MACROECONOMIC DEVELOPMENTS IN COMESA REGION IN 2023

PREPARED FOR COMESA 2023 ANNUAL REPORT

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1. Background

This report presents macroeconomic developments in the COMESA region in 2023. It analyses developments in key macro-economic performance indicators in the region, assesses the medium-term prospects and provides policy recommendations in the short-to-medium term and discusses the risks to the outlook.

2 Growth

During the year under review, average region-wide growth slowed, albeit mild to 5.7% in 2023 from 5.9% in 2022. However, country level growth data is divergent. Growth recovered and declined in the ratio of about 50:50 of the COMESA member countries (**Table 1**). Growth was driven by continued improvement in macroeconomic imbalances, fiscal consolidation and a comeback in foreign direct investment (FDI) after several years of sluggish inflows. Inflation generally moderated in most countries, and on account of increased efforts to boost revenue mobilization, and expenditure efficiencies, including phasing out of untargeted subsidies, public debt ratios broadly stabilized at around 55.6% of GDP in 2023 and is projected to fall further in 2024 to 51% of GDP.

Table 1: Real GDP Growth (y-o-y % change)

Country	Average 2011-19	2020	2021	2022	2023	Projections[1]	
						2024	2025
Burundi	1.9	0.3	3.1	1.8	2.7	4.3	5.4
Comoros	3.1	-0.2	2.0	2.6	3.0	3.5	4.0
Congo, Dem. Rep.	5.9	1.7	6.0	8.8	6.1	4.7	5.7
Djibouti	4.4[1]		4.5	3.9	7.0	6.5	6.0
Egypt, Arab Rep.	4.4[1]		3.3	6.7	3.8	3.0	4.4
Eritrea	4.6						
Ethiopia	9.5	6.1	6.3	6.4	7.2	6.2	6.5
Eswatini	2.5	-1.6	10.7	0.5	5.1	3.7	3.3
Libya	1.7[1]		28.3	-8.3	10.2	7.8	6.9
Kenya	4.7	-0.3	7.6	4.8	5.5	5.0	5.3
Madagascar	3.2	-7.1	5.7	4.0	3.8	4.5	4.6
Malawi	4.1	0.9	4.6	0.8	1.6	3.3	3.8
Mauritius	3.7	-14.5	3.4	8.9	6.9	4.9	3.7
Rwanda	7.1	-3.4	10.9	8.2	6.9	6.9	7.0
Seychelles	6.6	-11.7	0.6	15.0	3.7	3.2	3.8
Somalia			3.3	2.4	2.8	3.7	3.9
Sudan	2.3[1]		0.5	-2.5	-18.3	-4.2	5.4
Tunisia	2.6	2.6	4.6	2.6	0.4	1.9	1.8
Uganda	5.3	-1.1	5.5	6.3	4.8	5.6	6.5
Zambia	4.3	-2.8	6.2	5.2	4.3	4.7	4.8
Zimbabwe	4.6	-7.8	8.4	6.5	5.3	3.2	3.2
COMESA	**5.9**	**0.4**	**6.5**	**5.9**	**5.7**	**5.3**	**5.6**

Notes: [1]average for 2000-20.

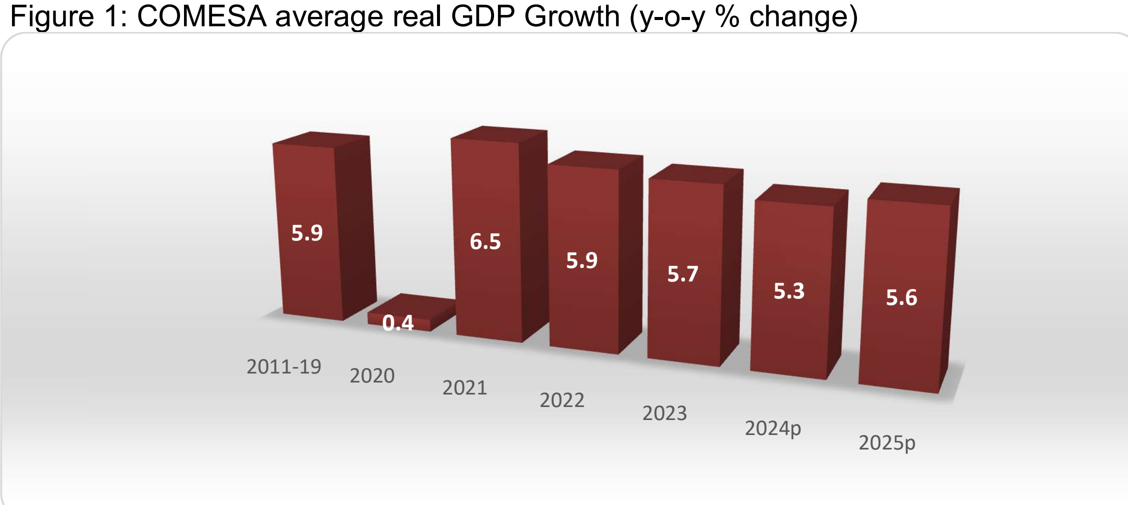
[1] IMF projections for 2024 and 2025

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Middle East and Central Asia April 2024; IMF Country Reports.

On the downside, funding squeeze persisted—governments continued to grapple with financing shortages—reflected in a protracted decline in foreign aid, high borrowing and debt servicing costs, and rollover risks on account of tight global financing conditions. Some countries agricultural yields and labor productivity were severely affected by climate change—flash and prolonged floods, severe drought and devastating cyclones. The geopolitical shocks particularly in Gaza and Israel and red sea shipping disruptions and a rise in commodity prices, particularly oil, exacerbated the region's struggles, affecting disproportionately some of the member countries in the Middle East and North African (MENA).

Looking outward, IMF projects the region's growth momentum to slow down slightly to 5.3% in 2024, before recovering somewhat in 2025 to 5.6% (**Fig. 1**). The outlook for 2024 is clouded by downside risks, including: funding squeeze driven by rising debt service costs and limited access to financing; escalating geo-political tensions in the Middle East and red sea regions will exacerbate disruptions to supply chain, transportation routes and a rise in commodity prices, particularly oil—impacting disproportionately some of the member countries in the MENA region. The region also faces increasing vulnerabilities to global external shocks and threats of rising political instability with the potential to exacerbate tragic human losses, disruptions to economic activity and additional spending pressures could further strain the tight budgets. In addition, the frequent climate change events are likely to put pressures on external balances and public spending.

Figure 1: COMESA average real GDP Growth (y-o-y % change)



Source: IMF REO Sub Saharan Africa, April 2024.

Recovery in 2025 is premised on winding up of the negative effects of earlier weather shocks, gradual improvement in supply issues and expected easing in global financial conditions if inflation continues to decline, and continuing recovery in private consumption and investment. Reflecting the already easing global financial conditions, there is renewed global appetite for African debt—one country in the region has so far issued a Euro bond this year, while many others could follow suit. This will ease the funding squeeze in these countries and supporting recovery. Implementing structural reforms including the pace of trade integration and improving ease of doing business could bring more foreign direct investments, diversify funding sources and the economy.

3 Inflation Rate

The COMESA region wide average inflation rate rose somewhat to 23.9% in 2023 from 19.6% in 2022 (**Table 2**). However, at country level, consumer price inflation eased in most countries, reflecting the impact of earlier monetary policy tightening, and lower global food and energy prices. In a couple other countries, inflation remained persistently high, hitting double digit in some, largely on account of exchange rate depreciations and accommodative monetary and fiscal policies in 2023.

In 2023, eight (08) COMESA member countries, namely Djibouti, Eswatini, Kenya, Libya, Mauritius, Seychelles, Somalia, and Uganda achieved the COMESA macroeconomic Convergence Criteria of average annual inflation rate of 7% (with a band of +/-1%).

Table 2: Consumer Prices (y-o-y % change)

Country	Average 2011-19	2020	2021	2022	2023	Projections[2] 2024	2025
Burundi	7.1	7.3	8.3	18.9	27.0	22.0	20.0
Comoros	1.8	0.8	0.0	12.4	8.5	2.0	2.2
Congo, Dem. Rep.	10.2	11.4	9.0	9.3	19.9	17.2	8.5
Djibouti	--		1.2	5.2	1.8	1.8	1.9
Egypt, Arab Rep.	9.7[1]		4.5	8.5	24.4	32.5	25.7
Eritrea	2.6						
Ethiopia	14.4	20.4	26.8	33.9	30.2	25.6	18.2
Eswatini	5.9	3.9	3.7	4.8	4.9	3.9	3.1
Libya	7.5[1]		2.9	4.5	3.4	2.9	2.9
Kenya	7.4	5.3	6.1	7.6	7.7	6.6	5.5
Madagascar	7.0	4.2	5.8	8.2	9.9	7.8	7.3
Malawi	17.2	8.6	9.3	20.8	30.3	27.9	14.7
Mauritius	3.0	2.5	4.0	10.8	7.0	4.9	3.6
Rwanda	3.9	7.7	0.8	13.9	14.0	5.8	5.0
Seychelles	3.0	1.2	9.8	2.6	-1.0	-0.2	2.6
Somalia	--		4.6	6.8	6.1	4.8	3.9
Sudan	28.0[1]		359.1	138.8	171.5	145.5	62.7
Tunisia	4.2[1]		5.7	8.3	9.3	7.4	6.9
Uganda	6.8	2.8	2.2	7.2	5.4	3.8	4.9
Zambia	9.0	15.7	22.0	11.0	11.0	11.4	7.8
Zimbabwe	30.2	557.2	98.5	193.4	667.4	561.0	554.7
COMESA	**9.4**	**17.3**	**14.7**	**19.6**	**23.9**	**20.6**	**16.4**

Notes: [1]average for 2000-20.

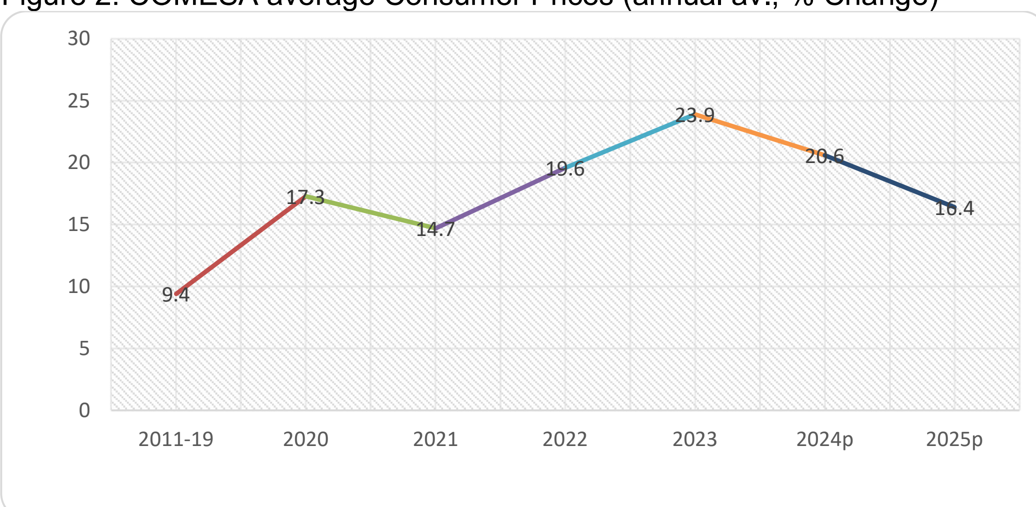
[2] IMF projections for 2024 and 2025.

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Middle East and Central Asia April 2024; IMF Country Reports.

The annual average international oil crude prices are forecast to drop, by up to 2.5% and 6.2% in 2024 and 2025, respectively and are estimated at $78.61 and $73.68 per barrel in 2024 and 2025, respectively, down from $85.5 in 2022. Similarly, non-fuel commodities prices are also projected to remain broadly stable. These developments are expected to slow down global inflation, providing retrieve for the region.

Reflecting these considerations, region wide inflation is projected to ease to 20.6% in 2024 and further to 16.4% in 2025 (**Fig. 2**), although largely remain above the pre-pandemic average of 9.4%. The declining inflation outlook is contingent on expected easing of global but also local supply challenges, and the likelihood that the region's central banks would anchor inflation expectations should inflationary pressures threaten to strengthen.

Figure 2: COMESA average Consumer Prices (annual av., % Change)



Source: IMF REO Sub Saharan Africa April 2024

4 Monetary and Macro-financial Policy and Exchange Rate developments

In 2023, inflation was on a downward path in most member countries, but remained persistently high, hitting double digit in some particularly in those countries that suffered rapid exchange rate depreciations and pursued accommodative monetary and fiscal policies. IMF projections point to average region inflation easing to 20.6% in 2024 and further to 16.4% in 2025, although largely remain above the pre-pandemic average of 9.4%. Regional growth, at the same time, is forecast to decelerate for a third year in a row to 2024, before reversing trend somewhat in 2025.

Monetary tightening cycles appear to have ended in countries where inflation is approaching historical averages and is clearly supporting recovery. In jurisdictions where inflation remains persistently high and elevated, policy makers continue to face a difficult task of safe guarding macroeconomic stability and debt sustainability while supporting the still-fragile recovery. Enhanced coordination between fiscal, monetary and exchange rate policies remain crucial. Given the differences in public debt levels and specifically where debt levels are elevated, fiscal policy is key to bringing them down decisively. Further monetary tightening may be warranted in countries with rising inflation until there are clear signs that inflation is cooling. And where inflation pressures have abated but still elevated, central banks may consider to steer monetary policy cautiously until inflation is firmly on a downward trajectory and projections have returned to the central bank medium term target.

For countries in the region under a flexible exchange rate and where inflation was aggravated by the exchange rate passthrough and/ or fiscal imbalances, the tight monetary policy stance and fiscal consolidation helped to alleviate the pressure by keeping inflation expectations in check and stem capital outflows while attracting inflows, and rein in external imbalances and contain the increases in debt related to exchange rate depreciation. There should be continuation of foreign exchange interventions to smooth exchange rate volatility, but not to resist fundamentals-based movements as this comes at a significant cost, providing reserve buffers permit will be particularly desirable for countries with shallow foreign exchange markets and large un-hedged balance sheet exposures. Therefore, monetary tightening may be needed in some countries to support exchange rates, even in the face of weak economic activity. On the other hand, for pegged countries will need to keep a close watch on inflation trajectory while keeping policy rates in lock with the anchor policy rate to preserve external stability and foreign exchange reserves. Going forward, therefore, monetary policy needs to be increasingly data-dependent depending on country specific circumstances. Striking the delicate balance between anchoring inflation expectations and reducing policy rates to support the fragile economic growth and recovery, will be critical.

5 Overall Fiscal Balance Including Grants

After a significant deterioration in 2020, the region’s average fiscal deficit including grants as a percentage of GDP started to decline from -4.8% in 2021 to -4.2% in 2023, with a projected consolidation of -3.5% in 2024 and -3.3% in 2025 (**Table 3**). The improvement reflects a combination of increased efforts to boost revenue mobilization, and expenditure efficiencies, including phasing out of untargeted subsidies as countries continue to consolidate their public finances to preserve fiscal sustainability (particularly those with elevated debt vulnerabilities) on the path to a credible and transparent medium-term fiscal policy framework.

Relative to 2022, the deficit in 2023, narrowed in 11 COMESA countries—Burundi, Ethiopia, Eswatini, Libya, Kenya, Madagascar, Malawi, Rwanda, Tunisia, Uganda and Zambia, remained at 2022 levels in two countries—Egypt and Somalia, but deteriorated somewhat elsewhere. Moreover, as per IMF REO data, 11 COMESA countries, namely, Comoros, DRC, Djibouti, Ethiopia, Eswatini, Madagascar, Mauritius, Seychelles, Somalia, Sudan and Uganda achieved the COMESA macroeconomic Convergence Criteria of overall budget deficit/GDP ratio (including grants) of 5%.

Table 3: Overall Fiscal Balance (incl. Grants, % of GDP)

Country	Average 2011-19	2020	2021	2022	2023	Projections[3] 2024	2025
Burundi	-5.1	-6.3	-5.2	-10.6	-9.1	-5.9	-3.3
Comoros	0.5	-0.5	-2.8	-4.0	-4.5	-3.4	-2.4
Congo, Dem. Rep.	0.5	-3.2	-1.8	-0.5	-2.2	-1.6	-1.2
Djibouti	-2.8	-2.8	-3.1	-1.4	-2.6	-3.0	-2.6
Egypt, Arab Rep.	-7.4[1]		-7.0	-5.8	-5.8	-10.9	-9.3
Eritrea	-2.3						
Ethiopia	-2.3	-2.8	-2.8	-4.2	-2.5	-2.0	-2.5
Eswatini	-4.5	-4.5	-4.5	-3.8	-1.1	-0.9	-2.7
Libya	2.2[1]		14.8	23.6	8.5	5.2	4.2
Kenya	-6.2	-8.1	-7.2	-6.1	-5.3	-4.0	-3.2
Madagascar	-2.1	-4.0	-2.8	-5.5	-4.9	-3.8	-4.6
Malawi	-3.8	-8.2	-8.6	-9.4	-7.6	-6.6	-7.5
Mauritius	-3.3	-10.5	-4.1	-3.1	-3.3	-3.7	-3.0
Rwanda	-2.6	-9.5	-7.0	-5.7	-5.5	-7.0	-3.4
Seychelles	1.5	-14.8	-5.6	-0.8	-1.5	-1.4	-0.4
Somalia	--		-0.9	0.0	0.0	-0.5	-1.3
Sudan	-3.3[1]		-0.3	-2.1	-3.3	-2.5	-1.9
Tunisia	-3.6[1]		-7.6	-6.7	-6.6	-5.4	-4.9
Uganda	-3.0	-7.8	-7.5	-6.3	-5.0	-4.1	-3.6
Zambia	-6.3	-13.8	-8.1	-7.8	-6.8	-6.1	-5.4
Zimbabwe	-3.3	0.8	-2.2	-6.0	-7.8	-9.9	-9.8
COMESA	**-3.4**	**-5.6**	**-4.8**	**-4.9**	**-4.2**	**-3.5**	**-3.3**

Notes: [1]average for 2000-20.

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Middle East and Central Asia April 2024; IMF Country Reports.

[3] IMF projections for 2024 and 2025.

Figure 3: COMESA average Overall Fiscal Balance (incl. Grants, % of GDP)

Source: IMF REO Sub Saharan Africa April 2024

6 Government Debt

The region's average Government debt as a share of GDP declined to 55.6% in 2023, compared to 58.1% in 2022 (**Table 4**), reflecting, a combination of improvement in macroeconomic imbalances, fiscal consolidation and a comeback in foreign direct investment (FDI) after several years of sluggish inflows.

In 2023, ten (10)(08) COMESA member countries, including, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Ethiopia, Eswatini, Madagascar, Rwanda, Seychelles and Uganda, achieved the revised COMESA secondary Convergence Indicator of total government debt as a share of GDP of less than 65%.

Table 4: Government Debt (% of GDP)

	Average					Projections[4]	
Country	**2011-19**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Burundi	45.1	66	66.6	68.4	62.8	72.7	62.7
Comoros	18.1	24.3	26.3	28.1	33.2	35.5	36.3
Congo, Dem. Rep.	18	16.2	15.7	14.3	14.3	11.1	8.9
Djibouti	35.3[1]		40.2	67.9	60.8	56.5	51.7
Egypt, Arab Rep.	82.3[1]		89.9	88.5	95.9	96.4	82.6
Eritrea	235.6						
Ethiopia	49.2	53.7	53.8	47.1	38	30.5	28.6
Eswatini	22.5	41	40.2	41	37.8	37.2	38
Libya	--	--	--	--			
Kenya	46.7	68	68.2	68.4	73.3	73	70.3
Madagascar	38.1	51.9	51.8	53.4	56.6	56.1	55.6
Malawi	35.5	54.8	61.5	75.8	81.3	74.9	74.6
Mauritius	62.2	94.7	88.8	84.2	81.1	81	80.8
Rwanda	33	65.6	66.7	61.1	62.1	69.9	71.7
Seychelles	65	77.4	71.2	58.9	56.7	58.3	57.2

[4] IMF projections for 2024 and 2025

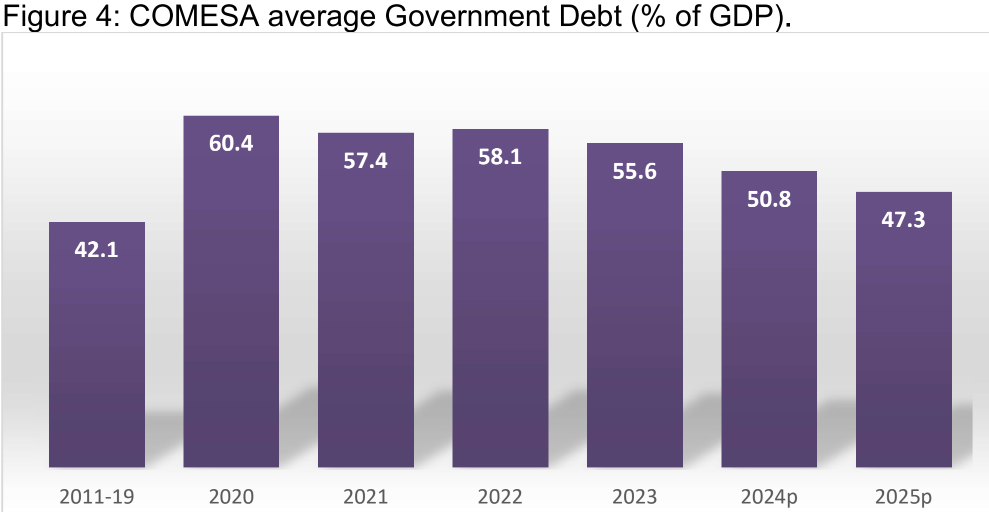
Somalia	--	--	--	--			
Sudan	114.31		187.8	185.8	316.5	280.3	262.9
Tunisia	54	54	79.9	79.9	76.6	78.6	79.5
Uganda	27.8	46.3	50.4	49.9	49.9	49.7	48.6
Zambia	50.9	140	111	99.5	115.2		
Zimbabwe	51.5	84.5	58.6	100.6	90.2	98.5	86.8
COMESA	**42.4**	**60.6**	**57.7**	**58.1**	**55.6**	**50.8**	**47.3**

Notes: [1]average for 2000-20.

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Middle East and Central Asia April 2024; IMF Country Reports.

Going forward, average region government debt to GDP ratio is projected to ease further to 50.8% in 2024 and further to 47.3% in 2025 (**Fig. 4**), on account of improvement in macroeconomic imbalances, fiscal consolidation, a comeback in foreign direct investment (FDI) after several years of sluggish inflows, winding up of the negative effects of earlier weather shocks, gradual improvement in supply issues and expected easing in global financial conditions if inflation continues to decline—continuing recovery in private consumption and investment. Reflecting the already easing global financial conditions, there is renewed global appetite for African debt—one country in the region has so far issued a Euro bond this year, while many others could follow suit. This will ease the funding squeeze in these countries and supporting recovery.

Figure 4: COMESA average Government Debt (% of GDP).



Source: IMF REO Sub Saharan Africa April 2024

However, a tighter financing envelops marked by protracted decline in foreign aid over the past one and a half decade, has pushed countries in the region to widen the variety of debt instruments, diversify the creditor base and engage in complex debt negotiations. This, in addition to the escalating geo-political tensions in the Middle East and red sea regions and threats of rising political instability if continued, together with increasing vulnerabilities to global external shocks and the frequent climate change events raises the risk of fiscal slippage—with the potential to raise regional governments' debt and financing risks, complicating choices for the existing policy space and eventually, vulnerability of these countries to debt default. Already, the debt to GDP ratio for individual countries portrays a more severe and dire situation with some countries debt to GDP ratio projected to rise past 80%. Thus, unless measures are implemented to curtail growth in debt, these countries could face an explosion in the stock of external debt and servicing costs. If left unchecked, the rate of debt accumulation could result in a major source of macroeconomic instability. It's vital for creditors to implement a well-functioning "debt-resolution framework" as reached by government's staff-level agreement with the IMF for countries faced with aggravated debt vulnerabilities and require debt reprofiling or restructuring, to create fiscal space. Coordination among creditors has been and remain challenging. Aid processes need to be predictable and timelier, and creditors and the international financial institutions need to enhance earlier sharing of information, and introduce a standstill on debt service.

7 External Current Account Including Grant

The COMESA region external current account including grants, as a percentage of GDP, improved to an average of -4.1% in 2023, relative to -4.6% in 2022 (**Table 5**) on account of falling global commodity prices, rebounding tourism, resilient remittances and fiscal consolidation. It is important to note that the perennial external current account deficit for most economies in the region is due to the usual persistent trade imbalances due to a combination of declining export demand and relatively inelastic import bills because of higher commodity prices, and in some cases late disbursement of external aid flows faced by most countries in the COMESA region.

Table 5: External Current Account (incl. Grants, % of GDP)

Country	Average 2011-19	2020	2021	2022	2023	Projections[5] 2024	2025
Burundi	-14.1	-9.7	-11.6	-16.2	-13.3	-17.3	-15.3
Comoros.	-3.1	-1.8	-0.3	-0.5	-6	-5.8	-5.3
Congo, Dem. Rep.	-4.4	-2.1	-1.0	-5	-5.4	-4.1	-3.2
Djibouti	--		-6.6	17.6	23.5	5.1	4
Egypt, Arab Rep.	-1.1[1]		-4.4	-3.5	-1.2	-6.3	-2.4
Eritrea	14.9						
Ethiopia	-7.1	-4.6	-3.2	-4.3	-2.9	-2.6	-1.7
Eswatini	6.0	7.1	2.6	-2.7	2.2	2.1	1.1
Libya	10.4[1]		16.1	28.6	15.7	20.4	20.8
Kenya	-6.9	-4.7	-5.2	-5.2	-3.9	-4.3	-4.2
Madagascar	-2.7	-5.4	-4.9	-5.4	-4.5	-4.8	-4.7
Malawi	-10.2	-13.8	-14.1	-3.2	-6.9	-7.1	-9.4
Mauritius	-5.8	-8.8	-13.0	-11.5	-5.9	-5.3	-4.8
Rwanda	-10.5	-12.1	-11.2	-9.8	-11.7	-12.1	-9.8
Seychelles	-15.3	-12.3	-10.1	-6.9	-7.3	-8.4	-8.5

[5] IMF projections for 2024 and 2025

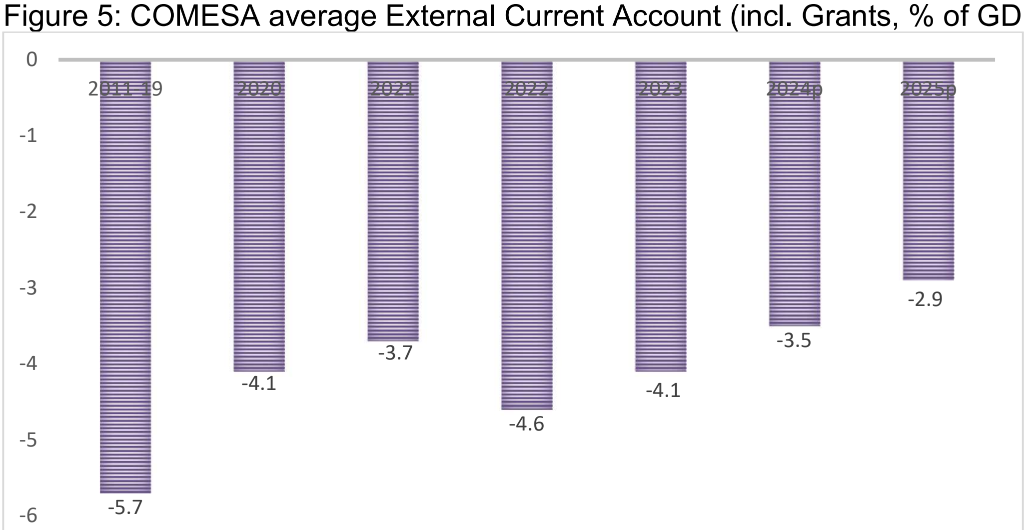
Somalia			-6.8	-8.0	-9.6	-8.7	-8.8
Sudan	-9.6[1]		-7.5	-11.2	-5.4	-6.9	-11.0
Tunisia	-6.1[1]	-6.1	-6.0	-8.6	-2.5	-3.5	-3.7
Uganda	-5.6	-9.5	-9.3	-8.8	-7.7	-7.3	-7.6
Zambia	0.3	10.6	9.7	3.7	-1.8	3.7	5.2
Zimbabwe	-7.9	2.5	1.0	1.0	0.4	0.2	1.0
COMESA	**-5.7**	**-4.1**	**-3.8**	**-4.6**	**-4.1**	**-3.5**	**-2.9**

Notes: [1]average for 2000-20.

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Middle East and Central Asia April 2024; IMF Country Reports.

The external current account including grants is projected to improve further to -3.5% of GDP in 2024, and further to -2.9% of GDP in 2025 (**Fig. 5**), on account of expected fall in international commodity prices, rebounding tourism, resilient remittances and fiscal consolidation. Going forward, strengthening continental value chains should be a priority given the uncertain global business environment. As the private sector advances its digital transition, it is important for the continent to invest in enhancing essential telecommunication infrastructure, including fiber optics and high-speed Internet, as well as to complete the regulatory (e-commerce) agenda for digital transition. This will be essential for the emergence and expansion of 21st century value chains in the region. In the medium-long term, the effective implementation of regional integration agenda of the Regional Economic Communities and the AfCFTA will be key to strengthening regional production networks and trade, reduce the continent's vulnerability to external shocks, and consequently lead to improvements in external current account balances.

Figure 5: COMESA average External Current Account (incl. Grants, % of GDP)



Source: IMF REO Sub Saharan Africa April 2024.

8 Reserve Accumulation

Adequate reserves help countries better manage their economies and respond to external shocks, while appropriate reserve management is essential for minimizing the opportunity cost of holding reserves and maximizing returns. The COMESA region external reserve cover dwindled down to an average of 2.3 in months of imports of goods and services in 2023, from 2.7 and 3.1 months of import of good and services in 2022 and 2021, respectively (**Table 6**). The dip in external reserves in months of imports of goods and services during the year under review reflects considerable pressure to provide for foreign exchange to smooth disruptive volatility in the exchange rate and supporting oil and food imports particularly for commodity importing economies of the region.

At an average of 2.3 in months of imports of goods and services, reserves have breached the standard import-cover benchmark for the COMESA macroeconomic Convergence Criteria of External Reserves of equal to or more than 3 months. Eleven (11) COMESA member countries, including, Comoros, Egypt, Eswatini, Kenya, Madagascar, Mauritius, Rwanda, Seychelles, Tunisia, Uganda and Zambia met the threshold on reserves in months of imports of goods and services cover. Relative to the historical average, the region's reserve cover, in the outer years of 2024 and 2025, is projected to improve somewhat to 2.7 months of import of good and services (**Fig.6**), largely on improvement in the current account and easing global financial conditions.

Table 6: Reserves (Months of imports of goods and services cover)

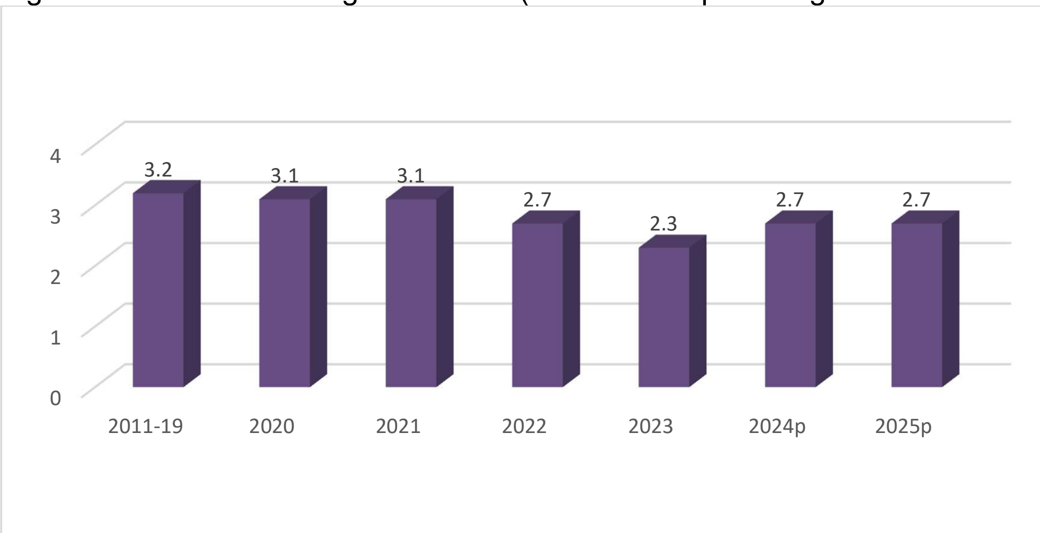
Country	Average					Projections[6]	
	2011-19	2020	2021	2022	2023	2024	2025
Burundi	2.5	1	2.2	1.5	0.7	1.7	2.4
Comoros	7.1	7.9	8.6	6.6	6.4	6.9	6.5
Congo, Dem. Rep.	0.9	0.4	1.1	1.7	2	2.2	2.3
Djibouti			1.4	1.4	1.2	1.3	1.3
Egypt, Arab Rep.	5.8[1]		4.6	4.5	4.6	6.1	5.8
Eritrea	2.8						
Ethiopia	2	2	1.5	0.8			
Eswatini	3.7	3.1	3	2.4	3	3.1	3
Libya	--	--	--	--			
Kenya	4.6	4.6	4.7	4.4	3.7	4.1	4.1
Madagascar	3.4	4.8	4.5	4.6	5.4	5.3	5.4
Malawi	2.5	0.8	0.5	0.5	1.8	2.9	3.9
Mauritius	8.4	14.4	12.8	11.4	9.7	9.7	9.5
Rwanda	3.9	5.3	4.6	3.6	3.8	3.9	4.2
Seychelles	3.6	3.7	3.7	3.2	3.2	3.4	3.6
Somalia	--	--	--	--			
Sudan	1.2[1]		1.4	3.5	2.3	1.3	1.1
Tunisia	3.5		3.6	3.3	3.6	3.4	3
Uganda	4.6	4.3	4.7	3.1	3	3.6	4
Zambia	2.7	1.3	2.8	3.1	3.1	3.6	4.6
Zimbabwe	0.5	0.1	1.1	0.7	0.1	0.2	0.4
COMESA	**3.2**	**3.1**	**3.1**	**2.7**	**2.3**	**2.7**	**2.7**

Notes: [1]average for 2000-20.

[6] IMF projections for 2023 and 2024

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Middle East and Central Asia April 2024; IMF Country Reports.

Figure 6: COMESA average Reserves (Months of imports of goods and services cover)



Source: IMF REO Sub Saharan Africa April 2024

9 Medium Term Prospects and Recommendations

Region wide inflation is projected to ease over the medium term, although largely remain above the pre-pandemic average. Regional wide output level, at the same time, is forecast to decelerate for a third consecutive year in a row to 2024, before reversing trend beyond 2025. The funding squeeze driven by limited access to financing and rising debt service costs; escalating geo-political tensions in the Middle East and red sea regions, when added to increasing vulnerabilities to global external shocks and threats of rising political instability and frequent climate change events presents additional spending pressures on shrinking fiscal budgets. While monetary tightening cycles appear to have ended in countries where inflation is approaching historical averages and is clearly supporting recovery, in jurisdictions where inflation remains persistently high and elevated, policy makers face a difficult task of safe guarding macroeconomic stability and debt sustainability while supporting the still-fragile recovery. Fending off these extraordinary headwinds and uncertainties, amidst dwindling fiscal space, the regional economies could consider the following:

a) Crucially enhance further the coordination between fiscal, monetary and exchange rate policies to strike balance between containing the ongoing inflationary pressures and supporting the on-going economic recovery, while at the same time manage exchange rate volatilities but not to resist fundamentals-based movements as this comes at a significant cost.

b) Further tighten monetary policy in countries with rising inflation until there are clear signs that inflation expectations are anchored. And where inflation pressures have abated but still elevated, central banks may consider to steer monetary policy cautiously until inflation is firmly on a downward trajectory and projections have returned to the central bank medium term target.

c) To reign on the threatening debt levels, member countries will need to create more fiscal space, through domestic revenue mobilization, prioritization and efficiency gains on spending to intentionally bring debt levels down decisively. Beyond this revenue and spending measures, governments need to maximize the fiscal space by improving their fiscal frameworks to credibly balances the need for short-term support with medium-term consolidation.

d) To adapt to an environment with tighter financing conditions while aiming to preserve fiscal sustainability. This will require countries to double efforts at boosting revenue mobilization, and prioritize and increase the efficiency of spending where possible, while minimizing possible negative impacts on growth and poverty. Boosting revenue mobilization, in particular, can help attract more external financing as a country's revenue stream is a main metric for its debt repayment capacity. However, in the near-term, authorities will struggle to secure external financing and debt vulnerabilities are likely to worsen in the current environment of rising borrowing and debt servicing costs.

e) For some countries faced with aggravated debt vulnerabilities /or are likely to experience the same and require debt reprofiling or restructuring, a well-functioning debt-resolution framework is vital if they are to create the much-needed fiscal space. Countries have widened the variety of debt instruments; the creditor base has also become more diversified; and negotiations more complex. In this environment, it is crucial that creditors increase their reliability and predictability, co-ordinate credit delivery systems and also make it more transparent and introduce a standstill on debt service during the debt treatment process.

f) Effective and proactive debt management is critical to lowering debt risks. Debt management can help strike the balance between funding the government's needs and ensuring that debt levels remain sustainable. This includes enhancing debt reporting, lengthening maturities, and avoiding bunching of repayments to mitigate refinancing risks.

g) The cascading series of dislocations of trade routes and supply chain disruptions, the latest being rerouting of ships from the Bab al-Mandab Strait due to marine attacks in the red sea highlight the importance of expediting efforts that actively pursue both partner diversification and reduction of distortionary trade restrictions to strengthen resilience to future advance shocks and exposure to climate change with its impact on agriculture production risks which has heightened vulnerabilities to non-diversified product and destination trade structure.

h) In the medium term, structural transformation and economic diversification of individual economies in the region will be crucial, particularly reforms that raise potential growth by bolstering private sector development and increasing the benefits from trade. The African Continental Free Trade Area (AfCFTA) offers an excellent opportunity to expand trade relationships and mitigate risks associated with economic downturns in individual countries. But the success of AfCFTA depends on the progress made to substentially reduce tariff and non-tariff barriers, enhance trade facilitation and improve trade environment and infrastructure across the continent. Bolstering continental and regional trade integration will forge a larger and more interconnected market and make sure the continent become even more attractive to more investment.

10 Risks to Outlook

The recovery from a recent cascading series of shocks continues, but is divergent and risks remain abundant, marked by the funding squeeze driven by limited access to financing and rising debt service costs. This, compounded with escalating geo-political tensions in the Middle East and red sea regions, increasing vulnerabilities to global external shocks and threats of rising political instability and frequent climate change events poses serious risks to economies of the COMESA region. On somewhat a good note, the fuel pump price pressures and global non-fuel commodities prices as well as local supply challenges are projected to continue on easing trajectory over the medium-term, providing some retrieve for the region.

References

1. IMF REO Sub Saharan Africa (April 2024)
2. IMF REO Middle East and Central Asia (April 2024);
3. IMF Article IV Consultations Staff Country Reports
4. AfDB African Economic Outlook (March 2024)