



United Nations
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Macroeconomic and Social Developments in Eastern Africa 2019

Benchmarking Performance Towards National, Regional and International Goals



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Executive Summary

As the fastest growing region on the African continent, Eastern Africa had an average annual growth rate of 6.6% between 2014 and 2018, more than double the continental average. High growth is set to continue: 6.4% in 2019, following 6.6% in 2018. Improvements in agricultural production and sustained infrastructure investment have sustained growth and will continue to do so, while resolution of the political conflict between Eritrea and Ethiopia promises to provide a boost to growth in the Horn of Africa.

The region is set to grow at 6.4% in 2019, following an annual growth rate of 6.6% in 2018.

Socially, too, there have been important gains for the region. Life expectancy – a broad indicator of welfare and living standards – has increased in the region by 5.3 years over the past decade, with some countries registering historically unprecedented gains (with Kenya and Rwanda both registering the

Reflecting general improvements in living standards, life expectancy in Eastern Africa has increased by 5.3 years over the past decade, with Kenya and Rwanda registering historically unprecedented gains.

increases in excess of 8 years). Despite the fact that most Eastern African countries are in the low human development category, they continue to make notable progress on the dimensions of education and life expectancy. Between 2010 and 2017, the average annual regional HDI grew by 0.86 percent, which was higher than the global average of 0.6 percent for the same period.

A major regional consensus was achieved at the African Union (AU) Summit held in Kigali in March 2018, with thirteen of the fourteen countries of Eastern Africa signing up to the establishment of an African Continental Free Trade Area (AfCFTA). Following the launch of the operational phase of the AfCFTA in July 2019, the agreement could boost intra-African trade and accelerate the pace of structural transformation in the region.

This last point is especially important because studies coincide in highlighting the slow pace of structural change in Eastern Africa. Job creation has been much slower than the rate of economic expansion over the past decade, raising the spectre of jobless and exclusionary growth. This report estimates that Eastern Africa will have to sustain GDP growth of at least 6 percent simply to create sufficient jobs for the 8.5 million entrants each year into the labour market. Moreover, this report stresses the fact that the so-called ‘demographic dividend’ – the potential boost to economic growth as dependency ratios fall and a large share of the population moves in the workforce – is far from guaranteed under current demographic trends. The rapid population growth could become a barrier to growth, if the appropriate policies are not in place, especially in terms of sufficient investments in education and health.

Prospects for regional growth have been bolstered by the resolution of the long-standing political conflict between Eritrea and Ethiopia, a remarkable development that promises to provide a substantial boost to growth in the Horn of Africa.

Facilitated by strong economic growth, countries in the region have been able to increase their national budget expenditures in recent years. However, a key question is whether those larger budget allocations are sufficiently aligned with countries’ developmental priorities. This report carries a preliminary analysis of this question, using the examples of Kenya, Uganda and Rwanda. The conclusions are informative. All three countries give a priority to investment in infrastructure, necessary to sustain the high rates of economic growth. Education also receives significant attention. But allocations to health tend to lag behind. This is unfortunate. The SDG Centre’s Index and Dashboard Report (2019) finds that for Eastern Africa the steepest challenges in terms of meeting the SDGs are SDG 3 (good health

and wellbeing), SDG 9 (infrastructure) and SDG 16 (peace and strong institutions) with all countries, except Seychelles, scoring red.

The report also flags a number of additional risks to regional growth and development:

- The first is structural. Large Balance of Payments deficits, driven by a weak export trade performance combined with a voracious demand for imports, continue to constrain growth in the region. We econometrically estimate that, for a typical Eastern African country, a 10% increase in the current account deficit results to a 0.9 to 1.4% reduction in the GDP per capita growth. If the region is to attain a more sustainable pattern of growth, it will need to improve its trade performance.
- The second risk is also structural in nature. Accentuated by climate change, Eastern Africa still suffers from sharp fluctuations in agricultural production which still account for around one-third of regional GDP. This vulnerability is the result of both an increase in the intensity of weather-related shocks, as well as a long-term lack of investment in the sector. In 2016, for instance, severe weather conditions (both drought and flooding) negatively impacted economic growth in several countries in the region (e.g. Ethiopia, Kenya, Uganda, Rwanda and Somalia).
- Thirdly, ongoing conflicts in parts of the region continue to act as a brake on growth and development, with a very clear human cost. The number of Internally displaced peoples (IDPs) in the sub-region exceeded 11.7 million by the end of 2018, including more than 4.5 million in DRC, 2.6 million in both Ethiopia and Somalia, and close to 1.9 million in South Sudan. While 80% of IDPs were displaced due to conflict, drought further exacerbated this displacement. The sub-region also is host to two of the largest refugee crises in the world – from South Sudan and Somalia situation. At year-end, the number of refugees and asylum-seekers within the sub-region exceeded 2.8 million, with the largest caseloads in Uganda (1.2 million), and Ethiopia (903,000).
- Fourthly, there have been signs of rising trading tensions between Partner States of the East African Community (EAC), resulting in declining levels of intra-regional trade. As the report stresses, such disputes are not uncommon within regional blocks – in the past, conflicts of a similar kind have occurred both within North American Free Trade Agreement and the European Union, for example. Nevertheless, to maintain the momentum of the EAC project, it is important that such disputes and Non-Tariff Barriers (NTBs) are resolved expeditiously. Econometric analysis carried out for this report suggests that intra-EAC trade would almost double (a 95% increase) if it were to attain its maximum potential, unencumbered by these barriers.
- Finally, downside risks to global growth have increased since the second half of 2018, mainly due to the escalating trade tensions between the United States and its trading partners, worries about peace and stability in the Middle East, and volatility in the financial markets of several emerging markets. Brexit has also created additional concerns, although this report stresses that it may also open up some marginal new export opportunities for the region towards Europe in the face of the decline of trade between the EU and UK.

Econometric analysis suggests that the East African Community is currently trading at just half of its potential level.

So far, Eastern African economies have weathered all this uncertainty well. Although the depreciation pressure on most local currencies in Eastern Africa remains moderate and inflation has stayed at modest levels since 2018, the heightened external risks, coupled with tighter global financial conditions, raises the risk of capital outflows and even exchange rate crises, especially for those countries with low foreign

reserves and high debt levels. Apprehension about capital reversals and debt shocks are heightened by the fact that in a number of countries (among them, Ethiopia, Eritrea, Burundi, D.R. Congo and South Sudan) foreign reserves stood at less than two months of imports at the end of 2018.

During a time of increased trade protectionism and moderating global demand, it is crucial for African countries to focus on the regional ties which are more resilient and dynamic.

This last point on the more challenging external environment brings us back to the importance of consolidating regional integration within Eastern Africa. During a time of increased trade protectionism and moderating global demand, it is crucial for African countries to focus on the regional ties which are more resilient and dynamic. This report stresses the fact Africa's trading relations with the rest of the world

over recent decades – under the guise of multiple ‘preferential market access’ schemes – have had disappointing results. They have neither led to a notably stronger export performance nor to more diversified economies. In addition, the temporary nature of preferential market access schemes has made it difficult for firms and investors to take a longer-term view and invest in the strategically important export-oriented sectors of the economy. Against this backdrop, the importance of leveraging the unique opportunity presented by the AfCFTA cannot be overstressed. This includes the implementation of the Free Movement of People's Protocol; the report documents the economic benefits from greater intra-regional labour mobility, including contributing to addressing the problem of skills shortages.

Finally, this report flags a major transversal issue where progress is still sorely lagging. Gender inequality is manifest in almost all spheres, from education, to personal safety, to participation in the waged economy. Equality in education, access to employment and access to finance for females on a par with males is essential for successful

Over one in four women in the region between the ages of 15-49 have been subjected to physical and/or sexual violence by a current or former intimate partner over the previous 12 months.

development outcomes, not to mention quality of life for all. In most Eastern African countries, legislation to protect all members of society – including men – from gender-based violence already exists; it should be enforced. Over one in four women between the ages of 15-49 have been subjected to physical and/or sexual violence by a current or former intimate partner over the previous 12 months. Governments need to step up efforts to tackle all forms of inequality and discrimination in order to reap the large gains in growth, poverty reduction and the realization of sustainable development.