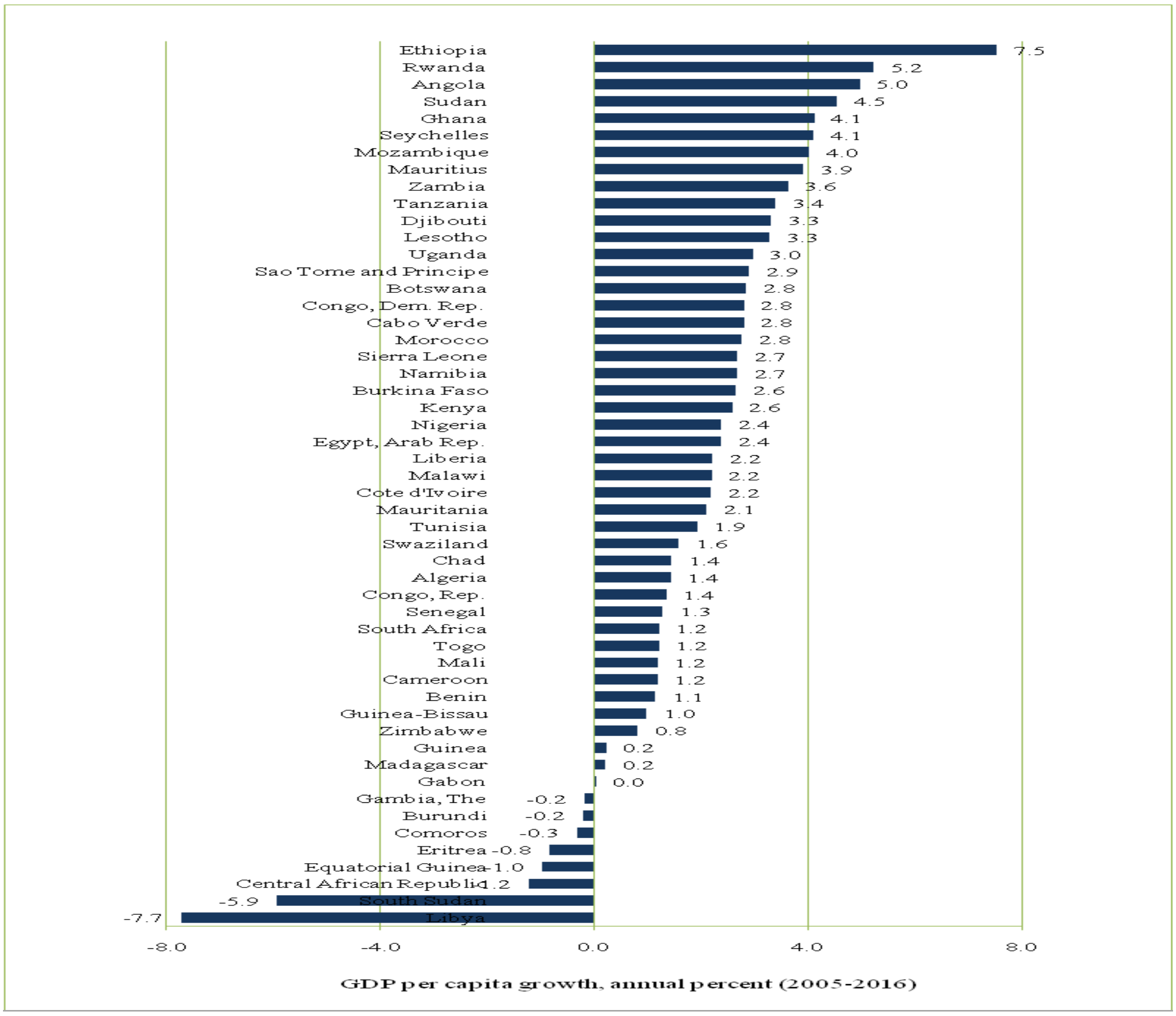


Source: Epaphra & Kombe, (2018)

The data vividly illustrates a persistent lag in the economic development of sub-Saharan Africa across various decades, with notable emphasis on the late 1970s, 1980s, 1990s, and the early 2000s. Over these historical periods, the graph unmistakably delineates a consistent gap between the growth trajectories of Sub-Saharan Africa and the aforementioned regions. The disparities depicted underscore the formidable hurdles and distinctive challenges that have impeded the economic advancement of sub-Saharan Africa during these crucial epochs.

Throughout the late 1970s, marked by global economic shifts and geopolitical dynamics, sub-Saharan Africa grappled with economic constraints that hindered its growth potential (Epaphra & Kombe, 2018). The subsequent decades, particularly the 1980s and 1990s, witnessed a complex interplay of factors ranging from political instability to external debt burdens, contributing to the observable divergence in economic growth trajectories.

Figure 1.2. GDP per capita growth, annual percent, 2005-2016



Source: Epaphra & Kombe, (2018)

The early 2000s, often characterized by global economic shifts and the onset of technological advancements, present another chapter in the economic narrative of Sub-Saharan Africa (Xinyi, 2017). Despite the changing dynamics, the region continued to face challenges in catching up with the growth rates experienced by East Asia & Pacific and Latin America & Caribbean, as highlighted in the graphical representation. This prolonged period of divergence raises critical questions about the factors influencing Sub-Saharan Africa's economic trajectory. It prompts an exploration into the intricate interplay of internal dynamics, external influences, and policy frameworks that have shaped the region's economic landscape. In addition to the overarching challenge of low economic growth in Africa, an in-depth analysis of the data as revealed in Figure 2.1 shows a significant disparities in the real GDP per capita growth rates across the continent's nations. Taking a closer look at specific examples, Ethiopia stands out with a noteworthy average growth of 7.5 percent, demonstrating a robust economic performance. Similarly, Rwanda and Angola achieved commendable growth rates of 5.2 percent and 5.0 percent, respectively, showcasing their economic resilience.

Conversely, some nations faced contrasting fortunes during the same time frame. Libya, for instance, exhibited a substantial growth rate of 7.7 percent, illustrating its economic buoyancy. In stark contrast, Southern Sudan and the Central African Republic grappled with adverse conditions, experiencing growth rates of -5.9 percent and -1.2 percent, respectively, highlighting the economic challenges these countries confronted. The disparity further extends to nations like Eritrea, Comoros, Burundi, and The Gambia, where the period from 2005 to 2016 witnessed negative annual average real GDP per capita growth (Epaphra & Kombe, 2018). This underscores the complex economic landscape within Africa, characterized by divergent growth trajectories and varied challenges faced by different countries.

Africa's economic underperformance has been a subject of debate, with studies by Sachs & Warner (1997) and Hoeffler (2002) suggesting that factors affecting growth in other developing nations also play a role in Africa's struggles. To stimulate growth, a focus on fundamental elements like investing in physical and human capital, managing population growth, and enhancing access to modern technologies is crucial. Research indicates that institutional characteristics, such as political and civil rights distribution, legal system quality, and government effectiveness, influence the accumulation of these factors. Traditional growth models like Koopmans (1965), Cass (1965), and Solow (1956) explain per capita income differences through factor accumulation. The macroeconomic fundamentals of Africa continue to display a combination of different dynamics, with significant obstacles still present. In 2022, the average fiscal deficit was 4.0 percent of GDP, compared to 4.9 percent in 2021 indicating a relative improvement in revenues, particularly in countries that export oil. Nevertheless, the average current account deficit increased to 2.1 percent of GDP in 2022, from 1.7 percent in 2021. Exchange rates in many countries experienced ongoing fluctuations, resulting in significant depreciation of domestic currencies in African nations that primarily export commodities. This depreciation was primarily caused by interest rate increases in the United States, which strengthened the value of the US dollar. Although there was a decrease, food and energy prices remained high, resulting in an average inflation rate of approximately 14.2 percent in 2022, up from 12.9 percent in 2021 (Africa Development Bank, 2023). The rise in inflation was also influenced by significant exchange rate pass-through effects.

2.1 Conclusion

In conclusion, Africa's economic underperformance is a multifaceted challenge influenced by both global and domestic factors. The insights from studies by Sachs & Warner (1997) and Hoeffler (2002) highlight that the issues affecting growth in other developing nations are intertwined with the struggles faced by African economies. To propel growth, our analysis underscores the critical importance of addressing fundamental elements, including strategic investments in physical and human capital, effective management of population growth, and the facilitation of access to modern technologies. Moreover, the role of institutional characteristics, such as the distribution of political and civil rights, the quality of the legal system, and government effectiveness, cannot be understated. These factors influence the accumulation of crucial growth drivers and necessitate focused policy interventions. The traditional growth models of Koopmans (1965), Cass (1965), and Solow (1956) shed light on the significance of factor accumulation in explaining per capita income differences.

2.2 Recommendations:

Diversify Export Base: African nations heavily reliant on commodity exports should explore strategies to diversify their export base. This will help mitigate the impact of global price fluctuations and reduce vulnerability to external economic shocks.

Enhance Exchange Rate Stability: Given the susceptibility to global interest rate changes, African countries should adopt policies to enhance exchange rate stability. This may involve measures to build foreign exchange reserves and prudent monetary policy.

Invest in Institutional Development: Recognizing the pivotal role of institutional characteristics, governments should prioritize institutional development. This includes fostering political stability, improving the quality of legal systems, and enhancing overall government effectiveness.

Promote Inclusive Growth: Policies aimed at promoting inclusive growth, such as investing in education and healthcare, will contribute to building human capital. This, in turn, can positively influence the factors driving economic growth.

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