AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK

JANUARY 2024

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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FOREWORD

The global economy's recovery is faltering, and Africa is not immune. Multiple crises—including rising living costs, weakening economic growth, increasing effects of climate change, health pandemics, and geopolitical tensions—are hindering Africa's socioeconomic development. The momentum of Africa's economic recovery has slowed, with average real GDP growth declining to an estimated 3.2 percent in 2023, from 4.1 percent in 2022. This decline is the result of multiple shocks and elevated inflationary pressures, particularly affecting Africa's leading economies.

Despite these challenges, Africa's economic growth remains resilient, supported by a strong rebound in infrastructure investment spending, a recovery in tourism arrivals after the Covid-19 pandemic, and the benefits of economic diversification. In 2023, economic growth in 15 countries exceeded 5 percent, and Africa maintained its position as the second fastest growing region after Asia.

In a world of rising uncertainty and geopolitical fragmentation, building resilience should remain a strategic priority for Africa. The African Development Bank Group's latest projections indicate that growth will pick up, rising to 3.8 percent in 2024 and consolidate at 4.2 percent in 2025. This expansion will be broad-based, with a sustained growth momentum expected in 41 countries.

Africa's projected higher growth reflects efforts by countries to diversify their economies and implement domestic policies to reverse the increase in living costs and boost private consumption. However, global risks and pockets of domestic imbalances pose challenges. Geopolitical tensions could disrupt supply chains and reignite commodity price hikes. Inflationary pressures in Africa remain entrenched and have eroded people's purchasing power and adversely affected livelihoods.

Higher global interest rates and elevated capital costs have increased debt service payments. This has constrained investment in growth-creating sectors and human capital development.

Domestic conflicts exacerbate economic challenges. They displace millions and threaten regional stability.

This report outlines actions to address economic challenges and accelerate Africa's structural transformation. A credible monetary policy framework to rein in higher inflation, increase domestic resource mobilisation, and strategic global partnerships, peace and stability are the keys to achieving a prosperous Africa.

Dr. Akinwumi A. Adesina
President, African Development Bank Group

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KEY MESSAGES

The momentum of Africa's growth recovery has slowed against a backdrop of increasing uncertainty about the health of the global economy. The shocks buffeting African economies since 2020 have damaged growth, with long-term implications. Geoeconomic fragmentation, evident in the global response to the effects of the Covid-19 pandemic, has been exacerbated by Russia's invasion of Ukraine[1] and could be amplified by the recent breakout of the Middle East conflict. Compounding these factors are other domestic and external disruptions, including pockets of political instability across the continent, weak export demand due to tepid global growth, the slowdown of China's economy, and monetary policy tightening by major economies and associated higher cost of borrowing.

Growth in Africa's average real gross domestic product (GDP) fell to an estimated 3.2 percent in 2023, from 4.1 percent in 2022, due largely to multiple shocks. Despite the decline in average growth in 2023, 15 African countries—led by Ethiopia, Côte d'Ivoire, Democratic Republic of Congo, Mauritius, and Rwanda—posted output expansions of more than 5 percent. The strong growth in these countries reflects the positive impact of a rebound in investment spending, sustained recovery in tourism, strong performance in the mining sector, and the benefits of economic diversification.

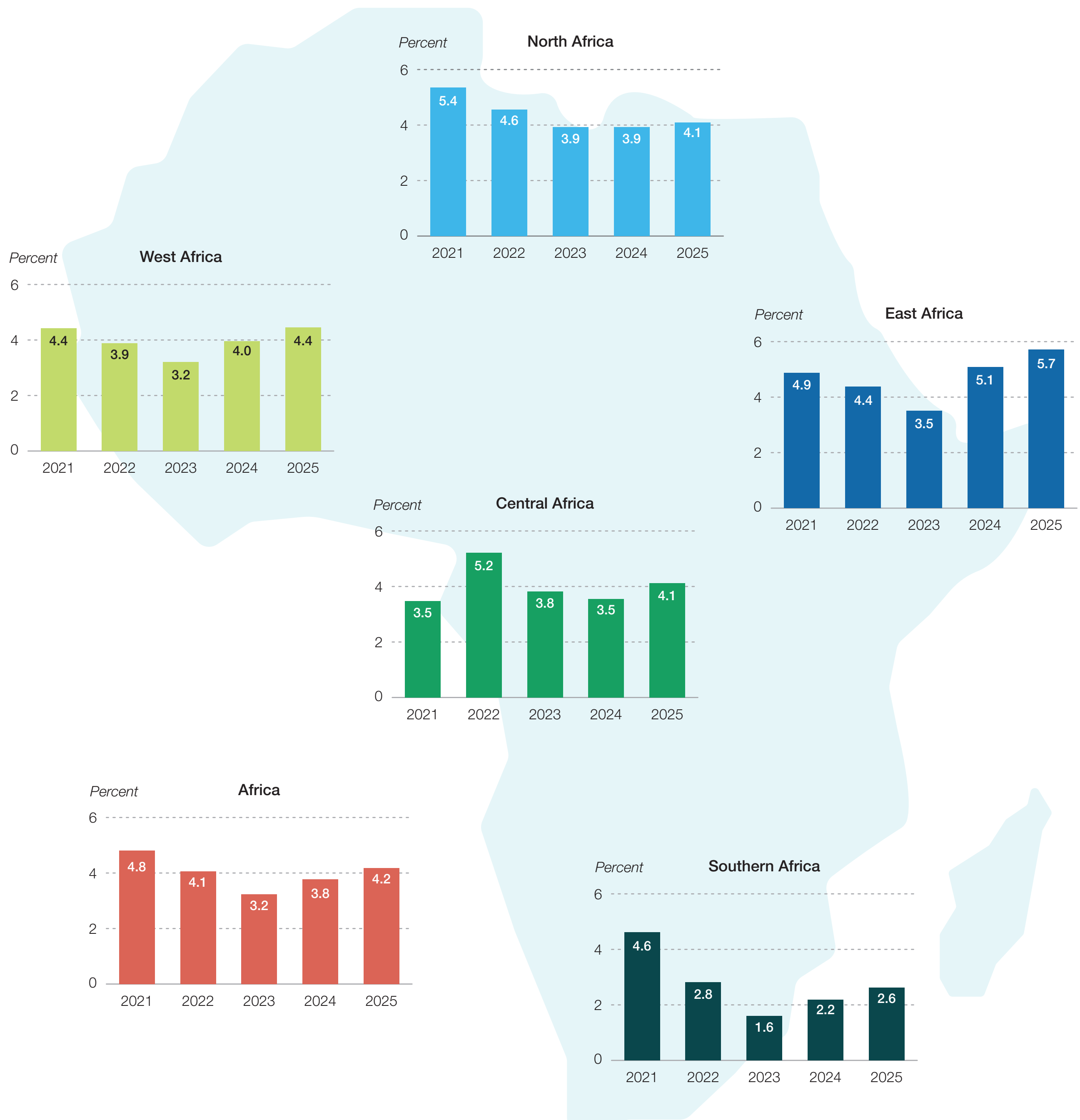
Despite the growth slowdown in 2023, the continent's economies remain resilient, with growth in 2024 projected to rise to 3.8 percent. That growth rate, broad-based across sectors, will be strong in 41 countries, and in 13 of them, it will be more than 1 percentage point higher than in 2023. Even with the subdued performance in 2023 and projected expansion in 2024, Africa remains the second-fastest-growing region, after Asia, exceeding the global average of 3 percent in 2023, and is projected to account for 11 of the world's 20 fastest-growing economies in 2024.[2]

The slowdown in average growth in 2023 and growth projections for 2024 mask considerable cross-regional variations (figure 1). Their range largely reflects differences in domestic policy, including decoupling economies from commodity dependence, renewing strategic investment in key growth sectors, and promoting private consumption—as well as external factors such as a potential recovery in key export markets.

- *Central Africa.* Growth is projected to weaken from an estimated 3.8 percent in 2023 to 3.5 percent in 2024 before improving to 4.1 percent in 2025. Economic recession in Equatorial Guinea is set to persist, with the economy projected to contract 5.1 percent in 2024, weighed down by declining oil production amid low investment in new projects to replace lost oil output from existing production units.

1. Agreed wording at the 2022 African Development Bank Group Annual Meetings in Ghana. Algeria, China, Egypt, Eswatini, Namibia, Nigeria, and South Africa entered a reservation and proposed "Russia–Ukraine Conflict."
2. According to the IMF's October 2023 World Economic Outlook, the 11 countries are Benin, Burkina Faso, Burundi, Côte d'Ivoire, Djibouti, Ethiopia, Libya, Niger, Rwanda, Senegal, and Tanzania.

FIGURE 1 Growth performance and outlook, by African region, 2021–25



Source: African Development Bank statistics.

- *East Africa.* Aided by deeper regional integration and strategic public spending to improve infrastructure investment, growth is projected to pick up from an estimated 3.5 percent in 2023 to 5.1 percent in 2024 and 5.7 percent in 2025.
- *North Africa.* Growth is projected to remain steady at 3.9 percent in 2024 before improving slightly to 4.1 percent in 2025. Several countries have been adversely affected by successive adverse weather conditions (drought in

Morocco and Tunisia and flooding in Libya) in recent years. Coupled with macroeconomic challenges in Egypt, the region has struggled to sustain gains since the Covid-19 pandemic. The lack of inclusive growth and high youth unemployment continue to present social challenges, more than a decade since the 2011 Arab Spring.

- *Southern Africa.* Although real GDP growth is projected to increase from an estimated 1.6 percent in 2023 to 2.2 percent in 2024 and further to 2.6 percent in 2025, it remains too weak to tackle the region's macroeconomic and social challenges. The sluggish performance reflects the continued economic stagnation in the region's largest economy—South Africa. With growth projected at 1.1 percent in 2024, South Africa is suffering from the adverse impacts of ailing physical and social infrastructure and a protracted electricity crisis, constraining productivity in key sectors of the economy, lowering firms' productive capacity, and dampening domestic demand, once the country's engine of growth. South Africa will hold national elections in 2024, but the country's three decades of democratic rule have been marred by chronic electricity outages and mounting socioeconomic challenges.
- *West Africa.* Growth is projected to rise from an estimated 3.2 percent in 2023 to 4 percent in 2024 and 4.4 percent in 2025. Growth in most countries is projected to be at least 4 percent in 2024. This is expected to offset the slowdowns in the region's largest economy, Nigeria, and in debt-ridden Ghana, where growth is projected to be 2.9 percent and 2.8 percent, respectively. But both could recover strongly in 2025, with projected growth of 3.7 percent and 4.5 percent, respectively. The recovery will be underpinned by macroeconomic policy reforms initiated in 2023 through rationalizing the fuel subsidy and addressing exchange rate misalignment in Nigeria and through fiscal consolidation to tackle the growing public debt in Ghana.

Inflation in Africa has been increasing since the beginning of the Covid-19 pandemic and remains stubbornly high, threatening macroeconomic stability. Average inflation for the continent was estimated at 17.8 percent in 2023, 3.7 percentage points higher than in 2022 and nearly twice the prepandemic five-year (2015–19) average of 10.1 percent. Inflation in 2023 was the highest in more than a decade and contributed to eroding macroeconomic gains achieved before the pandemic. Inflationary pressures have been driven by rising global food and energy prices as well as domestic factors such as fiscal largesse, agricultural supply shocks, and passthrough effects of the depreciation of national currencies against the US dollar.

Fiscal deficits have improved, buoyed by better revenue performance, but uncertainties remain. Faster-than-expected economic recovery from the devastating impact of the Covid-19 pandemic helped shore up revenue performance and lead to a narrowing of the fiscal deficit. The average fiscal deficit in Africa declined to 5.1 percent of GDP in 2021 from 6.9 percent at the height of the pandemic in 2020. The fiscal deficit narrowed further to 4.9 percent of GDP in 2022, buoyed by higher revenue and reduced pandemic-induced spending. While the fiscal deficit stabilized at an estimated 4.9 percent in 2023, the primary deficit declined only marginally, to an estimated 1.8 percent of GDP in 2023 from 1.7 percent in 2022. The expected stabilization of Africa's fiscal balance is due mainly to the fiscal consolidation measures undertaken across the continent, especially in countries with elevated risks of debt distress. For instance, as part of debt restructuring measures, fiscal deficits narrowed from 4.2 percent in 2022 to 3.3 percent in 2023 in Ethiopia, from 11.2 percent to 4.8 percent in Ghana, and from 8.2 percent to 6.4 percent in Zambia.

Average inflation for the continent was estimated at 17.8 percent in 2023, 3.7 percentage points higher than in 2022 and nearly twice the prepandemic five-year (2015–19) average of 10.1 percent

Public debt is declining but still higher than before the Covid-19 pandemic, and underlying vulnerabilities remain elevated. Fiscal consolidation across the continent has helped stabilize public debt, with the debt-to-GDP ratio at around 63.5 percent, on average during 2021–23 and set to settle at around 60 percent starting in 2024—halting an almost decade-long upward trend. Despite the projected decline, major challenges remain, and debt vulnerabilities are expected to increase, stoked by higher costs due to the rise in interest rates on commercial debt and the effects of exchange rate depreciations. The share of external commercial debt has increased over the last two decades, with the continent's average estimated at 43 percent of total external debt in 2021 from 20 percent in 2000.

Higher borrowing costs and associated debt vulnerabilities reflect the effects of sustained tightening of global financial conditions over the past two years. The average spread on Africa's sovereign bonds soared to about three times the emerging market average since the beginning of the tightening cycle in July 2022. As a result, debt service costs rose, with 21 African countries at high risk of debt distress or already in debt distress, as of November 2023. External debt service payments as a proportion of government revenues in many countries are higher than before the Covid-19 pandemic. The median debt service on external debt as a percentage of government revenue rose from 6.8 percent over 2015–19 to 10.6 percent over 2020–22. Higher debt service costs have eroded fiscal space, constraining governments' capacity to invest in growth-promoting sectors and in human capital development such as education and health, two areas where average public spending is below that of comparator regions and below the African Union's target threshold of 4–6 percent.

Africa's current account deficit widened slightly, from 1.5 percent of GDP in 2022 to an estimated 2 percent in 2023, and is projected to widen further, to 2.2 percent in 2024

Africa's overall external position is expected to deteriorate further in 2024, driven by declining global commodity prices.[3] The current account deficit widened slightly, from 1.5 percent of GDP in 2022 to an estimated 2 percent in 2023, and is projected to widen further, to 2.2 percent in 2024. The widening was driven mainly by a disproportionate increase in imports relative to exports. Decomposing Africa's current account balance indicates a slight worsening of the deficit in 2023 due to further widening of the trade deficit (3.4 percent of GDP in 2023 compared with 2.8 percent in 2022). The deficit on net income (2.3 percent of GDP) and surplus current transfers (3.7 percent of GDP) remained broadly stable in 2023. These fundamentals are likely to continue to shape the dynamics of the current account in the medium term.

Tighter global financial conditions have also weighed on financial flows to Africa, reversing gains since the Covid-19 pandemic. After rising sharply following the Covid-19 outbreak, total financial flows to Africa—including foreign direct investment (FDI), official development assistance, portfolio investment, and remittances—are estimated to have declined in 2022. Financial flows fell 16.6 percent, to $180.5 billion in 2022 (6.1 percent of Africa's GDP) from $216.5 billion in 2021 (7.9 percent). This decline was due mainly to a 43.5 percent drop in FDI in 2022, after a 103 percent rebound in 2021. Despite the decline in FDI flows to Africa, the number of new projects increased 39 percent, to 766, and Africa accounted for 40 percent of the 15 main greenfield investment megaprojects (worth more than $10 billion) announced in 2022. Successfully executing these megaprojects could offer opportunities for future growth, job creation, and technology transfer.

Although Africa's medium-term growth prospect is expected to improve, risks remain tilted to the downside, reflecting uncertainty in global and regional economic conditions. Africa's economic growth is forecast to rebound if the global economy remains resilient, the implementation of infrastructure projects on the continent begins to yield dividends, and progress on debt restructuring and fiscal consolidation in countries facing heightened debt challenges is sustained. However, persistent inflation on the continent and downside risks related to geopolitical tensions and conflicts could affect this prognosis. Although prices of soft commodities—fertilizer and cereals—have come down from their peak at the height of Russia's invasion of Ukraine, an escalation in this conflict and the Middle East war could reverse these gains. Combined with continued exchange rate depreciations in many African countries, the passthrough of higher global commodity prices to domestic prices could keep inflation elevated and undermine the

3. International Monetary Fund, Global Price Index of All Commodities [PALLFNFINDEXQ], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PALLFNFINDEXQ.

TABLE 1 Outlook for key macroeconomic indicators in Africa, by country, average over 2024–25

	GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
Algeria	3.9	6.2	2.4	–13.3
Angola	3.4	19.3	4.7	–2.2
Benin	6.2	2.2	–4.0	–3.8
Botswana	4.3	4.5	1.1	–0.4
Burkina Faso	4.2	2.7	–4.4	–6.8
Burundi	5.9	12.0	–19.0	–3.4
Cabo Verde	4.5	2.7	–5.1	–3.1
Cameroon	4.3	4.8	–2.2	–0.8
Central African Rep.	2.4	3.7	–7.5	–1.8
Chad	3.5	3.6	–2.5	2.0
Comoros	4.1	1.9	–4.9	–3.6
Congo, Dem. Rep.	5.0	11.1	–3.7	–1.9
Congo	4.4	3.7	3.1	4.8
Côte d'Ivoire	6.7	3.1	–5.0	–3.5
Djibouti	6.3	1.6	17.1	–2.9
Egypt	3.9	27.7	–2.4	–6.5
Equatorial Guinea	–4.1	3.1	–9.3	–0.5
Eritrea	3.0	4.0	12.7	0.7
eSwatini	4.2	4.7	2.5	–3.5
Ethiopia	6.7	18.4	–2.6	–2.4
Gabon	2.7	2.8	–1.7	0.3
Gambia	6.2	7.8	–10.9	–2.0
Ghana	3.6	17.1	–2.8	–4.1
Guinea	5.7	7.6	–7.7	–2.4
Guinea-Bissau	5.0	2.8	–4.7	–3.1
Kenya	5.4	6.4	–4.9	–4.9

	GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
Lesotho	2.6	5.2	–5.6	–4.2
Liberia	5.9	7.1	–23.7	–3.8
Libya	7.0	2.7	23.4	10.2
Madagascar	4.9	7.4	–3.6	–6.4
Malawi	3.5	21.0	–7.2	–8.0
Mali	5.1	2.6	–5.2	–3.6
Mauritania	5.4	4.9	–7.8	–1.7
Mauritius	4.3	6.0	–6.2	–3.8
Morocco	3.7	4.6	–2.8	–4.5
Mozambique	5.0	6.1	–43.6	–2.1
Namibia	2.7	4.6	–5.6	–3.6
Niger	8.6	3.3	–5.4	–5.0
Nigeria	3.3	20.4	1.0	–4.6
Rwanda	7.2	9.3	–10.8	–6.2
São Tomé and Príncipe	1.3	11.6	–10.4	–3.0
Senegal	7.5	3.0	–6.7	–3.6
Seychelles	4.1	2.4	–10.6	–1.8
Sierra Leone	5.0	26.3	–6.7	–3.8
Somalia	3.8	4.4	–10.3	–1.4
South Africa	1.3	4.7	–2.9	–4.3
South Sudan	4.7	10.5	6.4	6.5
Sudan	0.2	119.8	–5.5	–2.4
Tanzania	6.1	3.7	–4.3	–2.7
Togo	6.2	2.5	–4.3	–4.4
Tunisia	2.6	7.5	–5.3	–5.7
Uganda	6.5	4.4	–9.0	–3.0
Zambia	4.7	8.2	5.7	–3.9
Zimbabwe	3.6	16.4	–0.9	–2.8

Note: This heatmap plots each country's outlook for selected key macroeconomic indicators. For each indicator, countries are divided into three groups: good performers (green), fair performers (yellow), and weak performers (red). For real GDP growth, good performers are countries whose rate is above 6 percent, fair performers are countries whose rate is 4–6 percent, and poor performers are countries whose rate is below 4 percent. For inflation, good performers are countries whose rate is below 5 percent, fair performers are countries whose rate is 5–9.9 percent, and poor performers are countries whose rate is 10 percent or greater. For current account balance, good performers are countries with a surplus, fair performers are countries with a deficit of less than 5 percent, and poor performers are countries with a deficit of 5 percent and higher. For fiscal balance, good performers are countries with a surplus or a deficit of less than 3 percent, fair performers are countries with a deficit of 3–5 percent, and poor performers are countries with a deficit above 5 percent.
Source: African Development Bank staff computations.

resilience of the projected economic recovery (see table 1 for the outlook for key macroeconomic indicators over 2024–25 for each country).

Adopting appropriate monetary policies could strike a delicate balance between continuing to tame elevated inflation and creating incentives for growth

Boosting Africa's growth momentum from the slowdown in the aftermath of recent shocks will require a mix of policies for the short, medium, and long terms:

- Adopting appropriate monetary policies could strike a delicate balance between continuing to tame elevated inflation and creating incentives for growth. Monetary policy tightening, coupled with fiscal consolidation measures, should remain the main anchor to reduce inflation in countries with above-target inflation, while countries where inflationary pressures are subsiding could gradually ease monetary policy.
- Structural reforms to implement strategic industrial policies to accelerate economic diversification and strengthen the export sector, as well as fiscal consolidation when the budget deficit increases pressure on the exchange rate, should be implemented simultaneously with monetary policy to increase resilience to shocks.
- Sustained governance reforms are needed to strengthen debt management capacity. Good governance and strong institutional capacity could help prevent "below the line" operations that undermine debt reduction efforts and ensure that countries build buffers and reduce debt in good economic times.
- Building strong fiscal institutions could efficiently mobilize more domestic resources while sound public expenditure management would ensure that these resources are used prudently.
- Scaling up investment in digital infrastructure by governments could dematerialize revenue collection and curb resource leaks.
- Investing in human capital to build a workforce with the appropriate skills, pursuing a resource-based industrialization and diversification strategy to ensure that the continent leverages its comparative advantage, and strengthening collaboration between the government and the private sector can stimulate Africa's structural transformation and strengthen its resilience to shocks.
- Advocating for reforms to the global financial aid architecture could make it more responsive in providing resources to meet Africa's development financing needs.

1

MACROECONOMIC PERFORMANCE AND PROSPECTS

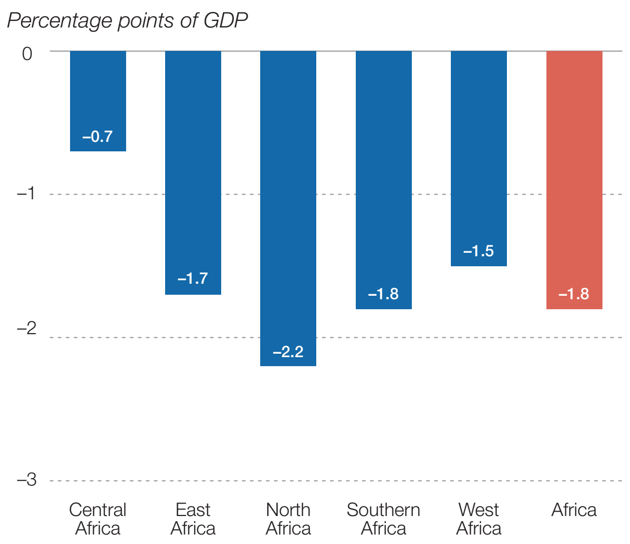
GROWTH PERFORMANCE AND OUTLOOK

The momentum of growth's recovery in Africa slowed, with real gross domestic product (GDP) growth estimated at 3.2 percent in 2023, down from 4.1 percent in 2022

Africa's strong recovery from the recession induced by the Covid-19 pandemic has faded. The recovery suffered several setbacks, including the damaging long-term effects of the pandemic, the effects of Russia's invasion of Ukraine on food and energy prices, and the impacts of climate change and extreme weather shocks. Further, China's sluggish recovery from the pandemic and downturn in the property market have had a huge knock-on effect on Africa's growth. The continent has deep trade ties with China—evidenced by Africa's exporting 20 percent of its mineral, metal, and fuel products to China and importing of most of its manufactured products from that country.

Most of the direct effects of the Covid-19 pandemic on African countries have waned, and in May 2023, the World Health Organization declared that Covid-19 is no longer a global pandemic. Yet uncertainty continues to loom over the health of the global economy amid intensified fears of entrenched geoeconomic fragmentation. At the peak of the pandemic, geoeconomic fragmentation became evident in access to and distribution of Covid-19 vaccines. This was exacerbated by Russia's invasion of Ukraine and could be amplified and lengthened by the recent breakout of the Middle East conflict. Fragmentation has been compounded by other domestic and external disruptions, including pockets of political instability and insecurity across the continent, weak export demand due to tepid global growth, and monetary policy tightening and associated higher borrowing costs. The multiple shocks that have buffeted Africa since 2020 have thus damaged the fabric of the continent's economies and reduced output. In 2020–22, Africa incurred substantial losses in real GDP of about $55.8 billion, equivalent to about 1.8 percentage points of GDP (figure 1.1). The loss in output was highest in North Africa (2.2 percentage points), followed by Southern Africa (1.8 percentage points) and East Africa (1.7 percentage points), reflecting the severity of shocks in these regions.

FIGURE 1.1 **Estimated losses in real GDP due to multiple shocks, by African region, 2020–22**



Note: Estimated losses are calculated as the difference between estimated real GDP growth in 2023 and projected real GDP growth before the Covid-19 pandemic.

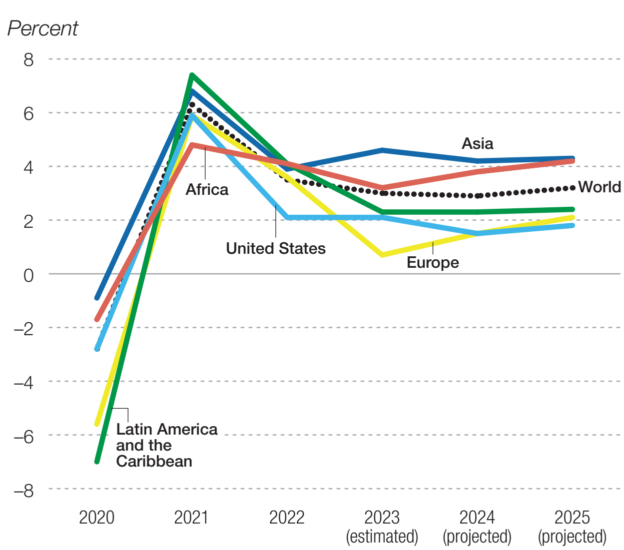
Source: African Development Bank statistics.

The large output losses will undoubtedly have long-term implications for the continent's growth and social development. Early evidence suggests that Africa's average real GDP growth declined to an estimated 3.2 percent in 2023, from 4.1 percent in 2022 (figure 1.2). The figure represents a 0.9 percentage point reduction relative to the projection in the Bank's African Economic Outlook 2023, and the decline affects all five regions of the continent and many countries, so the shocks have been deep and broad-based. Real GDP growth is estimated to have declined in 27 of the continent's 54 countries in 2023 relative to 2022. Three countries—Sudan, South Sudan, and Equatorial Guinea—are estimated to be in a recession in 2023, with Sudan having entered the recession phase in 2020 and South Sudan in 2021.

Despite the decline in average growth in 2023 in Africa, 15 countries saw growth of more than 5 percent

Over 2023, economic conditions in Sudan rapidly deteriorated following the breakout of civil war in April 2023 between the Sudanese Armed Forces and the Paramilitary Rapid Support Forces, rival factions of Sudan's military government. As a result, the expectations of real GDP expansion that had been envisaged before the civil war broke out disappeared entirely. The country is likely to remain trapped in a recession in 2024. The economic and political situation in South Sudan is also subject to great uncertainty over the sustainability of the peace accord signed between the government and the opposition following years of conflict. Equally, the recession in Equatorial Guinea is now estimated to be at least five-fold steeper than projected in *African Economic Outlook 2023.* This is attributed to the severity of decline in oil production and the subdued growth in nonoil economies due to underlying structural weaknesses and persistent payment arrears.

FIGURE 1.2 **Real GDP growth, by world region, 2020–25**



Source: African Development Bank statistics and the International Monetary Fund's World Economic Outlook, October 2023.

Despite the decline in average growth in 2023, 15 African countries—led by Ethiopia, Mauritius, Côte d'Ivoire, Democratic Republic of Congo, and Rwanda—saw growth of more than 5 percent (table 1.1). The strong growth in these countries reflects a rebound in infrastructure investment spending, sustained recovery in tourism, solid performance of the mining sector, and the benefits of economic diversification. Most of these 15 countries emerged strong after the pandemic and have maintained their growth momentum.

East Africa accounted for the highest number of countries with GDP growth exceeding 5 percent in 2023, underscoring its continued strong performance and diversified economies (see table 1.1). Defying the weak performance of Nigeria, the continent's largest economy, smaller countries in West Africa—Benin, Gambia, Guinea, and Togo—have sustained strong growth. Mauritius and Mozambique, two countries hit hard by the Covid-19 pandemic, have emerged strong and sustained the growth momentum that started in 2021. Libya's growth has been very volatile, however, revealing the country's fragile political environment and the effects of exogenous shocks, including floods in 2023.

Africa's growth in 2024 is projected to accelerate 0.6 percentage point to 3.8 percent. But that is down 0.5 percentage point from the forecast in *African Economic Outlook 2023.* The value is attributable largely to the previously mentioned factors and to domestic supply bottlenecks, including shortfalls in electricity generation. The projected growth expansion in 2024 will, however, be broad-based, reversing the losses for 2023. Strong growth is expected in 41 countries, with 13 of them seeing a growth rate more than 1 percentage point higher than in 2023. The estimated growth for 2023 and projected growth

TABLE 1.1 GDP growth rates for the top 15 performing economies in Africa, 2020–23

Region	Country	Covid-19 pandemic shock	Strong recovery from pandemic	Growth consolidation	
		2020	2021	2022	2023
Central Africa	Congo, Dem. Rep.	1.7	6.2	8.9	6.2
East Africa	Djibouti	1.2	4.8	3.7	5.7
	Ethiopia	6.1	6.3	6.4	7.1
	Kenya	–0.3	7.6	4.8	5.4
	Rwanda	–3.4	10.9	8.2	6.2
	Tanzania	4.5	4.8	4.7	5.2
	Uganda	–1.2	5.6	5.8	5.1
North Africa	Libya	–29.5	28.3	–3.7	12.6
Southern Africa	Mauritius	–14.5	3.4	8.9	6.8
	Mozambique	–1.2	2.4	4.4	5.6
West Africa	Benin	3.8	7.2	6.3	6.2
	Côte d'Ivoire	1.7	7.4	6.7	6.5
	Gambia	0.6	4.3	4.1	5.6
	Guinea	4.9	4.4	4.3	5.9
	Togo	1.8	6.0	5.8	6.0

Source: African Development Bank statistics.

for 2024 are still higher than the averages for the world and other regions, except Asia. According to the International Monetary Fund's (IMF) October 2023 World Economic Outlook, global economic growth is projected to average 3 percent in 2023, led by Asia at 4.6 percent (see figure 1.2). Similarly, the IMF projects that economic growth in 2024 will average 2.9 percent globally and 4.2 percent in Asia. The expected slowdown in Asia is attributable to weaker momentum in China, due to sluggish industrial production.

Africa's estimated slowdown in 2023 is also reflected in high-frequency indicators of economic activity (figure 1.3). For the first 11 months of 2023 relative to the corresponding period in 2022, the Purchasing Managers' Index (PMI) value declined in three of Africa's top seven economies with data. The average PMI value was 6.9 points lower for Nigeria, 3.1 points lower for South Africa, and 2 points lower for Kenya, compared with the same period in the previous year. The average PMI values for Egypt, Kenya, and South Africa through November 2023 were even below the benchmark of 50, indicating deeper weakening of industrial activity. For Kenya, the estimated higher growth in real GDP in 2023 is attributable to the strong rebound in agriculture, which had faced a persistent and severe drought, and to moderate growth in the services sector.

FIGURE 1.3 Purchasing Managers' Index values in select African countries, 2017–November 2023

Source: Haver Analytics and IHS Markit.

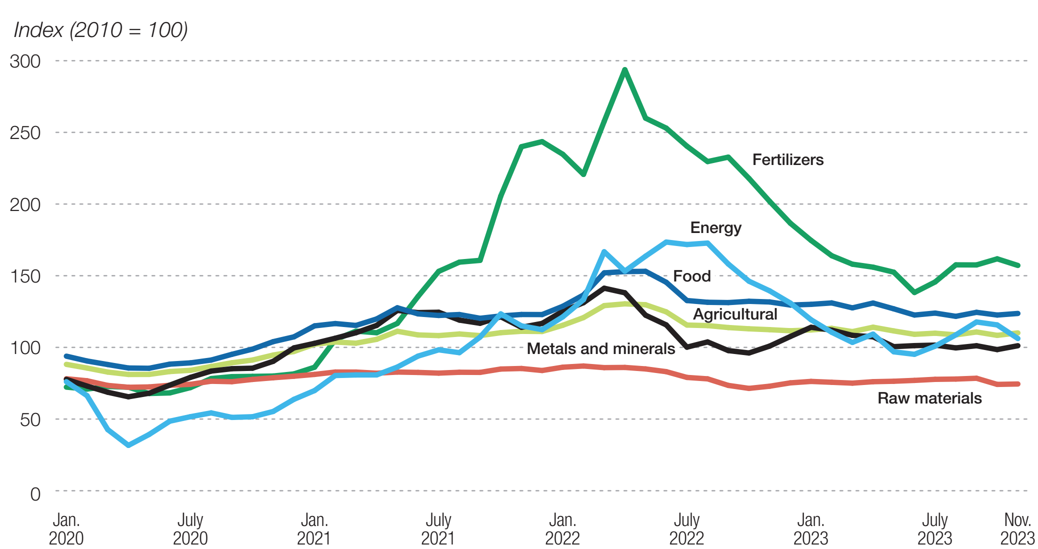
The continued underwhelming PMI performance in Egypt, Kenya, and South Africa reflects the combined effects of domestic and external factors. On the domestic front, continued structural weaknesses remain a major drag on economic activity in most countries. These weaknesses are reinforced by elevated inflationary pressures and strong passthrough effects of exchange rate depreciations, particularly in countries with managed or floating exchange rates. The elevated inflationary pressures in many African countries, and particularly in Egypt, Kenya, and South Africa, led to sharper increases in domestic prices, leading to deteriorating business conditions. Business conditions have also been dampened by macroeconomic challenges in Egypt, a rising debt burden in Kenya, and recurrent power outages in South Africa. On the external front, the growth momentum in key export markets remains weak, slowing export demand for Africa's products.

Higher commodity prices continue to drive inflationary pressures, largely because of weak domestic currencies, and to slow economic activity in net commodity-importing countries

Although commodity prices had declined sharply since their record peaks in 2022, they remained higher than at the height of the Covid-19 pandemic in 2020 (figure 1.4). By June 2023, the energy price index had declined 45 percent from the June 2022 peak. But in the third quarter of 2023, the energy price index rose sharply, by 23 percent, due to supply curbs by OPEC+ (Organization of the Petroleum Exporting Countries plus selected non-OPEC member countries). The food price index followed a similar but less steep trend, declining 18 percent during the third quarter. Higher commodity prices continue to drive inflationary pressures, largely because of weak domestic currencies, and to slow economic activity in net commodity-importing countries. Prices could remain higher for longer, with growing uncertainty about ongoing geopolitical tensions, crop failures, and the effects of the El Niño oceanic and atmospheric phenomenon. Angola's announcement to withdraw its OPEC membership could create uncertainty in the oil market. And prolonged and intensified geopolitical tension in the Middle East and in Ukraine could trigger a second wave of supply disruptions, with attendant pressures on commodity prices. However, structural weaknesses could prevent Africa's net commodity-exporting countries from taking full advantage of higher prices, further weakening their medium-term growth prospects.

The slowdown in economic growth during the past two years was also reflected in weak growth of real GDP per capita (figure 1.5). Although growth of Africa's real GDP per capita since the Covid-19 pandemic has been positive, it continues to lag that in other regions. Growth of real income per capita has declined an estimated

FIGURE 1.4 **Global commodity price indices, January 2020–November 2023**



Source: African Development Bank statistics based on the World Bank Commodity database.

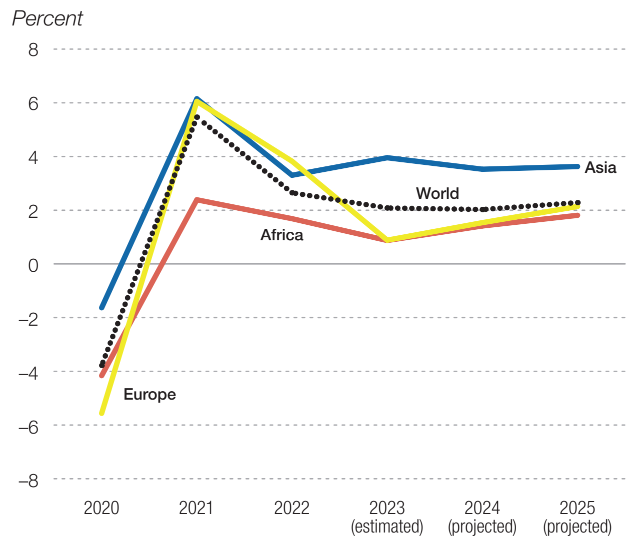
0.8 percentage point—to 0.9 percent in 2023 from 1.7 percent in 2022. The continent's real GDP per capita is projected to grow an average of 1.6 percent in 2024–25, mirroring projected faster economic growth. But even at this higher rate, growth of real GDP per capita will continue to lag that in all other regions and remain a major hindrance to Africa's socioeconomic progress.

SECTORAL AND DEMAND-SIDE DECOMPOSITION OF GROWTH

Household consumption dominates the demand-side drivers of growth, while industry and services dominate the supply side

The estimated contribution of key demand-side drivers of growth in 2023 is lower than previously forecast, reflecting persistent inflationary pressures and tight monetary policy that have weakened households' purchasing power. Government and household consumption spending together contributed an estimated 2.5 percentage points of the 3.2 percent growth in 2023 (figure 1.6). This is equivalent to about 77.6 percent of the growth in aggregate domestic demand, much higher than the 48.6 percent the previous year.

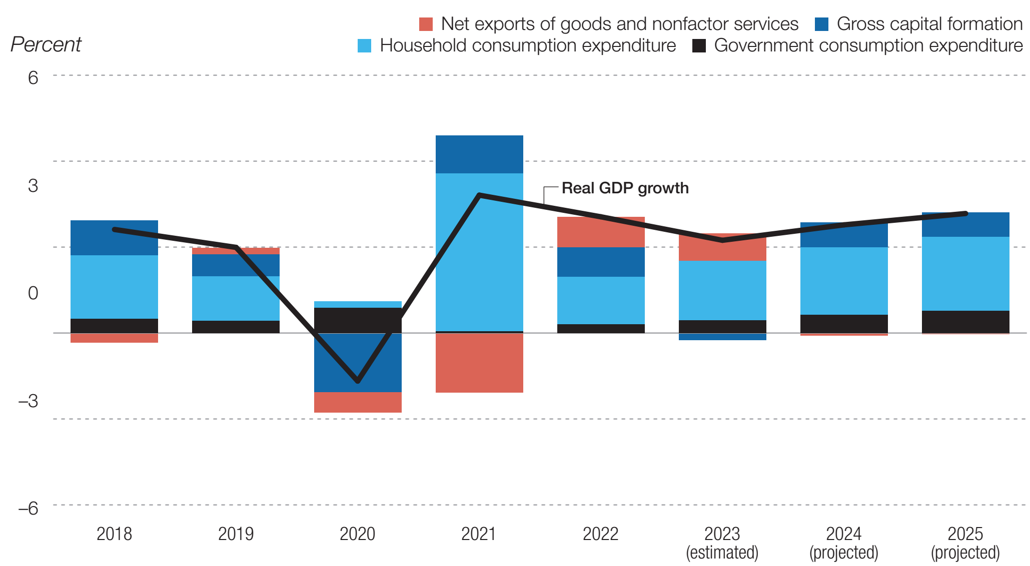
FIGURE 1.5 **Growth of real GDP per capita, by world region, 2020–25**



Source: African Development Bank statistics; the International Monetary Fund's World Economic Outlook Update, October 2023; and United Nations Population Division estimates.

Net exports contributed an estimated 1 percentage point to growth in 2023, equivalent to 29.8 percent of the growth in aggregate domestic demand. Growth in net exports could be attributed partly to weak domestic currencies boosting import costs, reducing imports rather

FIGURE 1.6 **Demand-side decomposition of Africa's GDP growth, 2018–25**



Source: African Development Bank statistics.

than stimulating strong growth in exports. Despite recovering in some countries, private investment remains subdued, reflecting the continued high cost of capital and lingering weak investor sentiment. So, private investment contracted an estimated 0.2 percentage point in 2023, after expanding 1 percentage point the previous year.

The estimated contribution of all supply-side growth drivers in 2023 was lower than previously forecast. Although economic activity in the services sector remained the dominant contributor to GDP growth in 2023, its contribution declined to 1.8 percentage points (55.6 percent) of the 3.2 percent growth, down from 2.9 percentage points (70.9 percent) of the 4.1 percent growth in 2022 (figure 1.7). The decline in services sector activity is attributable to the subdued performance of financial services due to high interest rates, the decline in tourism services due to continued weakness in global economic growth, and structural bottlenecks affecting electricity and water supply. The services sector is projected to maintain its dominant contribution to growth in 2024–25, averaging 2 percentage points due to lingering effects of tight financial conditions. By contrast, the contributions of industry and agriculture increased in 2023 to an estimated 0.9 percentage point (27.4 percent of growth) and 0.6 percentage point (equivalent to 19.2 percent), respectively, up from 0.6 percentage point (15.6 percent) and 0.5 percentage point (11.2 percent) in 2022. The expansion in industrial activity is attributable largely to growth in light manufacturing and the automotive industry.

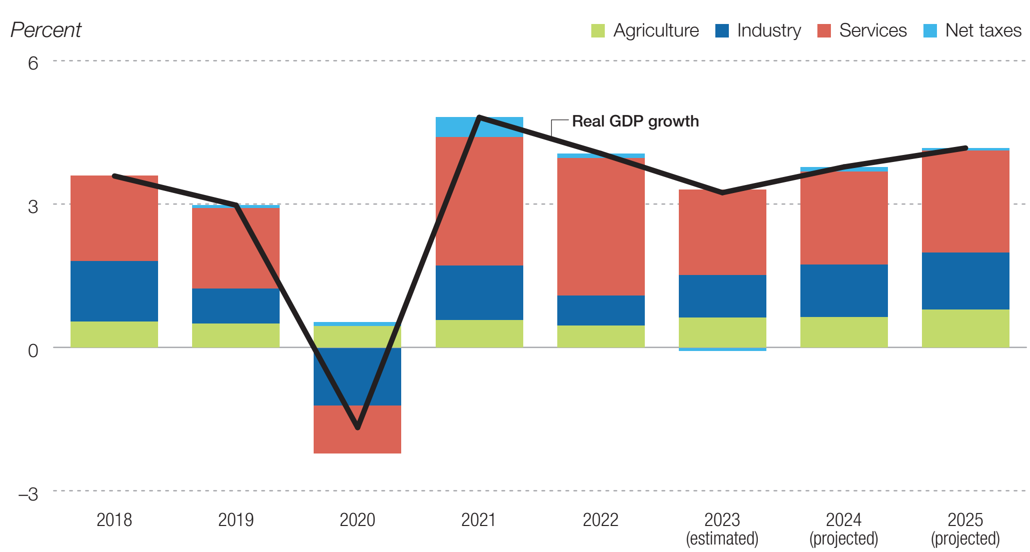
Although economic activity in the services sector remained the dominant contributor to GDP growth in 2023, its contribution declined to 55.6 percent of growth from 70.9 percent in 2022

GROWTH PERFORMANCE AND OUTLOOK ACROSS REGIONS AND COUNTRIES

Economic performance in Africa exhibits marked cross-regional variations

Africa is expected to account for half of the world's 20 fastest-growing economies in 2024. Despite the strong broad-based recovery gains in the aftermath of the Covid-19 pandemic and deepening resilience amid current geopolitical and economic uncertainty, economic performance across the continent continues to vary by region (figure 1.8). These cross-regional variations are largely underpinned by a range of factors, including declining commodity dependence through economic diversification, increasing strategic investment in key growth sectors, and rising both public and private consumption, as well as external factors such as developments in key export markets.

FIGURE 1.7 **Sectoral decomposition of Africa's GDP growth, 2018–25**

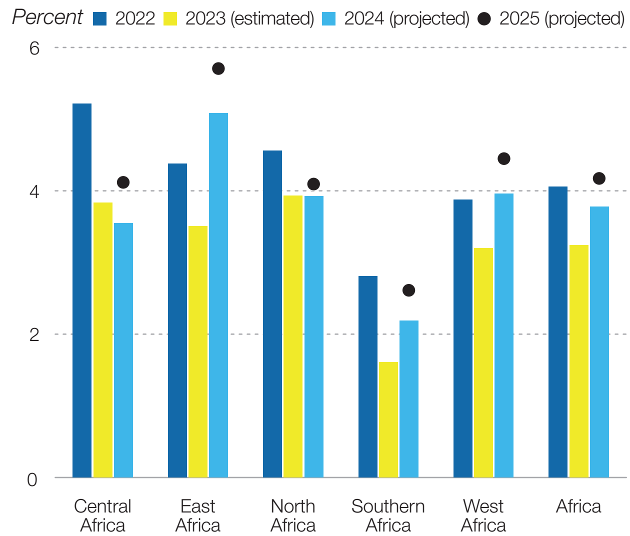


Source: African Development Bank statistics.

East Africa is set to continue to lead Africa's growth pulse, with growth projected to rise to 5.1 percent in 2024 and 5.7 percent in 2025. The projected growth acceleration of 1.6 percentage point in 2024 reflects the anticipated strong economic performance of countries in the region, with seven economies projected to grow 5 percent or more in 2024—Rwanda (7.2 percent), Ethiopia (6.7 percent), Djibouti (6.2 percent), Tanzania (6.1 percent), Uganda (6 percent), Burundi (5.8 percent), and Kenya (5.4 percent) (see table 1.1). High government spending and strategic investment to improve in-country connectivity and deepen intraregional trade, coupled with ongoing efforts to modernize agricultural production systems and boost productivity in the services sector, will drive the strong performance in most countries. In Djibouti, growth will be supported by higher public investment to expand and modernize transport infrastructure as the country seeks to leverage its geostrategic position to become an interregional logistics and trade hub. On the downside, the war-induced destruction of critical infrastructure and extensive curtailment of trade and production activities could drive Sudan's economy further into recession. It contracted 12.3 percent in 2023, and real GDP is projected to contract 1.7 percent in 2024 as regional and global initiatives to end the war have thus far failed, while the conflict continues to impose heavy economic and social costs.

Growth is projected to pick up in West Africa, from an estimated 3.2 percent in 2023 to 4 percent in 2024 and 4.4 percent in 2025. Except for Nigeria and Ghana, all countries in the region are projected to grow at least 4 percent in 2024. Economic performance in Nigeria—the continent's and West Africa's largest economy—is expected to remain tepid, with growth projected to rise just 0.4 percentage point in 2024, to 2.9 percent, before improving to 3.7 percent in 2025. Nigeria's slow growth momentum is due to the first-order effects of domestic economic reforms, which seek to address the country's persistent macroeconomic imbalances and structural distortions and lay a foundation for higher and sustained long-term growth. In the immediate term, the ending of the country's fuel subsidy regime and measures to unify the exchange rate have

FIGURE 1.8 **GDP growth, by African region, 2022–25**



Source: African Development Bank statistics.

contributed to rapidly increasing living and import costs, which have weighed on domestic demand and production, as well as investment, resulting in economic slowdown.

The longer term benefits of these reforms could outweigh the short-term costs of market adjustment. For instance, Nigeria could channel more than $5 billion—used to subsidize fuel from 2022 through May 2023—toward critical social infrastructure. In Ghana, growth is projected to rise from an estimated 1.5 percent in 2023 to 2.8 percent in 2024, with modest growth reflecting the ongoing fiscal consolidation and high inflation weighing on household budgets.

Aided by hydrocarbon production and exports coming on stream, strong economic performance is anticipated for Niger (with growth projected to rise from an estimated 4.3 percent in 2023 to 11.2 percent in 2024) and Senegal (with growth projected to rise from an estimated 4.1 percent in 2023 to 8.2 percent in 2024). Growth in Côte d'Ivoire is projected to reach 6.8 percent in 2024, supported by increased private sector–led construction and strong public investment in strategic infrastructure, public facilities, and industrial development. Greater agricultural output, expansion in the services sectors, and reforms to strengthen private sector participation in energy and mining are expected to drive growth in Benin

East Africa is set to continue to lead Africa's growth pulse, with growth projected to rise to 5.1 percent in 2024 and 5.7 percent in 2025

(6.4 percent), Gambia (6.2 percent), Togo (6 percent), Mali (4.8 percent), Sierra Leone (4.6 percent), and Burkina Faso (4.1 percent).

For North Africa, growth is projected to remain at 3.9 percent in 2024 and increase 0.2 percentage point to 4.1 percent in 2025. Despite projected growth for all countries in the region, the expansions are either modest or a moderation from 2023 estimates. Growth in Libya, estimated at 12.6 percent in 2023, is projected to drop to 7.9 percent in 2024 and 6.2 percent in 2025. This sharp slowdown reflects the devastating effects of the September 2023 floods in the eastern part of the country and the political uncertainty constraining economic recovery from the disaster. In Egypt, growth is projected to moderate from an estimated 4 percent in 2023 to 3.7 percent in 2024. High inflation and foreign exchange shortages will continue to constrain economic growth in the medium term. Furthermore, the Middle East war poses a security risk to Egypt that could reduce tourism inflows.

Sustained subdued growth in South Africa, which accounts for 60 percent of Southern Africa's total output, is a consequence of ailing physical and social infrastructure, a protracted electricity crisis that lowered the productive capacity of firms, and constrained domestic demand

Growth in Central Africa is projected to moderate from an estimated 3.8 percent in 2023 to 3.5 percent in 2024 before improving to 4.1 percent in 2025. The Democratic Republic of Congo will remain the region's best performer despite a projected moderation in growth from an estimated 6.2 percent in 2023 to 4.7 percent in 2024, before rising to 5.3 percent in 2025. The projected growth moderation in 2024 may be attributed to the intensification of armed conflicts in the Eastern region of the country as well as slower growth forecast for China, a major export destination for the Democratic Republic of Congo's minerals. The country's improved growth outlook in 2025 reflects recovery in private consumption and a strong performance in the extractive sector, underpinned by increases in mining investment and exports. In Congo, government consumption coupled with improved oil and natural gas production is projected to push growth from an estimated 4 percent in 2023 to 4.4 percent in 2024. Growth in the Central African Republic is projected to improve from an estimated 1 percent in 2023 to 2 percent in 2024, supported largely by global demand, elevated prices for timber exports, and improved security. Gabon is gradually emerging from the initial shock of the political impasse, and stabilizing the political environment could renew interest in oil wells slated for commissioning. This could aid growth, which is projected to reach 2.4 percent in 2024 and 2.9 percent in 2025. The economic recession in Equatorial Guinea is set to persist, with the economy projected to contract 5.1 percent in 2024 and 3 percent in 2025. This reflects the country's limited economic diversification and ongoing challenges with declining oil production amid a severe shortage of investment in new projects to replace lost oil output.

Southern Africa will continue its low growth trend, with real GDP growth projected to increase from an estimated 1.6 percent in 2023 to 2.2 percent in 2024, with a slight improvement to 2.6 percent in 2025. This sluggish performance reflects the continued economic stagnation in South Africa, the region's largest economy, where growth is an estimated 0.8 percent in 2023 and is projected to increase marginally to 1.1 percent in 2024 and 1.6 percent in 2025. Sustained subdued growth in South Africa, which accounts for 60 percent of the region's total output, is a consequence of ailing physical and social infrastructure, a protracted electricity crisis that lowered the productive capacity of firms, and constrained domestic demand. This underwhelming economic situation has aggravated the country's persistently high unemployment, poverty, and inequality and prevented it from reaping democratic dividends in the 30 years since the end of White minority rule. South Africa will hold national elections this year, a litmus test for democratic credentials amid crippling infrastructure, deteriorating social conditions, and continuing political divisions. Despite tepid growth in the region, a combination of increased fixed investment, rising government consumption, expanded capital outlays in the extractive and agriculture sectors, and a fully recovered tourism sector could propel six countries to growth averaging more than 4 percent in 2024: Mozambique (5 percent), Mauritius (5 percent), eSwatini (4.9 percent), Zambia (4.7 percent), Madagascar (4.5 percent), and Botswana (4.1 percent).

Across country groups, growth in non-resource-intensive economies is projected to improve from an estimated 4.8 percent in 2023 to 5.3 percent in 2024 and 5.5 percent in 2025 (figure 1.9). Growth accelerations will be broad-based, with 8 of the 15 countries in the group set to grow 5 percent or more in 2024, led by Senegal

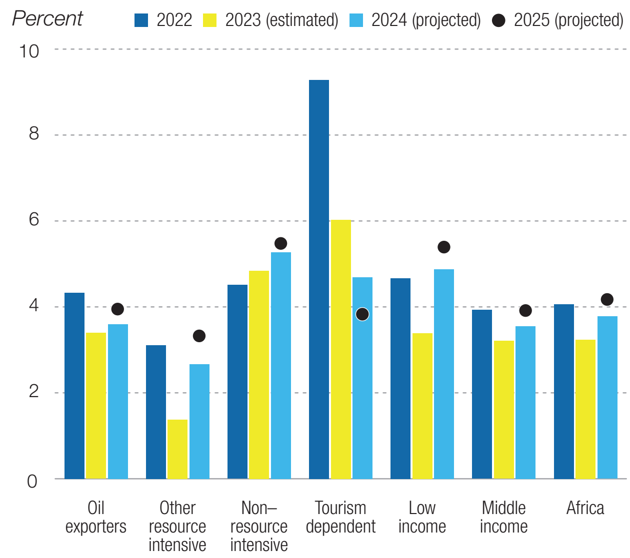
(8.2 percent), Rwanda (7.2 percent), Côte d'Ivoire (6.8 percent), and Ethiopia (6.7 percent). Economic performance will benefit from higher public investment in major growth sectors (mainly manufacturing and services) and substantial capital outlays in critical public infrastructure, including electricity, transport, and logistics networks (in Burundi, Côte d'Ivoire, Djibouti, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda). Growth for the country group will also be supported by investment aimed at enhancing productivity and value addition in agriculture (Benin, Gambia, and Togo).

Average growth in tourism-dependent economies is projected to moderate from an estimated 6 percent in 2023 to 4.7 percent in 2024 and 3.8 percent in 2025. In 2023, Africa recovered 92 percent of its visitor count from before the Covid-19 pandemic,[1] which aided a strong rebound in tourism revenue and associated multiplier effects from the sector. The projected slowdown in growth for the country group reflects stabilization of tourism numbers to trend levels, as well as geopolitical tensions and economic challenges such as high inflation and weaker global output, which will slow travel demand in key tourism source markets such as China, Europe, and the United States.

Average growth in oil-exporting countries is projected to be stable over 2023–25, with a slight improvement from an estimated 3.4 percent in 2023 to 3.6 percent in 2024 and 3.9 percent in 2025. Stable growth is projected despite OPEC's lower production targets for 2024 for two of Africa's major oil exporters—Nigeria and Angola, the latter of which announced withdrawal of its membership from the bloc owing to disagreements on production cuts. Expected growth outcomes for the country group will be supported by high crude oil prices and high investment targeted at bringing new projects on stream that could raise hydrocarbon output (particularly in Congo and Gabon). Despite an aggressive global push to curb investment in fossil fuels, growing energy needs to drive Africa's development and transformation could require increased capital flows to Africa's oil-producing countries.

Other resource-intensive economies grew an estimated 1.4 percent in 2023, with slight improvements projected at 2.7 percent in 2024 and 3.3 percent in 2025. Stronger growth for the country group will be driven by the spillover effects of economic recovery in China, where demand could pick up for commodities such as copper, iron ore, and bauxite linked to expansion in smart grids and construction (including commercial, industrial, infrastructure, energy and utilities, institutional, and residential). This could benefit mineral exporters in the group (Democratic Republic of Congo, Guinea, Zambia). Growth in Burkina Faso and Mali will benefit from rising gold prices as investors increasingly use the metal as a safe-haven asset amid rising geopolitical tensions and global economic uncertainty. Ongoing efforts to further develop domestic value addition in the diamond industry are expected to benefit Botswana, where growth is projected at 4.1 percent in 2024 and 4.4 percent in 2025. In Liberia, the peaceful elections in 2023 underscored the maturity of its fledgling democracy. This could further catalyze investment in expanding logistics infrastructure to accommodate planned increases in iron ore and rubber. These efforts are expected to contribute to the country's growth acceleration from an estimated 4.7 percent in 2023 to 5.4 percent in 2024 and 6.3 percent in 2025.

FIGURE 1.9 **GDP growth in Africa, by country group, 2022–25**



Source: African Development Bank statistics.

Other resource-intensive economies grew an estimated 1.4 percent in 2023, with slight improvements projected at 2.7 percent in 2024 and 3.3 percent in 2025

The growth outlook faces both upside factors and downside risks

Despite enduring global and domestic headwinds, Africa's medium-term growth outlook is slowly improving. Economic growth is projected to regain moderate strength as long as the global economy remains resilient, disinflation continues, infrastructure projects continue, and progress is sustained on debt restructuring and fiscal consolidation. A flare-up in the Middle East and delayed peaceful resolution of Russia's invasion of Ukraine could trigger a second wave of supply disruptions, with attendant pressure on prices of commodities and manufactured goods. Prices of soft commodities —fertilizer and cereals—have declined from their peak at the height of Russia's invasion of Ukraine. With continued exchange rate depreciation in many African countries, the passthrough of higher global commodity prices to domestic prices could keep inflation elevated and undermine the resilience of Africa's projected economic recovery.

If African central banks take a cue from their counterparts in advanced economies, they could start to push down interest rates as risks to high inflation ease. Combined with stabilizing prices, this could restore household purchasing power on the continent, raising prospects for higher and stronger economic growth

Upside factors

- *Worldwide disinflation, making room for monetary policy easing.* Tight monetary policy, normalizing global supply chains, and falling commodity prices aided deceleration in global headline inflation from 8.7 percent in 2022 to 6.9 percent in 2023. Inflation is projected to decline further, to 5.8 percent in 2024. With greater price stability, leading central banks are reconsidering their tight monetary policy stance, with a bias toward downward adjustment of interest rates. If anticipated interest rate cuts or pauses in tightening materialize and if the inflation differential between Africa and the rest of the world narrows, African currencies will recover some losses, reducing imported inflation. If African central banks take a cue from their counterparts in advanced economies, they could start to push down interest rates as risks to high inflation ease. Combined with stabilizing prices, this could restore household purchasing power on the continent, raising prospects for higher and stronger economic growth.
- *Continued implementation of multiyear infrastructure projects.* With lower GDP growth, higher interest rates, and reduced fiscal space, structural reforms should now be a top policy priority for driving Africa's transformation and higher and inclusive economic growth. Investment in infrastructure, especially in green projects, could support Africa's recovery from the Covid-19 pandemic and lay the foundation for long-term inclusive development. The Africa Infrastructure Development Index, which provides consolidated and comparative information on the status and progress of infrastructure development in African countries (transport, electricity, information and communication technology, water supply and sanitation), shows that most African countries—led by South Africa (1.48 improvement), Morocco (1.23), and Egypt (1.17)—made considerable progress from 2021 to 2022.[2] Sustaining these gains could further boost Africa's economic growth in the short to medium term given the multiplier effects of investment in physical infrastructure on trade and jobs.
- *Slow but ongoing progress with debt restructuring and fiscal consolidation.* After more than 3.5 years of increasing debt vulnerabilities across the continent, there is a glimmer of hope as governments and private creditors take the first steps toward finalizing debt restructuring. For example, in Zambia, which defaulted on its external debt in 2020, official bilateral creditors led by China ended protracted negotiations on debt restructuring and in October 2023 signed a memorandum of understanding that binds the agreement reached in June 2023 to restructure $6.3 billion of the country's debt.[3] This progress offers some optimism for Ethiopia and Ghana, two other applicants for the Group of 20 debt moratorium. If successful and extended to all countries in debt distress or at high risk of debt distress, debt relief initiatives could provide the fiscal headroom to spur growth, reinforcing domestic fiscal consolidation efforts after a series of economic shocks.
- *Recovering demand and policy support in key trading partners, particularly China.* China's economic growth lost momentum in late 2023, raising expectations for Beijing to ramp up its stimulus in the new year. A stronger and more effective policy stimulus in China could reverse the recent slowdown in domestic demand growth. In addition, China's recognition of the need to stabilize its property sector to keep developers' severe financial problems from spilling over further into banking and other key

economic sectors has reduced stress on world financial markets.[4] Discussions of debt restructuring for troubled large developers are also positive. Such steps would support recovery and trigger positive spillovers globally, especially in African countries where China remains an important investment and trading partner. In 2023, Africa exported a fifth of its goods to China, and China was the largest source of imports for African countries.

Downside risks

- *Intensifying global geopolitical tensions that deepen disruptions of global trade and international investment.* If geopolitical tensions escalate, African countries could be hit hard due to losses in export market access and higher costs of imports of food and energy products, especially as freight rates increase. According to IMF estimates, the losses could be compounded if capital flows between trade blocs centered around China or the United States and the European Union are cut off.[5] All African regions except North Africa could experience a permanent decline of up to 4 percent of GDP after 10 years due to geopolitical tensions and stand to lose an estimated $10 billion of FDI and official development assistance (ODA) inflows.[6] The reduction in FDI would hamper much-needed technology transfer and employment creation, especially among Africa's young population, with attendant social ramifications. And for countries looking to restructure their debt, deepening geoeconomic fragmentation could worsen coordination among creditors and delay debt restructuring processes.
- *Commodity prices bouncing back as risks accumulate.* Geopolitical tensions in Eastern Europe, the Middle East, and the Red Sea could intensify. Combined with the suspension of the Black Sea Grain Initiative in July 2023,[7] additional OPEC+ production cuts, and the ongoing El Niño phenomenon, these tensions could trigger supply chain disruptions and renew fluctuations in food, fuel, fertilizer, and other commodity prices. Energy shortages resulting from lower investment in fossil fuel that are not matched by corresponding increases in alternative clean energy supplies are worsening the problem. These developments heighten the risk of tilting the world economy off its disinflationary path and could hit Africa's most vulnerable and lower-income countries, where food and energy make up a large share of household consumption.[8] A deepening of these risks could thus dampen prospects for Africa's projected economic recovery.
- *The return of financial system stress.* While financial markets adjusted to tighter monetary policy, they are now pricing in interest rate cuts as disinflationary forces abide. But new upside inflation surprises, due to rising geopolitical tensions and potential hikes in commodity prices, would force a reassessment of the risks and could trigger a sudden rise in interest rate expectations and a drop in asset prices. This may require rates to stay higher for longer, exacerbating the continent's funding and fiscal squeeze and resulting in a slower-than-expected recovery. Further delay in interest rate cuts could turn banks' substantial unrealized losses into realized losses, adding stress to the world financial system. The consequences for Africa would be renewed funding stress, currency depreciations, and higher risk premiums, reinvigorating inflation while compromising growth recovery.
- *Increased regional conflicts and political instability in some countries.* Regional conflict and political instability could impose large economic and social costs. They could also increase countries' fragility and strain public finances, lowering revenue and raising defense spending, thereby shifting resources away from development and social support. As seen recently, political instability triggered by unconstitutional changes of government elicits sanctions from regional and international communities, depressing economic activity due to trade disruption and loss of market confidence. If political paralysis persists, the cost to economies could be large and prolonged. For instance, recent military coups in Burkina Faso, Gabon, Guinea, Mali, and Niger and coup-related sanctions from regional blocs have disrupted economic activity and imposed heavy social costs.

Political instability and concerns over human rights violations have led to the Central

If geopolitical tensions escalate, African countries could be hit hard due to losses in export market access and higher costs of imports of food and energy products, especially as freight rates increase

African Republic, Gabon, Niger, and Uganda losing benefits from the US African Growth and Opportunity Act.[9] The loss of the benefits has consequences for import prices and the export of more than 1,800 products with duty-free access to the US market. Internal conflicts and violence could also result from rising prices for fuel and other commodities due to weaker domestic currencies and reforms. For instance, the removal of fuel subsidies in Angola, Ethiopia, Kenya, and Nigeria and the resulting social costs have led to social unrest driven by opposition to government policy.

By the end of 2022, 19 African countries had double-digit inflation rates. This number remained unchanged in 2023, and although it could fall to 14 countries in 2024, inflation in most countries will remain elevated

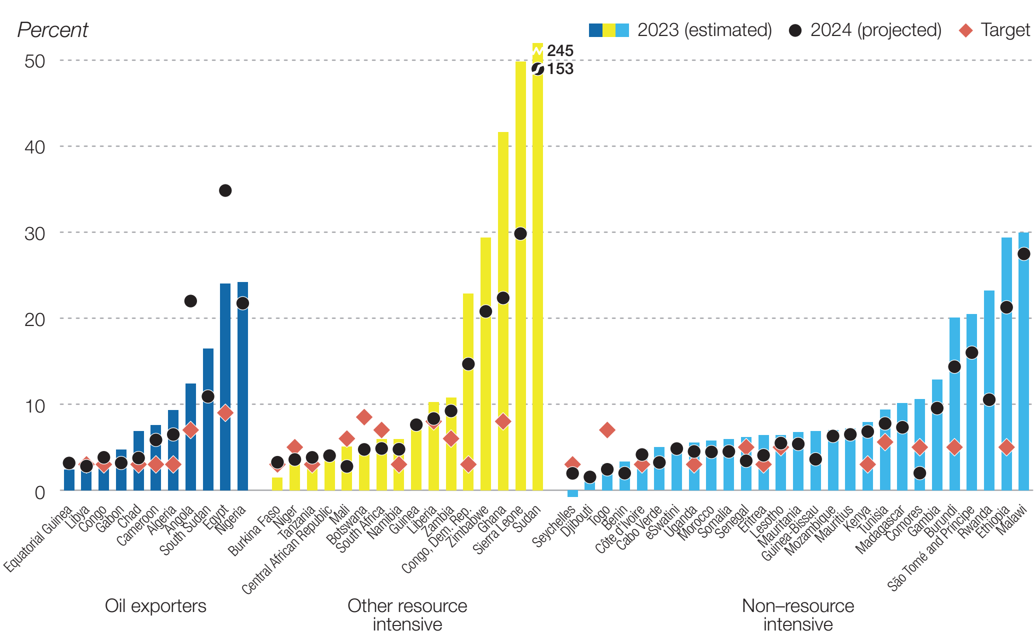
MACROECONOMIC DEVELOPMENTS, IMPLICATIONS, AND OUTLOOK

Stubbornly high inflation continued to constrain performance of African economies in 2023

Inflation has been increasing in Africa since the start of the Covid-19 pandemic. Persistent inflationary pressures have been driven by lagged effects of high food and energy prices and by such domestic factors as strong fiscal dominance, agricultural supply shocks, low industrialization, and imported inflation due to weakening local currencies. This has weighed on the continent's economic performance. Average inflation in Africa has remained high, at an estimated 17.8 percent in 2023, compared with a prepandemic period (2015–19) average of 10.1 percent. Estimated inflation in 2023, the highest in more than a decade, represents an increase of 3.7 percentage points from 14.1 percent in 2022, and contributed to eroding macroeconomic gains prior to the pandemic. By the end of 2022, 19 African countries had double-digit inflation rates. This number remained unchanged in 2023, and although it could fall to 14 countries in 2024, inflation in most countries will remain elevated (figure 1.10). In Egypt, Nigeria, and Ethiopia, three of the six largest African economies in GDP terms, inflation increased to above 20 percent in 2023, at 24.1 percent, 24.2 percent, and 29.4 percent, respectively.

Across regions, inflation in 2023 was highest in East Africa, at 30.6 percent, driven by the 245 percent in Sudan. The war in Sudan has disrupted the country's economy and led to a shortage of

FIGURE 1.10 Annual consumer price inflation in Africa, by country, 2023–24



Note: Values for Sudan have been truncated for better visibility of other countries.

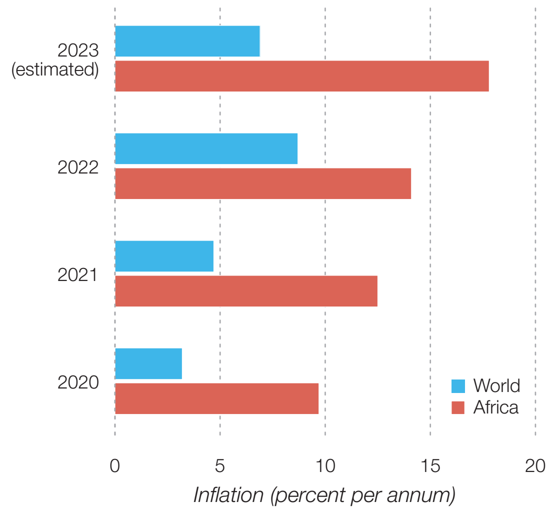
Source: African Development Bank statistics.

goods and services, stoking sharp increases in prices as people compete for scarce resources. Excluding Sudan, average inflation in East Africa was an estimated 13.8 percent in 2023, below the continent's average of 17.8 percent. Inflation is also high in West Africa (20.3 percent), led by Sierra Leone (49.9 percent) and Ghana (41.7 percent), ahead of Nigeria (24.2 percent), where inflation accelerated after the fuel subsidy was abolished in May 2023 as part of the Tinubu government's fiscal reform agenda to reign in fiscal excess. Inflation was also high in Central Africa, having nearly doubled from 6.8 percent in 2022 to an estimated 11.8 percent in 2023. Only in Southern Africa did inflation fall, from 10.7 percent in 2022 to an estimated 8.5 percent in 2023, driven by declines in Angola, Botswana, South Africa, and Zimbabwe. In Angola, inflation fell 9 percentage points to an estimated 12.4 percent in 2023, as the first-order effects of currency depreciation and the phase-out of the fuel subsidy, which pushed up inflation in 2022, subsided. South Africa brought down inflation from 6.9 percent in 2022 to an estimated 6 percent in 2023, the upper end of the country's inflation target band of 3–6 percent, as transportation costs fell. Inflation rose fastest in North Africa, doubling from 8.2 percent in 2022 to an estimated 16.6 percent in 2023, driven by rapidly increasing prices in Egypt, where inflation tripled to an estimated 24.1 percent in 2023 from 8.5 percent in 2022, and to less extent in Tunisia, where inflation rose from 8.3 percent in 2022 to an estimated 9.4 percent in 2023.

Inflationary pressures in African countries remain strongly entrenched, lagging improvements in the rest of the world

Africa's high inflation contrasts starkly with the deceleration in the rest of the world, with developed economies benefiting most from successive and aggressive monetary policy tightening. As a result, global headline inflation declined from its peak of 8.7 percent in 2022 to 6.9 percent in 2023 (figure 1.11). Among the major economies, headline inflation in the second quarter of 2023 ranged from –0.1 percent in China to 2.7 percent in the United States and 2.8 percent in the eurozone.[10] Declining energy prices and normalizing supply

FIGURE 1.11 Annual inflation in Africa and globally, 2020–23



Source: African Development Bank statistics.

chains also contributed to falling prices worldwide, but in Africa, they were more than offset by domestic sources of inflationary pressures.

Rising inflation put additional pressure on African countries' fiscal positions as governments scaled up social spending to cushion vulnerable populations from further erosion in their purchasing power. Depreciating exchange rates have also worsened the inflation outlook, especially in countries with flexible exchange rates. This complicates the choices facing authorities because imported inflation is difficult to tackle with conventional monetary tools. And further increases in inflation and weakening of national currencies are likely to reduce governments' capacity to support vulnerable citizens and could push many people into extreme poverty.

Africa's high inflation contrasts starkly with the deceleration in the rest of the world, with developed economies benefiting most from successive and aggressive monetary policy tightening

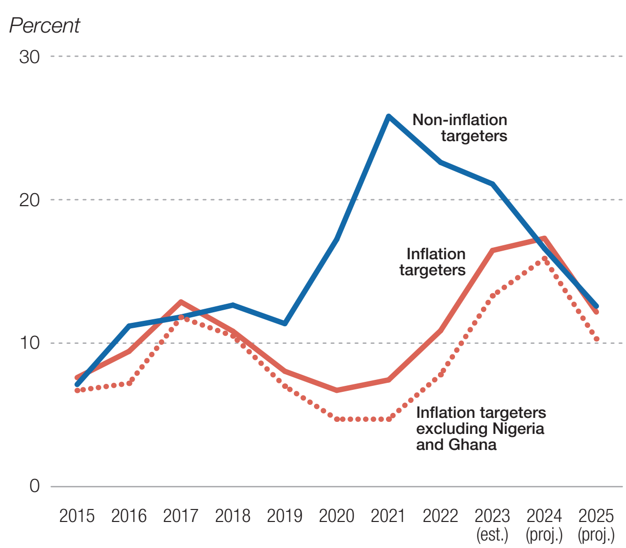
Inflation remains high but is expected to abate due to aggressive monetary policy tightening and receding commodity prices

To combat rising inflation and persistent inflationary pressures, several African countries have taken a cue from their counterparts in advanced economies and tightened monetary policies. Some central banks rapidly raised key interest rates in 2022, ranging from 400 basis points in Mozambique and Nigeria to 750 basis points in

Ghana.[11] Nigeria and Ghana also had some of the highest inflation rates on the continent. Furthermore, inflationary pressures in countries without an explicit inflation targeting framework remained high in 2023, compared with those with an institutionalized inflation targeting regime. Those pressures are likely to converge in the short to medium term, as inflation is expected to fall markedly from 2023 to 2025 in some countries without inflation targets, reflecting easing of externally induced inflationary factors. For example, inflation could decline 158.8 percentage points in Sudan, 27.2 percentage points in Sierra Leone, 17.4 percentage points in Zimbabwe, and 14 percentage points in Ethiopia (figure 1.12). However, excluding Ghana and Nigeria, two countries with a specific inflation target that have exceptionally high inflation rates, average inflation for the group will remain moderate—and below that of countries without an inflation target.

Monetary policy tightening in Africa is expected to gradually dampen inflation due to higher interest rates—and thus stronger domestic currencies—and further declines in international commodity prices—if geopolitical tensions and associated risks subside. Fiscal consolidation will also contribute. Differences in the pace of disinflation across countries reflect different exposures to movements in commodity prices and currencies and different capacities by domestic production to respond to higher prices.

FIGURE 1.12 **Inflation in African countries targeting inflation and those not targeting inflation, 2015–25**



Note: Inflation targeters are Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, eSwatini, Gabon, Gambia, Ghana, Guinea-Bissau, Kenya, Liberia, Malawi, Mali, Mozambique, Niger, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Togo, Uganda, and Zambia.
Source: African Development Bank statistics.

Other central banks in Africa have been more cautious, opting to remain bullish about the temporary nature of the current source of inflationary pressure, perceived as driven by global supply chain disruptions rather than domestic demand-induced price increases. The magnitude and frequency of policy rate adjustments have thus varied widely across countries. Despite the large doses of rate increases in Ghana, Mozambique, and Nigeria, inflation expectations have remained deeply entrenched, and real rates in all countries remain negative, challenging the potency of traditional monetary policy tools. The failure of higher policy rates to reduce inflationary pressures in some countries implies that more innovative instruments should be explored to deal with the supply factors driving the current wave of inflation. Further upward adjustment in interest rates could increase the cost of credit disproportionately and impose a tax on growth. Indeed, despite high inflation, some countries have not tightened monetary policy due in part to already elevated interest rates, which means that further increases risk stalling their economic recovery.

African currencies continue to slide

With world interest rates and global uncertainty remaining high, most African currencies continued to weaken against the US dollar in 2022–23 (figure 1.13). The Zimbabwe dollar, the Sudanese pound, and the South Sudanese pound were the worst-performing currencies in 2023. Furthermore, all of Africa's leading commodity-exporting countries experienced sustained exchange rate depreciations as commodity prices retreated from their 2022 peaks, except for Liberia and Guinea (both unchanged) and Algeria (+4.5 percent). The Sudanese pound depreciated by almost 78 percent, as the protracted civil conflict in that country curtailed export earnings and depleted foreign currency reserves. The South Sudanese pound lost almost half of its value against the US dollar and is expected to depreciate further because of spillovers from tight US monetary policy and widening balance of payment gap due to the highly-import dependent economic structure of the country. The Burundi franc was the worst-performing currency among non-resource-intensive countries, as low foreign exchange reserves, global uncertainty, and 20 percent inflation pushed the currency down in parallel markets, forcing the central bank to devalue it 39 percent in May 2023. With a 3.8 percent appreciation in both Cabo Verde and Comoros, the two island currencies were the top performers, benefiting from a rebound in international tourism.

Higher interest rates may have had limited success in reducing inflation because Africa faces predominantly supply-side shocks

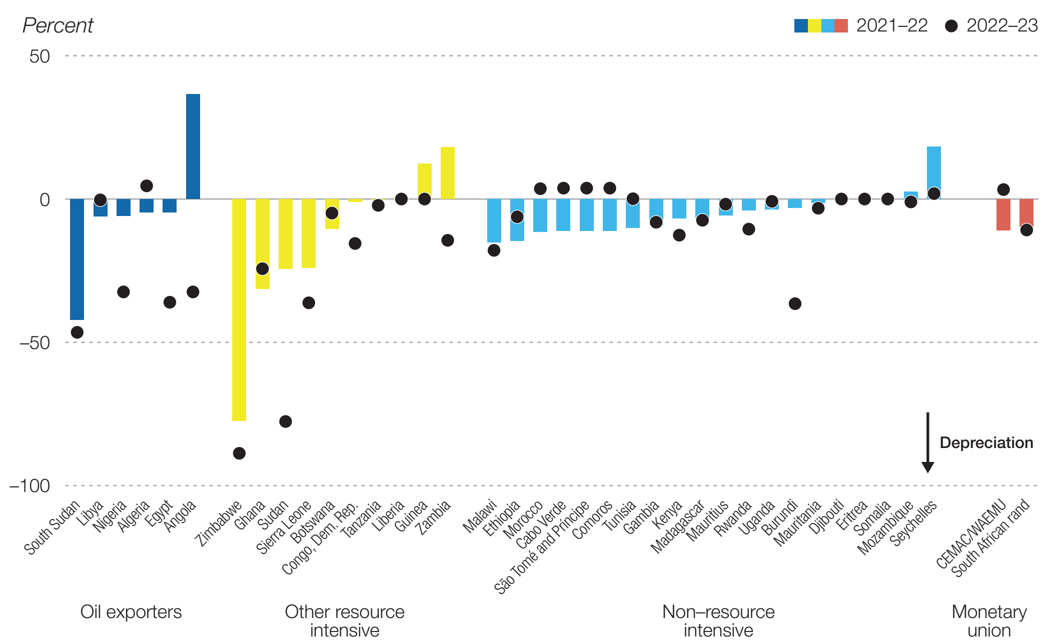
The European Central Bank and the US Federal Reserve tightened monetary policy throughout 2023, pushing inflation further down from its 2022 peak. As a result, real interest rates are now firmly positive, at 2.13 percent in the United States and 1.6 percent in the eurozone. In Africa, by contrast, inflation rose in 2023. Although most African central banks also raised rates, real interest rates remain negative overall (figure 1.14). The recent slowdown in domestic inflation and falling inflation worldwide, along with expectations of monetary policy easing in advanced economies, may give African central banks room to pause interest rate hikes and possibly reverse some if disinflation sets in. Low and negative real interest rates disincentivize domestic savings, and with national currencies weakening, households could use alternative assets, including foreign currency, as store of value, further undermining the efficacy of monetary policy transmission to combat inflation.

Fiscal deficits have improved, but the projected stabilization in the short term is subject to uncertainties

The average budget deficit in Africa gradually declined from a historic high of 6.9 percent of GDP in 2020, due to fiscal stimulus measures taken to mitigate the impact of the Covid-19 pandemic, to 5.1 percent in 2021 and 4.9 percent in 2022, where it is estimated to have stabilized in 2023 (figure 1.15). The primary deficit also

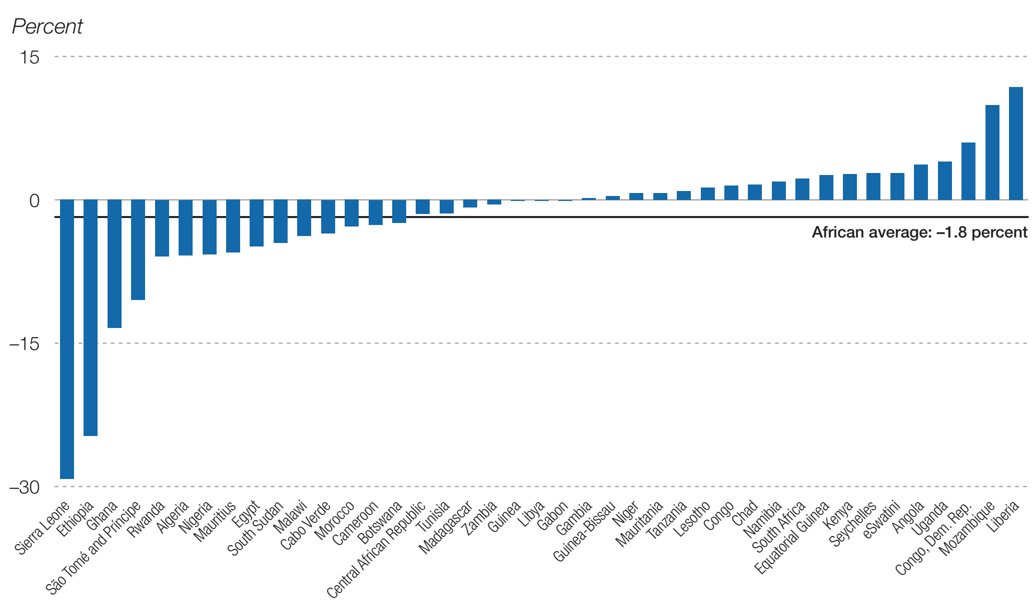
With world interest rates and global uncertainty remaining high, most African currencies continued to weaken against the US dollar in 2022–23

FIGURE 1.13 Exchange rate changes in Africa, by country, 2021–22 and 2022–23



Source: African Development Bank statistics.

FIGURE 1.14 Real interest rates in Africa, by country, 2023



Note: The real interest rate is calculated as the current policy rate minus the estimated inflation rate for 2023.

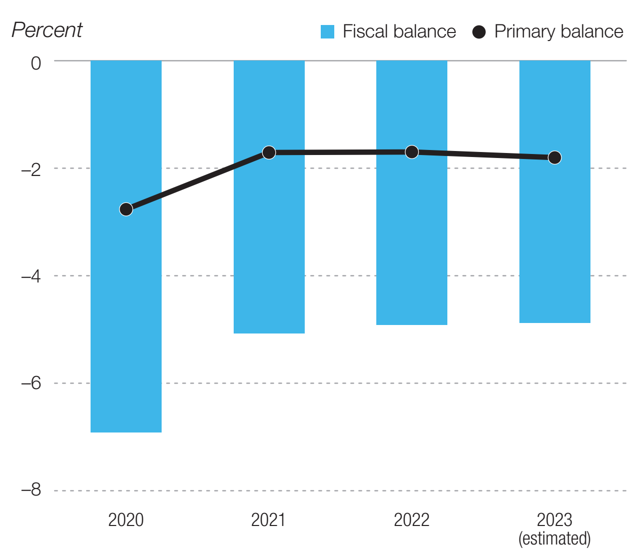
Source: African Development Bank statistics.

remained stable in 2023, at an estimated 1.8 percent. The stabilized fiscal balance is due mainly to fiscal consolidation, with debt restructuring providing additional impetus for fiscal restraint in Ghana, Zambia, and Ethiopia, where fiscal deficits narrowed 57 percent, 22 percent, and 21 percent, respectively, in 2023.

Of the 11 oil-exporting countries, 5 (Algeria, Angola, Cameroon, Egypt, and Nigeria) posted fiscal deficits in 2023. The others (Chad, Congo, Equatorial Guinea, Gabon, Libya, and South Sudan) recorded surpluses. Despite these disparities, the group recorded an average budget deficit of 5.3 percent of GDP in 2023, up from 4.7 percent in 2022. Although Libya recorded a large budget surplus of 14.1 percent of GDP in 2023, fiscal deficits in large countries such as Algeria (12.4 percent), Egypt (6.1 percent), and Nigeria (5.2 percent) weighed heavily on the group (figure 1.16).

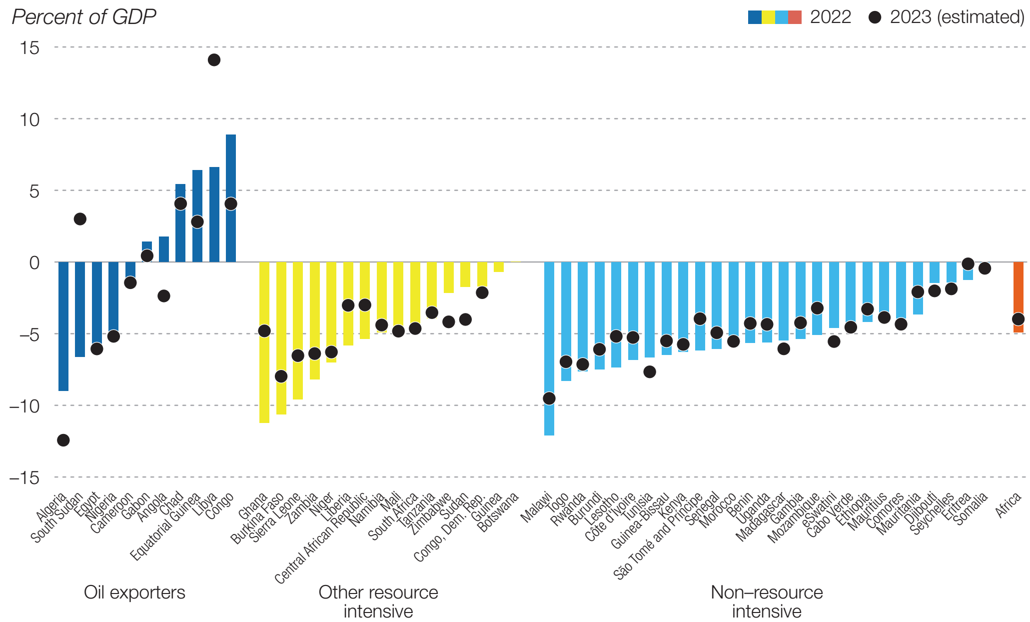
The average fiscal deficit among non-resource-intensive economies continued to improve, from 5.7 percent of GDP in 2022 to 4.9 percent in 2023, supported by lower import bills and slightly improved economic activity that boosted revenue. More than two-thirds of countries in the group improved their fiscal balance in 2023. Lesotho, Malawi, and São Tomé and Príncipe reduced their fiscal deficits by more than 2 percentage points of GDP. The average fiscal deficit among other resource-intensive economies also narrowed

FIGURE 1.15 Overall fiscal balance and primary fiscal balance in Africa, 2020–23



Source: African Development Bank statistics.

FIGURE 1.16 Fiscal balances in Africa, by country, 2022–23



Source: African Development Bank statistics.

slightly, from 4.7 percent of GDP in 2022 to 4.3 percent in 2023. Like non-resource-intensive economies, all 16 countries in the group recorded a budget deficit in 2023, but 10 of them recorded an improvement over 2022.

Ghana's fiscal consolidation paid dividends, with the budget deficit falling 6.4 percentage points, from 11.2 percent of GDP in 2022 to 4.8 percent in 2023. This result is due partly to primary balance improvement and macroeconomic stabilization measures. Ghana agreed to a three-year Extended Credit Facility program with support of around $3 billion from the IMF and has embarked on restructuring its public debt.[12] Under the program, the authorities have committed to budget consolidation and structural reforms, including improving tax administration and public financial management.

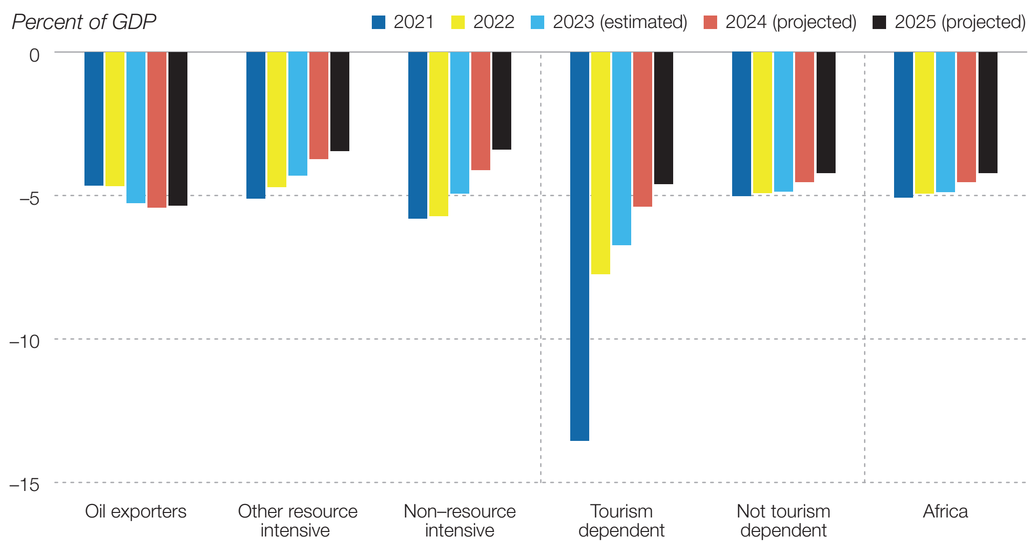
Across regional and resource-intensity groups, the fiscal deficit is projected to narrow from an estimated 4.9 percent of GDP in 2023 to 4.5 percent in 2024 and 4.3 percent in 2025 (figure 1.17). Except for oil-exporting countries, where the budget deficit is projected to widen in 2024, other groups are expected to record gradual improvement in the short term. Easing energy prices are expected to hit oil revenue, threatening the buoyancy of fiscal positions for oil-exporting countries. And budgetary consolidation programs linked to debt restructuring in several countries could free up some fiscal space, contributing to lower budget deficits.

With the global economy mired in uncertainty, fiscal positions on the continent will remain vulnerable to global shocks. African governments will thus need bolder and more transformative policies to build fiscal buffers to confront potential future crises. This is especially so for net commodity exporters, which have seen prices of their export commodities soar after recording declines at the height of the Covid-19 pandemic. For non–commodity exporters, fiscal consolidation, better targeting of subsidies to vulnerable groups, and improved fiscal management will be key to building fiscal fitness. For all countries, implementing strategic revenue enhancement measures should be a key priority for scaling up domestic resource mobilization to expand fiscal space.

Enhancing domestic resource mobilization is one of the most pressing policy challenges facing African countries to achieve the United Nations Sustainable Development Goals, the African Union's Agenda 2063, and the Bank's High 5 priorities. As stipulated in Sustainable Development

Enhancing domestic resource mobilization is one of the most pressing policy challenges facing African countries to achieve the United Nations Sustainable Development Goals, the African Union's Agenda 2063, and the Bank's High 5 priorities

FIGURE 1.17 Fiscal balances in Africa, by country group, 2021–25



Source: African Development Bank statistics.

Three years after the Covid-19 pandemic, and despite the partial economic recovery, average government revenue in Africa increased from 17.2 percent of GDP in 2020 to only 18.8 percent in 2023, and average tax revenue held steady at 14.7 percent in 2020 and in 2023

Goal target 17.1, domestic resource mobilization is essential for allowing countries to own and flexibly chart policies that address their specific development challenges while mitigating the risks of debt overhang.[13] However, government revenues, which have been steadily declining since the 2010s, have not increased by the 15 percent of GDP that developing countries need to adequately finance progress toward the Sustainable Development Goals.[14]

Average general government revenue (excluding grants) declined substantially, from 21.2 percent of GDP in 2010 to 18.1 percent in 2019. Tax revenue, the main source of domestic revenue in most countries, also declined over the same period, by about 2 percentage points, to 14.3 percent of GDP, well below the average for Asia-Pacific (21 percent), Latin America (22.9 percent), and Organisation for Economic Co-operation and Development members (33.8 percent). Three years after the Covid-19 pandemic, and despite the partial economic recovery, average government revenue in Africa increased from 17.2 percent of GDP in 2020 to only 18.8 percent in 2023, and average tax revenue held steady at 14.7 percent in 2020 and in 2023. The gap between African countries and other world regions remains, with the average tax-revenue-to-GDP ratio in 2021–22 at 34 percent in Organisation for Economic Co-operation and Development members, 21.7 percent in Latin America, and 19.8 percent in Asia-Pacific.[15]

Domestic resource mobilization is a key element in fiscal consolidation

On average, African countries mobilize only half the internal resources as a share of GDP that advanced economies do. And despite a variety of strategies to increase public revenue, progress toward enhanced domestic resource mobilization remains limited. Options for improving domestic resource mobilization in Africa draw from empirical evidence and best practice (box 1.1). African countries that better mobilize public revenue have vibrant bank credit to the private sector, greater openness to trade, and effective institutional architecture, as reflected in political stability and tighter control of corruption.

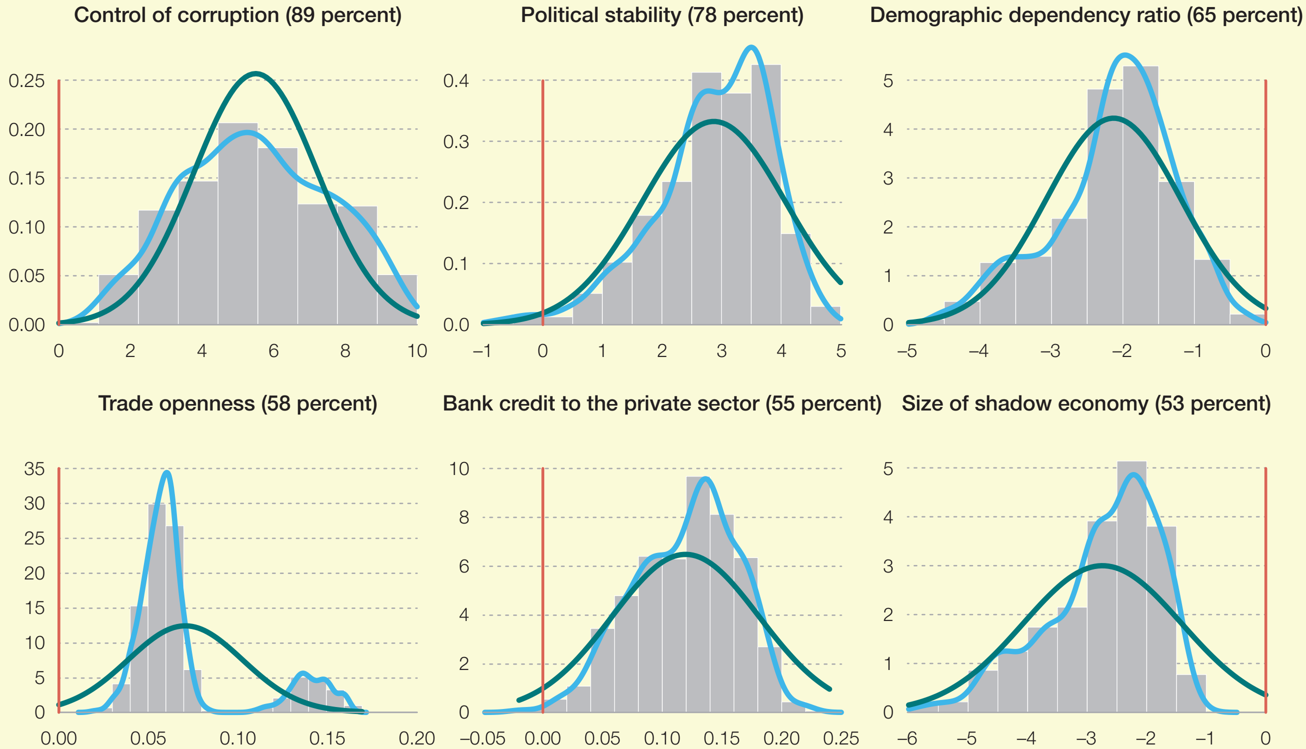
Inadequate control of corruption appears to be one of the components with the most potentially damaging impact on Africa's domestic resource mobilization. The stylized facts clearly show that countries with better corruption control perform better in mobilizing domestic resources, particularly tax revenue, than those with a poor corruption record (figure 1.18). Countries thus need to eliminate endemic corruption, which encourages illicit financial outflows from Africa and deprives countries of a

BOX 1.1 **The winning combination for effective public revenue mobilization in Africa**

The need for more resources to finance Africa's growing development requirements cannot be overemphasized. Despite this, most African countries still struggle to mobilize adequate resources domestically amid large spending pressure, resulting in a wide funding gap. Yet, the research literature is replete with opportunities that advanced and emerging economies have deployed to strengthen their capacity for enhanced resource capture.[1] The literature points to multiple factors that can be leveraged to drive domestic resource mobilization in Africa. These factors—including economic conditions, demographics, and institutional quality—are applied over 2017–22 to assess their effectiveness in domestic resource mobilization, using the Extreme Bounds Analysis methodology.[2]

Using general government revenue as the dependent variable, the results of the Extreme Bounds Analysis approach (see annex 1) suggest that fighting corruption, preserving political stability, increasing the working population, reducing the informal economy, boosting financing for the private sector, and moving to a liberal trade regime can yield higher domestic revenue for governments. The determinants, especially those related to improving the quality of governance, remain unchanged when total government revenue is replaced by tax revenue as the dependent variable (see table A1.2 in appendix 1).

BOX FIGURE 1 **The most robust determinants of domestic revenue mobilization and the cumulative density function of their coefficients**

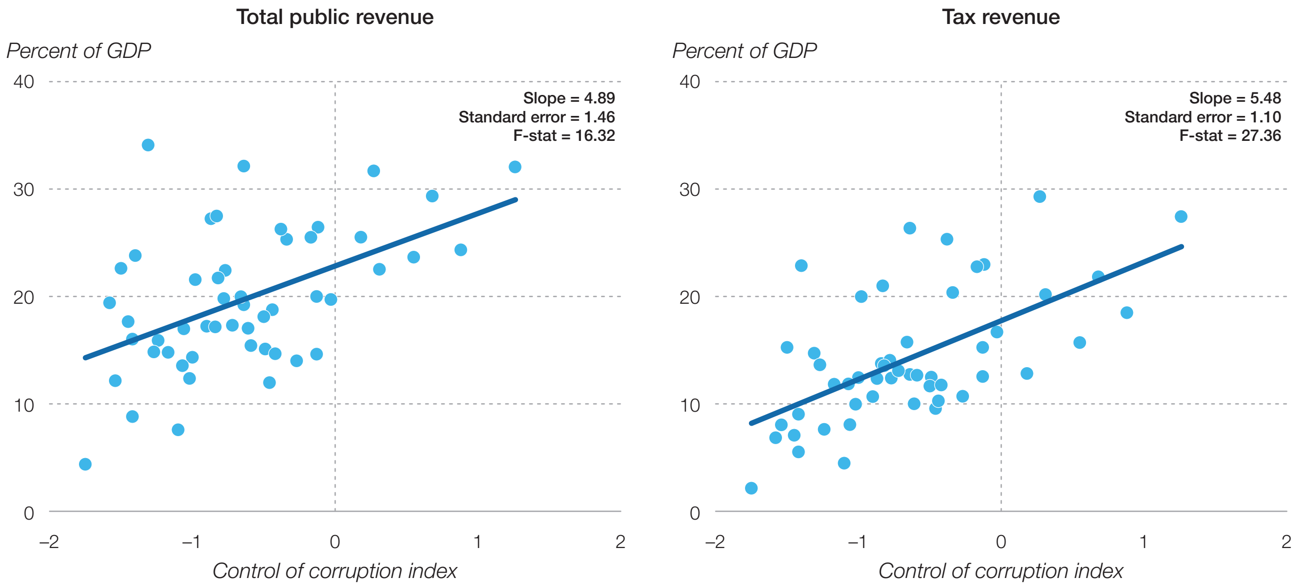


Note: The horizontal axis shows the magnitudes of the regression coefficients. The vertical axis shows the corresponding probability density. The blue curve is the Kernel density curve, and the green curve is a normal distribution. The vertical red line at zero indicates the value of the default coefficient under the null hypothesis. Numbers in parentheses are the percentage significance of the variables, showing their importance.
Source: African Development Bank statistics.

Notes

1. Ablam and Eyah 2023; Hinrichs 1965; Merrifield 2000.
2. Hlavac 2016; Sala-i-Martin 1997; Sala-i-Martin et al. 2004.

FIGURE 1.18 Relationships between government and tax revenue and control of corruption, average 2017–22



Note: Corruption control index comes from Kaufmann and Kraay (2023) and ranges from approximately –2.5 (weak) to 2.5 (strong).
Source: African Development Bank statistics.

valuable source of domestic resources. In addition, restricted lending to the private sector is accompanied by a low rate of private investment, which in turn leads to low tax revenue. Informality and a larger shadow economy also prevent the mobilization of domestic resources. So, countries must create conditions for greater private participation in the economy by increasing credit for productive activities and reducing the informal economy.

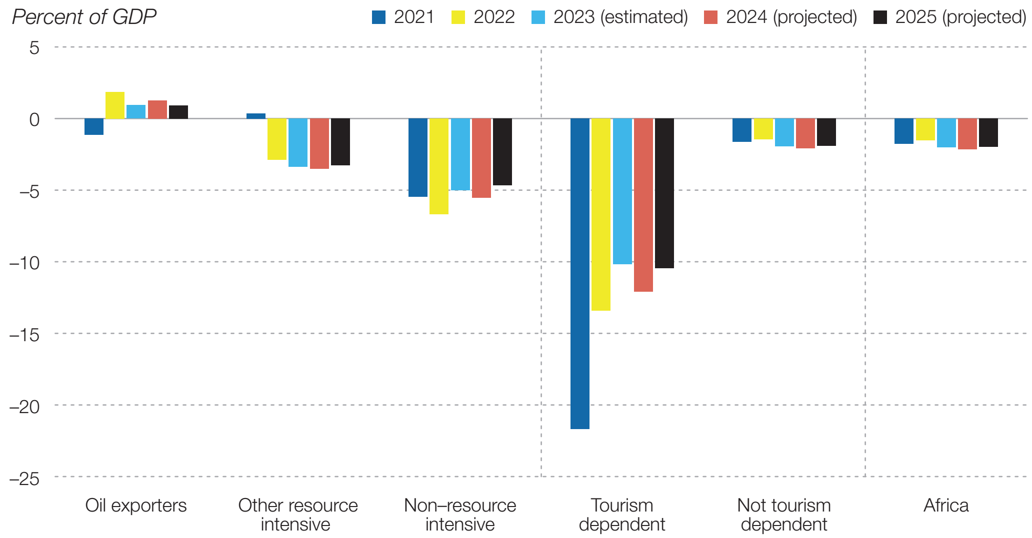
EXTERNAL POSITION AND CURRENT ACCOUNT BALANCE

Driven by a less favorable outlook in global commodity markets, Africa's overall external position is expected to deteriorate

The continent's average current account deficit widened slightly, from 1.5 percent of GDP in 2022 to an estimated 2 percent in 2023 (figure 1.19). This slight widening was driven mainly by the disproportionate increase in imports relative to exports. Current account surpluses in net oil-exporting economies shrank, erasing immediate gains on the back of higher global crude oil prices after the Covid-19 pandemic. The average current account surplus for these economies was halved from 1.9 percent of GDP in 2022 to an estimated 0.9 percent in 2023, reflecting a 17 percent decline in oil prices in 2023 and constrained demand due to the weak global economy. The fall in prices of nonenergy raw materials also hit other resource-intensive economies, which recorded further deterioration in their current account deficit, from 2.9 percent in 2022 to an estimated 3.4 percent in 2023.

Despite continued pressure from depreciating national currencies, non-resource-intensive economies (half of Africa's countries) contained their current account deficit to within 5 percent of GDP in 2023. Relative to 2022, this represents an improvement of 1.7 percentage points of GDP and reflects the benefits of easing food and energy prices. For tourism-dependent economies, improvements in tourist arrivals and revenues contributed to a narrowing external deficit, from 13.4 percent in 2022 to an estimated 10.2 percent in 2023. As noted by the World Tourism Organization, the trend toward pre–Covid-19 pandemic levels continues, with international tourist arrivals from January to September 2023 only 8 percent

FIGURE 1.19 Current account balances in Africa, by country group, 2021–25



Source: African Development Bank statistics.

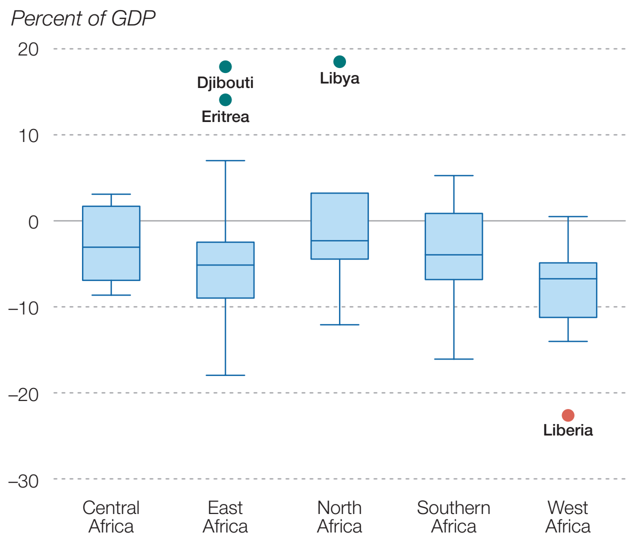
Africa's external deficit is projected to widen in 2024, to 2.2 percent of GDP, before stabilizing in 2025, at around 2 percent

lower than over the same period in 2019, down from 30 percent over the same period in 2022.

Africa's external deficit is projected to widen in 2024, to 2.2 percent of GDP, before stabilizing in 2025, at around 2 percent. This reflects expectations that oil prices will remain elevated and stabilize at around $80 per barrel, with net oil-importing economies severely affected.[16] This could, however, benefit oil-exporting countries, where the current account—projected to remain in surplus, at 1.3 percent of GDP in 2024—could be erased in 2025, when the surplus is projected to drop to 0.9 percent of GDP. The average external deficit in other resource-intensive economies is projected to widen to 3.5 percent of GDP in 2024 before improving slightly to 3.3 percent in 2025. This is partly because the decline in prices of nonenergy raw materials that began in 2023 is expected to continue in 2024 before stabilizing in 2025. A similar dynamic is expected for non-resource-intensive economies and tourism-dependent economies. For the former, the external position is projected to widen to 5.5 percent of GDP before improving by around 1 percentage point, to 4.6 percent in 2025. For the latter, the external deficit is projected to widen to 12.1 percent of GDP in 2024, with tourism revenue increasing less quickly as arrivals approach pre–Covid-19 pandemic levels, before narrowing to 10.4 percent in 2025, with an expected relaxation on import bills.

Across regions, North Africa displays a balanced external position (figure 1.20), with the maximum deficit (12.1 percent of GDP in Mauritania) more than offset by Libya's 18.5 percent surplus. Southern Africa has the second-lowest external deficit (1.8 percent of GDP), driven by the external surplus in five countries, the largest of which are eSwatini (5.3 percent), Zambia (3.8 percent), and Angola (3.4 percent of GDP). West Africa has the third-lowest external deficit on average (2.6 percent of GDP), despite double-digit deficits in Liberia (22.6 percent), Gambia (14 percent), Niger (12.8 percent), and Senegal (11.2 percent). The region's lower external account deficit might be explained by the weight of Nigeria's surplus of 0.5 percent of GDP in 2023, up from 0.2 percent in 2022. Central Africa has one of the highest average current account deficits (2.9 percent of GDP) due to wide external deficits in the Central African Republic, Democratic Republic of Congo, and Equatorial Guinea. The rise in import prices and the persistent deterioration of the terms of trade explain the worsening external deficit of the Democratic Republic of Congo. In Equatorial Guinea, the drop in oil prices contributed to the drastic erosion of the country's external account balance, from a

FIGURE 1.20 Current account balances, by African region, 2023



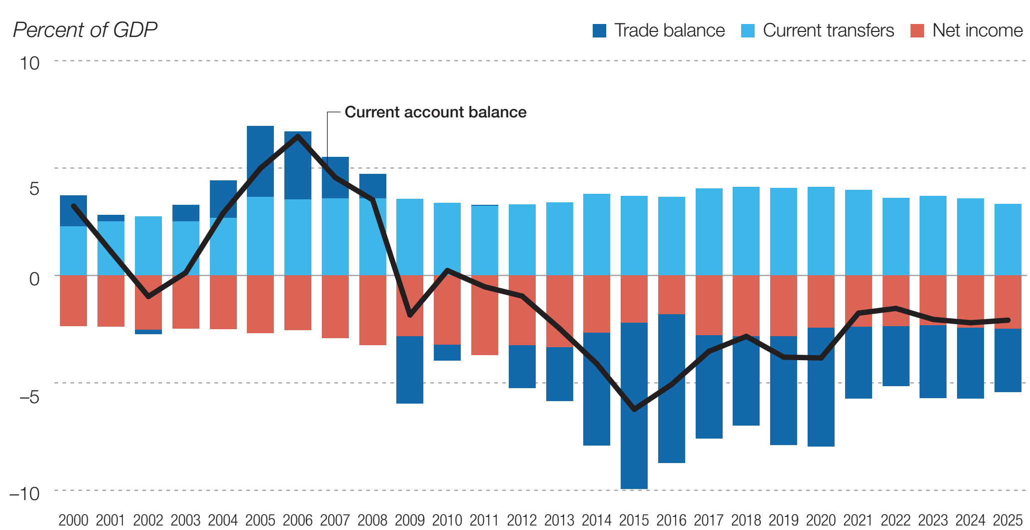
Note: The horizontal bars, from bottom to top, denote the minimum, first quartile, median, third quartile, and maximum. Points above or below the bars are extreme values.
Source: African Development Bank statistics.

surplus of 1.4 percent of GDP in 2022 to a deficit of 4.1 percent of GDP in 2023.

East Africa has the highest external deficit despite the exceptional current account surpluses in Djibouti (17.9 percent of GDP) and Eritrea (14.1 percent). The region has the second-highest median deficit (5.1 percent of GDP) and the highest average external deficit (4.2 percent of GDP), with high deficits occurring in several of the region's countries, including Burundi (18 percent), Somalia (12.4 percent), and Rwanda (11.4 percent). In Burundi and Rwanda, higher import bills for food and fuel products, coupled with capital imports for infrastructure projects (the expansion of electricity supply in Burundi and the new airport in Rwanda), as well as the negative consequences of internal shocks on the primary sector (unfavorable weather conditions and animal health crisis in Burundi) fueled the persistence of external deficits. The current account imbalance in Somalia is due to the continued decline in remittances since the Covid-19 pandemic, as well as the increase in food imports and the suspension of budget support by some development partners before the May 2022 elections.[17]

The decomposition of Africa's current account balance indicates a slight increase in 2023, due to further widening of the trade deficit (3.4 percent of GDP in 2023 compared with 2.8 percent in 2022) (figure 1.21). The deficit on net income (2.3 percent of GDP) and surplus on current transfers (3.7 percent of GDP) remained broadly stable. In contrast, the trade deficit is projected to increase in 2024, to 3.3 percent of GDP, in line with the decline

FIGURE 1.21 Current account balances in Africa, 2000–25



Source: African Development Bank statistics.

in revenue from raw materials, before falling to 2.9 percent in 2025.

An alternative decomposition of the current account balance shows that the bulk of the variation in the current account balance between 2022 and 2023 is explained by variation in net private savings[18] (figure 1.22). At the continental level, the current account deficit widened by about 0.5 percentage point between 2022 and 2023, mostly because net private savings contracted by the same magnitude. At the country level, the 10 economies whose current account balance improved the most from 2022 to 2023 benefited more from the improvement in net private savings, except for the Central African Republic and South Sudan. The improvement in the current account balance for these two countries was attributable to fiscal consolidation. By contrast, low private savings relative to private investment explains a large part of the increase in the current account deficit. Fiscal consolidation efforts also helped minimize deterioration in the current account balance in Ghana, Liberia, Libya, and Malawi. In Algeria, Angola, Congo, and Equatorial Guinea, the worsening current account balance was due to a combined effect of declining net private savings and deteriorating fiscal balances. This analysis shows that sustained fiscal consolidation efforts are needed to stabilize and improve the current account balance in the short to medium term.

EXTERNAL FINANCIAL FLOWS

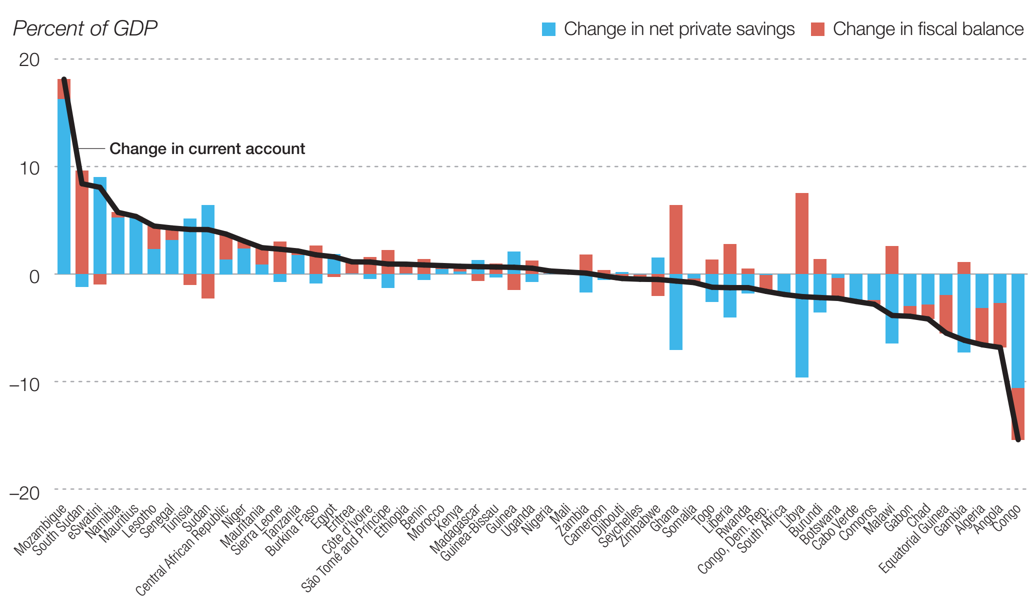
Tighter global financial conditions weigh negatively on financial inflows after rising sharply following the Covid-19 pandemic

After rising sharply following the Covid-19 pandemic, total financial flows to Africa—including FDI, ODA, portfolio investment, and remittances—declined. Financial flows to African countries fell 16.6 percent in 2022, to $180.5 billion, or 6.1 percent of Africa's GDP, compared with $216.5 billion, or 7.9 percent of GDP, in 2021 (figure 1.23). The decline is due mainly to the drastic drop in FDI (43.5 percent) and portfolio investment (17 percent), which more than offset the increases in ODA (3.8 percent) and remittances (0.2 percent).

While FDI more than doubled in 2021, to about $80 billion, it fell sharply in 2022, to nearly $45 billion, $1 billion less than before the Covid-19 pandemic in 2019.[19] The enormous decline in 2022 was driven by large corporate reconfiguration in South Africa, whose share of Africa's total FDI was more than halved, from 49.3 percent in 2021 to

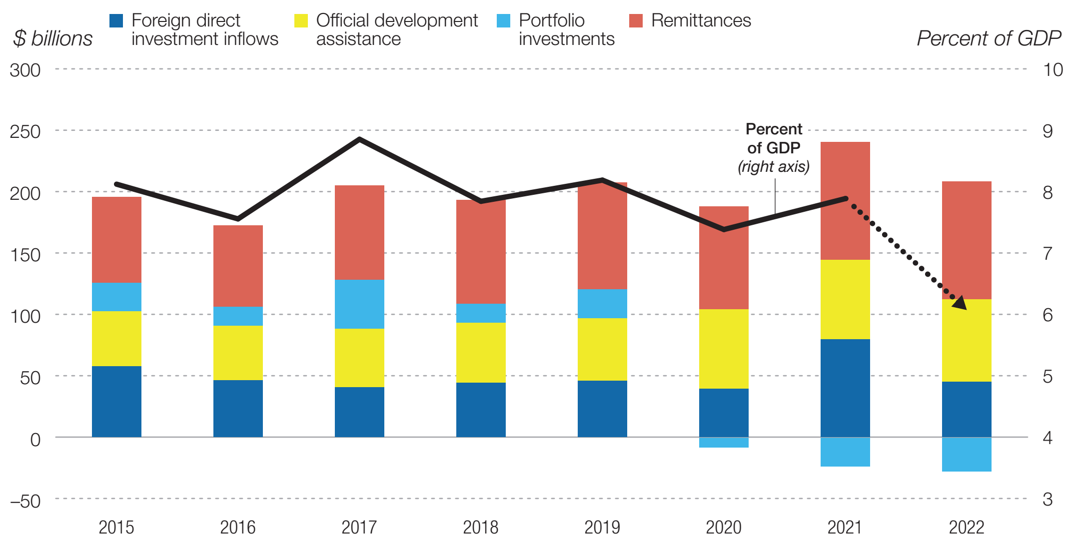
At the continental level, the current account deficit widened by about 0.5 percentage point between 2022 and 2023, mostly because net private savings contracted by the same magnitude

FIGURE 1.22 Change in current account, fiscal balance, and net private savings, 2022–23



Source: African Development Bank statistics.

FIGURE 1.23 External financial flows to Africa, 2017–22



Source: African Development Bank statistics.

Financial flows to African countries fell 16.6 percent in 2022, to $180.5 billion, or 6.1 percent of Africa's GDP, compared with $216.5 billion, or 7.9 percent of GDP, in 2021

20 percent in 2022, a drop of around $32 billion from 2021. The FDI flows to South Africa in 2021 ($41 billion) were exceptional, as the highest level in the previous 30 years was $9.2 billion in 2008. The oscillation of FDI flows to Africa reflects growing uncertainty in the global financial environment and the associated high volatility of FDI. Even though Africa's share of global FDI flows in 2022 was only 3.5 percent, compared with 5.2 percent in 2021, its share of global FDI flows has increased since the 2000s, from an average of 2.8 percent in the first decade of the century to 3.3 percent in 2010–22.

Despite the decline in FDI flows to Africa, the number of new projects announced rose 39 percent, to 766, suggesting improving investment conditions on the continent. In addition, Africa accounted for 40 percent of the 15 main greenfield investment megaprojects (worth more than $10 billion) announced in 2022.[20] These megaprojects offer enormous opportunities for job creation, capacity building, and technology transfer. The energy sector, both extractives and energy generation, saw the biggest increase. With FDI so important for the continent's economic prosperity, priority must be given to policies that attract more FDI and promote an investment environment conducive to sustainable and inclusive growth. From this perspective, stabilizing the macroeconomic and political framework is essential, as is identifying priority investment areas for green growth. The regulatory framework must be designed to encourage FDI, particularly green investments.

The distribution of FDI in Africa is heterogeneous across regions and countries. In 2022, North Africa accounted for one-third of FDI flows to Africa, followed by East Africa (19.4 percent), West Africa (18.8 percent), Southern Africa (14.9 percent), and Central Africa (13.4 percent). While the decline in FDI flows in 2022 was driven by Southern Africa (–84.1 percent), West Africa (–34.7 percent), and to less extent Central Africa (–7.4 percent), North Africa and East Africa recorded respective increases in FDI flows of 58.1 percent and 3.5 percent in 2022. The sharp increase in North Africa was due mainly to Egypt, where FDI more than doubled to $11.4 billion, accounting for 75.8 percent of the region's FDI flows, driven by increasing cross-border mergers and acquisitions. The decline in FDI in Southern Africa was due mainly to the drop in FDI flows to South Africa, whereas the decline in West Africa reflected mainly disinvestment in Nigeria (–$187 million in 2022 compared with inflows of $3.3 billion in 2021) and a drop in FDI of 39 percent in Ghana, to $1.5 billion in 2022.

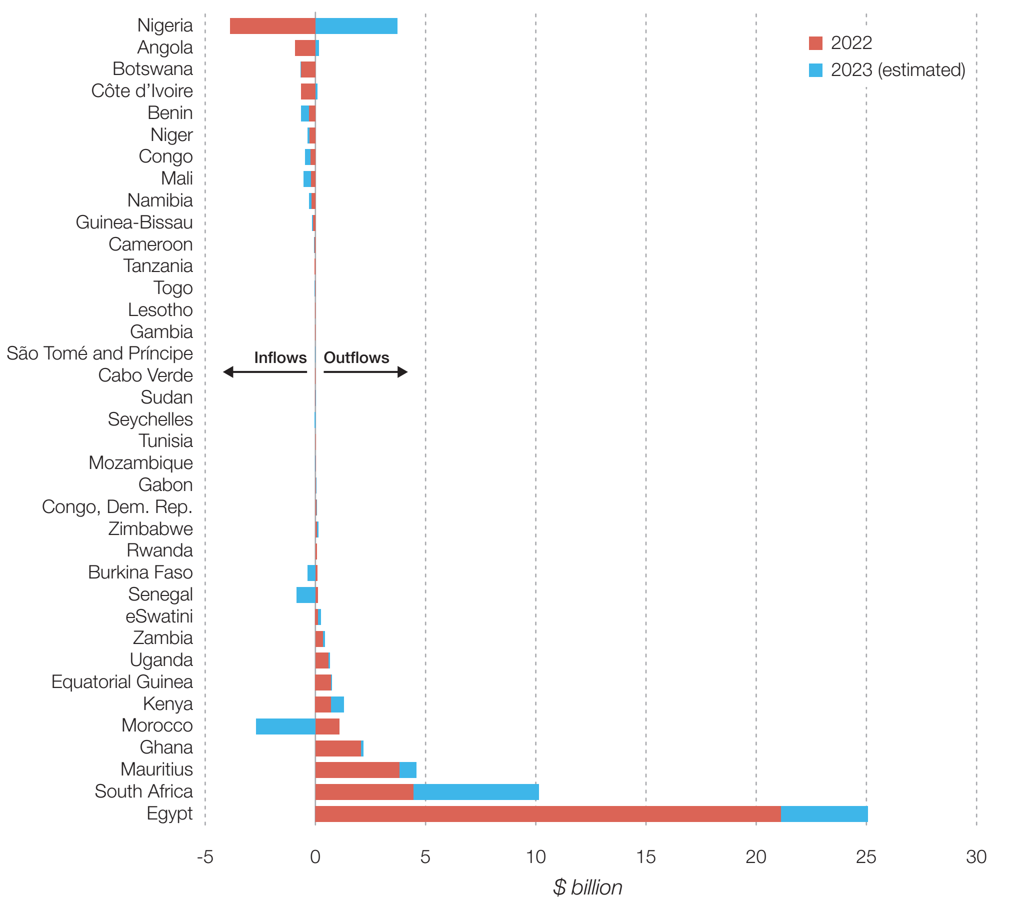
ODA remained firm in the face of increasing global uncertainty since 2020 and despite domestic fiscal challenges facing major donor countries. ODA reached an estimated $67.5 billion in 2022, up 3.8 percent from $65 billion in 2021.[21] Support for reconstruction and humanitarian aid in Ukraine does not appear to have hampered advanced economies' ODA commitments to Africa in 2022. After increasing 28 percent in 2020, largely because of Covid-19-related support for health supplies and other containment measures, ODA was broadly stable in 2021 before rebounding by $2.5 billion in 2022.

As the largest component of financial flows to Africa, remittances withstood inflationary pressures and increased 0.2 percent from 2021, to $96 billion in 2022. About 52 percent of remittances came from advanced economies, with the rest from developing countries. Intra-Africa remittances worth around $20 billion represent 20 percent of global inflows and 42 percent of the total from developing countries. This shows that intra-Africa migration can deepen regional integration and build resilience in Africa. Gulf countries are also major sources of remittances to Africa, with Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates accounting for $23 billion in remittances to Africa, or 24 percent of total remittances to the continent.

There is, however, asymmetry in remittance flows to African regions. The bulk are concentrated in North Africa (48 percent of the total) and West Africa (33 percent), while East Africa accounts for 11 percent, Southern Africa 6 percent, and Central Africa less than 2 percent. Within the regions, Egypt accounts for 68 percent of remittances to North Africa (mainly from Gulf countries), and Nigeria accounts for 61 percent of remittances to

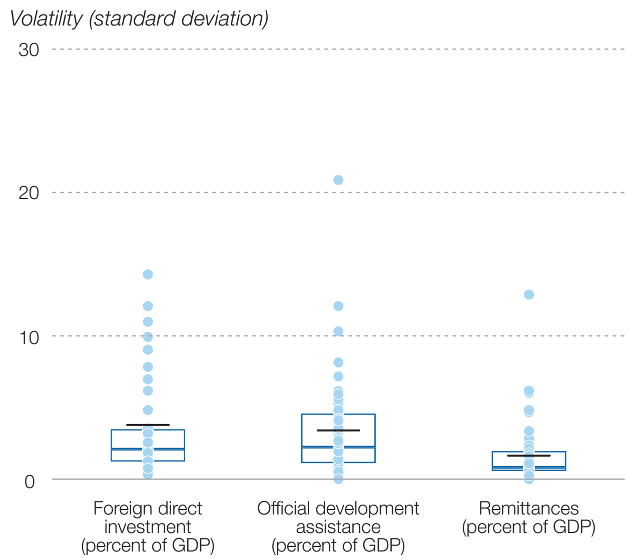
As the largest component of financial flows to Africa, remittances withstood inflationary pressures and increased 0.2 percent from 2021, to $96 billion in 2022

FIGURE 1.24 **Portfolio investment in Africa, by country, 2022 and 2023**



Note: A positive number signifies an outflow of portfolio investment from Africa, and a negative number an inflow.
Source: African Development Bank statistics.

FIGURE 1.25 **Volatility of external financial flows in Africa, 1990–2021**



Note: Financial flows are measured relative to each country's gross domestic product (GDP). Their volatility is measured as the standard deviation over 1990–2021. Each dot represents the volatility of the relevant financial flow for a given country. The height of the boxes corresponds to the interquartile range. The horizontal lines (either inside or outside the boxes) refer to the mean values.
Source: African Development Bank statistics.

West Africa (mainly from Cameroon, the United Kingdom, and the United States).

Africa has experienced portfolio disinvestment since the Covid-19 pandemic, and this intensified with global financial conditions tightening and national currencies depreciating against the US dollar. Net portfolio investment outflows rose in 2022, to $28 billion, from $24 billion in 2021. The portfolio divestment is supported by continued sales of assets since the start of the pandemic in 2020, a phenomenon accelerated by the rise in interest rates in advanced economies and the depreciation of currencies in African countries. Egypt accounted for the largest share of portfolio outflows in Africa in 2022 ($21.1 billion, or 60 percent of the continent's total), and the trend was not expected to reverse in 2023, when the country's net portfolio investment outflows are projected to be around $4 billion (figure 1.24). South Africa, Mauritius, and Ghana also suffered portfolio losses in 2022 of $4.4 billion, $3.8 billion, and $2.1 billion, respectively. For South Africa, capital outflows are expected to increase in 2023, with projected net outflows of $5.7 billion from portfolio investment. Nigeria is one of the few African countries to have consolidated its net portfolio position in 2022, with portfolio inflows of $3.9 billion. But the situation is expected to reverse in 2023: net portfolio outflows of $3.7 billion are projected, almost equal to the inflows in 2021. In 2023, Morocco and to less extent Senegal are the rare countries projected to attract more portfolio investment.

Besides being the largest component of external financial flows to Africa, remittances are also less volatile and less sensitive to global uncertainty than other capital flows

Volatility in capital flows is a major source of macroeconomic and financial instability in emerging and developing economies, particularly in Africa. Before the Covid-19 pandemic, only portfolio investment exhibited greater volatility, but the pandemic altered the dynamics of external financial flows: FDI and ODA are now more volatile than remittances. Between 1990 and 2021, FDI was, on average, 2.3 times more volatile than remittances, and ODA was 2.1 times more volatile (figure 1.25). In contrast, remittances appear less volatile, and because of low volatility, remain important in smoothing household consumption for beneficiary households. Moreover, remittances show the lowest extreme values of volatility, demonstrating the resilience of these inflows to domestic macroeconomic challenges, such as high inflation, in source countries.

NOTES

1. UNWTO 2023.
2. MEO 23 update. [add to reference list]
3. The Institute for Security Studies.
4. Wong and Ji 2023.
5. Zhang and Reyes 2023.
6. Zhang and Reyes 2023.
7. FAO 2023.
8. AEO 2023.
9. MEO 2023. [add to reference list]
10. IMF 2023a.
11. African Development Bank 2023.
12. IMF 2023c.
13. UNCTAD 2016.
14. MEO 2023.
15. OECD 2023.
16. World Bank 2023.
17. IMF 2022.
18. The current account is the sum of public savings (the overall fiscal balance) and net private savings. The latter is the difference between private savings and private investment.
19. UNCTAD 2023.
20. UNCTAD 2023.
21. UNCTAD 2023.

GLOBAL ECONOMIC AND FINANCIAL CONDITIONS AND AFRICA'S DEBT DYNAMICS AND PUBLIC FINANCE

2

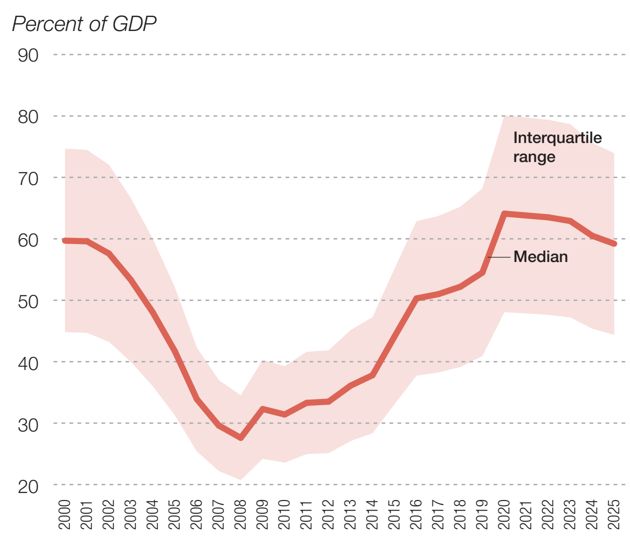
Public debt is declining but is still above prepandemic levels, and underlying vulnerabilities remain

African countries that have instituted fiscal consolidation measures and those that have applied for debt restructuring or are implementing an International Monetary Fund (IMF)–supported program are benefiting, with public finances gradually approaching sustainable levels.[1] In 2020, the median fiscal deficit widened to 6.9 percent of gross domestic product (GDP), reflecting the impact of the Covid-19 pandemic on revenue and the need to protect the most vulnerable groups. Consequently, Africa's median public debt–to-GDP ratio increased to 64 percent in 2020, from 54.5 percent in 2019. Most countries entered the pandemic with limited fiscal space to sustain fiscal support measures, and most fiscal authorities have since implemented consolidation measures. As a result, the debt-to-GDP ratio stabilized at around 63.5 percent in 2021–23 and is projected to retreat to around 60 percent in 2024—halting an almost decade-long upward trend (figure 2.1). Debt restructuring is providing additional impetus for fiscal restraint in 2023 in some countries; for example, fiscal deficits have narrowed by 57 percent in Ghana, 22 percent in Zambia, and 21 percent in Ethiopia.

While debt-to-GDP ratios have stabilized continentwide, they are still elevated in many countries and remain higher than before the Covid-19 pandemic (figure 2.2). However, in 12 countries, public debt levels are expected to decline to below prepandemic levels in 2023. The largest decline was in São Tomé & Principe (39.6 percentage points), followed by Angola (28.7 percentage points), Ethiopia (17.9 percentage points), Gambia (10.6 percentage points), and Mozambique (9.4 percentage points). These declines have been due to fiscal consolidation in São Tomé & Principe and to the combination of general fiscal consolidation and higher GDP growth in Ethiopia, Gambia, and Mozambique. In Angola, although the debt level increased significantly from 2022 to 2023 due to a higher fiscal deficit and lower GDP growth, it remains below the prepandemic level, reflecting the benefits of substantial energy subsidy reforms that reduced the incentive to take on more debt.

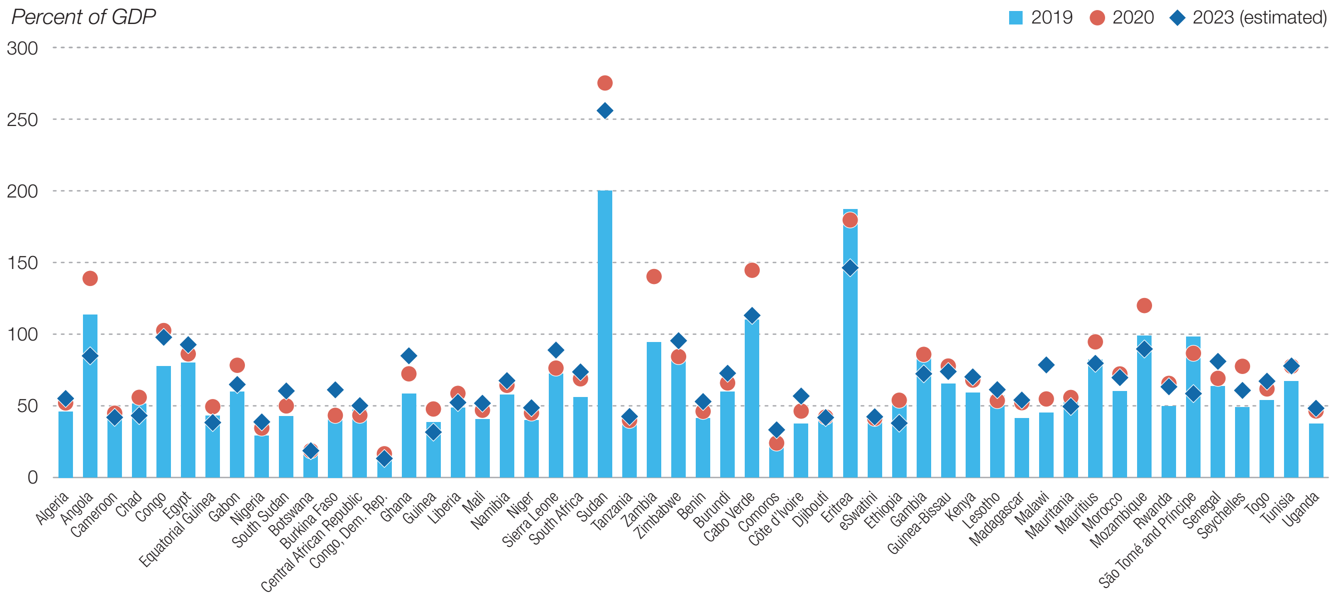
Despite the projected overall decline in debt, considerable challenges remain, and debt vulnerabilities are expected to increase due to a trend shift toward market financing. Between 2000 and 2021, 23 African countries issued more than

FIGURE 2.1 Gross government debt as a share of GDP in Africa, 2010–25



Source: African Development Bank statistics based on the International Monetary Fund's World Economic Outlook database.

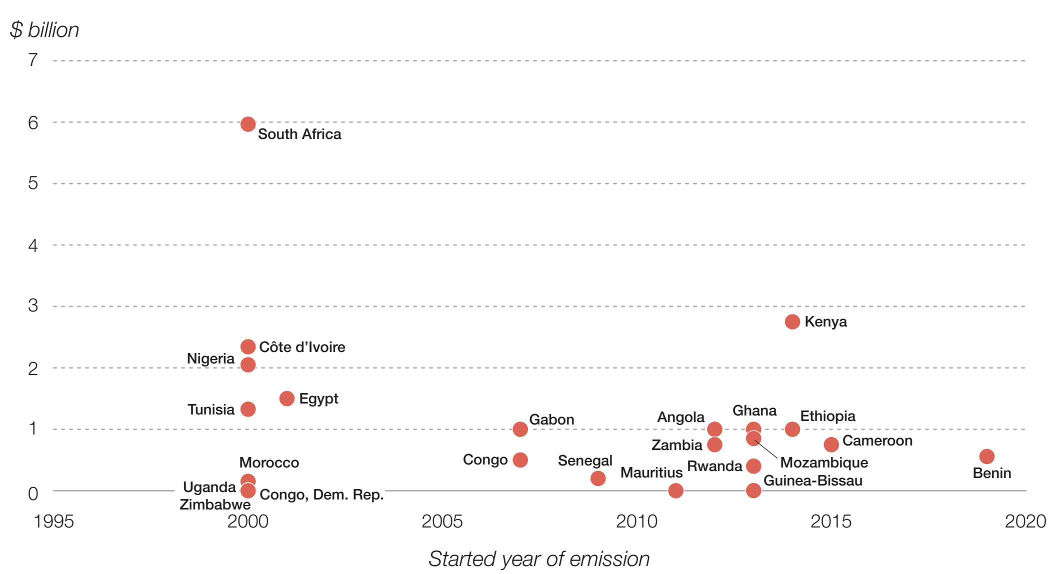
FIGURE 2.2 Change in debt-to-GDP ratios in Africa, by country, 2019–23



Source: African Development Bank statistics based on the International Monetary Fund's World Economic Outlook database.

125 eurobond instruments valued at more than $1.51 trillion. Seven African countries made their debut in the international capital market in the early 2000s (figure 2.3). But most eurobond issuances started between 2009 and 2014, when accommodative global financial conditions and the search for positive real yields—underpinned by improved macroeconomic conditions in Africa following the debt relief provided through the Heavily Indebted Poor Countries Initiative—facilitated larger volumes of financing to countries in Africa. Moreover, the 2014–16 collapse in oil prices and the wider primary fiscal deficits in oil-rich countries also led to growing financing needs, pushing some countries to issue their first eurobonds—including Angola in 2012 and Cameroon in 2015.

FIGURE 2.3 Start year and value of eurobond issuance by African countries



Source: African Development Bank statistics using data from the World Bank's International Debt Statistics database.

Reflecting the shift in the composition of debt toward market-based and non–Paris Club sources, the US dollar has been the dominant currency for public and publicly guaranteed external debt in Africa. Most nonconcessional debt is denominated in US dollars, and the share has continued to increase. From 2014 to 2020, US dollar–denominated debt accounted for 52 percent of Africa's outstanding public and publicly guaranteed debt. As of 2021, the share had increased to 58 percent, while the share denominated in euros was 14 percent and the share denominated in other currencies was 23 percent (figure 2.4). The dominance of the US dollar highlights many African countries' vulnerability to the stronger dollar since the tightening of global financial conditions.

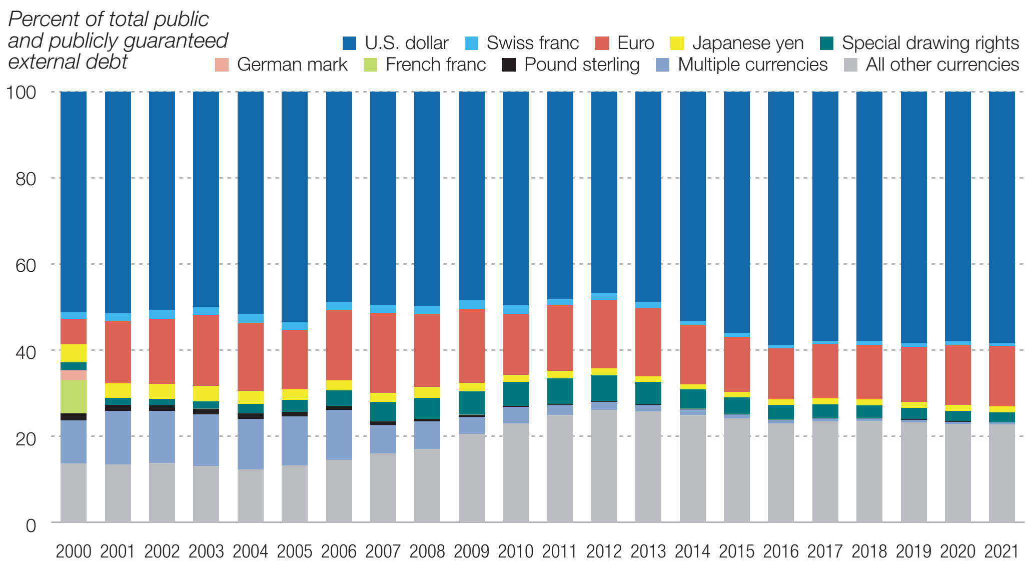
Tighter global financial conditions have increased borrowing costs and debt burdens

The confluence of higher global interest rates, wider sovereign debt spreads, and exchange rate depreciations has created a funding squeeze for many African countries. Indeed, the wave of interest rate hikes in advanced economies and ongoing exchange rate pressures have disproportionately affected African countries, raised borrowing costs, and blocked most African countries from accessing international capital markets. The average sovereign spreads in Africa have soared —to three times the emerging market average since the beginning of the tightening cycle in July 2022 (figure 2.5). As a result, debt service costs have risen, and as of November 2023, 21 African countries were at high risk of debt distress or already in debt distress. Although sovereign spreads have eased from their peak early in 2023, borrowing costs remain elevated. At current yields, no eurobond has been issued since April 2022, and with eurobond repayments coming due in 2024 and 2025, some countries may struggle to roll over debt in the near term. And although global interest rates could eventually fall in line with declining inflation, they are not expected to return to precrisis levels any time soon.

At the country level, sovereign spreads mirror the continentwide average (figure 2.6). Indeed, except for Zambia, where the spread has trended upward since the pause in global interest rate hikes in October 2023, all countries have seen a narrowing of their sovereign spread. For instance, in Egypt, the 10-year bond yield spread has narrowed 380 basis points since October. Nigeria, which introduced fuel subsidy reforms and fiscal consolidation measures, saw its spread fall by 171 basis points, and South Africa's fell 53 basis

From 2014 to 2020, US dollar–denominated debt accounted for 52 percent of Africa's outstanding public and publicly guaranteed debt. As of 2021, the share had increased to 58 percent

FIGURE 2.4 Currency composition of public and publicly guaranteed external debt in Africa, 2000–21

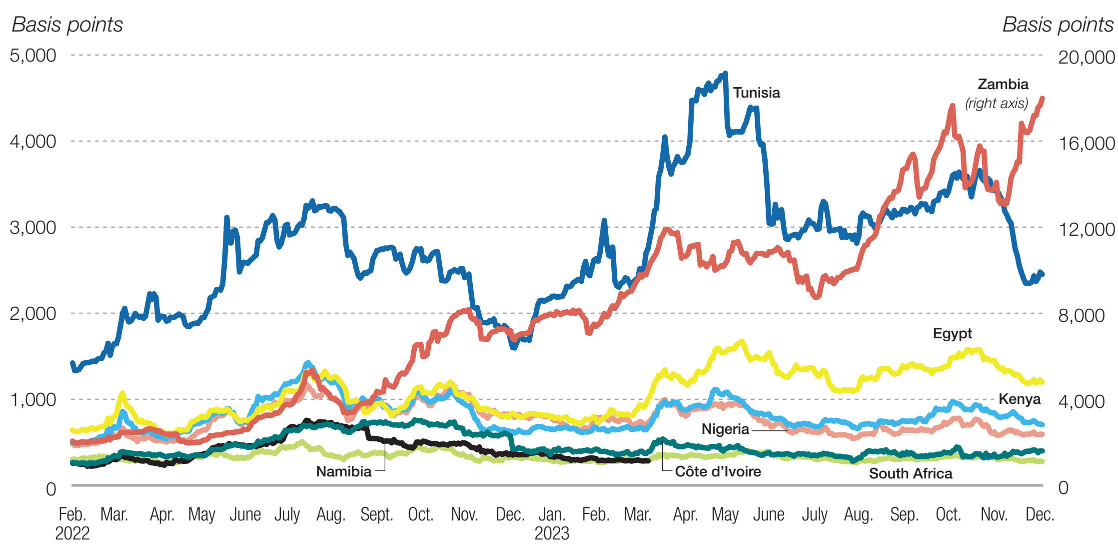


Source: African Development Bank statistics using data from the World Bank's International Debt Statistics database.

FIGURE 2.5 Africa's sovereign debt spread and the Global Emerging Markets Bond Index

Source: African Development Bank statistics based on Haver Analytics.

FIGURE 2.6 Sovereign spreads in selected African countries, February 2022–December 2023



Source: Bloomberg Analytics.

The wave of interest rate hikes in advanced economies and ongoing exchange rate pressures have disproportionately affected African countries, raised borrowing costs, and blocked most African countries from accessing international capital markets

points. Despite the decline in sovereign spreads in many countries, yields remain higher than precrisis levels. For nondistressed countries, the average yield on outstanding eurobonds has been more than 12 percent since Russia's invasion of Ukraine in 2022, compared with 7 percent before the Covid-19 pandemic. For distressed countries, the yield on outstanding eurobonds has more than doubled from the precrisis level. For instance, for Ghana, the yield on outstanding eurobonds was 21.7 percent in October 2023 compared with 9 percent before the pandemic.

Debt service costs have risen, narrowing the scope for government spending and increasing debt vulnerabilities. External debt service payments as a proportion of government revenue are higher than before the Covid-19 pandemic in many countries (figure 2.7).[2] The median debt service on external debt as a percentage of government revenue for 50 countries with data rose from 6.8 percent over 2015–19 to 10.6 percent over 2020–22. Resources channeled to debt service have narrowed fiscal space, further constraining government capacity to invest in growth-promoting sectors and human capital development—especially education and health, two areas where average public spending on the continent is below that for comparator regions. Between 2010 and 2019, average public spending on education in Africa was 3.6 percent of GDP, below the world average of 4.2 percent. The share of public spending on health in Africa, at 1.8 percent of GDP, was less than a third of the global average of 5.8 percent and well below the target of 4–6 percent of GDP set by the African Union.[3] Except in Chad, Democratic Republic of Congo, Gambia, and Mauritania, debt service cost in African countries was higher in 2020–22 than in 2015–19.

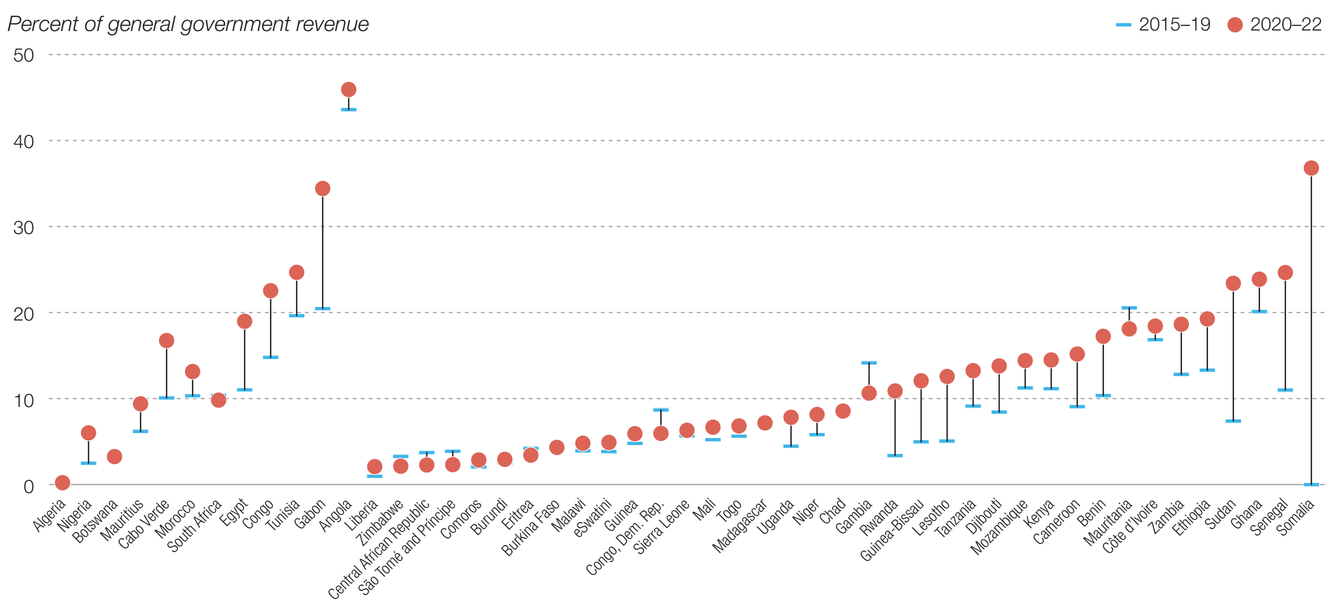
Debt service payments have risen substantially in tandem with the growing share of debt owed to private creditors. This is a cause for concern because current debt restructuring negotiations are failing to reach agreement with private creditors. In 2024, African countries are expected to spend around $74 billion on debt service, up from $17 billion in 2010. Some $40 billion, or 54 percent of total debt service, is owed to private creditors (figure 2.8). Refinancing risks could further increase, especially for countries with large bullet redemptions, including Angola ($6.4 billion in 2024), Kenya ($5 billion in 2024), Côte d'Ivoire ($2.6 billion in 2024), and Nigeria ($2.5 billion in 2024). In 2025, private creditors will account for more than 50 percent of total debt service payment coming due. The implication of the dominant share of private creditors for future debt service is that debt restructuring mechanisms under the G20 Common Framework for Debt Treatment should strive to bring private creditors onboard. Thus far, only Chad has reached agreement with its main creditors, including the largest private creditors such as Glencore.

High debt service costs are diverting resources from infrastructure investment, constraining future GDP growth

While the buildup of public debt in Africa has been associated with a surge in public investment, there is also evidence that the low efficiency of public investment has weakened the growth benefits of public debt.[4] Africa has a public investment efficiency gap of 39 percent, higher than Europe (17 percent) and Asia (29 percent).[5] Low efficiency

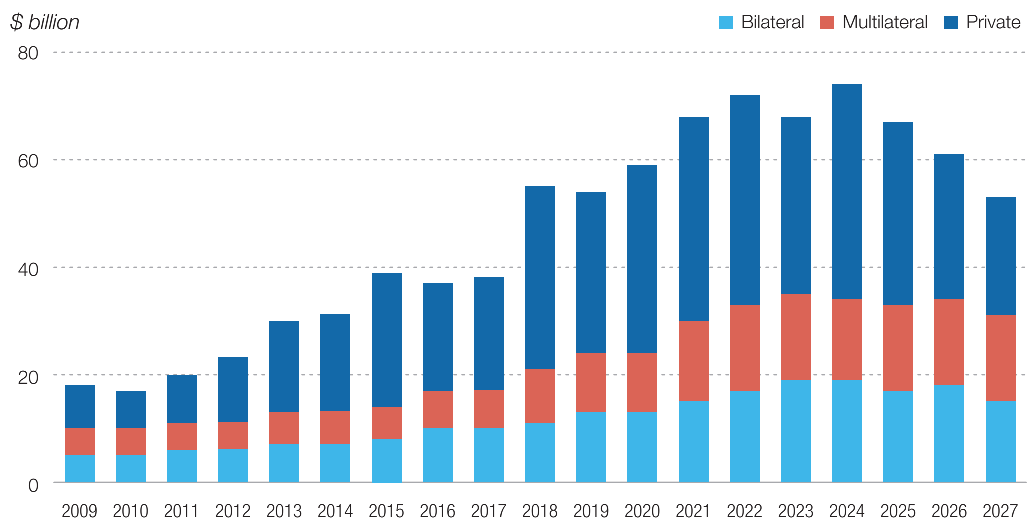
Resources channeled to debt service have narrowed fiscal space, further constraining government capacity to invest in growth-promoting sectors and human capital development—especially education and health

FIGURE 2.7 **Debt service on external debt in Africa, by country, 2015–19 to 2020–22**



Source: African Development Bank statistics using data from the World Bank's International Debt Statistics database.

FIGURE 2.8 Composition of debt service in Africa, by type of creditor, 2009–27



Source: African Development Bank statistics using data from the World Bank's International Debt Statistics database.

In 2024, African countries are expected to spend around $74 billion on debt service, up from $17 billion in 2010. Some $40 billion, or 54 percent of total debt service, is owed to private creditors

implies that the growth benefits of debt-financed public investment are not sufficient to generate tax revenue to liquidate the debt and finance new investments. High debt service, already absorbing a higher proportion of government revenue, could have a negative feedback effect on growth, as evidence from Latin America's "lost decade" suggests. During the Latin American debt crisis of the 1980s, many countries in the region could not service their foreign debt and went through painful fiscal adjustment, including cutting spending on infrastructure, health, and education. This resulted in high unemployment, steep declines in income per capita, and stagnant growth or contraction.

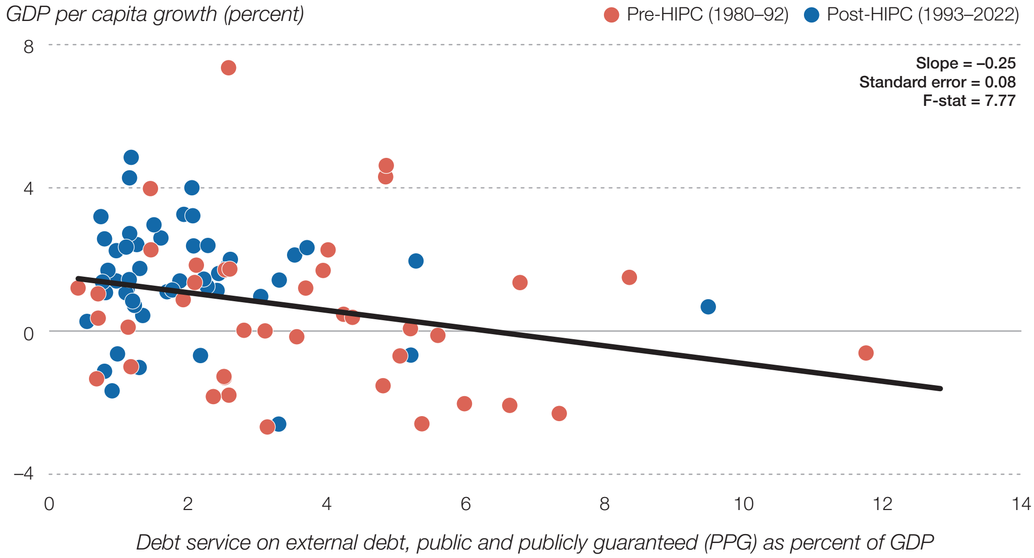
Africa's record prior to and immediately after the Heavily Indebted Poor Countries debt relief initiative is similar to that of Latin America. Countries with higher debt service costs had lower GDP per capita growth (figure 2.9). Some countries saw GDP per capita contract. For instance, in Zambia, where the average debt service–to-GDP ratio was 6.6 percent between 1993 and 2022, GDP per capita contracted by 2.1 percent a year. And for Côte d'Ivoire, where the external debt service–to-GDP ratio averaged 7.3 percent, income per capita contracted 2.3 percent.

The high debt burden and weak revenue performance limit public investment capacity in Africa. Restoring debt sustainability could expand fiscal space but will require debt reprofiling or outright restructuring for some countries. Recognizing that timely and orderly debt resolution is in the interests of both debtors and creditors, the G20 has moved to facilitate the restructuring of official external debt through its Common Framework for Debt Treatment. However, substantial delays and challenges call for urgent actions to fast-track the Common Framework to accelerate debt resolution through broader participation of debtor countries and creditors, especially private creditors. Zambia seized this opportunity as one of the first countries to request a restructuring of its public external debt under the Common Framework in early 2021. But progress has been slow and hinges largely on reaching an agreement with private creditors. However, Zambia reached an agreement with official creditors in June 2023, paving the way for disbursement of the second tranche of IMF financing. So far, only Chad has reached an agreement with external creditors, including private creditors, on the treatment of its debt under the Common Framework.

Debt restructuring mechanisms have stalled, calling for reform of the current global debt architecture

The global debt architecture has made debt restructuring mechanisms difficult to implement (table 2.1). Chad, Ethiopia, Ghana, and Zambia applied for external debt treatments under the

FIGURE 2.9 **Debt service costs and GDP per capita growth in selected African countries before and after the Heavily Indebted Poor Countries Initiative, 1980–92 and 1993–2022**



Source: African Development Bank statistics.

Common Framework for Debt Treatment. But only Chad has reached an agreement with its main creditors (bilateral creditors and the largest private creditor), in November 2022. For Zambia, the Official Creditor Committee provided financing assurances, which paved the way for the IMF's approval of an Extended Credit Facility–supported program in August 2022. A memorandum of understanding detailing the exact parameters of the debt treatment with bilateral creditors is currently being finalized, more than two years after Zambia made the request, while negotiations with bondholders are ongoing. Ghana submitted a request for debt treatment under the Common Framework in December 2022. An Official Creditor Committee was formed, and financing assurances were provided in May 2023, allowing the IMF to approve a program in the same month. In January 2024, Ghana reached an agreement with its official creditors under the G20 Common Framework, on a comprehensive Debt Treatment Beyond the Debt Service Suspension Initiative. Ethiopia requested treatment under the Common Framework in February 2021, and an Official Creditor Committee was formed in September of that year. But the process was delayed by political and security issues and has only recently resumed.

Given the systemic delays in concluding the debt restructuring process, the G20 Common Framework needs an overhaul to create a functional debt resolution mechanism for countries in need. With private creditors accounting for more than 50 percent of the next two years' debt service payments (see figure 2.8), debt restructuring mechanisms should bring private creditors to the negotiating table. Key proposals include forming an expanded creditor committee with private lenders to smooth coordination challenges and establishing a Comparability of Treatment formula to minimize technical disputes. Bolder use of the IMF's Lending into Official Arrears Policies could also reduce the leverage of holdout creditors. Proposals under the Global Sovereign Debt Roundtable, co-chaired by the IMF, the World Bank, and India (G20 Presidency), will be critical to address shortcomings in the debt restructuring processes. Establishing a Multilateral Creditor Club, acting in partnership with debtors, could also improve coordination of future debt restructurings and oversee outstanding global debt challenges.

Given the systemic delays in concluding the debt restructuring process, the G20 Common Framework needs an overhaul to create a functional debt resolution mechanism for countries in need

TABLE 2.1 Debt restructuring in Africa: Some recent cases

Country	Dates of agreements	Parameters	Process
Chad	Launched January 2021; agreement reached November 2022	External debt	Chad's public debt, at 56 percent of GDP in 2021, became unsustainable with the Covid-19 pandemic, volatility in oil prices, heightened insecurity, and a food crisis. Chad was the first country to reach an agreement with its creditors under the G20 Common Framework for Debt Treatment. • Creditors committed to reconvene and provide debt treatment, including for 2025–28, if necessary. • A large private creditor, Glencore, agreed to reprofile part of the debt service due in 2024. Official creditors will contribute if this is not sufficient to bring the debt service–to-revenue ratio below 14 percent in 2024.
Ghana		Domestic and external debt	A large fiscal expansion in response to the Covid-19 crisis put Ghana's public debt on an unsustainable trajectory, with the debt-to-GDP ratio reaching almost 90 percent at the end of 2022 and interest payments representing almost half of government revenue. An International Monetary Fund (IMF) program was requested in July 2022, and debt restructuring was announced in December. • Domestic debt (48 percent of GDP at the end of 2022) was restructured through voluntary exchange (creditors were offered a menu of new instruments with longer maturities) and was completed by most financial institutions in February 2023. • Negotiations on external debt (40 percent of GDP at the end of 2022) are ongoing with both official and private external creditors. Ghana applied to the Common Framework, and official creditors formed a creditor committee in April 2023, providing financing assurances for the IMF to offer fresh financial support in May 2023. • In January 2024, Ghana reached an agreement with its official creditors under the G20 Common Framework, on a comprehensive Debt Treatment Beyond the Debt Service Suspension Initiative.
Zambia		External debt	Zambia fell into arrears on external debt service after several years of large fiscal and external imbalances, a drop in copper prices in 2015–16, droughts, and the Covid-19 pandemic put public debt on an unstainable path. Total public debt peaked at 150 percent of GDP and external public debt at 96 percent in 2020. The country defaulted on its eurobonds in November 2020, after losing market access. • Zambia sought a Common Framework treatment in January 2021, and an IMF-supported program was approved by the IMF Board in August 2022. • Official creditors agreed on a debt treatment in June 2023, making possible the second disbursement of IMF financing. The agreement specifies a baseline treatment, as well as a contingent treatment that would be automatically triggered if the assessment of Zambia's economic performance and policies improves, allowing for better terms for creditors. • Discussions with private creditors started in September 2023
Mauritania	2021 and 2022	External debt	In August 2021, the authorities announced a final agreement with Kuwait for restructuring bilateral debt. About 95 percent of the accumulated interest due was canceled, with the remaining 5 percent partially offset by shares in Mauritel (6 percent ownership) provided to Kuwait and other yet-to-be-defined investment opportunities in Mauritania. The original principal ($82.7 million) will be repaid over 20 years, including a two-year grace period, with a 0.5 percent interest rate. Saudi Arabia provided a $300 million loan to the Central Bank of Mauritania to help cope with the risks associated with the terms of trade shock in 2014–15. • In 2022, the $300 million loan from the Saudi Arabia government (Saudi Development Fund) was successfully renegotiated from nonconcessional to concessional terms. • This renegotiation greatly reduced the present value of the loan and associated debt service by extending the repayment period to 20 years and reducing the interest rate to 1 percent. • This renegotiation also transferred the liability for the loan from the central bank to the central government.

Source: IMF 2023.

NOTES

1. For instance, in Ghana, the consolidation effort is supported by ambitious structural reforms in tax policy, revenue administration, and public financial management, as well as steps to address weaknesses in the energy and cocoa sectors.
2. Due to the lack of data on domestic debt service cost, only debt service on external debt is reported. However, the share of domestic debt in Africa's total public debt has risen, from 35 percent in 2019 (before the Covid-19 pandemic) to 42 percent at end of 2021. The increase largely reflects growing financing needs and the difficulty many countries face in accessing international capital markets, which, coupled with limited tax revenue mobilization, necessitated a recourse to domestic borrowing (see African Development Bank 2023). This means that total debt service payment could be higher if domestic debt service were included.
3. The African Union's Education 2030 Framework for Action sets spending on education at 4–6 percent of GDP or 15–20 percent of total government spending. African Union member states committed to allocating 15 percent of their government budgets to health to achieve the Sustainable Development Goals.
4. AEO 2021.
5. The public investment efficiency score is an index with values between 0 and 1 and measures the extent to which government investment (input) is translated into infrastructure (output). For instance, an efficiency score of 0.7 means that out of one dollar spent on investment, 70 cents is translated into infrastructure. The remaining 30 cents is wasted due to corruption, poor selection of projects, and the like and reflect the efficiency gap.

AFRICA'S STRUCTURAL TRANSFORMATION, SOCIOECONOMIC PERFORMANCE, AND GLOBAL SHOCKS

3

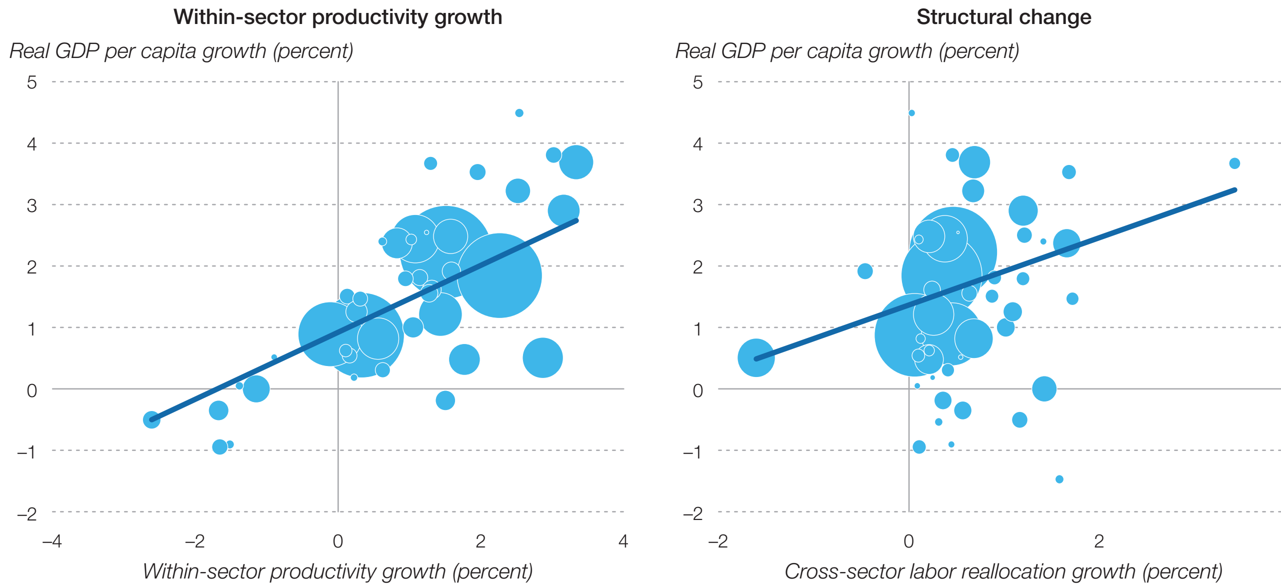
Structural transformation has contributed to economic growth in African countries

Structural transformation—defined broadly as the shift of workers from lower to higher productivity activities and sectors and within-sector productivity growth for a given level of employment—has had a significant role in driving Africa's growth.[1] Between 1990 and 2019, Africa's real GDP increased by about 4 percent a year, and its real GDP per capita by 1.4 percent a year, against world's respective averages of 3 percent and 1.6 percent. For most countries on the continent, this growth was accompanied by some degree of structural transformation (figure 3.1). The links among structural transformation, economic growth, and other socioeconomic indicators is captured here mainly through the decomposition of labor productivity growth, which can be broken into growth of within-sector productivity for a given level of employment, growth in employment in each sector for a given level of productivity, and interaction of growth between productivity and employment.[2] Over 1990–2021, Africa's within-sector productivity growth averaged 0.66 percent a year, accounting for 52.2 percent of Africa's 1.26 percent average labor productivity growth, while labor reallocation from lower to higher productivity sectors increased by 0.60 percent a year, accounting for 47.5 percent of overall labor productivity growth.

Over 1990–2019, Africa's average agricultural employment accounted for half of total employment, demonstrating the sector's dominance as the main provider of jobs. But that share declined steadily over the period, from an average of 55.7 percent in 1990 to 42.7 percent in 2019. This decline implies a labor reallocation toward nonagriculture sectors, particularly to services, whose employment share rose from 31.5 percent to 42.6 percent, or 11.1 percentage points. This trend masks important cross-country variations. For instance, the average annual rate of decline of the share of agricultural employment was highest in Cabo Verde (4.1 percent) and Mauritius (3.2 percent). But the rate of decline was less than 1 percent in Burundi, Eritrea, Madagascar, Mali, and Zimbabwe. And while Asian and European countries experienced structural transformation from agriculture to manufacturing, numerous African countries have instead deindustrialized.[3] Many workers who were moving out of agriculture were absorbed into services, in particular (formal and informal) distribution services.[4]

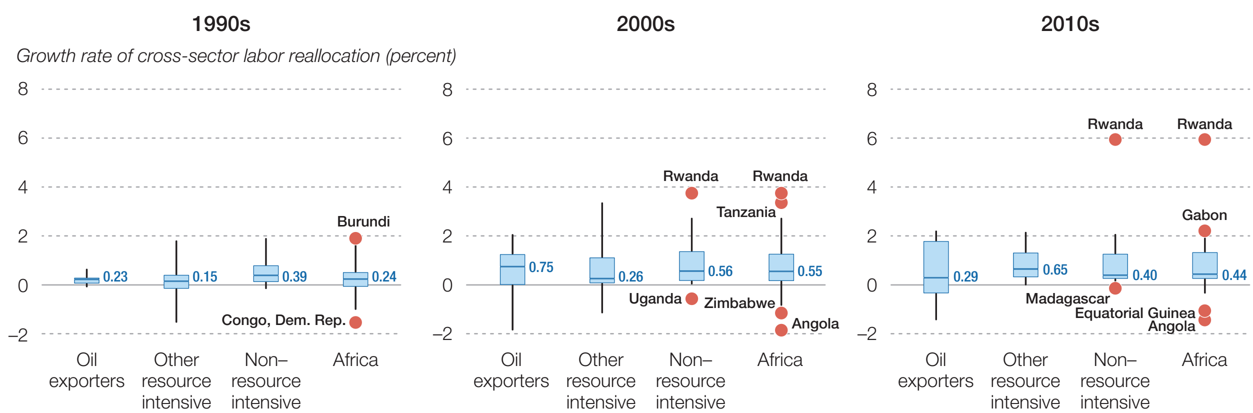
The agriculture sector in Africa, despite being the major employer, has the lowest labor productivity. Over 1990–2019, the ratio of labor productivity in agriculture relative to other sectors was on average about one-fifth, having declined from less than one-sixth in the 1990s to about one-fourth in the 2010s. The speed of structural transformation has, however, varied substantially (figure 3.2). In oil-exporting countries, the growth rate of cross-sector labor reallocation oscillated from a median of 0.23 percent in the 1990s to 0.75 percent in the 2000s and 0.29 percent in the 2010s. In this group, differences in labor productivity growth and cross-sector labor reallocation may be linked to variations in the trajectories of oil revenue and exports, through spillovers into nonoil sectors.[5] Structural change appears to be faster in non-resource–intensive countries, where the median annual growth of labor reallocation from low- to high-productivity sectors was 0.50 percent,

FIGURE 3.1 Economic growth and structural transformation in Africa, 1990–2019



Note: Real GDP per capita growth and components of labor productivity growth are truncated at the 5th and 95th percentiles. The size of the bubbles reflects GDP in constant 2017 purchasing power parity international US dollars.
Source: African Development Bank statistics.

FIGURE 3.2 Decadal trends in structural change in Africa, by country group, 1990s–2010s

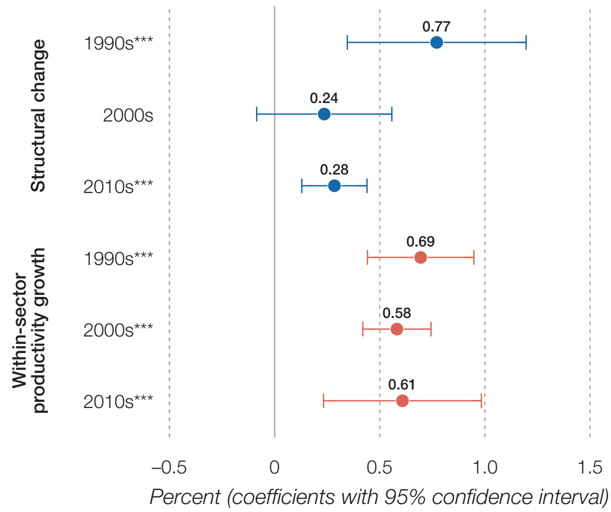


Note: Median values are labeled. The height of the boxes corresponds to the interquartile range. Red dots refer to outliers (values below the 5th and above the 95th percentiles).
Source: African Development Bank statistics.

compared with 0.41 percent in both oil-exporting and other resource-intensive countries. Most of these non-resource-intensive countries are more diversified than their commodity-dependent peers, one of the key drivers of structural transformation.

Results from regression analysis[6] on the link between countries' economic growth and structural transformation in Africa over 1990–2019 show that, after other potential drivers are controlled for, countries with a higher pace of structural transformation (meaning countries with higher growth rates of labor reallocation across sectors and within-sector productivity) performed better economically, obtaining higher growth of real GDP per capita in all decades. So, both the process of labor movement out of agriculture toward other sectors (where the factor is employed more efficiently) and improvements in labor productivity within each sector are significantly correlated with higher economic growth rates and should, therefore, be equally targeted by policy reforms (figure 3.3). The impact of structural transformation was highest in the 1990s, a period described as a "disappointing" decade for the continent's growth. Growth of real GDP per capita averaged just 0.5 percent in the 1990s, compared with 2.6 percent in the 2000s and 1.2 percent in the 2010s. That led to the pervasive "Afro-pessimism" and "hopeless continent" narrative. This finding suggests that during (domestic or global) economic downturns, policies aimed at accelerating structural transformation could act as an important buffer to help countries build economic resilience to shocks.

FIGURE 3.3 Estimated impact of structural transformation components on Africa's growth performance, 1990s–2010s



Note: (***), (**), and (*) respectively denote coefficients at 1 percent, 5 percent, and 10 percent significance levels.
Source: African Development Bank statistics.

Fast-tracking structural transformation could help Africa meet key Sustainable Development Goal targets

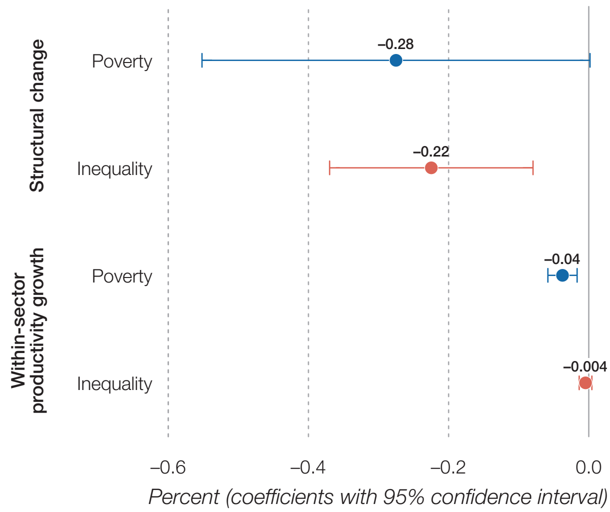
The world is off track on almost all 140 Sustainable Development Goal (SDG) targets with data, with only about 12 percent of them being on track.[7] Furthermore, global progress on more than 50 percent of the SDG targets remains weak and insufficient, and progress has stalled or even reversed on 30 percent of the targets. Progress toward achieving the SDGs in Africa is lagging other world regions, as progress in the fight against poverty, hunger, climate change, and other people-related SDG targets has been slow and uneven, with wide differences across subregions, countries, and rural and urban areas.[8]

If structural transformation had been faster, Africa could have achieved greater reductions in poverty and income inequality. Using the relationship between poverty and income inequality, on the one hand, and both within-sector productivity growth and between-sector labor reallocation, on the other, it is possible to disentangle the relationship between structural transformation and both poverty reduction and income inequality. Results from regression analyses[9] show that, over 1990–2019, and after other potential cofounding factors are controlled for, a 1 percentage point increase in the annualized growth rate of structural change led to a 0.28 percentage point decline in the annualized growth rate of extreme poverty (using the recently adjusted international poverty line of $2.15 per person per day) (figure 3.4).[10] In addition, a 1 percentage point increase in the within-sector productivity growth rate reduced the annualized growth rate of extreme poverty by 0.04 percentage point.

Most poor people in Africa are stuck in low-productivity sectors and other informal service-based activities, particularly in small-scale rainfed and subsistence agriculture, which typically generate low incomes and are more prone to adverse shocks. By facilitating the movement of poor or low-income individuals from lower to higher productivity sectors that generate greater incomes, structural change can become a key driver of poverty reduction in Africa. In addition, expanding more productive and dynamic sectors can push the economy into a virtuous circle in which the growth of productive employment, productive capacities, and earnings mutually reinforce each other to accelerate growth and reduce poverty. However, shifting labor from low- to high-productivity sectors (such as manufacturing) requires a large enough pool of skilled

During (domestic or global) economic downturns, policies aimed at accelerating structural transformation could act as an important buffer to help countries build economic resilience to shocks

FIGURE 3.4 Estimated impact of structural transformation on poverty and inequality in Africa, 1990–2019



Note: The figure reports estimated coefficients of the pooled regression of the annualized growth rate in poverty headcount (using the $2.15 international poverty line) and the Gini coefficient for 50 African countries with data on poverty and inequality over 1990–2019. All the reported coefficients, except the within-sector productivity growth in the inequality equation, are statistically significant at 5 percent or below.

Source: African Development Bank statistics.

workers to keep up with the pace of technological progress and resulting changes in industry needs. The ongoing Fourth Industrial Revolution across the world is shaping the future of work by changing demand for skills and job content.[11] The skills required are heavily skewed toward science, technology, engineering, and mathematics, but only about 4–12 percent of students who graduate from higher education in Africa major in these fields.[12] To speed labor reallocation across sectors, education systems in Africa should thus be recalibrated and the labor force reskilled and retrained.

Fast-paced structural transformation also tends to reduce income inequality, though more slowly compared with poverty. However, as reported by a study using data on a sample of developing countries for 1960–2012, not all improvements in labor productivity within sectors lead to a decline in inequality.[13] Inequality tends to fall when the share of labor or value-added in manufacturing increases, but it rises when the share of labor or value-added in agriculture or services increases. This highlights the critical role of industrialization in reducing income inequality in African countries.

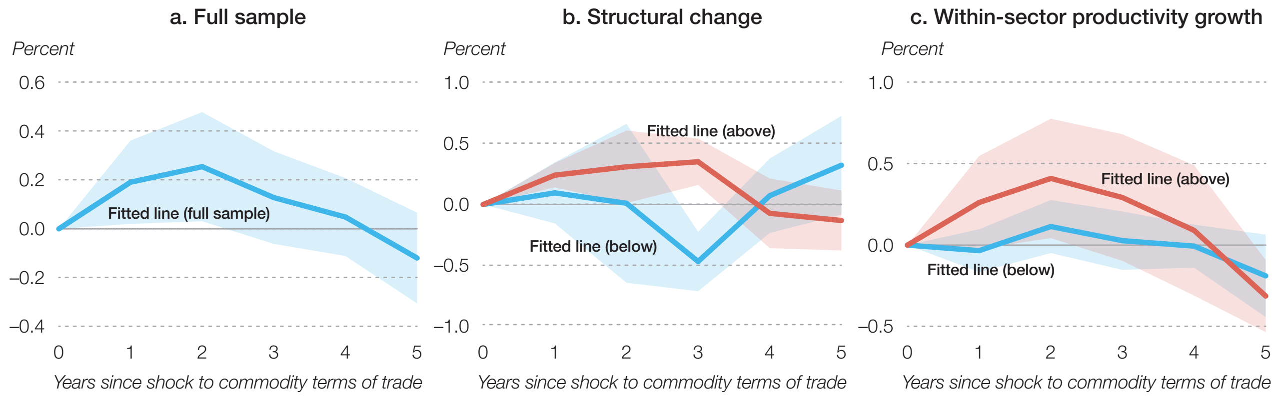
Africa's resilience against shocks could be strengthened by accelerating structural transformation

Most African countries are subject to a wide variety of exogenous shocks, including the global financial crisis of 2007–08 and subsequent commodity market shocks in 2015–16, the 2016 droughts induced by El Niño and other recent extreme weather events, the 2014–16 Ebola epidemic, the recent Covid-19 pandemic, the 2020 locust invasion in East Africa, and Russia's invasion of Ukraine. These shocks have created severe economic and social costs, pushing countries further from achieving targets on development goals such as the SDGs. Designing effective policies to accelerate recovery and build resilience to future shocks is therefore crucial. Indeed, compared with countries in Asia and Latin America, GDP per capita growth tends to display a larger cyclical component in Africa, increasing in case of positive global shocks (particularly commodity price shocks).[14]

Figure 3.5 estimates the cumulative response of Africa's real GDP per capita growth to a positive shock to the commodity terms of trade[15] in a panel setting using Jordà's (2005) local projection method.[16] Countries are divided into two groups: those whose median value over 1990–2019 for each component of structural transformation (structural change and within-sector productivity growth) was above the full sample median and those whose median value was below the full sample median.

For the full sample, the cumulative change in real GDP per capita growth is highest two years after a positive commodity terms-of-trade shock, becoming 0.26 percentage point higher than in the absence of the shock (figure 3.5a). The impact of the initial commodity terms of trade shock then gradually decays. However, not all countries benefit equally from a positive commodity price shock. African countries with an above-median pace of structural transformation are the biggest winners: the cumulative impact peaks at 0.35 percentage

FIGURE 3.5 Responses of real per capita GDP growth to commodity terms of trade shocks in Africa



Note: The figures report the cumulative response of real per capita GDP growth to one unit shock to the commodity terms of trade using local projections (Gruss and Kebhaj 2019; Jorda 2005). The shaded areas show the 95 percent confidence interval computed using country-based cluster-robust standard errors to correct for potential serial correlation and heteroscedasticity.
Source: African Development Bank statistics.

point in real GDP per capita growth for countries with an above-median rate of labor reallocation across sectors three years after the initial shock, when it is the lowest for below-median countries (figure 3.5b). The same pattern is observed when countries are classified based on the median value of their within-sector productivity growth rate: the cumulative effect peaks at 0.41 percentage point two years after the initial shock in above-median countries, more than 3.5 times larger than for below-median countries (figure 3.5c).

These findings reinforce the argument made earlier that fostering structural transformation could help African countries strengthen their resilience (and reduce their vulnerabilities) to external economic shocks. Dependence on raw commodity exports accustoms the economy to a boom-and-bust cycle driven by global commodity prices, not to steady, sustained economic development. By reducing the reliance on raw agriculture and other untransformed natural resources, which are usually subject to high price volatility, structural transformation could reduce countries' external vulnerability and enable them to benefit from improved commodity terms of trade. Structural transformation—for instance, through resource-based industrialization—will be key in supporting countries' leverage to add value to their vast natural resource endowments and in taking advantage of the booming green economy. By deepening economic foundations and reshoring value-adding processes, structural transformation will stimulate technological change, promote economic growth through forward and backward links, and fuel the development of subcontractors. Support to labor-intensive manufactured exports could facilitate the absorption of former agricultural workers so that their income would no longer depend on fluctuating commodity prices or be affected by weather shocks.

By deepening economic foundations and reshoring value-adding processes, structural transformation will stimulate technological change, promote economic growth through forward and backward links, and fuel the development of subcontractors

NOTES

1. de Vries et al. 2015; McMillan et al. 2014; McMillan and Harttgen 2014.
2. Following de Vries et al. (2015) and McMillan and Rodrik (2011), structural transformation can be analyzed through the decomposition of labor productivity change as follows:

$$\underbrace{\Sigma_{i=n}\omega_{it-1}\Delta P_{it}}_{within\text{-}component} + \underbrace{\Sigma_{i=n}P_{it-1}\Delta\omega_{it}}_{structural\ change} + \underbrace{\Sigma_{i=n}\Delta\omega_{it}\Delta P_{it}}_{interaction\ term},$$

   where Y_t is labour productivity level of the economy at time t (and the index $t-1$ refers to the previous period), ω_i is the employment share of sector i (with n, the number of sectors in the economy), P_i is the labour productivity level of sector i, and Δ denotes changes over time. The first term on the right side refers to a within-sector component of productivity growth, weighted by the employment share of each sector. This term is positive when the (weighted) labor productivity growth in sectors is positive. The second component measures the contribution of the reallocation of labor from low- to high-productivity sectors (weighted by sectoral productivity), called the component of structural change by Diao et al. (2017). This term is positive when employment shifts from sectors with lower labor productivity. The last term, which is usually a residual, measures the contribution of the reallocation of labor from slow- to fast-growing sectors. It is positive if workers are moving to sectors that are experiencing positive productivity growth. This term has been omitted in the analysis due to its marginal contribution (about 0.3 percent) to Africa's structural transformation.
3. Rodrik 2016.
4. McMillan et al. 2016.
5. The three countries that experienced the fastest increase in average labor productivity among oil-exporters—Nigeria, Angola, and Chad—also experienced one of the fastest increases in oil production. Oil output increased from about 1.8 million barrels per day in 1990 to 2.1 million in 2019 (an annual growth rate of 0.8 percent) in Nigeria and from around 475,000 barrels per day in 1990 to more than 1.4 million in 2019 (4.2 percent annual growth) in Angola. In Chad, oil production began only in 2003, growing rapidly from 23,600 barrels per day to around 127,000 by 2019 (37.1 percent annual growth). In these three countries, the boom in oil production has been accompanied by a rise in the output share of other sectors, mainly construction and financial services.
6. The following simple Solow-type growth model was used to estimate the impact of structural transformation components on the growth rate of real GDP per capita in Africa (Busse et al. 2019): $y_{jt} = \alpha + \gamma' X_{jt} + \Sigma_{i=1}^{3}\beta_i(W_{ijt} \times D_i) + \Sigma_{i=1}^{3}\theta_i(T_{ijt} \times D_i) + \delta_J + \varepsilon_{jt}$, where the dependent variable, y_{jt}, is the growth rate of real GDP per capita in country j at time t. The term X_{jt} is the vector of (time-variant and country-specific) standard (and other additional) growth drivers identified in the literature. Here it includes human capital formation (measured by net secondary enrolment rate), investment growth (proxied by the annual growth of gross fixed capital formation), population growth, net foreign direct investment inflows (percent of GDP), debt service burden (total debt service as percentage of exports of goods, services, and primary income), inflation, quality of institutions (measured by the average value of the following World Bank governance indicators: voice and accountability, rule of law, control of corruption, government effectiveness, political stability and absence of violence/terrorism, and regulatory quality), trade (percent of GDP), and domestic credit to the private sector (percent of GDP). The main variables of interest are the measures accounting for structural transformation—W_{ijt} and T_{ijt}—which measure, respectively, the within-sector productivity growth and cross-sector labor reallocation growth in country j at time t during decade D_i (with $D_1 = 1$ if 1990s decade and 0 otherwise, $D_2 = 1$ if 2000s decade and 0 otherwise, and $D_3 = 1$ if 2010s decade and 0 otherwise). The term δ_J denotes country fixed effects, and ε_{jt} is the error term. The fixed-effects method with cluster-robust standard errors was used for the estimation.
7. United Nations 2023.
8. AU, UNECA, AfDB, and UNDP 2023.
9. The following simple regression model was used to estimate the impact of structural transformation components on the annualized growth rate of poverty and inequality in Africa (Hasan et al. 2013; Morsy et al. 2023): $\Delta Z_{j,t,t-k} = \alpha + \beta Z_{j,0} + \gamma'\Delta X_{j,t,t-k} + \varepsilon$, where $\Delta Z_{j,t,t-k}$ is the annualized growth rate of poverty (poverty equation) or income inequality (inequality equation) in country j between the $(t-k)^{th}$ and t^{th} years, with k the number of years between two

consecutive data points on poverty or inequality. $Z_{j,0}$ is the initial poverty or inequality value in country *j*. The term $\Delta X_{j,t,t-k}$ is the vector of covariates (including structural transformation components) in annualized rate of change. The variables structural change and within-sector productivity growth are computed as defined previously. In the poverty equation, the independent variables include, in addition to the two structural transformation variables, the log of initial poverty, real GDP per capita growth, growth rate of urban population, net official development assistance and official aid received (percent of GDP), and general government final consumption expenditure (percent of GDP). In the inequality equation, the control variables include, in addition to structural change and within-sector productivity growth, the log of the initial Gini coefficient, real GDP per capita growth, growth rate of urban population, human capital index, and its squared value. Pooled ordinary least squares regression with cluster-robust standard errors was used for the estimation.

10. World Bank 2022.
11. See African Development Bank 2019.
12. See https://ja-africa.org/our-work-in-stem/.
13. Baymul and Sen 2020.
14. UNECA 2023.
15. The commodity terms of trade index, produced by the International Monetary Fund, covers 182 economies and provides estimates for the gains and losses in income associated with changes in international prices of 45 commodities. For every country, each commodity price in the index is weighed by its share in total net exports scaled to GDP to proxy its impact on aggregate income. Using net exports ensures that the effect of price changes for both exports and imports on GDP are accounted for: a 1 percentage point change in the index represents the equivalent percentage point change in GDP expected for each country due to net commodity price changes (Gruss and Kebhaj 2019).
16. The following specification was used for a sample of African countries with data for 1990–2019 (Gruss and Kebhaj 2019):

$$y_{i,t,s} - y_{i,t-1} = \mathbf{1}_{i,t,j}[\beta_{s,1}\Delta tot_{i,t} + \textstyle\sum_{k=1}^{K}\delta_{ks,1}\Delta tot_{i,t-k} + \sum_{k=1}^{K}\delta_{ks,1}\Delta X_{i,t-k}] + (1 - \mathbf{1}_{i,t,j})[\beta_{s,0}\Delta tot_{i,t} + \sum_{k=1}^{K}\delta_{ks,0}\Delta tot_{i,t-k} + \sum_{k=1}^{K}\delta_{ks,0}\Delta X_{i,t-k}] + \sum_{k=1}^{K}\Delta y_{i,t-k} + \mu_{i,s} + \varphi_{t,s} + \varepsilon_{i,t,s},$$

where $\mathbf{1}_{i,t,j}$ is an indicator function that takes a value of 1 for a given characteristic *j* (having a median value above the sample median value of structural change or within-sector productivity growth) and 0 otherwise. The term $y_{i,t+s}$ denotes real GDP per capita growth in country *i* at time $t + s$, with *s* being the horizon of local projection ($s = 1,2,\ldots,5$). The term *tot* denotes the commodity terms-of-trade index. The specification also includes three years of lags ($k = 1,2,3$). The term X_{it} refers to a vector of time-varying control variables (see note 6). The term $\varepsilon_{i,t,s}$ is the error term. The specification also includes country ($\mu_{i,s}$) and time ($\varphi_{t,s}$) fixed effects to capture time-invariant country features and shocks that are common across countries. The confidence bands are based on the respective estimated standard errors for each horizon, clustered at the country level.

4

POLICY RECOMMENDATIONS

The momentum of Africa's initial strong economic recovery from the deep recession induced by the Covid-19 pandemic has slowed due to several setbacks, including high inflation, tightening financing conditions, and elevated debt and climate risks. Yet evidence in this report also suggests that structural transformation could build the resilience of African economies to withstand the shocks and strengthen the buffers for accelerated poverty reduction. Addressing constraints to the structural transformation needed to engender faster and sustainable economic growth will thus require a mix of policies for the short and medium to long term, as outlined here.

SHORT TERM

Tackle persistent inflation

Despite the delicate process of tightening monetary policy over the past two years, as many African countries raised their policy rates, inflation on the continent remains high and is estimated to be in double digits in 19 countries in 2023 and in 14 countries in 2024, including some of the largest countries such as Egypt, Ethiopia, and Nigeria. In addition, many countries are likely to face additional inflationary pressures due to the removal of fuel subsidies and other emergency measures (Angola, Nigeria, Senegal, Tanzania) or in response to continued global price volatility. The appropriate monetary policy would then be to strike a balance between continuing to tighten monetary policy and initiating policy easing in countries where inflation is forecast to decline substantially. Therefore, determining the optimal time to start easing monetary policy will be crucial. In countries facing high but falling inflation, interest rates should be maintained at existing high levels until inflation is firmly on target. In countries with high and persistent inflation, a further tightening of monetary policy would be appropriate until there are clear signs that inflation is cooling and returning to target. In sum, monetary policy tightening, coupled with fiscal consolidation measures, should remain the main anchor to lower inflation in countries with above-target inflation, while countries where inflationary pressure is subsiding could gradually ease monetary policy.

Maintaining the credibility of the monetary authorities will also be crucial to tackle inflation. The ability of monetary authorities to contain inflation in the face of global shocks owes much to improvements in monetary policy frameworks over the past two decades. Advances in central bank independence, communication and transparency, institutionalized inflation targeting, exchange rate flexibility, and macroprudential regulation have all been critical to successful inflation fight. This credibility is now under scrutiny, and countries need to take action to preserve and strengthen these efforts. A more credible monetary policy framework will anchor expectations against future shocks and thus reduce the tightening required to contain inflation.

Use monetary policy to limit the transmission of exchange rate pressures

In countries with floating exchange rates, currencies should be allowed to adjust as much as possible, because attempts to resist movements based on fundamentals could have disastrous consequences. In countries with pegged exchange rates, monetary policy should be aligned with that of the anchor country to maintain external stability and avoid further losses in foreign exchange reserves. Structural reforms to implement a strategic industrial policy to accelerate economic diversification and strengthen the export sector, as well as fiscal consolidation when the budget deficit increases pressure on the exchange rate, should be implemented simultaneously with monetary policy measures to increase resilience to shocks.

Address debt burdens through governance reforms to strengthen debt management capacity

The recent debt trends in many African countries have rekindled the need for strong governance reforms to strengthen debt management capacity. Good governance and strong institutional capacity prevent "below the line" operations that undermine debt reduction efforts and ensure that countries strengthen buffers and reduce debt during good times. Achieving this requires building strong budget institutions to efficiently mobilize more domestic resources, using them prudently, and conducting sound public expenditure monitoring and debt management. Moreover, strengthening the nexus of debt, growth, and governance would help maximize the growth dividends of debt-financed public investments. Countries also need to improve debt transparency by improving the collection, reporting, and management of debt statistics and tightening the monitoring of state-owned-enterprises to reduce fiscal risks from undisclosed debt and contingent liabilities. Good governance will also lay the basis for broader economic reforms.

Digitalizing the economy presents an opportunity to enhance domestic resource mobilization by reforming tax regimes and curbing resource leaks

MEDIUM TO LONG TERM

Scale up domestic resource mobilization to accelerate fiscal consolidation and Africa's structural transformation

Some bold measures can scale up domestic resource mobilization. One is limiting the size of the shadow economy by reducing the informal sector. Second is relentlessly fighting corruption. Third is curbing the waste of public resources. Fourth is promoting political stability and the rule of law by strengthening institutions and governance. And fifth is reducing the demographic dependency ratio by creating conditions for youth employment to expand the labor force and benefit from the demographic dividend.

Digitalizing the economy also presents an opportunity to enhance domestic resource mobilization by reforming tax regimes and curbing resource leaks. Harnessing digital technologies can improve the efficiency of tax administration and help taxpayers comply. Establishing a solid database can identify and locate the individuals, firms, or land properties on which to levy a tax. Investing in human, financial, and technological resources can improve the performance of tax inspectors, particularly, to detect tax evasion and reject bribes offered by noncompliers when caught. Formalizing economic activities can boost resource mobilization, as can simplifying overly complex tax laws and rules. Deepening Africa's capital markets and diversifying its financing instruments will further enable the continent to finance its structural transformation and long-term development.

Encouraging banks to lend more to the private sector would also help increase resource mobilization. While bank lending to the private sector averages 100 percent of GDP globally, it is below 30 percent of GDP in Africa. Banks must be encouraged to reduce their risk aversion and support private investment, especially for green investments. States must establish loan guarantee mechanisms to alleviate credit risk and stimulate bank lending to key sectors of the economy.

Adopt a multiprong policy approach to stimulate Africa's structural transformation and strengthen its resilience to shocks

The commitment to transform Africa's economies is evident in the plethora of policies, strategies, and programs rolled out at the national, regional, and continental levels—such as the Africa Union's Africa 2063, the AfDB's Ten-Year Strategy, and United Nations' Agenda 2030. The question is not whether Africa should accelerate its structural transformation, but how? Given the complexity of the task, a multiprong approach, tailored to country realities, can deliver impactful results. The approach should include the following elements:

- *Investing in human capital will build a workforce with the appropriate skills to move from low to highly productive sectors and leverage the Fourth Industrial Revolution.* African countries will need to overhaul their entire education systems to address the structural mismatches between the skills and qualifications acquired by young graduates and those required by the labor market. In addition to improving the quality and relevance of education and skill development, there is a need to recognize reskilling and retraining (lifelong learning) as a priority, to keep up with the rate and speed of technological advances and the resulting changes in industry needs. In doing so, African countries will be able to respond to the increasingly sophisticated requirements of highly productive industrial and manufacturing sectors.
- *Pursuing a resource-based industrialization and a diversification strategy will ensure that the continent leverages its comparative advantage to fast-track its structural transformation and strengthen its resilience to shocks.* The continent possesses a quarter of the world's arable agricultural area, the second-largest and longest rivers (the Nile and the Congo), and vast forest resources. Likewise, about 30 percent of all global mineral reserves are found in Africa, including 40 percent of gold, 60 percent of cobalt, and 90 percent of platinum group metals reserves. To diversify, Africa must industrialize and add value by processing and transforming raw materials, including agri-business and climate-smart activities. Creating forward and backward links between the extractive industry and other sectors of the manufacturing industry will also favor the production of inputs and services to meet the demands of extractive industries. Further, creating special agro-industrial processing zones will support agro-allied industrialization by transforming Africa's agriculture into a high value-added industry, yielding multiple benefits across the entire spectrum of agricultural value chains—from production and supply to design, processing, packaging, and maintenance to distribution, marketing, and consumer services.
- *Strengthening the collaboration between the government and the private sector will accelerate the pace of structural transformation.* Regular consultations with the private sector in all steps of structural transformation reforms will guarantee their success and scale up their impacts. In addition, to maximize the role of the private sector in the structural transformation process, the following actions must be undertaken.
  - Formulating a clear vision articulated in an industrial policy.
  - Building competitive infrastructure and logistics sectors.
  - Enabling business environment with well-designed and properly targeted fiscal and financial incentives.
  - Establishing active investment promotion agencies to create new markets or attract investments.
  - Creating special economic zones and industrial clusters to create pockets of efficiency and boost production capacity.

Pursuing a resource-based industrialization and a diversification strategy will ensure that the continent leverages its comparative advantage to fast-track its structural transformation and strengthen its resilience to shocks

Reform the current global financial aid architecture to make it fit for African countries' financing needs

Part of the reason for the debt buildup in African countries is the failure of the global financial aid architecture to meet the financing needs of the countries in most need of resources for development. As African countries continue to face financing challenges, mainstream financial institutions need to rethink their role and financing model. The proposed Triple Agenda of the G20 highlights the differential benefits of the reformed global financial architecture to make it more responsive in mobilizing and channeling financing for the Sustainable Development Goals. Reforming the global financial architecture and expanding the representation of developing countries will enhance decision-making, increase transparency, and reduce the cost of capital. The resulting additional financing mobilized for development could help alleviate African countries' fiscal pressures, foster macroeconomic stability, improve market confidence, and reduce borrowing costs.

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ANNEX 1 SALA-I-MARTIN'S EXTREME BOUNDS ANALYSIS

Consider a set of potential determinants of public revenue. Extreme Bounds Analysis involves estimating thousands of alternative regressions with different combinations of variables in this set. After having carried out all the regressions, a determinant is declared "robust" when it appears statistically significant in a high proportion of the regressions in which it is involved (generally more than 50 percent). Otherwise, it is considered "fragile." Formally, to determine whether a variable of interest $\vartheta \in X$ robustly explains public revenue, all the regression models of the following form were estimated:

$$Revenue = \varphi_\tau + \beta_\tau \vartheta + \rho_\tau E_\tau + \varepsilon \quad \text{(A1.1)}$$

where τ is the index of each regression model, E_τ represents a vector of k variables from the set X of doubtful variables, and ε is the error term. Equation A1.1 is estimated for each of the T possible combinations of $E_\tau \subset X$. The estimated coeffici ents $(\widehat{\beta}_\tau)$ of the variable of interest υ and the corresponding standard deviations $(\widehat{\sigma}_\tau)$ are collected and stored after each regression for subsequent calculations, which then show whether υ is robust or fragile. Therefore, a certain level of confidence —of value *CDF* (0)—is assigned to each variable in relation to its level of robustness. This value corresponds to the proportion of the variable's cumulative distribution that lies on each side of 0. A variable is statistically significant if a high proportion of its estimated coefficients are on the same side of 0.

Considering a normal model, the weighted average of the regression coefficient $\widehat{\beta}_\tau$ and its variance $\widehat{\sigma}_\tau^{\,2}$ are calculated as follows:

$$\overline{\beta} = \sum_{\tau=1}^{T} w_\tau \widehat{\beta}_\tau \quad \text{(A1.2)}$$

$$\overline{\sigma}^2 = \sum_{\tau=1}^{T} w_\tau \widehat{\sigma}_\tau^{\,2} \quad \text{(A1.3)}$$

where w_τ denotes the weights applied to the results of each estimated model. In the Sala-i-Martin approach, the use of weights allows more importance to be given to higher quality regressions, assuming that the fit of model τ is an indication of quality. Once the $\overline{\beta}$ and $\overline{\sigma}^2$ are known, the *CDF* (0) value is calculated based on the assumed normal distribution of the regression coefficients, such that $\beta \sim N(\overline{\beta}, \overline{\sigma}^2)$.

The results, based on 20 potential determinants of public revenue whose descriptive statistics are in table A1.1, are summarized in table A1.2. The variables are taken on average over 2017–22. The governance quality variables are considered in mutually exclusive ways in the regressions due to the conceptual proximity between them. The size of government is the most robust variable since it appears statistically significant in 100 percent of the regressions in which it is included (nearly 1,000). Then come the control of corruption (significant in 88 percent of the regressions in which it is included) and political stability (significant in 80 percent). The other variables that are significant in more than 50 percent of the regressions in which they are included are, in order of importance, the demographic dependency ratio, the size of the informal sector, the rule of law, bank credit to the economy, and openness to trade. All these important determinants in the mobilization of public revenue have the theoretically expected signs.

TABLE A1.1 Results from the Extreme Bounds Analysis approach for total government revenue

	(1)	(2)	(3)	Normal model (N)	
Variables	**Coefficient**	**SE**	**Pct($\beta \neq 0$)**	***CDF* ($\beta \leq 0$)**	***CDF* ($\beta > 0$)**
Intercept	24.40	7.31	82.38	0.38	99.62
Control of corruption	5.31	1.51	88.51	0.03	99.97
Political stability	2.86	1.15	77.87	0.73	99.27
Demographic dependency ratio	-0.21	0.09	65.27	98.19	1.81
Trade openness	0.08	0.03	58.07	1.26	98.74
Bank credit to the private sector (% of GDP)	0.11	0.06	55.16	3.47	96.53
Size of shadow economy (% of GDP)	-0.26	0.13	53.01	97.93	2.07
GDP per capita growth	-1.16	0.55	49.03	98.09	1.91
Rule of law	3.99	1.94	47.45	2.49	97.51
Government effectiveness	3.28	1.89	42.13	4.58	95.42
Individuals using the Internet (%)	0.11	0.07	38.39	7.49	92.51
Regulatory quality	2.94	2.23	29.15	10.12	89.88
Voice and accountability	2.09	1.52	25.53	8.68	91.32
Natural resource rents (% of GDP)	0.10	0.12	19.14	20.03	79.98
GDP per capita, log	0.20	1.62	12.80	45.37	54.63
Protection of property rights	0.24	1.04	12.47	41.25	58.75
Access to electricity (% of population)	-0.04	0.05	10.86	78.87	21.14
Inflation rate (%)	-0.07	0.14	9.36	68.38	31.63
Public debt (% of GDP)	0.03	0.03	1.94	20.21	79.79
Industrial value-added (% of GDP)	0.05	0.08	0.97	27.96	72.04
Urbanization rate (%)	-0.01	0.07	0.43	55.98	44.03

Note: Differences presented are robust to heteroskedasticity. The variance inflation factor (VIF) is set at 5 to avoid the multicollinearity problem. Note also that for obvious reasons of conceptual proximity, governance indicators are included in the regressions in mutually exclusive ways. Thus, there cannot be several of them simultaneously in the same regression. The most significant variables for explaining public revenue are colored and listed in descending order of significance (see column 3).
Source: African Development Bank staff computations.

TABLE A1.2 Results from the Extreme Bounds Analysis approach for tax revenue

	(1)	(2)	(3)	Normal model (N)	
Variable	**Coefficient**	**SE**	**Pct($\beta \neq 0$)**	***CDF* ($\beta \leq 0$)**	***CDF* ($\beta > 0$)**
Intercept	21.018	8.089	72.424	2.094	97.906
Control of corruption	5.315	1.515	94.043	0.029	99.971
Rule of law	5.461	1.756	83.191	0.179	99.821
Government effectiveness	5.403	1.626	82.34	0.071	99.929
Political stability	2.535	1.028	76.809	0.722	99.278
Bank credit to the private sector (% of GDP)	0.136	0.057	68.925	0.956	99.044
Demographic dependency ratio	–0.589	0.254	66.846	98.645	1.355
Regulatory quality	4.63	2.086	56.383	1.689	98.311
Voice and accountability	2.828	1.447	48.723	2.619	97.381
Size of shadow economy (% of GDP)	–0.255	0.132	47.957	97.17	2.83
GDP per capita growth	–1.096	0.591	40.753	96.696	3.304
Individuals using the Internet (%)	0.074	0.069	25.376	16.01	83.99
Industrial value-added (% of GDP)	0.139	0.09	25.054	6.51	93.49
Trade openness	0.052	0.034	18.495	7.32	92.68
GDP per capita, log	1.203	1.647	17.957	24.365	75.635
Property rights	0.196	1.027	14.946	42.671	57.329
Inflation rate (%)	–0.005	0.021	13.011	59.848	40.152
Access to electricity (% of population)	–0.01	0.046	9.677	57.928	42.072
Natural resource rents (% of GDP)	0.098	0.138	6.882	24.31	75.69
Public debt (% of GDP)	0.006	0.027	4.946	41.853	58.147
Urbanization rate (%)	–0.027	0.063	1.72	66.084	33.916

Note: The differences shown are robust to heteroskedasticity. The variance inflation factor was set at 5 to avoid the problem of multicollinearity. Because of conceptual proximity, governance indicators are included in the regressions in a mutually exclusive manner. This means that several of them cannot appear simultaneously in the same regression. The most important variables for explaining public revenue are color-coded and listed in descending order of significance (see column 3).
Source: African Development Bank statistics.

TABLE A1.3 Descriptive statistics of the determinants of public revenue, average over 2017–22

	(1)	(2)	(3)	(4)	(5)
Variable	**N**	**Mean**	**Standard deviation**	**Minimum**	**Maximum**
Public revenue (% of GDP)	53	20.67	8.06	4.38	47.01
Tax revenue (% of GDP)	53	14.54	7.01	2.15	38.65
Access to electricity (% of population)	53	53.89	27.08	6.45	100.00
Industrial value-added (% of GDP)	50	24.99	10.24	5.44	52.59
Natural resource rents (% of GDP)	51	8.83	7.56	0.00	35.13
Size of shadow economy (% of GDP)	47	34.66	8.49	19.54	63.22
Protection of property rights	49	4.11	1.20	0.88	7.30
Demographic dependency ratio	53	77.49	15.78	40.59	105.68
Control of corruption	53	–0.66	0.68	–1.82	1.26
Government effectiveness	53	–0.81	0.67	–2.37	0.85
Political stability	53	–0.66	0.84	–2.45	1.03
Regulatory quality	53	–0.76	0.62	–2.23	1.10
Rule of law	53	–0.71	0.64	–2.30	0.77
Voice and accountability	53	–0.60	0.74	–2.07	0.94
Bank credit to the private sector (% of GDP)	50	22.71	17.65	0.01	85.00
Trade openness	48	72.78	46.49	13.77	287.61
Urbanization rate (%)	53	45.92	18.32	13.55	89.89
Inflation rate (%)	51	7.39	10.11	–8.80	66.11
Public debt (% of GDP)	50	58.95	22.17	15.85	125.69
GDP per capita growth	51	0.30	2.18	–5.73	4.01
Individuals using the internet (%)	53	32.41	20.73	2.00	76.59
GDP per capita, log	51	7.31	0.94	5.59	9.69

Source: African Development Bank statistics.

ANNEX 2
STATISTICAL APPENDIX

TABLE A2.1 Real GDP growth (percent)

	2022	2023 (estimated)	2024 (projected)	2025 (projected)
Central Africa	**5.2**	**3.8**	**3.5**	**4.1**
Cameroon	3.6	4.0	4.1	4.6
Central African Rep.	0.5	1.0	2.0	2.9
Chad	3.4	4.1	3.8	3.1
Congo	1.7	4.0	4.4	4.5
Congo, Dem. Rep.	8.9	6.2	4.7	5.3
Equatorial Guinea	3.8	–7.0	–5.1	–3.0
Gabon	3.0	2.3	2.4	2.9
East Africa	**4.4**	**3.5**	**5.1**	**5.7**
Burundi	1.8	3.4	5.8	6.0
Comoros	2.6	3.2	3.6	4.6
Djibouti	3.7	5.7	6.2	6.4
Eritrea	2.6	2.9	2.9	3.1
Ethiopia	6.4	7.1	6.7	6.7
Kenya	4.8	5.4	5.4	5.5
Rwanda	8.2	6.2	7.2	7.2
Seychelles	8.9	4.6	4.2	4.0
Somalia	2.4	2.8	3.7	3.9
South Sudan	–2.9	–0.4	4.6	4.7
Sudan	–1.0	–12.3	–1.7	2.0
Tanzania	4.7	5.2	6.1	6.2
Uganda	5.8	5.1	6.0	7.0
North Africa	**4.6**	**3.9**	**3.9**	**4.1**
Algeria	3.2	2.8	4.2	3.6
Egypt	6.6	4.0	3.7	4.2
Libya	–3.7	12.6	7.9	6.2
Mauritania	6.4	4.7	5.2	5.6
Morocco	1.3	3.0	3.5	3.9
Tunisia	2.5	0.9	2.1	3.2

(continued)

	2022	2023 (estimated)	2024 (projected)	2025 (projected)
Southern Africa	**2.8**	**1.6**	**2.2**	**2.6**
Angola	3.0	0.5	2.9	3.8
Botswana	5.8	3.8	4.1	4.4
eSwatini	0.5	4.7	4.9	3.4
Lesotho	1.1	2.1	2.5	2.7
Madagascar	4.3	4.0	4.5	5.3
Malawi	0.8	1.6	3.3	3.8
Mauritius	8.9	6.8	5.0	3.7
Mozambique	4.4	5.6	5.0	5.0
Namibia	4.6	3.3	2.6	2.9
São Tomé and Príncipe	0.1	0.5	0.9	1.6
South Africa	1.9	0.8	1.1	1.6
Zambia	5.2	4.3	4.7	4.7
Zimbabwe	6.5	4.5	3.6	3.6
West Africa	**3.9**	**3.2**	**4.0**	**4.4**
Benin	6.3	6.2	6.4	6.1
Burkina Faso	1.5	3.5	4.1	4.3
Cabo Verde	17.7	4.4	4.5	4.6
Côte d'Ivoire	6.7	6.5	6.8	6.6
Gambia	4.1	5.6	6.2	6.3
Ghana	3.1	1.5	2.8	4.5
Guinea	4.3	5.9	5.7	5.7
Guinea-Bissau	4.2	4.5	4.9	5.1
Liberia	4.8	4.7	5.4	6.3
Mali	3.7	4.6	4.8	5.4
Niger	11.9	4.3	11.2	6.0
Nigeria	3.3	2.5	2.9	3.7
Senegal	4.0	4.1	8.2	6.8
Sierra Leone	4.0	3.1	4.6	5.4
Togo	5.8	6.0	6.0	6.5
Africa	**4.1**	**3.2**	**3.8**	**4.2**

Source: African Development Bank statistics.

TABLE A2.2 Country groups

Oil exporters	Other resource intensive	Non–resource intensive	Tourism dependent	Low income	Middle income
Algeria	Botswana	Benin	Cabo Verde	Burkina Faso	Algeria
Angola	Burkina Faso	Burundi	Comoros	Burundi	Angola
Cameroon	Central African Republic	Cabo Verde	Mauritius	Central African Republic	Benin
Chad	Congo, Dem. Rep.	Comoros	São Tomé and Príncipe	Chad	Botswana
Congo	Ghana	Côte d'Ivoire	Seychelles	Congo, Dem. Rep.	Cabo Verde
Egypt	Guinea	Djibouti		Eritrea	Cameroon
Equatorial Guinea	Liberia	Eritrea		Ethiopia	Comoros
Gabon	Mali	eSwatini		Gambia	Congo
Libya	Namibia	Ethiopia		Guinea	Côte d'Ivoire
Nigeria	Niger	Gambia		Guinea-Bissau	Djibouti
South Sudan	Sierra Leone	Guinea-Bissau		Liberia	Egypt
	South Africa	Kenya		Madagascar	Equatorial Guinea
	Sudan	Lesotho		Malawi	eSwatini
	Tanzania	Madagascar		Mali	Gabon
	Zambia	Malawi		Mozambique	Ghana
	Zimbabwe	Mauritania		Niger	Kenya
		Mauritius		Rwanda	Lesotho
		Morocco		Sierra Leone	Libya
		Mozambique		Somalia	Mauritania
		Rwanda		South Sudan	Mauritius
		São Tomé and Príncipe		Sudan	Morocco
		Senegal		Togo	Namibia
		Seychelles		Uganda	Nigeria
		Somalia		Zambia	São Tomé and Príncipe
		Togo			Senegal
		Tunisia			Seychelles
		Uganda			South Africa
					Tanzania
					Tunisia
					Zimbabwe

Average real GDP growth for Africa declined to an estimated 3.2 percent in 2023, from 4.1 percent in 2022, due largely to multiple domestic and global shocks, including the scarring long-term effects of the Covid-19 pandemic, geoeconomic fragmentation, geopolitical conflicts, climate shocks, and the slowdown in the global economy. Despite the decline, some of the continent's economies remain resilient. In particular, 15 African countries posted growth rates of more than 5 percent in 2023, and the continent's growth rate is projected to rise to 3.8 percent by 2024 and to consolidate to 4.2 percent in 2025. Further, Africa remains the second-fastest growing region after Asia, with growth exceeding the global average of 3 percent in 2023. In 2024, the continent is projected to account for 11 of the world's 20 fastest-growing economies.

Africa's slower growth was blighted by rising inflation, on an upward trend since the Covid-19 pandemic. High inflation and elevated public debt and associated vulnerabilities threaten the continent's macroeconomic stability and undermine improvements in its fiscal position. Therefore, the continent remains exposed to high economic uncertainty, with external balances expected to deteriorate in 2024. Tighter global financial conditions have amplified Africa's already high cost of capital and weighed on financial flows to the continent.

Lingering global uncertainties and rising fragmentation could cloud Africa's medium-term growth outlook. A continuation of Russia's invasion of Ukraine and the eruption of war in the Middle East could reignite commodity price increases or trigger a second wave of supply chain disruptions—or both. The passthrough effects of sustained exchange rate depreciation in many African countries could weaken the effectiveness of monetary policy actions to tackle domestic inflation.

Against this backdrop, this January 2024 edition of *Africa's Macroeconomic Performance and Outlook* proposes a mix of policies for the short and medium to long term to sustain the momentum of Africa's economic recovery:

- **Reorienting monetary policy to strike the delicate balance between taming inflation and creating stable macroeconomic conditions can support economic growth.**
- **Implementing structural reforms to reinforce strategic industrial policies can accelerate resource-based industrialization and diversification to build resilience to shocks.**
- **Strengthening fiscal institutions and governance reforms can scale up domestic resource mobilization and curb resource leaks.**
- **Proactively advocating for reforms to the current global financial aid architecture can make it more responsive to Africa's development financing needs.**

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