The impact of the energy-induced EU recession on Sub-Saharan Africa

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Abstract: The EU is one of the three largest economies in the world. But its economy, which is still suffering from the COVID-19 pandemic and the negative effects of the Russian war in Ukraine, faces a bleak outlook. Inflation, or even stagflation, is a major concern as it reflects cost pressures from disrupted supply chains and tight labour markets. The Russian invasion of Ukraine could also lead to a sustained stop in European gas supplies from Russia. Fitch Ratings forecast the likelihood of a technical recession in the eurozone due to ongoing gas rationing. Apparently, the EU is at the mercy of two unpredictable powers, Putin and the weather. Moreover, China is also affected by global imbalances, and when China coughs, Europe catches the flu. However, the risks are greatest in sub-Saharan Africa. Its global growth spillovers come mainly from the EU and the BRICS countries. In addition to its strong demographic growth, the continent is already suffering from climate change, including prolonged droughts, and political destabilization, particularly in the Sahel, Horn of Africa and East Africa. The two major African powers, Nigeria and South Africa are currently going through major socio-economic crises. Many sub-Saharan African countries are heavily dependent on energy and food imports, particularly wheat from Russia and Ukraine. For the approximately 30 million African poor, this means a further increase in inequality. A recession in Europe would amplify external pressures and growth challenges. In addition, the emerging sub-Saharan markets bear the greatest export risk to the EU. The debt problem is also looming again because lower global commodity prices slowed down economic growth.

Keywords: EU, recession, Russo-Ukrainian War, COVID-19 pandemic in Africa, Sub-Saharan Africa, economic development, human development, informal sector, poverty, famine, international trade, food crises, global power, fragile states, Nigeria, South Africa, Postcolonialism, African Studies


1 Dirk Kohnert, associated expert, GIGA-Institute for African Affairs, Hamburg, Draft: 6 August 2022

2 “Africa is not poor, it is looted” – cartoon of French cartoonist ‘Herlé’, (Herlé Quinquis) © (all rights reserved), published 25 May 2015 by Danielle Funfschilling.
1. Introduction

The combined effects of the worldwide COVID-19 pandemic and the Russian invasion of Ukraine put not only the global economy at risk but also impacted negatively the European Union (EU). Yet, although global powers like the US, China and the EU will experience a setback in their economic recovery, the growing inflation affects the poorest and disadvantaged most, both at the country level and between rich and poor countries. This will contribute to further increasing inequalities worldwide (Borrell, 2022).

Russia’s invasion of Ukraine will be used by Moscow to destabilize the EU, notably by using gas as a strategic instrument in hybrid warfare. In August 2022 it curtailed gas delivery by Nord-Stream 1 to 20% of its original capacity, further cutbacks in Winter 2022 /23 are probable. Inflation and restricted global financial conditions could induce a surge in debt distress in emerging markets and developing economies. This may result in a geopolitical break-up that could impede global trade and cooperation. Additional stress will be caused by renewed COVID-19 outbreaks and lockdowns, notably in China, restraining China’s growth. (Gourinchas, 2022).

**Graph 1**: revised upwards inflation trends

![Graph 1](image)

Source: EU-External Action (EEAS), IMF, World Economic Outlook; and IMF staff calculations.

Note: Left panel average inflation rates by economy group are purchasing-power-parity GDP-weighted averages.

Sub-Saharan African (SSA) states dispose of less fiscal space to mitigate the impact on their residents, more than ever before. Africans were already impaired previously because they had to suffer, more than others, from climate change, including prolonged droughts, and political destabilization, particularly in the Sahel, the Horn of Africa and East Africa. Most African countries are heavily dependent on the import of energy and foodstuff, notably wheat from

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3 Russia’s invasion of Ukraine and a broadening of price pressures caused elevated inflation for longer than previously forecast.
Russia and Ukraine. Moreover, the two major African powers, Nigeria and South Africa are currently going through major socio-economic crises (Borrell, 2022). The soaring food and energy prices will increase worldwide food insecurity and may even trigger social unrest (Gourinchas, 2022).

**Graph 2 : Slowing growth worldwide**

The growing divide between rich and poor countries has been supplemented by discrepancies within countries. The COVID-19 pandemic has already had a particularly harsh impact on the African poor in the recent past (Kohnert, 2021b). At least 30 million Africans were thrown into extreme poverty. Thereby, the crisis further worsened the inequality not just between income groups, but also across subnational geographic regions. This could further add to the risk of social tension and political instability (Selassie, 2021).

**Cartoon 2 : China and Russia test the limits of EU power**

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4 Growth is forecast to slow to 3.2 % 2022 and 2.9 % 2023, i.e. downgraded by 0.4 % and 0.7 %. EMDE = emerging markets and developing economies.
Russia and China capitalized on the ongoing crisis by testing the limits of EU power. Compared with its economic power, the EU remained geopolitical a dwarf because of diverging political interests between member states, additionally weakened by Brexit and Britain’s vision to regain its former world-power status (Kohnert, 2018). Therefore, it did not surprise that Brussels was largely sidelined in the Ukraine crisis. Moreover, Beijing took advantage of the situation and imposed economic sanctions on Lithuania and further on also on German enterprises dealing with Lithuania, because Vilnius had opened a ‘Taiwan Representative Office’ in November 2021 regarded by Beijing as a violation of its One China policy (Reynolds, 2022).

There was a significant political shift in the Eastern Europe arena as Russia and China have been trying to capitalize on the ongoing crisis in the EU by testing the limits of EU power. Compared with its economic power, the EU remained a dwarf because of diverging political interests between member states, additionally weakened by Brexit and Britain’s vision to regain its former world-power status (Kohnert, 2018). Therefore, it did not surprise that Brussels was largely sidelined in the Ukraine crisis. Moreover, Beijing took advantage of the situation and imposed economic sanctions on Lithuania and further on also on German enterprises dealing with Lithuania, because Vilnius had opened a ‘Taiwan Representative Office’ in November 2021 regarded by Beijing as a violation of its One China policy (Reynolds, 2022).

In the following, the current energy-induced recession in the European Union (EU) and the subsequent high inflation in the Eurozone will be analysed on the base of current scholarly literature. This is the background for the assessment of the impact of the recession on the countries in Sub-Saharan Africa, which has been already weakened by the ongoing COVID-19 pandemic. Finally, the impact of both recession and Corona pandemic on poverty alleviation in Africa will be outlined.
2. The EU recession and energy crisis of 2022

Cartoon 4: Energy-induced EU inflation

Look at these prices, mate! What did you expect? These are luxury items.

Source: Caricatures and drawings on Forex portal instaforex.com. © (all rights reserved), 27 July 2022

Because of the gas crisis, caused by the reduction of Russian gas imports mentioned above, the EU had already agreed upon a ban on all Russian seaborne oil imports on 30 May 2022 too. Bank experts forecasted that the ban, in face of already high inflation and intense supply chain pressure, will result in a ‘technical recession’ (Wijffelaars & de Groot & van Harn, 2022). But still, they expected the Eurozone to grow by 2.2 % in 2022, yet to contract by 0.1 % in 2023. It would take time before Russian oil and gas imports could be replaced by alternative oil imports, e.g. from Qatar, and by liquefied natural gas (LNG) imports, regarding that the infrastructure in major EU economies for LNG has still to be constructed. Therefore, EU oil and gas prices will increase substantially in the medium- and long run (Wijffelaars & de Groot & van Harn, 2022).

Graph 3: ‘Technical recession’ in the EU, 2022 /23

Germany is heavily dependent on oil and gas imports. In early April, the EU agreed to ban coal imports from Russia from August 2022. A full EU embargo on Russian energy would trigger a major recession in Germany, lowering growth by 2.2 % next year and provoking the loss of more than 400,000 jobs, according to the Kiel Institute for the World Economy and
other top German economic institutes (Arnold, 2022). At least, according to these forecasts, the recession would be less severe than the 4.6 % GDP decrease caused by the COVID-19 pandemic in 2020. Yet, the aftermath of a recession caused by an immediate Russian energy embargo would last much longer and cause more collateral economic damage compared with the pandemic, according to the head of the German Institute for Economic Research, Marcel Fratzscher. He cautioned that this could erode the competitiveness of German industry lastingly, particularly in the chemical industry, including fertilizer production, and the steel industry.

**Graph 4**: High uncertainty slashes growth prospects for EU 2022, risk of new recession looms

![Graph 4](image)

Source: *Eurofer*, 27 July 2022

Nevertheless, German voters apparently backed the EU and German energy policy. On 13 April, the Allensbach Institute for Public Opinion Polling published a survey saying that 30 % of Germans would support an immediate ban on all Russian energy imports and after all 24 % would be prepared to ‘freeze for freedom’ (Arnold, 2022).

**Graph 5**: Energy crisis increases fears of a German recession (real German GDP, change p.a.)

![Graph 5](image)

Source: Arnold, 2022

Germany consumes about 100 bn cubic meters of natural gas annually, with 55 % of that coming from Russia via Nord Stream 1 and other smaller volumes from Netherland and Norway (DW-news, 2022). Therefore, Berlin signed an energy partnership with Qatar (Quatar) on 20 May 2022 to become independent from Russian energy. However, Qatar could start LNG deliveries earliest by 2024.

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7 2022 and 2023 figures are forecasts of the impact of an EU embargo on Russian energy by five German institutes. Sources: Eurostat, German Institute for Economic Research, Ifo Institute for Economic Research, Kiel Institute for the World Economy, Halle Institute for Economic Research, RWI (© Financial Times).
France is even more vulnerable than Germany to energy blackouts in case the next winter should turn colder. It relies heavily on nuclear energy, but only 26 of its 57 reactors were actually running because of emergency maintenance. Bloomberg predicted already an electricity ‘Waterloo’ for France (Blas, 2022). Nevertheless, the EU Commission projected the French GDP to increase by 2.4% in 2022 and 1.4% in 2023 (Brussels: European Commission, update: Summer 2022 Economic Forecast, 14 July 2022).

Also for Italy, a gas cut-off would trigger a recession, according to the country's governor of the central bank, Ignazio Visco. He predicted the GDP to shrink on average in 2022-2023 and to return to growth in 2024 (Migliaccio & Sirletti, 2022).

Altogether, the outlook for a recession in Europe seemed to be ‘clear-cut’. This all the more, because it struggled at the same time with rampant inflation, the impact of Russia’s war in Ukraine and an already disturbed supply chain due to the Corona pandemic (Ellyatt, 2022). Europe’s stocks of natural gas have never been so empty at this point before the next winter. The benchmark gas prices more than quadrupled compared to last year’s levels. With its natural gas stockpiles running dangerously low, and delivery of Russian gas to Germany reduced to 20% already in August 2022, the EU was at the mercy of two incalculable forces,
Putin and the weather (Almeida & Krukowska & Shiryaevskaya 2022). Moreover, the price volatility and unreliable provision of energy triggered additional political tension between the EU Commission and the EU 27 member states, as well as between major political parties within the member states. They have different views about the need to revert to polluting coal, oil and atomic energy, against increasing reliance on renewables (Almeida & Krukowska & Shiryaevskaya 2022).

3. The impact of the EU recession on Sub-Saharan Africa

Cartoon 6: ‘African Renaissance’

Still, in October 2021 the IMF had been quite optimistic about the growth prospects of SSA because of its ‘undiminished potential’. The Bretton Woods institutions thought Africa to be ‘at a critical juncture to implement bold transformative reforms to capitalize on this potential’. SSA was forecasted to grow by 3.7% in 2021 and 3.8% in 2022. According to the IMF, this rebound largely resulted from a sharp improvement in global trade and commodity prices as well as favourable harvests that improved agricultural production (IMF, 2021).

Graph 8: Africa’s main trading partners

(source of direction of trade, 2018, in %)


Source: Tshuma, 2022

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8 Zapiro, pen name of the internationally renowned cartoonist Jonathan Shapiro, 13 April 2007 © (all rights reserved).
Yet, the Sub-Saharan African (SSA) markets have been especially exposed to an economic downturn in the EU. The United Nations Development Programme (UNDP) classified the markets of 46 out of 54 African countries as endangered, apart from Djibouti, Somalia, and Sudan. Emerging markets in SSA, already significantly exposed to the COVID-19 crisis, are also susceptible to the greatest sovereign export exposure to EU growth shocks worldwide (Akanji, 2022).

Already the COVID-19 pandemic aggravated poverty in SSA, increasing the number of people living in extreme poverty from 449 million (pre-Corona) to 478 million by 2022. The pandemic also triggered Africa’s first economic recession in 25 years (Tshuma, 2022). Furthermore, foreign direct investment (FDI) might decline and donor fatigue may grow, because of donor’s own COVID-19 and inflation-related problems.

Direct impacts of both crises on Africa include trade disruption, food and fuel price spikes, macroeconomic instability, and security challenges. Thus, food and fuel account for over one-third of the consumer price index in most African countries (Nigeria 57 %, Egypt 60 %, Ghana 54 %, and Cameroon 42 %) (UNDP, 2022). Moreover, Russia’s invasion of Ukraine led to an increase in the price of fertilizers by 21 %, with detrimental effects on the African poor who largely remain dependent on the agricultural sector. Further increasing hunger and famines will be the likely result. Also, the growth of African exports shrunk by half to an estimated 4.1 %, compared to 8.3 % in case the invasion would not have occurred (UNDP, 2022).

According to the market-orientated philosophy of the Chief Economist for Africa of the World Bank, Albert Zeufack, a liberalized trade policy could play a key role to ensure at least temporarily the free flow of food across borders in Africa. He commended African leaders to look for innovative solutions such as reducing or even waving import duties on staple foods for the time being to provide relief to their citizens (World Bank, 2022).

**Graph 9: Decreasing global trade integration is matched by movement in Global Value Chains (GVC) participation**

Source: Munemo, 2022

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Yet, the **COVID-19 crisis** and the **Russian invasion of Ukraine** intensified the deglobalisation of trade, i.e. the risk of declining trade integration between countries, notably for European and US enterprises. This added additional stress to African economies on top of current economic and social tensions arising from soaring food and fuel price inflation imposed by the war in Ukraine. The decrease in **globalisation** by back shoring of **value chains** could push additional 52 million Africans into extreme poverty (Munemo, 2022).

**Graph 10:** Emerging market sovereign export exposure to Europe, by region

![Graph 10](image)

*Note: Average of export shares by country, weighted by 2021 nominal GDP; Fitch-rated sovereigns only. Source: Fitch Ratings, Naveer Analytics, IMF Direction of Trade Statistics. Source: FitchRatings: Akanji, 2022 accessed: 13 July 2022*

All this made that the prolonged **African debt crisis** will be aggravated too because lower commodity prices (apart from oil and gas) slowed down economic growth additionally. In 2018, the median **debt-to-GDP ratio** in Africa was back to over 50%, from 30% in 2012, at first sight, a relatively low figure by international standards. Yet, African governments have little margin for manoeuvre because they collect relative insufficiently tax and often have to pay high interest rates (Data team, 2018).

**Graph 11:** Debt is creeping back up in sub-Saharan Africa

![Graph 11](image)

*Source: Data team, *The Economist* (London)*
Africa’s global growth knock-on effects from an EU recession, for example, concerning the development of renewable energy, mainly come from the Eurozone and BRICS countries (Li & Zhang & Wang, 2022).

Contrary to a popular fallacy most African debt is not owed to China, the main investor in Africa. According to the British NGO ‘Debt Justice Charity,’ most African governments’ external debts were being owed to Western banks, asset managers and oil traders (35%) and not to Chinese creditors (12%). The NGO also found that interest rates charged on western private loans (5%) were almost double as high as that of Chinese loans (2.7%)\(^\text{10}\).

**Graph 12:** SSA regional economic outlook at a glance, IMF, October 2021

\(^{10}\) “Of 24 African countries that spent more than 15% of government revenue servicing debt in 2021, six countries, i.e. Angola, Cameroon, Republic of Congo, Djibouti, Ethiopia and Zambia, sent over a third of debt payments to Chinese lenders. Other private creditors accounted for over a third of payments in 12 countries.” (Debt-trap diplomacy, Wikipedia).
4. Disastrous consequences of the COVID 19 pandemic add to the energy-induced effects of the EU recession on SSA

The spread of the *Corona pandemic in Africa* has had and continued to have disastrous consequences on SSA (Kohnert, 2021 b). According to a report by the *International Labor Organization* (ILO) in 2017, the workforce in SSA was estimated to grow by around 200 million between 2017 and 2030. Yet, jobs and employment would not develop fast enough to absorb all job seekers. While total employment grew from around 254 million in 2004 to around 375 million in 2017, vulnerable employment and total unemployment also increased, leaving a large number of people in poverty (Gaus & Hoxtell, 2019).

**Graph 13:** Total employment and vulnerable employment in Sub-Saharan Africa

For example, the unemployment rate in *South Africa* for the first quarter of 2022 was 63.9 % for those aged 15-24 and 42.1 % for those aged 25-34 years according to official figures (stats-sa, 2022). AI and social robots were expected to take further jobs, and the *4thIR* was regarded as triggering the worst imaginable reality for jobs in South Africa (Rapanyane & Sethole, 2020). According to a study published in 2018, it was estimated that around 5.7 million South African could lose their jobs because of automation in the fourth industrial revolution (4IR) (Hansrajh, 2020). This would also entail increasing social and political unrest in an already fragile environment because of *South Africa’s gross inequality*.

5. Conclusion

*Russia's invasion of Ukraine* affected the global economy by provoking higher commodity prices, disrupted supply chains and worsening the outlook. Altogether, these developments caused a surge in inflation and sharply decreasing growth, notably in Western *Europe*. Gas rationing, because of lacking Russian delivery in the winter of 2022/23, combined with a further upsurge in electricity prices, would push the EU into a deep recession.

The conflict will become protracted, possibly drawing on indefinitely (EIU-2022). It exacerbated strains on supply chains already induced by the *Corona pandemic*, notably in SSA. China’s *zero-covid* policy constituted another major friction on global growth, with significant negative effects on SSA markets and *FDI*. Although any slowdown in the
The eurozone would hurt African trade, a slowdown in China could hurt SSA even more (FT, 2012). In the aftermath of Russia’s Ukraine war, food insecurity became also a serious risk in Africa (Kohnert, 2022; EIU-2022).

**Graph 14: EIU World economic growth, forecast summary: EU and SSA**

<table>
<thead>
<tr>
<th>Year</th>
<th>Euro area</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2.7</td>
<td>2.3</td>
</tr>
<tr>
<td>2018</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>2019</td>
<td>1.6</td>
<td>2.3</td>
</tr>
<tr>
<td>2020</td>
<td>-6.6</td>
<td>-2.8</td>
</tr>
<tr>
<td>2021</td>
<td>5.4</td>
<td>4.2</td>
</tr>
<tr>
<td>2022</td>
<td>2.6</td>
<td>3.2</td>
</tr>
<tr>
<td>2023</td>
<td>1.6</td>
<td>3.9</td>
</tr>
<tr>
<td>2024</td>
<td>2.0</td>
<td>4.2</td>
</tr>
<tr>
<td>2025</td>
<td>1.8</td>
<td>4.2</td>
</tr>
<tr>
<td>2026</td>
<td>1.7</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: EIU, July 20th 2022

Thus, the often praised long-term trend of decreasing poverty in Africa will cease and could even be reversed (IMF-2021). SSA is particularly vulnerable, because of its dependence on food trade, aid and the prevalence of food insecurity. Also, the EU’s special relations with Africa (Kohnert, 2021 c), including EU–African trade policy, will not be able to fix it (Rudloff & Schmieg, 2018).

Moreover, the majority of the African population will not profit from the increasing demand for Africa's oil and gas. Most of the projected oil and gas production in Africa, i.e. 36 %, is controlled by European companies like Shell, BP, Total and Elf Aquitaine, and to a more limited, but increasing extent, by Asian and North American African companies. Only 33 % is controlled by African companies (Chapman, 2022). Therefore, most of these revenues will not remain in Africa to fund local development. On the contrary, the growth of African oil and gas production will not solve Africa’s problems of poverty and vulnerability but will be a boost for a lucky few, in Africa and elsewhere. The decades of military dictatorship in Nigeria and Angola are infamous examples of decades of abuse of its rich natural resource base by a corrupt elite of scrupulous military leaders (Chapman, 2022).

**Graph 15: Top African countries for oil and gas production from new projects, 2020-2050**

Source: Oil Change International

Source: Chapman, 2022
Increasing access to oil, gas and electricity in SSA could replace the prevailing dirtier alternatives for heating and cooking with firewood and charcoal. Also, providing fertilizer at affordable prices to the peasants could help to curtail slash-and-burn agriculture which has been identified as the major source of deforestation. Thus, it would enhance at the same time Africa’s contribution to delaying climate change. But the continent’s energy is unaffordable to the poor in nine of the ten African countries. According to an Afrobarometer survey, merely 43% of African households are connected to a national electricity grid (Chapman, 2022). Notably, in rural areas, only a small fraction of Africans have access to electricity. Major barriers to investment in better energy access include legislation, financing, ownership regulations and lack of confidence in metering (Khanna, 2022).

**Graph 16:** electricity access, rates in selected SSA countries

The prospects for the economic recovery of SSA after the downturn caused by the COVID-19 pandemic and Russia’s Ukraine war were gloomy. Although growth is projected to improve in 2023 to about 4%, this did not make up for lost ground from the Corona crisis. The new shock by the war hit the region at a time when it had little room to manoeuvre (IMF, 2022).
Exuberant growing oil and food prices put additional pressure on the external and fiscal balances of commodity-importing countries. Moreover, they increased food insecurity, notably for the most vulnerable. In the medium- and long run this would require responsible governments to guarantee sustainable and inclusive development. Nevertheless, food aid to Africa will remain an uphill task for the foreseeable future.
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