A crisis on top of a crisis: Africa feels the fallout from Russia's invasion of Ukraine

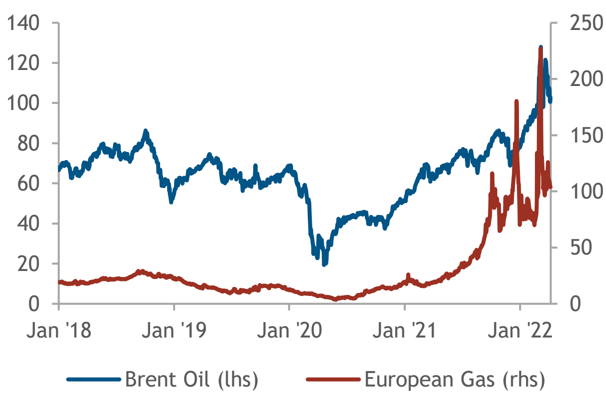
Blog post by Isabelle Trick, 26 April 2022

As the world's biggest international finance institutions, the IMF and World Bank, gathered for their annual Spring Meetings, Kristalina Georgieva, the IMF's managing director, warned of the compounding crises affecting the world. Africa, Georgieva said, was "particularly vulnerable" to the economic upheaval following Russia's invasion of Ukraine.

Given that Africa experienced the weakest growth globally in 2021, with a number of economies not having recovered to pre-pandemic levels and inflation already high, many countries are ill-prepared to weather another external shock. Yet, given how geographically remote the conflict is, how are African countries exposed to its economic fallout? And are some countries more negatively impacted than others?

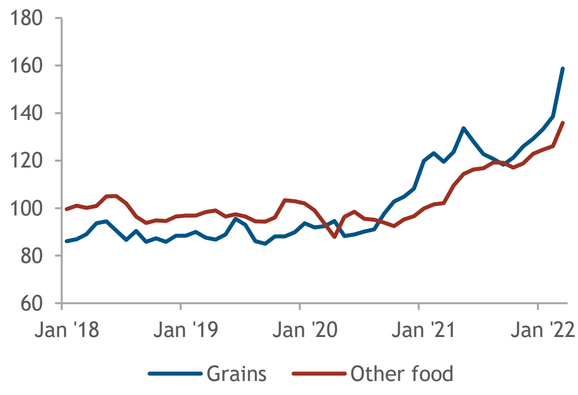
First, the majority of African countries are fuel importers, exposing them directly to spiking global oil and gas prices. Many countries rely on imported fuel for transport and energy, with diesel generators powering – or acting as crucial back-ups for – anything from factories and mines to homes. The fuel price hikes following Russia's invasion of Ukraine therefore impact a wide variety of African countries and a broad cross-section of their economies. Such price increases are always felt most acutely by poor households who spend larger shares of their incomes on essentials; the UNCTAD now estimates that 490 million people in Africa live below the poverty line.

Oil and gas prices have spiked
Oil price in $/barrel (lhs); Gas in €/megawatt-hour (rhs)



Source: CEIC, Dutch TTF

Grain prices are outpacing other food prices
World Bank price indices; 2010=100

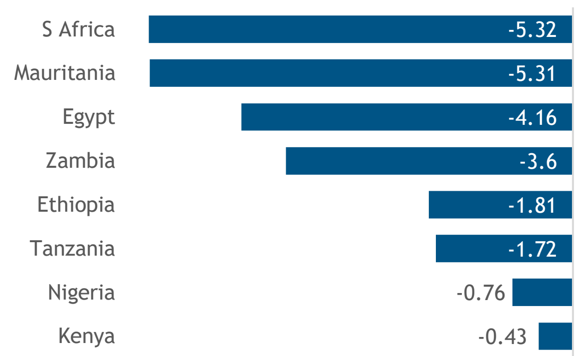


NB: Grains include Wheat, Corn, Barley, Rice, Sorghum.
Other food includes meats, fruit, and sugar.
Source: World Bank, CEIC

Second, a spike in grain prices is compounding the impact of high fuel costs. Russia and Ukraine are significant suppliers of wheat and corn, and Africa imports nearly two-thirds of the wheat it consumes. Those with a high dependence on Russia and Ukraine - Egypt, Somalia and Benin rely on them for more than 80% of their wheat - were directly impacted by supply disruptions. Even those with less direct exposure still felt the global increase in grain prices. As high food prices were a catalyst for the Arab Spring in 2011 and led to riots in 2008, some countries have been quick to react. Egypt announced a $7 bn support package, Cote d'Ivoire introduced price caps on food products, Kenya's supplementary budget add2ed almost $300m to the country's fuel subsidy programme, and South Africa reduced its fuel levy by 40%.

The poor are vulnerable to price shocks

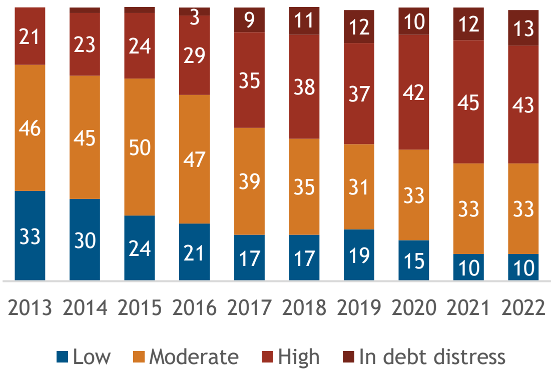
Impact of wheat and corn inflation on household income of the bottom 40%, in %



Source: CEPR

Sovereign debt vulnerabilities have increased

IMF Debt risk assessment of low-income countries, last assessed March '22



Source: IMF

Are there any African countries that stand to benefit from the economic upheaval? There has been much speculation about African oil producers filling the gap left by Russia. However, aging infrastructure and a lack of investment mean that oil exporters such as Angola and Nigeria already produce well below their OPEC production targets and will struggle to open the taps. There may be more opportunities for African gas producers to increase supply to Europe as the continent seeks to diversify supply. Italy has just signed deals with Angola and the Republic of Congo to supply natural gas. Yet, Algeria is struggling to keep up with demand and the logistics of diversifying supply can be complex.

There is a silver lining for exporters of non-energy resources. There has been a near-general hike in the prices of other natural resources, including gold, palladium, copper and nickel, with the latter two hitting record highs. This is good news for countries such as Ghana (a major gold exporter), Zambia and the DRC (Africa's biggest copper exporters) and South Africa (home to 39% of the world's palladium supply). Governments are likely to push miners to produce at maximum capacity, while using this as an opportunity to attract foreign investment.

This means that the impact of the crisis is felt differently across the continent. While high food and fuel prices impact most nations, higher metals and minerals prices should help exporters to balance this increased spending and contribute to a healthier trade balance. This might give policymakers in these markets more room for manoeuvre and give them the confidence to increase spending to pay for support measures to avoid social unrest.

Countries with wider fiscal deficits and less promising outlooks may be forced to pass on higher prices to their citizens.

These difficult policy choices are compounded by an expected worsening of external financing conditions just as countries are likely to need further budget support. Higher global inflation will lead to a faster tightening of monetary policy in advanced economies, so the knock-on effects could spur capital outflows and increase debt vulnerabilities. Following the pandemic, the IMF now considers nearly 60% of low-income countries at high risk of or already in debt distress and the organisation best-placed to offer support – the G20 – is both distracted by and deeply divided over the Russia-Ukraine war. Meaningful progress on debt is therefore unlikely in the short term. Looking at the second half of 2022, it may be countries with high foreign debt loads that struggle most to weather this crisis on top of a crisis.