Currency Chaos

How Weakening African Currencies Kill Businesses

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Spotlight Report

August 2025

Executive Summary

Africa faces significant economic challenges driven by currency instability, high import dependency, and structural weaknesses in trade and infrastructure. Across the continent, reliance on foreign currencies like the US dollar, compounded by limited local currency convertibility, restricts intra-African trade and economic integration, with only about 18% of trade occurring within Africa compared to 60–70% in other regions.

Currency depreciation and volatility are pervasive, with major currencies such as the Nigerian Naira, and South African Rand experiencing significant losses in value—Naira alone depreciated over 30% recently. These fluctuations inflate business costs, erode profit margins, dampen consumer demand through rising inflation (with average inflation rates still in double digits for many countries), and discourage both domestic and foreign investment. An estimated one-third of African firms report financial constraints linked to currency volatility, which undermines profitability and growth.

Nearly half of African currencies are anticipated to weaken against the U.S. dollar

In its latest Africa Economic Outlook, the Abidjan-based institution forecasts that the currencies of 21 out of 54 African countries will depreciate in 2025.

Ethiopian Birr 5.7%

The Ethiopian birr has depreciated by **5.7%** against the dollar this year

Nigerian Naira 2.8%

The Nigeria's naira has dropped **2.8%** against the dollar in 2025

Rwandan Franc 2.5%

Rwanda's franc has weakened by **2.5%**, according to Bloomberg.

Malawi's Kwacha 66.82%

Malawi's Kwacha recorded significant depreciation falling by **66.82%**

However,

Not all African currencies are struggling.

Ghana's cedi has surged by an impressive **43%**, due to the sharp rise in global gold prices amid ongoing geopolitical tensions, providing a significant boost to the economy of Africa's top gold exporter.

Meanwhile,

Meanwhile, South Africa's rand has strengthened by **5%**, benefiting from political stability after the ruling coalition successfully resolved a protracted budget standoff.

Source: africa.businessinsider.com

These currency depreciations did not occur without underlying causes

Weak Connectivity by Rail and Road, Which Are More Important Than Air Travel

Only about **2,000** km of new railways have been added across Africa from 2015–2024—minimal relative to the continent's size and population growth.

While Africa's population is projected to double by 2050, annual infrastructure investment needs exceed $150 billion, with chronic underinvestment in rail and road networks

Inflationary Pressures and Trade Imbalances Reducing Currency Value

Africa's average inflation is projected to decline to 12.6% in 2025, still high despite recent drops from 18.6% in 2024, due to past currency depreciations and food price shocks.

Several African economies, such as Sudan (118.9%), South Sudan (79.3%), and Nigeria (25%), continue to battle surging inflation rates as of 2025

Which Includes...

Political Instability and Excessive Foreign Debt Contributing to Volatility

Africa's external debt is expected to surpass $1.3 trillion in 2025, with average public debt in sub-Saharan Africa at over **60%** of GDP.

Over **60%** of African countries are projected to exceed the **50%** debt-to-GDP threshold in 2025; debt servicing now absorbs up to **40%** of government revenues in many countries

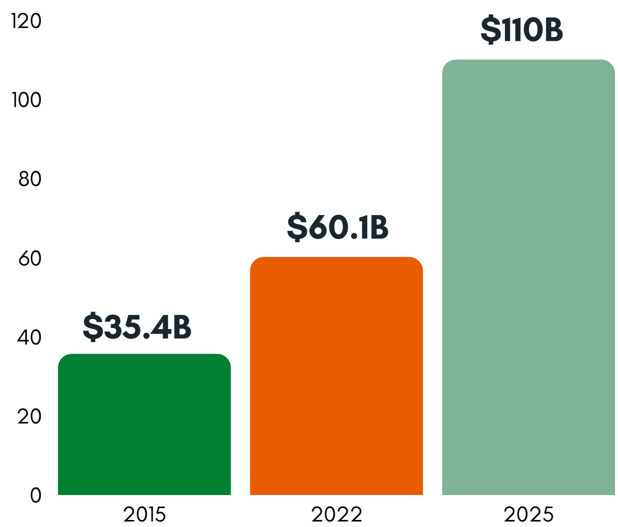
Liquidity Shortages and Parallel Black Markets Exacerbating Exchange Rate Disparities

Exchange rate disparities are widespread. For example, in Nigeria in August 2025, the black-market USD/NGN rate stood at **₦1,560/USD**, notably higher than the official rate.

Similar patterns of parallel exchange markets and USD scarcity exist across many African economies, reflecting structural dollar shortages, foreign reserve limitations, and capital controls.

Over-reliance on Imports Leading to High Foreign Currency Demand

Africa's food import bill is projected to reach $110 billion in 2025, up from $35.4 billion in 2015 and $60.1 billion in 2022. Imports from Asia (especially China, India, and Brazil) have dramatically increased, nearly tripling over three decades



Direct Business Impacts

Rising production costs:

Weaker currencies increase local currency costs for imported raw materials, machinery, and software licenses, squeezing business margins

Shrinking consumer purchasing power:

Inflation driven by currency depreciation reduces consumer spending on non-essentials, shrinking market demand

Increased cost and risk of foreign currency loans:

Loan repayments double or more when local currency collapses versus dollar/euro debts

Unpredictable currency fluctuations deter both local business expansions and foreign direct investment

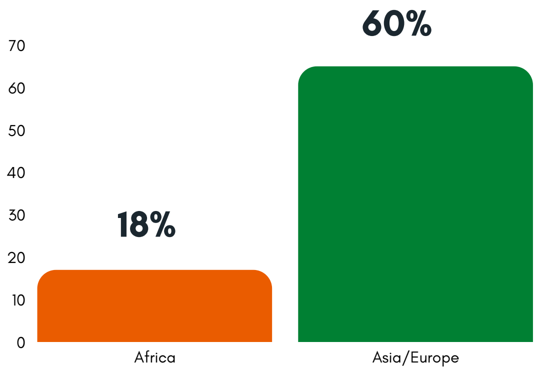
African businesses have been significantly impacted by the currency volatility

African companies experience significant financial strain from FX risk, with currency volatility turning expected local currency profit increases into profit decreases when converted to home currencies

Over **80%** of African cross-border payment transactions must be routed offshore for clearing/settlement by banks outside the continent, driving a reliance on foreign currencies like the US dollar.

As of 2025, Africa's cross-border payments market is worth **$329 billion**, but dependence on US dollars and limited local currency convertibility has caused over **$2 billion** in trapped corporate capital (e.g., airlines unable to repatriate funds)

While the Pan-African Payment and Settlement System (PAPSS) enables real-time cross-border payments in local currencies across **17 countries,** full intra-African interoperability is hindered by both liquidity shortages in local currencies and regulatory fragmentation. Only about **18%** of Africa's trade is intra-continental, compared to **60-70%** in Europe and Asia, partly due to FX barriers



Source: The Future of African Trade

... hindering their growth and overall performance

Challenges for Local Businesses Maintaining Profitability in Volatile Currency Environments

African manufacturers see margins eroded by currency volatility; a depreciation of just 5% between order and settlement on a $50,000 input can cause an unplanned $2,500 loss per shipment.

Many African manufacturers lack access to FX hedging tools, making it hard to control costs amid recurring currency fluctuations.

Stagnating Private Sector Growth and Job Market Contraction Due to Business Uncertainty

The IMF projects Sub-Saharan African GDP growth to slow to 3.8% in 2025 (from 4.0% in 2024), which impacts the Private sector growth.

Over 407 million people in Africa are projected to be job-seeking and not employed in 2025, with many forced into vulnerable, low-quality work due to economic uncertainty.

Source: dabafinance.com/en/news/

Conclusion
The Cost of Currency Chaos

Many African currencies have experienced significant depreciation in 2025.

For example, the Nigerian Naira has depreciated over 30% since early 2024, reaching about ₦1,500/USD, leading to soaring prices of food, fuel, and essential goods.

The Malagasy Ariary depreciated nearly 6% in 2025 due to trade deficits and inflation, raising living costs and investor uncertainty.

The Congolese Franc lost about 16–17% of its value in 2025, inflating costs of basic goods and increasing credit scarcity, which impacts business operations and household purchasing power.

Many African countries suffer from limited foreign exchange reserves, growing foreign debt, and trade imbalances that exacerbate currency instability.

This macroeconomic volatility undermines business viability by inflating costs via import dependency, reducing consumer demand due to price hikes, and driving away investment from both domestic and international sources.

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