AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK

JANUARY 2025

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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FOREWORD

Countries across the world are struggling to navigate a difficult global economic landscape characterized by persistent disruptions—from structural macroeconomic weaknesses, geopolitical tensions, the increasing effects of climate change, health pandemics, and trade and technology wars. For African countries, rising domestic, regional, and global uncertainties continue to weigh on economic performance and outlook to growth in the short to medium term. Average real gross domestic product (GDP) growth in Africa was thus estimated at 3.2 percent in 2024, only modestly higher than the 3.0 percent recorded in 2023. This marginal improvement shows that economic growth for the continent remains fragile and is less than half the minimum of 7 percent considered necessary to lift millions of people out of poverty.

Despite the prevailing harsh global economic environment and lingering domestic and regional structural challenges, some African economies continue to demonstrate impressive resilience. In 2024, estimated growth in 30 of the continent's 54 countries expanded from the previous year, with 9 economies recording growth increases of more than 1 percentage point. The growth expansions in these countries reflect strong performance in the hydrocarbon sector, tourism, agriculture, and, crucially, private investment—a key anchor to drive Africa's future growth.

Looking ahead, the African Development Bank Group's latest projections indicate that the average real GDP growth for the continent will increase by 0.9 percentage point to 4.1 percent in 2025 and consolidate higher at 4.4 percent in 2026. Africa's average growth rate for 2025 is expected to exceed the global average, confirming the continent's longstanding position as the second-fastest growing region after Asia. With this performance, the number of African countries among the world's top 20 fastest-growing economies could increase from 10 in 2024 to 12 in 2025.

The relatively favorable growth projection for 2025 and 2026 will be underpinned by the dividends from economic reforms being implemented in many African countries, including those aimed at improving the productivity, quality, and competitiveness of domestic productive sectors (such as agriculture and manufacturing), as well as results from tackling the cost-of-living crisis and enhancing sustainable fiscal and debt positions.

While Africa's economic prospects appear to have become more promising, fragility in real GDP growth remains a major policy concern, due largely to prevailing multiple domestic, regional, and global challenges. Inflationary pressures remain entrenched, persistent and have all but eroded any marginal gains from the continent's recent growth due to sustained increases in the cost of living, with large segments of the population facing reduced purchasing power and deterioration in living standards.

Debt vulnerabilities also remain elevated, negatively impacting long-term growth and social wellbeing as more resources are channeled toward debt service rather than investment in social and human capital development. Geopolitical tensions and pockets of regional conflict and insecurity have weighed on exports and had both direct and indirect impacts on regional stability and economic activity.

Therefore, navigating the effects of these shocks and increasing the resilience as well as the momentum of Africa's growth prospects are critical for Africa to advance efforts toward inclusive economic growth and sustainable development.

This report outlines practical actions to address the vulnerability of Africa's economic growth amid multiple entrenched and overlapping shocks. It shows that the proper coordination of monetary and fiscal policies can help address supply-side constraints and enhance fiscal discipline. Tackling underlying structural economic challenges that limit domestic productive capacity, coupled with prioritizing investment in integrated productive physical infrastructure, holds great promise for Africa's future growth. These policies should be part of the broader and long-term strategic orientation of countries to enhance the business environment for efficient provision of quality public services to help reduce the domestic distortions that exacerbate Africa's vulnerabilities to global and domestic shocks. There is no "one size fits all" policy to prosperity, but there is broad consensus that a high-tax state—to enhance domestic resource mobilization—coupled with beneficiation of critical minerals and tested policies of franchising and preferred procurement, will be central to the development of African economies.

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

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Preparation of the report was supervised by Anthony Simpasa (Director, Macroeconomic Policy, Forecasting, and Research Department, ECMR). The core team comprised Hammed Amusa (Officer-in-Charge Division Manager, Macroeconomic Policy, Debt Sustainability, and Forecasting Division, ECMR.1), Francis Leni Anguyo, Lacina Balma, Kebba Jammeh, Alexandre Kopoin, Martin Wafula Nandelenga, and Assi Okara, all from ECMR.1. The report was co-led by Alexandre Kopoin, and Lacina Balma, with contributions from the core team. Winnifred Meni Doe, Richard Dutu, Blaise Gnimassoun, and Zackary Seogo contributed to various sections of the report. Michael Abah, Félicie Zongo Kaboré, and Hamida Riahi provided administrative support.

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ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
CEMAC	Central African Economic and Monetary Community
FDI	Foreign direct investment
GDP	Gross domestic product
IMF	International Monetary Fund
MEO	*Macroeconomic Performance and Outlook*
ODA	Official development assistance
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
WAEMU	West African Economic and Monetary Union

KEY MESSAGES

Africa's growth performance and outlook remain subdued and fragile amid myriad domestic, regional, and external challenges. Average real gross domestic product (GDP) growth is estimated at 3.2 percent in 2024, unchanged from the projection in the *Macroeconomic Performance and Outlook (MEO) 2024 Update.* While this growth rate is slightly higher than the 3.0 percent recorded in 2023, it is less than half the minimum of 7 percent considered necessary to lift millions of people out of poverty. The growth uptick in 2024 was reflected in 30 of 54 African countries, including two of Africa's four largest economies—South Africa (0.2 percentage point) and Nigeria (0.3 percentage point). In addition, nine African countries, including Angola, Equatorial Guinea, Ghana, Niger, and Uganda, saw growth increases of more than 1.0 percentage point from 2023 to 2024. The improvement in these countries reflects strong performance in the hydrocarbon sector, tourism, agriculture, and private investment.

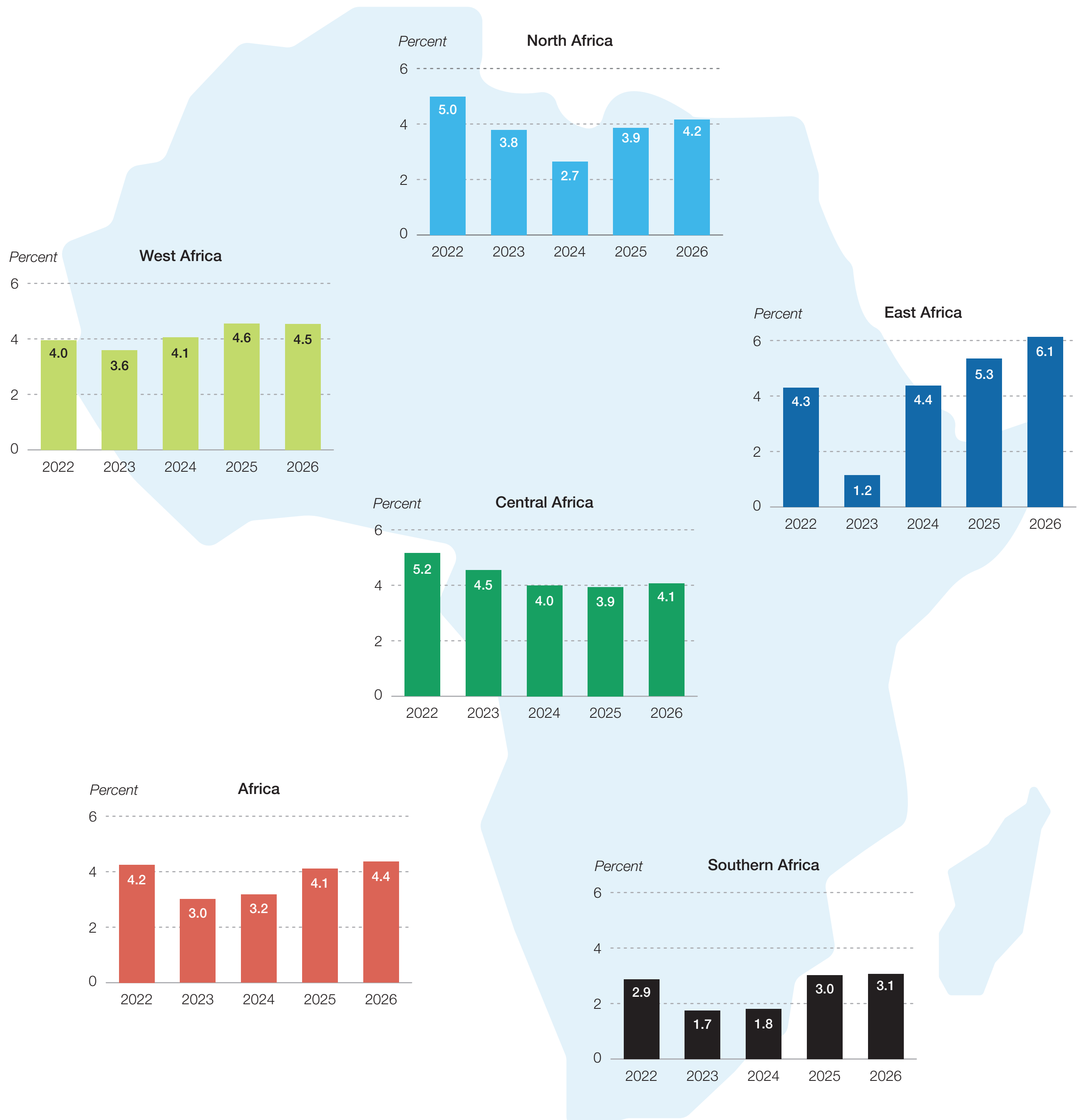
Looking ahead, Africa's real GDP growth is projected to increase by 0.9 percentage point to 4.1 percent in 2025, unchanged from the projection in the *MEO 2024 Update.* In 2026, real GDP growth in Africa is projected to accelerate further to 4.4 percent. The projected medium-term improvement in growth performance will be underpinned by the benefits of economic reforms implemented in many African countries over the past two years, including those aimed at tackling the cost-of-living crisis, with inflationary pressures projected to recede, and fiscal and debt positions to improve. In 2025, growth in 24 African countries—led by South Sudan, Djibouti, Niger, Rwanda, and Senegal—is expected to exceed 5 percent. While Africa's estimated average growth rate for 2024 mirrors the world average, the forecast for 2025 is 0.9 percentage point higher than that average, making the continent the second-fastest growing region after Asia.[1] In addition, it is projected that in 2025 Africa will account for 12 of the world's 20 fastest-growing economies.

Africa's economic performance and medium-term growth prospects mask cross-regional variations (figure 1). These variations reflect differences in impact of domestic policies to cope with global and domestic shocks. Broadly, policies aimed at improving productivity, quality, and competitiveness of domestic productive sectors (such as agriculture and manufacturing), and strategic investment in public infrastructure to speed up the pace of structural transformation, are yielding growth dividends across regions.

- *Central Africa.* Growth is projected to moderate slightly from an estimated 4.0 percent in 2024 to 3.9 percent in 2025, before improving to 4.1 percent in 2026, supported by the expected rebound in Equatorial Guinea and steady growth in the Democratic Republic of Congo.
- *East Africa.* GDP growth is projected to increase from 4.4 percent in 2024 to 5.3 percent in 2025 and to 6.1 percent in 2026. East Africa will remain the continent's fastest-growing region and half of its economies—South Sudan, Rwanda, Uganda, Ethiopia, Tanzania, and Kenya—are expected to grow

1. IMF 2024a, 2024b.

FIGURE 1 Growth performance and outlook by African region, 2022–26



Note: Data for 2024 are estimates; data for 2025 and 2026 are projections.
Source: African Development Bank staff.

by 5 percent or more in 2025. The strong performance in South Sudan reflects the anticipated economic recovery from the devastating impacts of prolonged conflict, following the signing of a peace accord.

- *North Africa.* Real GDP growth is projected to increase from an estimated 2.7 percent in 2024 to 3.9 percent in 2025 and 4.2 percent in 2026, aided by growth rebounds in Libya, Egypt, and Morocco.

- *Southern Africa.* Real GDP growth is projected to increase from an estimated 1.8 percent in 2024 to 3.0 percent in 2025 and 3.1 percent in 2026. This growth rebound marks the first time since 2021 that the region's growth has exceeded 2 percent and can be attributed to projected robust performance in Eswatini, Zambia, and Zimbabwe of 5 percent or more, in a marked recovery from the adverse impact on growth of a severe drought in 2024. Except for South Africa, Namibia, and Lesotho, economies in the region are projected to post growth of 3–4 percent in 2025.
- *West Africa.* Real GDP is projected to rise from an estimated 4.1 percent in 2024 to an average of 4.6 percent in 2025–26. Ghana, Sierra Leone, and Nigeria aside, all countries are expected to grow by 5 percent or more in 2025. In Nigeria—the region's largest economy—growth is expected to remain tepid, reflecting the adverse impact of macroeconomic stabilization programs on household consumption and business activity, and structural challenges that have persistently constrained productivity growth.

Inflationary pressures in Africa have persisted, eroding any marginal gains from the continent's growth. In 2024, inflation remained elevated, averaging 18.6 percent, far above medium-term targets in many countries across the continent. The upward trend in inflation in 2024 was largely driven by a strong buildup of inflationary pressures in 16 African countries, including Egypt and Nigeria, two of the largest. However, the number of African countries with double-digit inflation declined from 19 in 2022 to 15 in 2024 as the effects of aggressive monetary policy gained traction. Average inflation in Africa is projected to decline to an average of 12.6 percent in 2025–26, reflecting continued tight monetary policy in many countries (table 1).

Higher inflation also reflects widening fiscal deficits across the continent, with prospects for an improving fiscal balance in the short term jeopardized by uncertainties. Africa's average fiscal deficit is estimated to have widened slightly from 4.4 percent of GDP in 2023 to 4.6 percent in 2024, driven mainly by an increase in the primary deficit from 1.6 percent of GDP to 2.1 percent. The widening primary deficit reflects slowing momentum in fiscal consolidation efforts, although they have led to some relief in public finances in countries such as Ghana, Zambia, and Ethiopia that have undertaken austerity measures during debt restructuring. Africa's average fiscal deficit is projected to narrow to 4.1 percent of GDP in 2025–26 but still above the conventional target of 3 percent of GDP for macroeconomic convergence.

Public debt ratios are stabilizing but remain above the pre–Covid-19 pandemic level and have lingering risks. The tightening of global financial conditions, which characterized much of 2022–23, is slowly easing, yielding some benefits for public debt. The median debt-to-GDP ratio is estimated to have declined to around 60.0 percent in 2024 from 63.5 percent in 2021–23 and is projected to decline further to 59.2 percent in 2025. Still, debt vulnerabilities remain elevated, amplified by the increase in debt service costs stoked by high global interest rates and a stronger US dollar. As of September 2024, 9 African countries were in—and 11 others were at high risk of—debt distress. These countries account for 30.5 percent of the continent's population. This combination of factors could have long-term implications for growth and social well-being when resources are channeled to servicing debt rather than investing in human capital development.

Inflationary pressures in Africa have persisted, eroding any marginal gains from the continent's growth

Africa's overall current account balance is expected to weaken in the short term, driven by unfavorable prospects in global commodity markets and the cumulative impact of multiple global shocks to trade. The average current account deficit is estimated to have widened from 1.6 percent of GDP in 2023 to 2.4 percent in 2024 and is expected to reach 2.6 percent of GDP in 2025 before narrowing to 2.3 percent in 2026. The widening deficit in 2024 is a result of the increase in the trade deficit and a decline in net income and current transfers.

Although Africa's medium-term prospects appear more favorable, growth remains fragile due to multiple countervailing factors. Progress

TABLE 1 Outlook for key macroeconomic indicators in Africa, 2025–26 average

	Real GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
Algeria	3.5	4.3	–0.9	–10.6
Angola	4.1	20.2	3.8	–1.8
Benin	6.6	1.9	–4.9	–2.8
Botswana	4.3	3.5	–4.2	–4.1
Burkina Faso	5.4	2.0	–3.8	–5.1
Burundi	4.0	21.0	–17.7	–3.7
Cabo Verde	4.9	2.0	–4.2	–2.0
Cameroon	4.3	3.7	–2.8	–0.1
Central African Rep.	2.6	2.6	–7.1	–3.0
Chad	3.7	4.1	–2.7	–3.2
Comoros	4.2	2.0	–4.0	–2.5
Congo, Dem. Rep.	5.1	8.2	–2.7	–1.8
Congo, Rep.	3.6	3.3	1.7	2.9
Côte d'Ivoire	6.3	2.9	–3.6	–3.0
Djibouti	6.9	2.4	21.5	0.8
Egypt	4.3	21.9	–4.8	–5.7
Equatorial Guinea	–0.8	2.5	–2.8	–0.5
Eritrea	3.1	3.9	12.3	–2.6
Eswatini	5.7	4.7	1.0	–2.1
Ethiopia	6.6	22.8	–3.4	–2.3
Gabon	2.7	2.1	4.0	–3.7
Gambia	5.7	8.3	–4.2	–1.4
Ghana	4.7	10.2	1.3	–3.3
Guinea	5.8	6.7	–9.1	–2.6
Guinea-Bissau	5.7	2.3	–3.6	–2.5
Kenya	5.0	5.0	–4.0	–4.7

	Real GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
Lesotho	2.5	5.4	–2.0	3.3
Liberia	5.8	5.6	–26.9	–3.7
Libya	5.3	2.6	–1.9	5.8
Madagascar	4.9	7.0	–4.6	–3.9
Malawi	4.1	21.5	–15.8	–7.6
Mali	5.2	2.1	–4.7	–3.3
Mauritania	4.9	2.9	–8.3	–1.2
Mauritius	4.2	3.5	–3.9	–5.6
Morocco	3.8	1.8	–2.4	–3.1
Mozambique	3.8	4.4	–31.0	–4.3
Namibia	3.6	4.1	–15.7	–3.0
Niger	6.9	3.3	–4.9	–2.6
Nigeria	3.5	20.5	3.6	–4.0
Rwanda	7.1	4.1	–10.1	–4.1
São Tomé and Príncipe	3.9	9.1	–6.1	0.0
Senegal	8.6	1.9	–6.3	–7.8
Seychelles	3.9	2.3	–9.2	–1.2
Sierra Leone	4.8	17.9	–3.5	–3.9
Somalia	4.1	3.9	–9.3	–0.1
South Africa	1.8	4.5	–2.1	–4.2
South Sudan	34.4	43.7	3.9	5.0
Sudan	–1.1	74.1	–7.6	–3.7
Tanzania	6.1	3.2	–3.6	–3.0
Togo	6.9	2.2	–3.6	–3.1
Tunisia	1.6	6.4	–3.5	–5.2
Uganda	7.2	4.0	–5.3	–5.0
Zambia	6.0	8.0	2.1	–3.3
Zimbabwe	4.6	15.8	1.1	–1.7

Note: Countries are ranked by three criteria: green for good performers, yellow for fair performers, and red for weak performers. Real GDP growth rates equal to or more than 5 percent are in green, 0–4.99 percent yellow, and negative growth red. Inflation below 5 percent is in green, 5–9.9 percent yellow, and in double digits red. A current account surplus is in green, a deficit up to 5 percent yellow, and more than 5 percent red. A fiscal deficit up to 3 percent is in green, 3–5 percent yellow, and more than 5 percent red.
Source: African Development Bank staff calculations.

in disinflation across advanced economies could make room for lower interest rates worldwide, fostering robust growth in the global economy, which would bode well for Africa's commodity exports, potentially lifting domestic growth. In addition, continued fiscal consolidation efforts and successful conclusion of debt treatment could significantly reduce public debt, further improving Africa's fiscal outlook and growth in the short to medium term. A reversal of the recent gains in global disinflation and continued fiscal tightening in several advanced economies could, however, delay the pace of global recovery, presenting significant downside risks to Africa's medium-term economic prospects. Moreover, downside risks related to rising protectionism, fueled by deglobalization and geopolitical tensions, threaten global trade and could disrupt trade between Africa and its main trading partners.

Navigating the effects of multiple shocks and increasing the resilience of Africa's growth prospects therefore requires implementation of well-coordinated short-, medium-, and long-term policy priorities.

Short-term policy priorities

- Africa's entrenched inflationary pressures could be unwound by mutually reinforcing monetary, fiscal, and structural policies. Central banks in the continent should maintain their contractionary monetary policy while the priority of fiscal policy should be to support the most vulnerable populations through social safety nets to mitigate the unintended costs of tight monetary policy and to prevent a further deterioration in living standards.
- Building foreign reserve buffers is critical to strengthen African countries' resilience to global shocks and the adverse impacts of exchange rate depreciation on macroeconomic performance, trade, and the broader economy. To enhance such resilience, African governments need to address both external and domestic imbalances and vulnerabilities propagated by depreciation of national currencies (and in the medium to long term, prioritizing structural reforms to improve the investment climate is vital). Such reforms can attract foreign capital to shore up foreign exchange reserves, stabilize the exchange rate, increase exports, and lay the foundation for future economic growth.
- Preemptive debt restructuring can prevent more countries from falling into debt distress and potential default, especially those highly vulnerable to shocks and already facing high debt repayments and liquidity pressures because of a lack of access to international capital markets to buy back maturing debt. In the medium term, countries facing high repayments but whose macroeconomic fundamentals are improving and creating some room for further borrowing, can still borrow to refinance maturing debt to avoid the risk of default.

Medium- to long-term policy priorities

- Investment in integrated productive physical infrastructure needs to be prioritized and radically accelerated through deployment of domestic and foreign capital and by infrastructure-driven government borrowing. Investment in integrated productive infrastructure will foster innovation across large parts of the economy and open productive sectors to private participation and spur technological spillovers from global markets into the continent. Such investment is key to accelerating the pace of transformation and economic diversification that will help reduce countries' exposure to commodity price volatility, which has had sharp knockdown effects on Africa's growth.
- Quality public services need to be provided efficiently through the creation and implementation of long-term strategies to enhance the business environment. Strategies include reforming regulations, such as replacing colonial laws and rules with ones suited to Africa's current development imperatives, improving standards, and defining policies to guide potential investors. The absence of clear and robust long-term policies to attract private investment in many countries increases the investment risk profile and deters private actors from investing in the continent. African countries should translate their national development plans into comprehensive sectoral strategies, plans, and design regulations covering all sectors. These strategies should also be fully mainstreamed into the whole economy—not developed and implemented in silos—to stimulate economy-wide productivity gains.
- As discussed in the *African Economic Outlook 2024,* African countries could also facilitate the emergence of national champions to lead economic diversification and foster backward and forward linkages with smaller firms, which will deepen domestic markets. Policies, such as preferred procurement to encourage domestic production and growth of small and medium enterprises, as well as local-content and

Investment in integrated productive infrastructure will foster innovation across large parts of the economy

franchising policies to create incentives that will attract investment from multinational corporations, should be prioritized.

- Proactive pursuit and promotion of franchising, and the leveraging of the technological know-how of foreign firms, can also promote cross-border investment among African countries to complement local-content policies and requirements, especially where technical and financial capacity is lacking. But to maximize the benefits of franchising, countries need to identify domestic capacity gaps and select franchising models that suit their own contexts and best serve their own interests.
- Given the difficult external financial environment and growing financing needs, especially for the green transition, African countries will need more support from the international community, including multilateral and regional development banks. Reforming the international financial system, as discussed in the *African Economic Outlook 2024,* remains a pathway to accessing affordable capital for investment in critical growth-enhancing and climate-resilient sectors.

Given the difficult external financial environment and growing financing needs, African countries will need more support from the international community

- The increasing debt vulnerability of African countries and their low mobilization of domestic resources require consistent implementation of economic governance and institutional reforms to strengthen debt management capacity and transparency. Further, a stronger link between debt and investment—the *productivite* use of debt—is needed to ensure debt sustainability on the continent.
- There is a need to institute fiscal rules to help enhance debt management transparency and accountability for mitigating fiscal distress. Domestic fiscal councils and debt management offices must be strengthened, with clearly defined mandates to monitor fiscal management and provide policy advice to governments.
- Improving public finances with strategies focused on revenue mobilization should be the first line of defense in a world of higher borrowing costs and fewer financing options. The priority should be accorded to minimizing the impact of fiscal consolidation on lives and livelihoods. There is an urgent need for scaling up concessional financing through expanded support from the international community, with multilateral and regional development banks potentially exploring options to further leverage their balance sheets to increase lending to regional member countries.

1

GROSS DOMESTIC PRODUCT: DEVELOPMENTS AND OUTLOOK

GROWTH PERFORMANCE AND OUTLOOK

Africa's growth performance and prospects remain subdued and fragile amid multiple domestic, regional, and global shocks

Although the near-term growth outlook for Africa is improving, the continent remains vulnerable to domestic, regional, and global shocks. The lack of proactive policy responses perpetuates the impact of these shocks, with lasting implications for the region's economic prospects. Geopolitical fragmentation and global tensions, alongside other multiple shocks, exacerbated the lingering effect of the Covid-19 pandemic, while Africa's domestic structural weaknesses, such as a low industrial base and heavy dependence on primary commodities, coupled with weak global demand, continue to weigh on the continent's export performance.

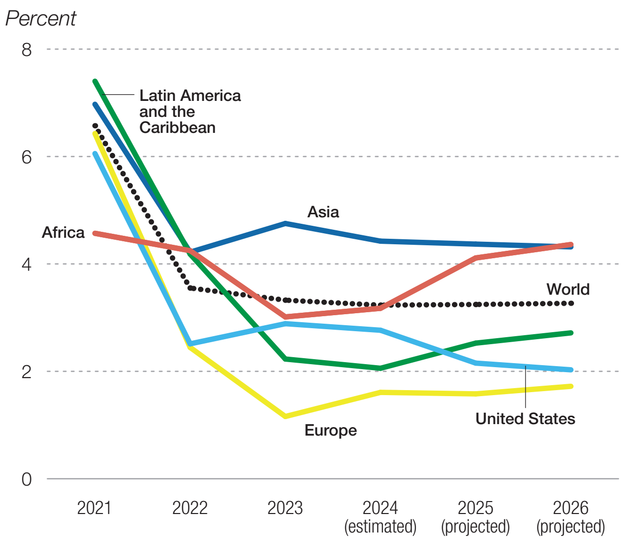
Prolonged conflict in some parts of the continent, such as the Sahel and Horn of Africa, have further deepened Africa's vulnerability, with direct economic impacts on affected countries and indirect impacts on neighboring countries. Evidence indicates that the direct and indirect costs of conflict in Africa range from 8 percent to 25 percent of gross domestic product (GDP).[1] Further, the effects of climate change, such as droughts and floods, are also weighing on agriculture and manufacturing through reduced electricity generation. For instance, the below-normal rainfall due to the El Niño–linked prolonged drought in the Southern Africa region in 2024 affected agricultural output and power generation in Botswana, Lesotho, Malawi, Namibia, Zambia, and Zimbabwe. As a result, the economic performance in 2024 for these countries was tepid, even after accounting for the lagged effects of the Covid-19 pandemic.

Average real GDP growth in Africa is estimated at 3.2 percent in 2024, unchanged from the projection in November's *Macroeconomic Performance and Outlook (MEO) 2024 Update* (figure 1.1). While this estimate is slightly higher than the 3.0 percent recorded in 2023, it is less than half the minimum of 7 percent considered necessary to lift millions of people out of poverty. The growth uptick in 2024 was seen in 30 of 54 African countries, including two of Africa's four largest economies—South Africa (0.2 percentage point) and Nigeria (0.3 percentage point). Compared with the May 2024 projections in the *African Economic Outlook 2024*, the estimated growth for 2024 represents, however, a downgrade of 0.5 percentage point.

This slow growth momentum is attributable to stronger than expected effects of multiple global and domestic challenges, such as persistent inflationary pressures, geopolitical fragmentation, weak financial inflows, elevated debt vulnerabilities, high debt servicing costs, pockets of regional conflict and insecurity, climate shocks, and—weighing on Africa's exports—weak global demand. In addition, there were some noticeable growth decreases exceeding 4.0 percentage points in 2024 from 2023 in South Sudan (29.0 percentage points), Libya (12.2 percentage points), Botswana (4.4 percentage points), and Zambia (4.1 percentage points), stemming from lower exports of oil and diamonds, and the effects of drought on both agriculture and manufacturing.

The outlook is, however, encouraging, with Africa's average real GDP growth projected to increase by 0.9 percentage point to 4.1 percent in

FIGURE 1.1 Real GDP growth, world and global regions, 2021–26



Source: African Development Bank statistics; International Monetary Fund *World Economic Outlook,* October 2024.

2025. The growth outlook for this year is underpinned by expectations of moderating inflation as aggressive monetary policy gains traction and food prices begin to subside; by improving fiscal and debt positions after the successful conclusion of debt restructuring efforts and fiscal consolidation measures; and by the benefits of economic policies implemented in many African countries over the past two years, including those aimed at ramping up post–Covid-19 pandemic infrastructure development to rid economies of structural rigidities that hold back the continent's supply response to emerging private sector investment opportunities. Crucially, growth in 24 African countries—led by South Sudan, Djibouti, Niger, Rwanda, and Senegal—is expected to exceed 5 percent in 2025. Growth is projected to rise further to 4.4 percent in 2026 as economic and political conditions continue improving.

Yet, challenges remain, as evidenced by Africa's history of volatile and fragile growth (box 1.1), which is often driven by the cyclical movement of primary commodity prices and by inconsistent implementation of macroeconomic and structural policies. Thus, the near-term growth trajectory will continue to evolve depending on the evolution and intensity of the underlying multiple shocks, as well as the efficacy of policies deployed to respond to such shocks.

Africa's projected growth for 2025 will be 0.9 percentage point higher than the global average. According to the October 2024 *World Economic Outlook* of the International Monetary Fund (IMF), global growth is projected to average 3.2 percent in 2025. Only Asia (4.4 percent) will post faster growth, keeping the continent as the second-fastest growing region, a position it has had for many years. In addition, the number of African countries among the world's 20 fastest growing will increase from 10 in 2024 to 12 in 2025. In 2026, with growth of 4.4 percent, Africa is expected to maintain second position after Asia (4.9 percent) and could account for half of the world's top 20 fastest-growing countries.

The estimated real GDP growth in Africa in 2024 is also reflected in the Purchasing Managers' Index (PMI), a key high-frequency measure of economic activity (figure 1.2). For the first time since 2020, the average PMI increased for 11 consecutive months of the year in Nigeria (0.34 points), Egypt (0.96 points), South Africa (0.68 points), and Kenya (1.5 points), compared with their average values in the corresponding period of the previous year. In addition, the average PMI value of Nigeria for the year to November 2024 remained above the 50-point mark—the conventional measure of strong performance—while that of South Africa moved above the 50-point mark in the same period, indicating expansion in industrial production. Further, the average PMI value for Egypt and Kenya moved closer to the 50-point mark, again suggesting strengthening industrial production.

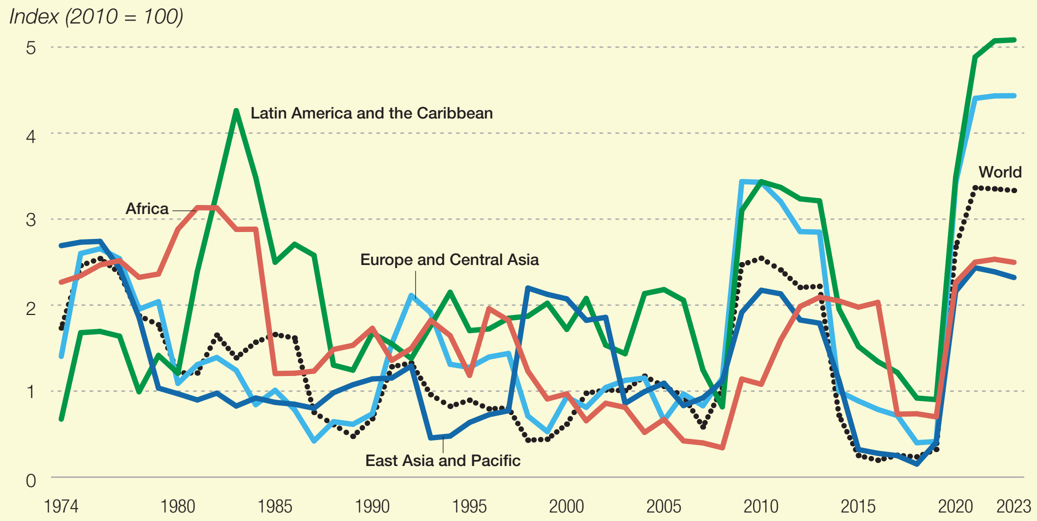
In Nigeria, despite the continued structural challenges and high inflation, the country's industrial production received a boost from the sustained growth in the crude oil and natural gas subsector. Industrial activity in South Africa benefited from stable electricity supply during the year with the end of load shedding in the last week of March 2024, marking the country's longest period of uninterrupted power supply in more than five years. In Egypt and Kenya, the prolonged below-threshold performance of industrial production in 2024 is attributed mainly to inflationary pressures and foreign-currency shortages for imports in the former and fiscal pressures in the latter, which

BOX 1.1 **Sources of Africa's growth volatility**

Over the past quarter-century, Africa's economic growth has been episodic, averaging 3.9 percent a year—a rate 30 percent higher than the global average of 3.0 percent over the period. But this performance masks the volatility of Africa's domestic macroeconomic environment, policy inconsistency, and external factors, including cyclical movements in commodity prices and conflicts.

Box figure 1.1.1 presents the volatility of real GDP growth in Africa, other world regions, and the world. In 1974–2023, Africa's real GDP growth was on average 20 percent more volatile than global growth and 23 percent more volatile than that in East Asia and Pacific. This volatility is comparable to that in Europe and Central Asia and 24 percent lower than that in Latin America and the Caribbean. African growth's high volatility is detrimental to achieving economic and social inclusion, especially given strong demographic pressures and high youth unemployment. Understanding the determinants of growth volatility in Africa is therefore crucial for designing economic policies capable of generating sustainable and inclusive growth.

BOX FIGURE 1.1.1 **Volatility of annual real GDP growth rate, 1974–2023**



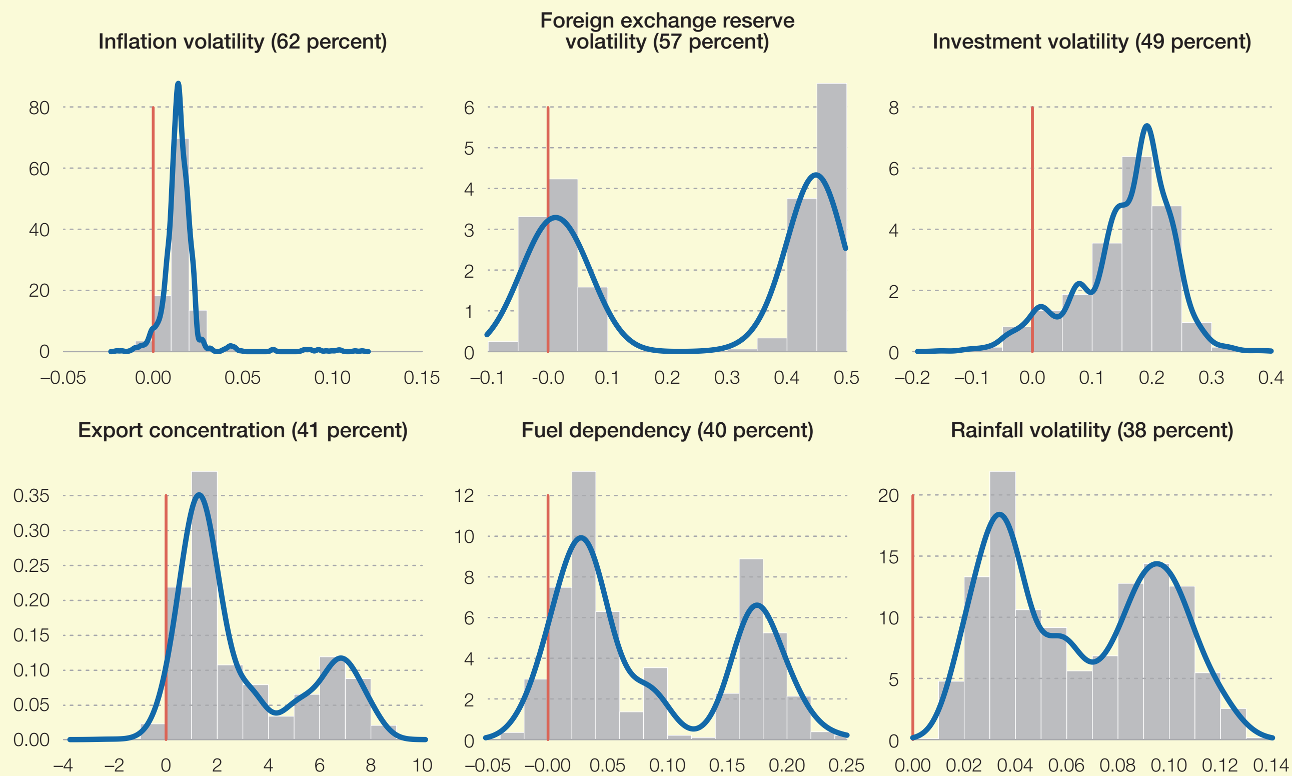
Note: Volatility is calculated as the rolling standard deviation of the annual growth rate over a five-year period. According to this methodology, the five-year period standard deviation for 1974 is calculated using the average of the previous four years (1970–74).
Source: African Development Bank Statistics.

The sources of growth volatility are numerous. In addition to global shocks that affect all countries (depending on their degree of exposure), several external and internal macroeconomic and institutional factors shape economic growth and its volatility in African countries. Considering a list of 22 potential determinants of growth volatility over 2000–23 and using extreme bounds analysis[1] approach to extract the most important explanatory variables, six variables (box figure 1.1.2) emerge as the most significant sources of growth volatility[2] in African countries (annex 1). These variables, ranked in descending order of importance according to their percentage of significance in all regressions (see figures in parentheses), include the volatility of inflation, foreign exchange reserves, and investment; the concentration of exports; dependence on fuels (imports and exports); and the volatility of rainfall. In other words, the volatility of growth in African countries is driven primarily by internal vulnerabilities (inflation, investment), external vulnerabilities (foreign exchange reserves, dependence on fuels), structural factors (concentration of exports), and climatic factors (rainfall).

(continued)

BOX 1.1 **Sources of Africa's growth volatility** *(continued)*

BOX FIGURE 1.1.2 **The most important sources of Africa's growth volatility**



Note: The magnitudes of the regression coefficients are on the horizontal axis. The vertical axis shows the corresponding probability density. The vertical red line at zero indicates the value of the default coefficient under the null hypothesis. The non-uniform (bimodal) distribution of some coefficients illustrates their instability in the different regressions. The percentages in the subtitles refer to the significance rate of each variable in all the regressions in which it is involved.

Source: African Development Bank staff.

Notes

1. Consider a set of potential determinants of GDP growth volatility. Extreme bounds analysis involves estimating thousands of alternative regressions with different combinations of variables in this set. After all the regressions are carried out, a determinant is declared "robust" when it appears statistically significant in a high proportion in all 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 robustly explains GDP growth volatility, all the regression models are estimated with the following form:

$$\textit{Growth volatility} = \varphi_\tau + \beta_\tau \vartheta + \rho_\tau E_\tau + \varepsilon \qquad (1)$$

where τ is the index of each regression model, E_τ represents a vector of variables from the set of doubtful variables, and ε is the error term. Equation 1 is estimated for each of the T possible combinations of $E_\tau \subset X$ (set of explanatory variables). The estimated coefficients $(\widehat{\beta_\tau})$ 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 will 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 zero. A variable is statistically significant if a high proportion of its estimated coefficients are on the same side of zero.

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

$$\bar{\beta} = \sum_{\tau=1}^{T} w_\tau \widehat{\beta_\tau} \qquad \bar{\sigma}^2 = \sum_{\tau=1}^{T} w_\tau \widehat{\sigma_\tau}^2$$

   where ω_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 $\bar{\beta}$ and $\bar{\sigma}^2$ are known, the CDF (0) value is calculated based on the assumed normal distribution of the regression coefficients, such that $\beta \sim \mathcal{N}(\bar{\beta}, \bar{\sigma}^2)$ (see *African Economic Outlook 2024* for more details).
2. For the variables concerned, volatility is measured as the standard deviation of the observed values of the variable over the study period (2000–23).

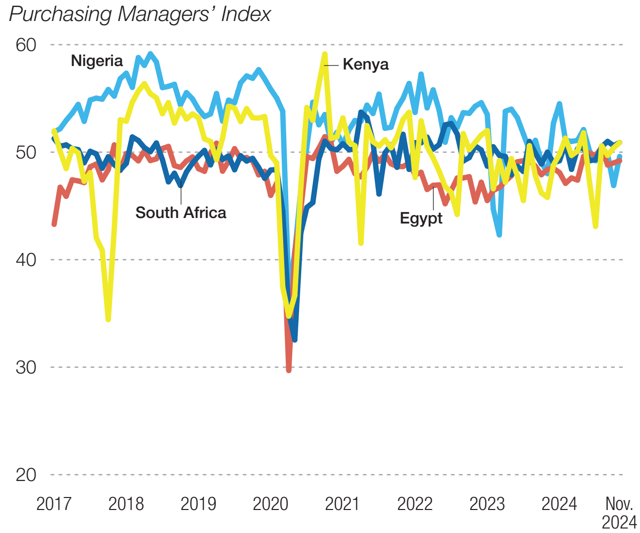
constrained government spending. Despite weak global growth hampering demand for exports, Africa's PMI is expected to strengthen in 2025 as inflationary pressures recede and government fiscal positions improve, easing some of the key domestic impediments to private sector activity.

Global commodity prices continue to evolve for several reasons, including shifting expectations of supply management, increasing conflict-related risks, trade restrictions, and weather-related supply shocks. In 2024, the dynamics of global commodity prices were mixed across individual categories. In general, global commodity prices in 2024 were higher than during the Covid-19 pandemic trough in 2020 but lower than the peak reached in 2022 and 2023 (figure 1.3).

Notably, despite the production cuts by OPEC+ (Organization of the Petroleum Exporting Countries plus selected nonmember countries) and tensions in the Middle East, the average energy price index in 2024 was 5.1 percent lower than in 2023, partly due to tepid global economic activity reflecting particularly China's growth slowdown. The demand slowdown in China was reinforced by increasing diversification in global oil supply with a steadily rising market share of non-OPEC+ producers and by spare capacity among OPEC+ producers—both factors tended to depress prices, offsetting the impact of production cuts, conflicts in the Middle East, and other global shocks.

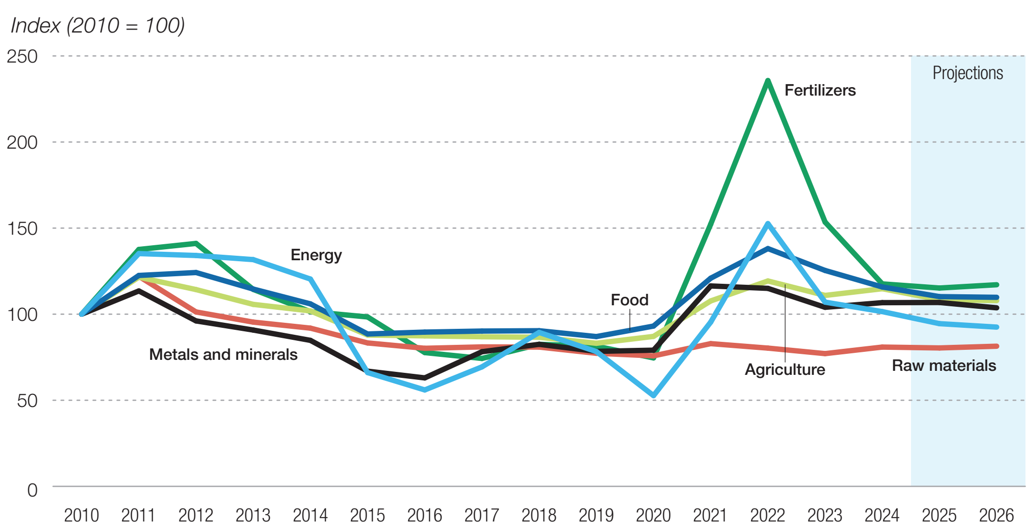
Similarly, the average food price index in 2024 was down by 7.6 percent from 2023, attributable to better harvests and favorable weather conditions in most countries. The decline in global energy and food prices did not, however, translate into easing inflationary pressures in Africa due to

FIGURE 1.2 Purchasing Managers' Index in Africa, 2017–November 2024



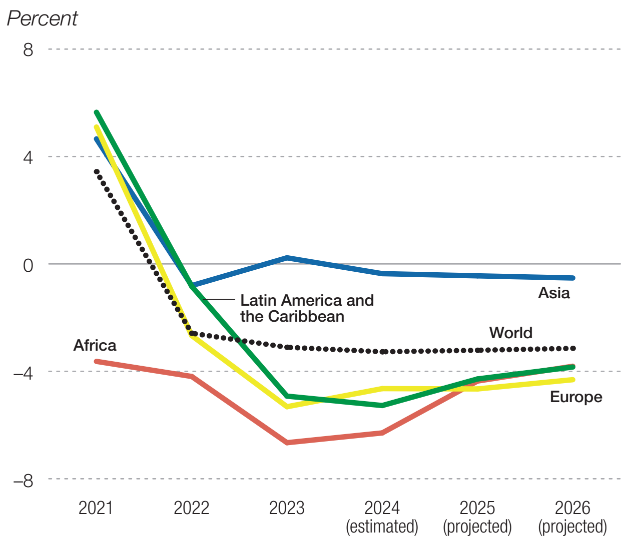
Source: Haver Analytics and IHS Markit.

FIGURE 1.3 Global commodity price indices, 2010–2026



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

FIGURE 1.4 Real GDP per capita growth, world and global regions, 2021–26



Source: African Development Bank statistics; International Monetary Fund *World Economic Outlook,* October 2024; United Nations Population Division estimates.

domestic structural weaknesses, weak domestic currencies, and drought that affected domestic food production in some countries. Prices for other commodities, such as metals and minerals, nonfood agricultural commodities, and raw materials used as intermediate inputs did, though, rise on average in 2024 from 2023's levels.

According to World Bank commodity price index forecasts, global commodity prices are projected to decline in both 2025 and 2026. The expected decline in food and energy prices could reduce inflationary pressures, given the dominance of these products in an average African household's consumption basket. The favorable commodity price outlook is, however, subject to considerable uncertainties, notably an escalation of Middle East conflicts, stronger than projected global economic growth, and supply disruptions. For instance, if the Middle East conflicts escalated, the resultant supply-chain disruptions and increased uncertainties would entail considerable upside risks to energy prices. Similarly, Ukraine's decision not to renew the contract for the transit of Russia's gas to Europe could stoke increases in global gas prices as Europe seeks alternative gas markets. This, coupled with the inability of some African countries to take advantage of increases in global commodity prices due to prevailing structural weaknesses, would have a dampening effect on Africa's growth while strengthening already entrenched inflationary pressures.

Although Africa's estimated real GDP per capita in 2024 rose marginally to 0.9 percent from 0.7 percent in 2023, it continues to trail all other regions and the global average (figure 1.4). Real GDP per capita growth for Africa is projected to double to 1.8 percent in 2025 and reach 2.2 percent in 2026, similar to that in Europe and in Latin America and the Caribbean but significantly below that in Asia. It is therefore important for African countries to build resilience while increasing and sustaining higher levels of economic growth *over extended periods*—if they are to transform their economies.

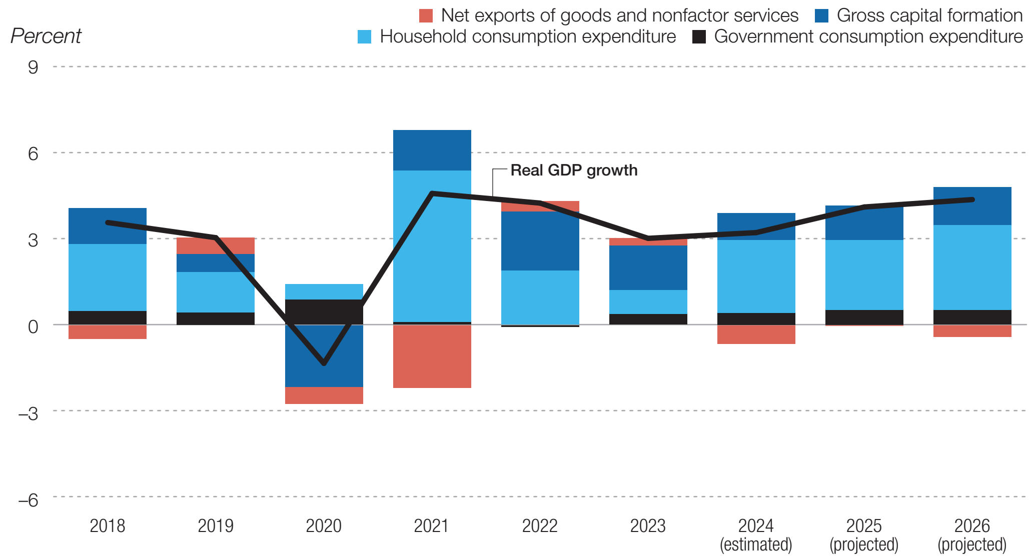
Sectoral and demand-side decomposition of growth

Household consumption expenditure and the industry sector dominate the demand- and supply-side drivers of growth, respectively

The estimated contribution of demand-side growth drivers in 2024 reflects the strong resilience of African economies to persistent inflationary pressures. Private consumption expenditure increased from 0.8 percent of GDP in 2023 to 2.5 percent in 2024 (figure 1.5). In the near term, its contribution is projected to decline slightly to 2.4 percent in 2025 but could recover to 2.6 percent in 2026. The projected decline in 2025 is attributable to the continued high cost of living and geopolitical fragmentation, while the improvement in 2026 may signal more favorable domestic macroeconomic conditions, including easing inflation and projected exchange rate stability.

The contribution of net exports of goods and nonfactor services fell from +0.2 percent in 2023 to an estimated –0.7 percent in 2024. This drop reflects a weak trade position evidenced by higher import growth of 1.2 percent compared to export growth of 0.5 percent in 2024 due to subdued global economic activity, especially in China, which affected export demand. In 2025–26, the contribution of net exports is expected to remain negative, averaging –0.2 percent, as projected global growth is seen remaining subdued and as ongoing

FIGURE 1.5 Demand-side decomposition of GDP growth in Africa, 2018–26



Source: African Development Bank statistics.

fiscal consolidation in some countries may reduce aggregate demand. In addition, current geopolitical fragmentation and macroeconomic uncertainty may weigh down on trade, with Africa the most affected given its heavy reliance on exports.

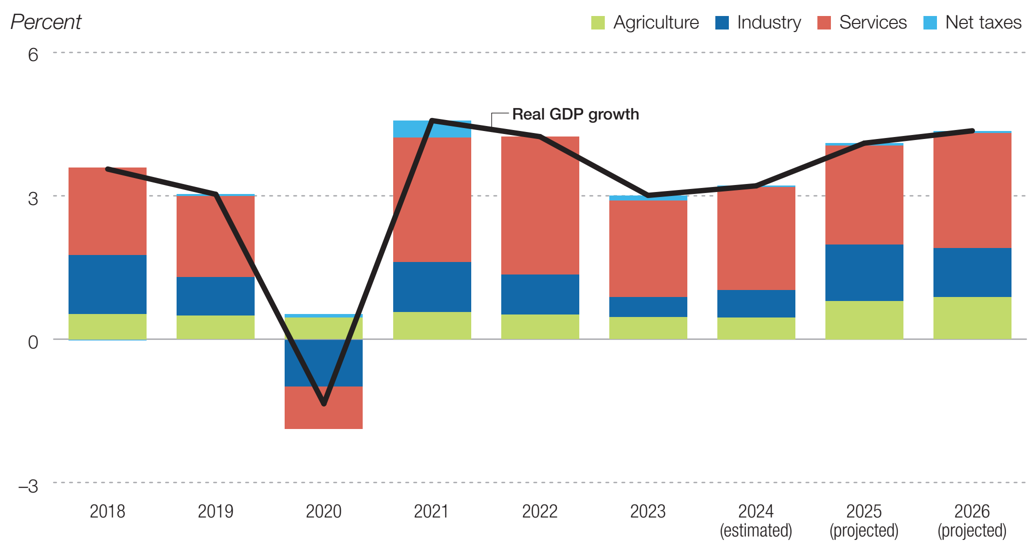
The contribution of gross capital formation is estimated to have declined from 1.6 percent in 2023 to 0.9 percent in 2024 owing to monetary policy tightening in several African countries to tame high inflation. In 2025–26, its contribution is expected to pick up as central banks in Africa begin to relax monetary policy conditions following the easing of global financial conditions and relative softening of domestic inflationary pressures. In the medium term, improved productive capacity through enhanced private sector growth and economic diversification remain key to scaling up the contribution of gross capital formation to Africa's economic growth.

On the supply side, the services sector remained the dominant driver of GDP growth, increasing to 2.2 percent in 2024 from 2.0 percent in 2023, attributable to the resilience of the financial subsector and improvements in global supply chains, despite the Middle East conflicts. It is projected to remain the dominant contributor in 2025 and 2026, with average growth of 2.3 percent (figure 1.6).

The contribution of the agriculture sector is estimated to have remained unchanged at 0.5 percent and that of the industry sector to have increased from 0.4 percent in 2023 to 0.6 percent, in 2024. Agriculture is one of Africa's main sources of growth but with some countries facing devastating droughts in 2024, crop production was hit hard, in turn affecting the supply of agricultural raw materials for agro-based industrial production. Despite the drought that hurt hydropower generation in some African countries—reducing industrial production due to prolonged load shedding—the industry sector remained resilient. The contribution to growth from agriculture and industry is projected to pick up in 2025–26, averaging 0.9 percent and 1.1 percent, respectively, as the impact of climate change eases in several countries. This is premised on improved climatic conditions and the ongoing policy interventions to improve agricultural productivity in countries such as Kenya, Ethiopia, Nigeria, and South Africa. Net taxes' contribution to GDP growth is estimated to have declined from 0.1 percent in 2023 to 0.0 percent in 2024, due to multiple challenges affecting the supply side, including fiscal constraints, elevated policy uncertainty, and climate change effects, and is projected to settle at 0.1 percent in 2025–26.

Agriculture is one of Africa's main sources of growth but with some countries facing devastating droughts in 2024, crop production was hit hard

FIGURE 1.6 Sector decomposition of GDP growth in Africa, 2018–26



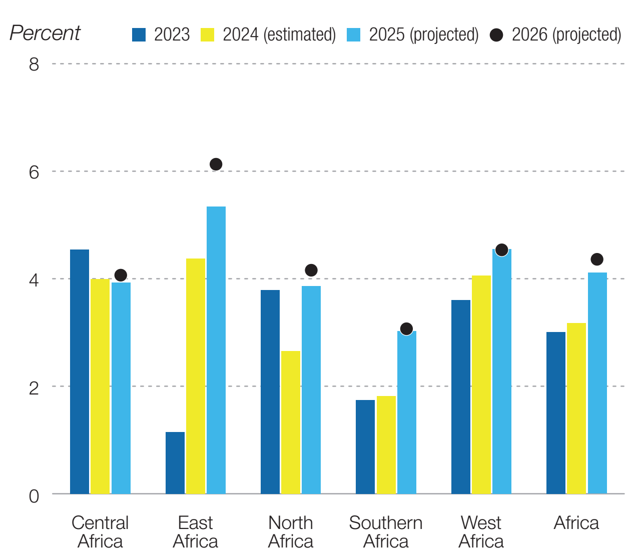
Source: African Development Bank statistics.

Growth performance and outlook across regions and countries

Some African economies continue to demonstrate strong resilience, as seen in strong growth performance and outlook

Despite the impact of multiple shocks, some African countries and regions still show impressive resilience. In 2025, Africa is expected to account for 12 of the world's top 20 fastest-growing economies. With policies aimed at improving the productivity and competitiveness of domestic productive sectors—agriculture and manufacturing—and with strategic investment to speed up structural transformation, growth in most of Africa's regions (figure 1.7) and country groupings (figure 1.8) is expected to increase in 2025.

FIGURE 1.7 GDP growth in Africa by region, 2023–26



Source: African Development Bank statistics.

By region, **East Africa** is set to be Africa's fastest growing region, with GDP growth projected to increase from 4.4 percent in 2024 to 5.3 percent in 2025 and 6.1 percent in 2026. Contributing to the 0.9 percentage point growth acceleration in 2025 is that half of the region's economies—South Sudan, Rwanda, Uganda, Ethiopia, Tanzania, and Kenya—are forecast to grow by 5 percent or more in 2025. With a spectacular growth rebound, from an estimated contraction of 26.4 percent in 2024 to a 27.2 percent expansion projected for 2025, South Sudan is set to be the world's fastest-growing economy. This performance is set to be driven by the resumption of full production and exports of South Sudan's heavy sweet Dar Blend crude oil through the Petrodar pipeline linking oil fields in South Sudan to the Red Sea export terminal in Sudan. In Uganda, strong growth performance will be driven by expanded public investment targeting production and export of oil, complemented by progress in advancing productive infrastructure to support value addition in the industry and agriculture sectors.

Major enabling factors for the anticipated high growth in Rwanda, Ethiopia, Tanzania, and Kenya are rising private investment in energy and mining infrastructure; strong government capital spending to improve in-country connectivity and logistics infrastructure so as to facilitate trade with neighboring nations; and continuing efforts to modernize agricultural production and boost productivity in services and manufacturing. In Djibouti, growth will be supported by increased international financing of energy initiatives for economic diversification through increasing the country's reliance on renewable energy and by intensified public investment to expand and modernize transport infrastructure.

In contrast to other countries in East Africa, the trend of economic contraction is set to persist in Sudan as the unabated conflict continues to have devasting effects. The economy, which contracted by an estimated 10.8 percent in 2024, is projected to slow further by 3.4 percent in 2025, as the country grapples with intensifying mass displacement of citizens and the dampening effects of huge disruptions to supply routes, market systems, and agricultural output, caused by the destruction of critical infrastructure.

In **West Africa,** real GDP growth is projected to pick up from an estimated 4.1 percent in 2024 to 4.6 percent in 2025. Except for Ghana, Sierra Leone, and Nigeria, all economies in the region are expected to grow by 5 percent or more in 2025. In Senegal, increasing investment in expanding oil and gas production and exports, and in Niger, the completion of projects to boost energy capacity and stimulate industrial development, are expected to contribute to exceptional growth performance.

Strong growth is also projected in Togo, Benin, Côte d'Ivoire, and Gambia. For these countries, strong domestic demand and sustained public and private infrastructure investment will remain key drivers of growth in 2025, ensuring that their domestic economies continue to benefit from positive developments in agroindustry, value addition of key agricultural products in finished goods, and increased transit trade that is transforming their strategic ports into major logistics and regional trade hubs in West Africa. Supported by gains in gold output and stimulus packages to incentivize cocoa farmers and to address the challenge of cocoa smuggling, growth in Ghana is projected to increase marginally from an estimated 4.4 percent in 2024 to 4.5 percent in 2025 and 4.9 percent in 2026. Ghana's elections, held in December 2024, underscored the country's budding democratic credentials and eased potential risks often associated with political uncertainty surrounding elections.

In Nigeria—West Africa's largest economy—growth is projected to rise marginally from an estimated 3.1 percent in 2024 to 3.5 percent in 2025 and 3.6 percent and 2026. Growth is expected to benefit from the moderate easing in high inflation, rising public investment in critical sectors such as agriculture, and increased net exports from expanded production at the Dangote and Port-Harcourt oil refineries. Resolution of first-order effects of early macroeconomic stabilization programs on households and business consumption —structural challenges that have constrained investment and productivity growth—could ignite Nigeria's medium-term economic performance.

East Africa is set to be Africa's fastest growing region, and real GDP growth is projected to increase in West Africa and North Africa

In **North Africa,** real GDP growth is projected to increase, from an estimated 2.7 percent in 2024 to 3.9 percent in 2025 and 4.2 percent in 2026, boosted by growth rebounds in Libya, Egypt, and Morocco. In Libya, which suffered an economic contraction estimated at –3.2 percent in 2024, GDP growth is projected to increase to 7.5 percent in 2025, driven by restored oil production and an agreement by the country's rival factions to end the crisis over control of the Central Bank of Libya and oil revenues. Economic activity will benefit from that central bank's efforts to facilitate access to foreign exchange and inject liquidity into the banking system, and from the expansion of electronic payment services.

Egypt's economy is projected to grow from an estimated 2.4 percent in 2024 to 3.9 percent in 2025 and 4.8 percent in 2026, reflecting the country's economic resilience to the Middle East crisis and related geopolitical tensions coupled with lower borrowing costs supporting the recovery in non-oil exports, all of which bode well for infrastructure investment. In Morocco, the recovery in agricultural output after years of adverse weather is expected to provide a strong boost to the economy, and real GDP growth is projected to increase from an estimated 2.9 percent in 2024 to an average of 3.8 percent in 2025–26. The growth rebound in Morocco will be supported by increased tourism receipts and strong foreign direct investment (FDI) inflows that are expected to expand industrial production and export growth, and by anticipated uptick in investment associated with the infrastructure projects for the 2030 soccer World Cup, to be held jointly by Morocco, Spain, and Portugal.

In Algeria, lower hydrocarbon revenues combined with higher import bills and rising public outlays on current and capital expenditures continue to drag down performance, with real GDP growth projected to moderate from an estimated 4.0 percent in 2024 to 3.7 percent in 2025 and to 3.2 percent in 2026. In Mauritania, growth is projected to slow from 4.8 percent in 2024 to 4.6 percent in 2025—due mainly to a contraction in the extractive sector (iron and gold)—before rising to 5.2 percent in 2026, supported by an upturn in extractives activity and accelerated gas activity at the Greater Tortue Ahmeyim project.

Growth in Central Africa is projected to largely hold steady, and Southern Africa is poised for a strong growth recovery

Growth in **Central Africa** is projected to largely hold steady at 4.0 percent in 2025 and improve marginally to 4.1 percent in 2026. Growth across countries in the region highlights mixed dynamics. Despite projected growth moderation from 5.5 percent in 2024 to 5.3 percent in 2025 and 5.0 percent in 2026, the Democratic Republic of Congo will remain the region's fastest-growing economy, underpinned by continued recovery in private consumption expenditure, the increased investment in the construction and transport sectors, and strong mining industry performance driven by expanded copper and cobalt exports benefiting from strong global prices. In the Republic of Congo, growth is projected to climb from an estimated 2.7 percent in 2024 to 3.7 percent in 2025, reflecting increased investment in non-oil sectors, such as agriculture, lumber, logging, telecommunications, and construction, and the anticipated expansion of the natural gas industry.

In the Central African Republic, economic growth is expected to double, from an estimated 1.1 percent in 2024 to 2.1 percent in 2025, for three main reasons: the continued recovery of the timber industry from the effects of severe floods in 2022; the expected upturn in diamond exports after the partial lifting of the embargo imposed by the Kimberley Process;[2] and improved access to vital agricultural inputs and fuel supplies as the county benefits from investments to modernize and improve efficiency of the transport logistics chain and access infrastructure along the cross-border corridor linking Douala (Cameroon), N'Djamena (Chad), and Bangui (Central African Republic).

Growth in Cameroon is expected to rebound from an estimated 3.8 percent in 2024 to 4.2 percent in 2025 and further to 4.4 percent in 2026, on increased economic activity in the non-oil sectors of agri-food, forestry, and services, and investment to expand production capacity and exports of natural gas and iron ore. Equatorial Guinea's 1.6 percent growth in 2024 is set to switch to contraction of 2.4 percent in 2025 before showing minimal growth in 2026 of 0.8 percent. The performance in 2025 reflects continued decline in hydrocarbon production and tepid growth in the non-oil sector due to persistent domestic payment arrears and underlying structural weaknesses.

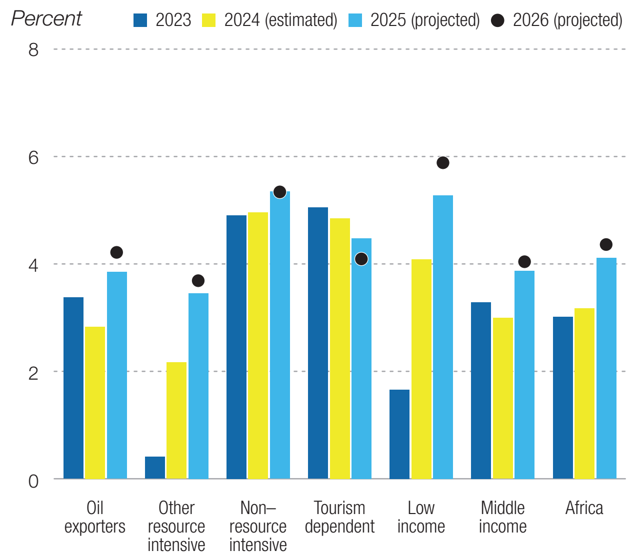
Southern Africa is poised for a strong growth recovery, with real GDP projected to increase from an estimated 1.8 percent in 2024 to 3.0 percent in 2025 and 3.1 percent in 2026. This pickup marks the first time since 2021 that the region's growth has exceeded 2 percent and heavily reflects robust performance in Eswatini, Zambia, and Zimbabwe, where growth is expected to be 5 percent or more. Other countries also contribute as, except for South Africa, Namibia, and Lesotho, growth is expected to be in a range of 3–4 percent in 2025. In Zambia, favorable weather after the El Niño–induced drought is expected to aid strong recovery in agriculture and energy capacity, and—with strong investment in exploration and commissioning of new mines for copper, cobalt, and nickel—contribute to the country's GDP rising at an estimated 1.2 percent in 2024 and 6.2 percent in 2025.

Similarly, economic performance in Zimbabwe will benefit from agricultural recovery, greater electricity generation, and expected stability in commodity prices in mining, with growth projected to rise from an estimated 2.0 percent in 2024 to 5.3 percent in 2025. Botswana is the only country in Southern Africa to experience an economic contraction, of –1.7 percent in 2024, due to a prolonged downturn in the global diamond market. An upturn in diamond sales and increased public investment in infrastructure will, however, aid economic recovery, with real GDP growth projected to increase to 4.0 percent in 2025 and 4.5 percent in 2026.

In South Africa—the largest economy in the region and in Africa—economic performance is expected to remain sluggish, with growth rising from an estimated 0.9 percent in 2024 to 1.7 percent in 2025 and 1.8 percent in 2026. While the South African economy has benefited from improved power generation and supply, growth remains weighed down by bottlenecks in rail and port infrastructure, which disrupted mineral and agricultural exports and undermined supply chains in manufacturing and retail, and by pressure on export earnings, given declining global commodity prices and reduced demand from key trading partners, particularly China.

By country grouping, GDP growth in **non-resource-intensive countrie**s is projected to increase from 5.0 percent in 2024 to 5.3 percent in both 2025 and 2026 (figure 1.8). Growth for these countries is broad based, with 10 of the 27 countries in the grouping set to grow by 5.0 percent or more in 2025, led by Rwanda (7.1 percent), Djibouti (7.0 percent), Uganda (6.8 percent), Ethiopia and Benin (6.4 percent), Côte d'Ivoire (6.3 percent), Gambia (6.0 percent), Guinea-Bissau (5.6 percent), Cabo Verde (5.3 percent), and Kenya (5.0 percent). Economic performance for this country grouping will benefit from an expected uptick in public investment targeting key growth sectors of services and manufacturing as well as finalization of ongoing infrastructure projects aimed at improving energy, road, and other transport networks (in Kenya, Ethiopia, Senegal, and Uganda). The economic performance of non-resource-intensive countries will also benefit from public investment targeted at improving agricultural productivity and building more resilient value chains, particularly in agroindustry (in Benin, Togo, and Gambia).

FIGURE 1.8 **GDP growth in Africa by country grouping, 2023–26**



Source: African Development Bank statistics.

Average growth in **tourism-dependent countries** is expected to moderate from 5.1 percent in 2024 to 4.9 percent in 2025 and 4.5 percent in 2026 (see figure 1.8). In 2023, Africa received an estimated 66.2 million visitors, against 68.8 million in 2019, representing a 96.2 percent recovery from the pre–Covid-19 pandemic period, compared with 88 percent for the global average, with tourism receipts reaching $38.1 billion in 2023, or 83 percent of pre-pandemic earnings. Despite the projected growth moderation of the global economy and of Africa's tourism-dependent countries, world tourism is expected to reach full recovery from the collapse in the pandemic period, which should contribute to strong performance of tourism receipts in Africa. Policy efforts to revamp the tourism sector have already helped to build resilience, with the growth rate having surpassed that during the pre-pandemic period.

Average growth in **oil-exporting countries** is expected to improve, increasing from an estimated 2.8 percent in 2024 to 3.9 percent in 2025 and 4.2 percent in 2026. Growth in this country grouping, driven largely by sustained recovery in South Sudan and Libya, is expected to remain buoyant despite OPEC's production cuts in 2024, which are expected to remain in force in 2025. Yet, growth in three countries—Algeria, Gabon and Equatorial Guinea—is projected to reverse or decline in 2025. A 2.4 percent economic contraction is projected for Equatorial Guinea in 2025 as the country grapples with a continued fall in hydrocarbon production and associated export revenues. Growth slowdowns in Algeria and Gabon in 2025 stem from declining oil production while authorities in both countries contend with constrained fiscal space and challenges in diversifying their economies from oil and gas.

In the medium term, growth performance for oil-exporting countries will be supported by anticipated stabilization in crude oil prices and improvement in global economic conditions. The persistence of downward risks, including geopolitical fragmentation and intensification of protectionist policies that harm trade may weigh down on crude oil receipts of countries in this grouping.

Ongoing disinflation in advanced economies could lower pass-through effects of inflation to Africa and increase financial flows to the continent

Other resource-intensive countries grew by an estimated 5.0 percent in 2024, with real GDP growth projected to increase to 5.3 percent in both 2025 and 2026. Except for Sudan, growth is expected to be broad based, with more than half of the grouping's countries projected to grow by 5 percent or more in 2025. The expected slowdown in China—the largest export destination for the grouping's key commodity products of copper, bauxite, and iron ore—may weigh negatively on this grouping's growth outlook in 2025 and 2026. Still, the stimulus package announced by China in September 2024, which emphasized a strong scaling-up of public investment in infrastructure and energy projects, is expected to drive demand higher and maintain global metal prices on an upward trajectory in 2025. This should benefit Africa's key bauxite and copper producing nations—Democratic Republic of Congo, Zambia, and Guinea. Projected GDP growth in Burkina Faso, Ghana, Mali, and South Africa will be supported by the expected rise in gold prices and by improved macroeconomic conditions in key export markets, such as China and India.

Risks to the growth outlook

Upside risks

- **Ongoing disinflation in advanced economies could lower pass-through effects of inflation to Africa and increase financial flows to the continent.** Global inflationary pressures continue to ease, albeit more slowly than previously forecast. Estimates by the IMF point to further slowing, with global headline inflation expected to decline from 6.7 percent in 2023 to an estimated 5.8 percent in 2024 and further to 4.3 percent in 2025.[3]

  As disinflation continues, major central banks are cutting policy rates. In December 2024, the European Central Bank cut interest rates for the fourth time in 2024 to 3.15 percent, followed by the Federal Reserve of the United States, which lowered its benchmark policy rate to 4.25 percent, its third consecutive rate cut in 2024. Further, as energy prices have stabilized, falling core inflation is becoming the main driver of lower inflation. In particular, core goods inflation in advanced economies fell from 8.0 percent in 2021–22 to 0.0 percent in August 2024,[4] while core services inflation remains higher than before the Covid-19 pandemic in most advanced and emerging market economies. Moderating wage growth combined with strong productivity gains has also kept unit labor costs under control, more so in the United States than in the eurozone.

  While both central banks have kept the door open to more easing, the slowdown in disinflation momentum, especially in the United States, has signaled caution over the speed of monetary policy adjustments. As advanced economies cut policy rates to support growth, lower global borrowing costs should improve Africa's access to international credit markets, attract foreign investment, and stabilize commodity prices, fostering economic growth and resilience across the continent. Disinflation in advanced economies may also benefit African countries due to pass-through effects of lower inflation to domestic economies on the continent.
- **Continued fiscal consolidation efforts and successful debt treatment could**

accelerate the downward trend in public debt, further improving the fiscal outlook with a positive impact on African economic growth in the short to medium term. Under the G20 Common Framework, some African countries at risk of debt distress, such as Chad, Ethiopia, Ghana, and Zambia, have benefited from the provision of debt restructuring and relief. Zambia, for example, has reached an agreement with external bondholders to restructure $3 billion of debt after signing a memorandum of understanding with several countries, and has penned two bilateral agreements with France and Saudi Arabia to finalize the deals with the two countries. Ghana has also reached an agreement on debt restructuring with official bilateral creditors ($5.4 billion) and external bondholders ($13 billion).

Aided by debt restructuring, subsequent IMF-supported programs and related financing, and budget support from development finance institutions, these debt-ridden countries are progressing toward restoring their debt sustainability, in moves that provide hope to other African countries facing debt problems. As, potentially, more nations participate, these debt relief initiatives could bolster domestic fiscal consolidation and unlock additional resources needed to boost growth in Africa.

- **Stronger growth in the United States and Asia could boost the global economy, demand for Africa's exports, and remittance inflows.** Economic growth is firming in the United States with lower interest rates, robust consumer spending, and infrastructure investment. According to the IMF's World Economic Outlook of October 2024, growth projections for the United States have been revised upward by 0.2 percentage point in 2024 and by 0.3 percentage point in 2025.

  Growth is also solid in Asia, with a forecast of 4.4 percent in 2025, thanks to rising demand for semiconductors and electronics driven by investment in artificial intelligence and by a weak yen boosting Japanese exports. The Chinese economy should also be buoyed by economic stimulus measures, including interest rate cuts, real estate support, and expanded public spending aimed at addressing the country's economic challenges arising from a prolonged property market slump, weak consumer confidence, and slowing domestic demand.

  Stronger global growth could boost Africa's economic prospects through stronger export demand, increased investment, and higher remittances, though the tariffs recently introduced by the European Union and the threats by the United States to do the same could hamper growth.

Downside risks

- **Although global inflationary pressures are easing, inflation remains persistently high in Africa, which could result in a further tightening of monetary policy and worsen growth prospects.** While global disinflation has continued, there are signs that the pace is slowing and any delay in further tackling inflation poses a risk to the global economy and financial markets. In Africa, inflation is forecast at 14.2 percent in 2025 and is well above medium-term single-digit targets for most countries. Further, growth in China for 2024 was revised down by 0.2 percentage point in the IMF's October 2024 World Economic Outlook, posing risks to the global economy. Similarly, increased global financial volatility and sudden market sell-offs, as seen in early August 2024, could lead to further monetary tightening, which may exacerbate the debt crisis and currency market volatility in Africa.
- **Fiscal tightening and a looming debt crisis in several advanced economies risk tilting world growth to the downside.** The US fiscal deficit reached 7.6 percent of GDP in 2023, and forecasts indicate persistently high debt and deficit levels unless fiscal consolidation is implemented, which could slow economic activity. France, which has public debt of over 110 percent of GDP, recorded in December 2024 the sharpest decline in its PMI since the Covid-19 pandemic. Its downgraded credit rating by Moody's and Standard and Poor's in 2024 and increased borrowing costs are also weighing on the French economy. The German economy—the largest in the European Union—contracted by 0.3 percent in 2023 and

Fiscal tightening and a looming debt crisis in several advanced economies risk tilting world growth to the downside

by 0.2 percent in 2024 according to the the German statistical office, undermining eurozone economic stability.

The necessary fiscal consolidation in the United States and some key eurozone countries such as France could weigh on growth and reduce global demand for commodities, investment, and aid flows, which could severely impact Africa's export-oriented economies and countries receiving budget support from these and other advanced economies. The decline in foreign investment—exacerbated by tighter global financial conditions—and falling remittances (see discussion around figure 2.15) risk slowing Africa's economic growth and exacerbating its development problems, underlining the need for strategic policies to stimulate economic diversification.

Fueled by deglobalization and geopolitical fragmentation, rising protectionism is posing a threat to global trade and to Africa's export-led economies

- **Rising protectionism is threatening global trade.** Fueled by deglobalization and geopolitical fragmentation, rising protectionism is posing a threat to global trade and to Africa's export-led economies. Protectionist policies leading to the 2018–20 United States–China trade war, India's increased tariffs on electronics, the European Union's nontariff barriers such as the Carbon Border Adjustment Mechanism, and the Trump administration's planned high tariffs on Canada, China, and Mexico, all exemplify this trend of inward-looking trade policies.

  For Africa, the impacts could be severe. With many of the continent's economies still exporting raw materials to global markets, rising trade barriers risk reducing demand and prices for its key commodity exports. Additionally, Africa's access to critical technologies and investment might shrink due to "friendshoring" —strategies that favor politically aligned nations. As global trade shrinks, Africa's economic growth could face headwinds, emphasizing the need for deeper regional integration and economic diversification.
- **Increasing global geopolitical tensions, especially escalation of conflicts in the Middle East, and further deterioration in regional political stability could exacerbate policy uncertainty amid multiple shocks that African countries continue to face.** Such tensions and escalation will affect growth prospects globally through disruptions to trade routes with impacts on commodity and energy prices, which have thus far not risen in tandem with rising tensions in the region. The IMF's growth forecast for Africa (excluding North Africa) has been revised down by 0.1 percentage point for 2024, partly because of the conflicts in the Middle East.

  Further, IMF estimates indicate that, except for North Africa, all African regions could experience a permanent decline of up to 4 percent of GDP after 10 years owing to geopolitical tensions and stand to lose an estimated $10 billion of FDI and official development assistance inflows. Moreover, deeper fragmentation would restrict cross-border technological diffusion and hinder innovation, reducing productivity and job opportunities from migration.
- **Climate change is increasing the risk of natural disasters in Africa.** Climate shocks are becoming more frequent, affecting agricultural output and productivity, while the continent is struggling with funding shortages. In 2024, parts of Southern Africa were hit by a devastating drought. In East Africa, particularly most recently in Sudan and South Sudan, exceptional seasonal rains in April and May 2024 triggered flooding and landslides, affecting at least 1.6 million people and causing further displacement, injuries, and deaths. West and Central Africa are also suffering from numerous climate shocks, such as persistent droughts, desertification, flooding, and coastal erosion, which have severely affected over a million people in Nigeria alone. Several countries in the Sahel region, particularly Chad, Mali, and Niger, experienced extreme heatwaves at the end of March and in April 2024.

  Climate-related shocks have severely disrupted agriculture, causing widespread economic loss and humanitarian damage while stretching public resources thin as governments implement measures to mitigate physical damage to infrastructure and protect the most vulnerable from the effects of these shocks. With critical infrastructure damaged or destroyed, and large swaths of land unreachable, access to essential services like health care, education, and markets has been severely disrupted.

As effects of climate change become more prevalent, Africa's economic growth—without adequate safeguards for mitigation and adaptation—could be hit hard. It is estimated that during periods of high climate-related shocks, Africa loses about 5 percent of GDP because 9 percent of budgeted funds are reallocated to mitigate the effects of climate change.

NOTES

1. Novta and Pugacheva 2021.
2. The Kimberley Process (KP) is a mechanism mandated by the UN to prevent conflict diamonds from entering the global market following escalation of conflict in the Central African Republic in 2013, which plunged the country into a period of conflict and instability. In 2016, following the restoration of constitutional order, the Kimberley Process KP partially eased its embargo, allowing diamond exports from zones deemed compliant.
3. IMF 2024a.
4. IMF 2024a.

2

MACROECONOMIC DEVELOPMENTS AND OUTLOOK

Inflation

The fight against inflation is far from over in Africa, as inflationary pressures persist in many countries, above medium-term targets

Since the onset of the Covid-19 pandemic, inflation has risen in Africa, triggered by supply-chain disruptions. As economies reopened after prolonged pandemic-induced lockdowns, substantial increases in demand added to inflationary pressures. These were reinforced by the unprecedented rise in global food and energy prices fueled by multiple shocks. Africa's average annual inflation climbed from 11.6 percent in 2021 to 13.7 percent in 2022 before increasing further to 17.0 percent in 2023. In 2024, inflation reached its highest level in decades, averaging 18.6 percent, a figure far above the medium-term targets of many countries (figure 2.1).

The increased inflationary trend in 2024 was driven by accelerated inflation in 16 African countries. The number of African countries with double-digit inflation had, however, declined from 19 in 2022 to 16 in 2023, before declining further to 15 in 2024, thanks to the effects of aggressive monetary policy in many African countries. In 6 of the 15 countries, inflation remained above 25 percent.

By region, inflation in 2024 was highest in West Africa at 22.5 percent, driven mainly by a 7.9 percentage point increase in Nigeria, from 24.5 percent in 2023 to 32.4 percent in 2024. Inflationary pressures in Nigeria remain high due to the depreciation of the naira, fuel price hikes, and the impact of severe floods in key food-producing areas. Inflation is similarly high in North Africa—20.6 percent—driven by Egypt, where inflation accelerated by 9.5 percentage points, from 24.1 percent in 2023 to 33.6 percent in 2024. Apart from Egypt, all countries in the region recorded a decline in inflation to single digits. Egypt's recent inflationary pressures underscore the pass-through effect of the large depreciation of the Egyptian pound due to the transition to a liberalized foreign exchange system and ongoing fuel subsidy cuts to reduce the budget deficit, as outlined in the International Monetary Fund (IMF)–supported Extended Fund Facility. In addition, supply-chain disruptions from the effects of rising insecurity in the Red Sea area have also added to inflationary and foreign exchange pressures in Egypt.[1]

Southern Africa also recorded an increase in inflation, to 12.1 percent in 2024 from a relatively low rate of 9.3 percent in 2023. This was due to higher inflation in Angola and Zimbabwe, which rose by 14.9 percentage points to 28.5 percent in Angola and by 26.3 percentage points to 55.7 percent in Zimbabwe. Inflation was also high in Malawi, at 33.4 percent. Only Central Africa and East Africa recorded a decline in inflation in 2024. Central Africa's fell from 10.2 percent in 2023 to 9.1 percent in 2024, driven by declines in Cameroon, Republic of Congo, Democratic Republic of Congo, and Gabon, which more than offset increases in Chad and Equatorial Guinea.

East Africa's inflation fell from 23.6 percent in 2023 to 19.3 percent in 2024, due to decelerations in Rwanda and Ethiopia, but its inflation remains high largely because of Sudan's skyrocketing prices, which pushed the country's inflation to 176.6 percent in 2024. The war in Sudan continues to disrupt domestic supply chains and deepen shortages of essential items, causing spontaneous rises in domestic prices.

> Despite successive and aggressive monetary policy tightening by central banks in many African countries, inflation remains elevated

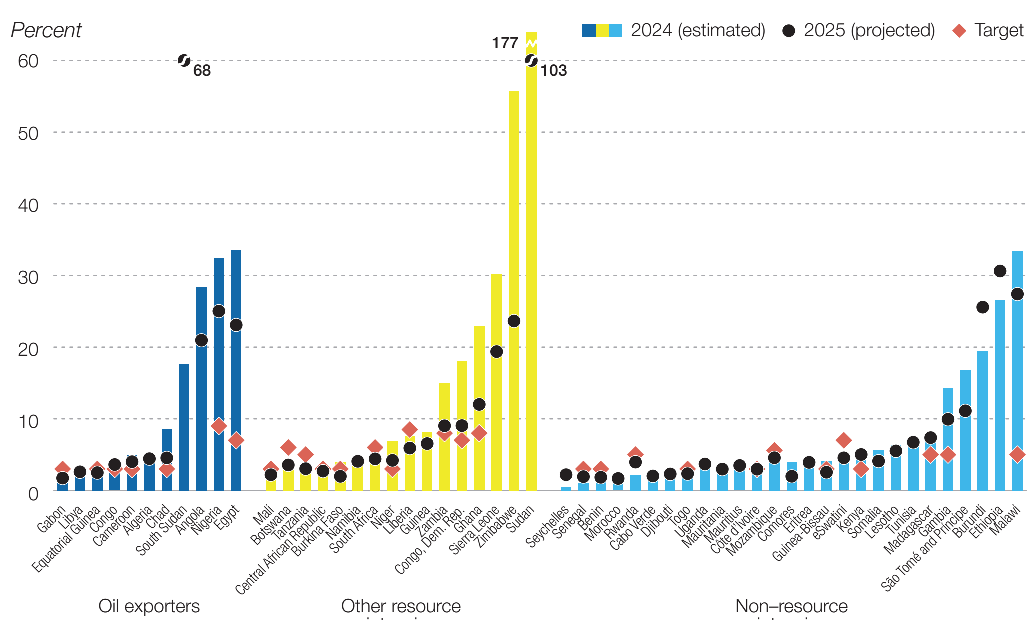
The persistence of inflationary pressures in Africa contrasts sharply with steady declines in the rest of the world

Global headline inflation is expected to decline from an annual average of 6.7 percent in 2023 to 5.7 percent in 2024 and further to 4.2 percent in 2025. Notably, inflation rates in advanced economies are returning to target faster than in emerging markets and in developing economies.[2] In advanced economies, inflation is estimated to have declined by almost half, from 4.6 percent in 2023 to 2.6 percent in 2024, supported by a faster than expected decline in energy prices and a surprising rebound in labor supply. In emerging markets and developing economies, the pace of decline in inflation is slower, from 8.1 percent in 2023 to 7.8 percent in 2024 (figure 2.2). However, despite successive and aggressive monetary policy tightening by central banks in many African countries, inflation remains elevated given the combination of currency depreciation, structural weaknesses, and weak transmission of monetary policy across the continent relative to advanced economies.

Currency depreciation is feeding into higher inflation directly by changing the domestic-currency price of imports and indirectly through changes in assets prices and to inflation expectations. These factors are compounded by inflationary pressures emanating from high public debt, strong fiscal dominance, and central-bank deficit financing. In addition, climate change and extreme weather events such as flooding, droughts, and irregular rainfall have reduced agricultural productivity in many African economies, increasing food price pressures. This combination of factors is exacerbated by weak governance structures and poor infrastructure, which increase the cost of doing business in the continent and limit the ability to transport goods efficiently.

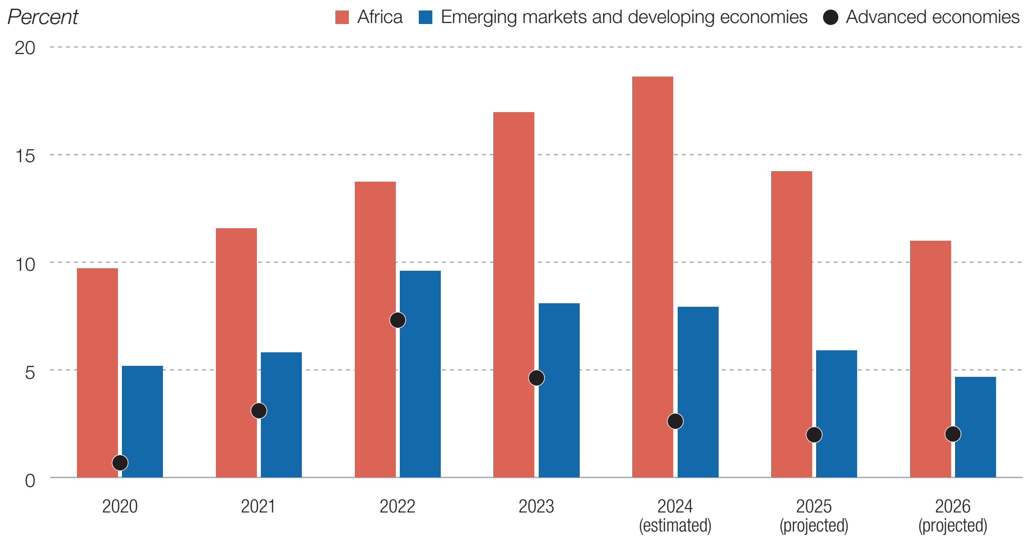
Box 2.1 shows that inflation persistence in Africa preceded the outbreak of Covid-19, although it increased after the Covid-19 pandemic. Inflation persistence increased significantly in East Africa and North Africa after the pandemic, while it remained unchanged in Central Africa and West Africa. Although it decreased slightly after the pandemic, Southern Africa recorded the highest inflation persistence among African regions. These factors suggest that Africa's central banks should factor in the possibility of a more inertial inflation process and thus consider maintaining a

FIGURE 2.1 Consumer price inflation in Africa, 2024–25



Note: Values for Sudan and South Sudan have been truncated for better visibility of other countries.
Source: African Development Bank statistics.

FIGURE 2.2 Inflation persistence in Africa relative to the rest of the world, 2020–26



Source: African Development Bank statistics.

restrictive monetary policy stance for longer, so as to fully extinguish past inflationary shocks.

Monetary policy

While tighter monetary policy and easing global supply shocks have placed the global economy firmly on the path to disinflation, monetary policy in Africa is still struggling to achieve the expected results

In the face of persistently high inflation (see box 2.1), on average African central banks have defied the global trend by tightening monetary policy, with the average policy rate across the continent increasing by 0.4 percentage point in 2024 from 2023 (figure 2.3). The direction, scale, and frequency of policy rate changes have varied widely across countries, reflecting Africa's diverse inflationary dynamics. For instance, while Egypt and Nigeria sharply increased their policy rates (and raised their reserve requirements in the case of Nigeria), Ghana, Rwanda, and Mozambique made notable rate cuts. Excluding Egypt and Nigeria, the general trend indicates an overall decline in both inflation and policy rates across the continent, although at a slower pace than in advanced countries.

As a result of declining inflation and rising policy rates in several African countries, real interest rates rose in the majority of African countries in 2024. Importantly, changes in inflation had a far greater role than policy rate adjustments in driving changes in real interest rates (figure 2.4). The increase in inflation-adjusted borrowing costs is expected to strengthen Africa's gradual shift toward disinflation, which will help bring real rates down. Across country groupings, non-resource-intensive countries recorded higher real interest rates than the African average in 2024, while the rise in inflation in oil-exporting nations, such as Angola, Chad, and South Sudan, pushed real interest rates in these countries below the continental average.

One fundamental question pertains to how a tightening of monetary policy has affected the domestic banking sector. This issue is central to the role of banks in the transmission of monetary policy. In particular, the extent and timing of banks' pass-through of interest rate changes to borrowers are critical in determining how monetary policy influences borrowing and, consequently, investment and consumption spending behavior. Similarly, the timing and extent of the pass-through of monetary policy rate changes to deposit rates also affect savings behavior. Moreover, changes in banks' profitability may also affect bank risk-taking and stability, which in turn may have spillover effects on the real economy.

The increase in inflation-adjusted borrowing costs is expected to strengthen Africa's gradual shift toward disinflation, which will help bring real rates down

BOX 2.1 **Inflation persistence in Africa**

Despite the aggressive monetary tightening taken by advanced countries and most emerging and developing economies, inflationary pressures persist, and inflation is still above long-term targets in many African countries. The persistent upward trend of inflation in Africa has raised the possibility that the inflationary process has become entrenched, especially after the Covid-19 pandemic. Such an increase in persistence could be due to higher food and energy prices giving more weight to past inflation outcomes. Greater persistence would in turn make it more difficult for central banks to bring inflation back to target.

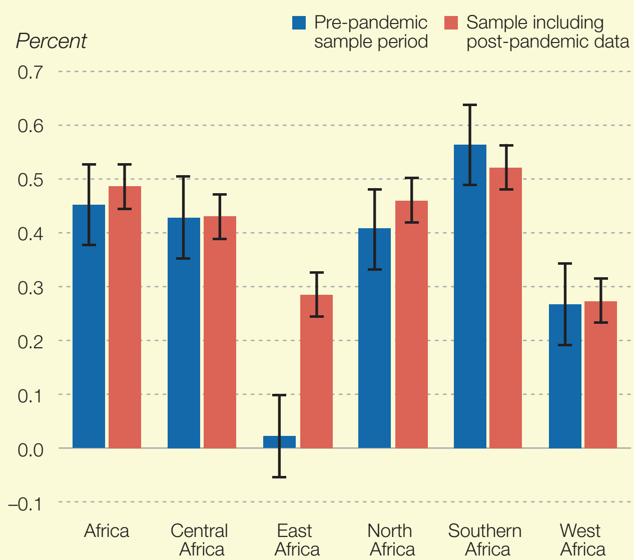
Against the backdrop of the recent slowdown in disinflation in Africa, this box examines inflation dynamics in African countries at continental and regional levels. The empirical strategy is to examine the inflation process using a backward-looking Phillips curve, which does not explicitly control for inflation expectations.[1] Specifically, headline inflation is assumed to evolve according to the following specification:

$$\pi_t = \alpha + \gamma_1 \pi_{t-1} + \gamma_2 \pi_{t-2} + \beta x_t + \theta q_t + \epsilon_t \quad (1)$$

where π_t is the average headline inflation on annual basis, x_t is the output gap, q_t is an index measuring global supply-chain disruptions, and ϵ_t is an uncorrelated error term. Equation 1 is estimated for Africa and the five regions, namely North Africa, West Africa, Southern Africa, East Africa and Central Africa using annual data from 1998 to 2022. In contrast to much of the recent literature which has focused on changes in the slope of the Philips curve,[2] the analysis in this box focuses on changes in persistence coefficients before and after the Covid-19 pandemic.

To determine whether persistence has increased, the sum of the coefficients on lagged headline inflation, γ_1 and γ_2, is examined.[3] This sum measures the degree of inertia in the inflation process, with values close to 0 indicating that above-target inflation would hardly be a signal for future inflation, and values close to 1 indicating that elevated inflation would persist for some time even without further inflation shocks. A sum of coefficients greater than 1 indicates that inflation is not stationary and permanently deviates from the target in the medium to long term.

BOX FIGURE 2.1.1 **Inflation persistence in Africa**



Note: The Driscoll and Kraay (1998) estimation method was used; it provides robust standard errors to correct for heteroskedasticity, autocorrelation, and cross-sectional dependence in panel data.
Source: African Development Bank staff calculations.

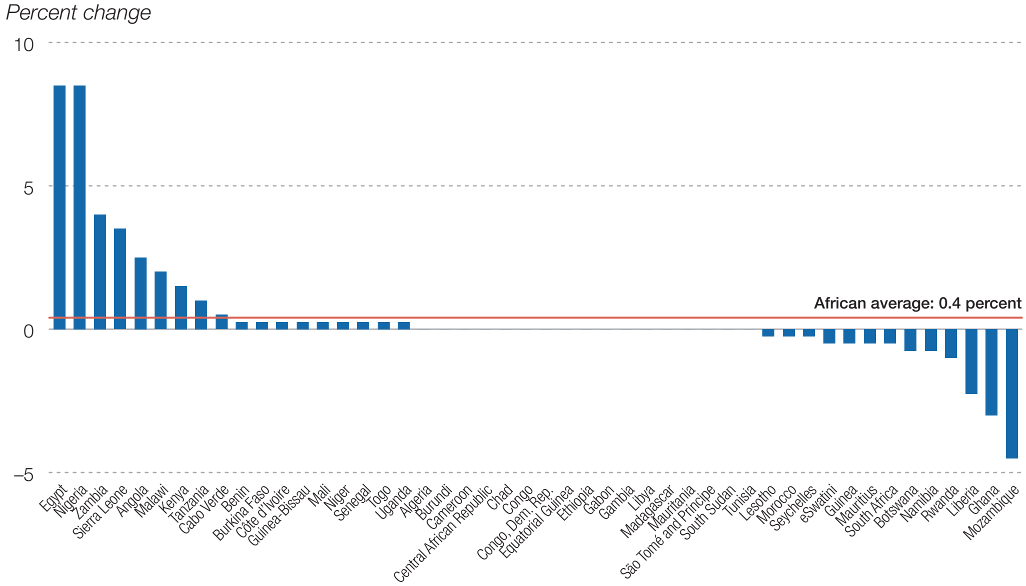
Consistent with other findings,[4] the results confirm that the unusual magnitude and persistence of food and energy price changes (the main components of headline inflation in emerging and developing countries), output gap, and supply disruptions have been important factors in the recent rise in inflation in African economies. Inflation persistence in Africa, with a persistence coefficient of 0.45, started long before the Covid-19 pandemic. The outbreak of the pandemic has further increased the persistence of inflation on the African continent (annex 2). As box figure 2.1.1 shows, the sum of the lag coefficients for Africa including the post-pandemic period (the orange bars) is 8.2 percent higher than the values estimated for the pre-pandemic period (the blue bars). However, change in the persistence of inflation varies greatly across regions.

Inflation persistence has increased significantly in East Africa and North Africa, while remaining unchanged in Central Africa and West Africa. Although it decreased slightly after the Covid-19 pandemic, Southern Africa recorded the highest inflation persistence among African regions.

Notes

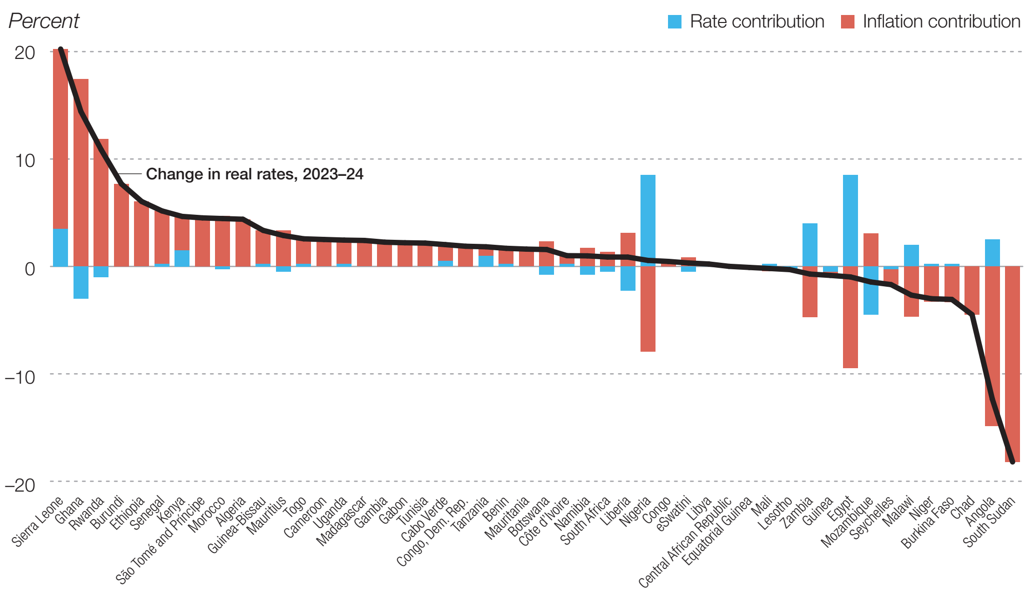
1. The Phillips curve is an equation commonly used to relate core inflation to resource slack dating back to Phillips (1958).
2. See Benigno and Eggertsson (2023).
3. See de Michelis et al. (2024).
4. See, for instance, Bernanke and Blanchard (2024) and de Michelis et al. (2024).

FIGURE 2.3 African central banks have adopted tighter monetary policy in 2024 on average



Source: African Development Bank.

FIGURE 2.4 Real interest rates increased sharply in many African countries



Source: African Development Bank.

In 2023, banking sectors across the continent were characterized by high profitability, sound capital ratios, and lower nonperforming loan ratios

In 2023, banking sectors across the continent were characterized by high profitability, sound capital ratios (the latter often well above minimum regulatory requirements), and lower nonperforming loan ratios (box 2.2). Still, the soundness of the banking sector varied (figure 2.5). In 2023, nonperforming loans ranged from 6 percent in Southern Africa to 13 percent in Central Africa. The ratio of capital to risk-weighted assets ranged from 11 percent in Central Africa to 22 percent in Southern Africa. Profitability was generally good in all African regions, with data showing return on equity ranging from 15 percent in North Africa to 32 percent in West Africa.

BOX 2.2 **Interplay between monetary policy, financial stability, and resilience of the banking sector in Africa**

It is well established that central banks' objectives of achieving price stability often run against financial stability.[1] While high interest rates may boost profitability of the banking sector, keeping interest rates "higher for longer" to stem inflationary pressures can test its resilience and increase financial stability risk, especially when the banking system does not have strong prudential ratios. In March 2023, the sudden failures of Silicon Valley Bank and Signature Bank in the United States and the loss of market confidence in Credit Suisse, which led to its acquisition by UBS, highlighted the challenges posed by the interaction between tighter monetary and financial conditions and the buildup in banking sector vulnerabilities.

For Africa, the *African Economic Outlook 2023* noted an increasing share of government domestic debt, accounting for more than 42 percent of total debt at the end of 2021, up from 35 percent in 2019, with most of the debt originating in the banking sector. This upward trend is expected to continue, given countries' increasing financing needs, limited tax revenue mobilization, and external financing squeeze. The rising share of government debt on banks' balance sheets may increase the vulnerability of the financial system through the "bank–sovereign nexus," where higher interest rates, higher levels of sovereign debt, and a higher share of that debt on the banking sector's balance sheet make the financial sector more vulnerable to fiscal shocks.

The current fiscal burdens and debt vulnerabilities of many African countries could thus impair the soundness of the continent's banking sector, especially when higher interest rates increase the risk of government default on domestic debt. Ghana's 2022 sovereign default on domestic and external debt is instructive. In December that year, Ghana announced a default on most of its domestic debt, which represented around 50 percent of its total debt in 2021. In October 2023, the government completed a domestic debt restructuring in which local currency debt ($17.5 billion) was swapped for longer-dated debt at lower interest rates. The financial system was affected by the default, with credit growth slowing to an average of 1.9 percent in 2023, even reaching a low of a negative 9.5 percent year on year in October 2023. In April 2024, the Bank of Ghana introduced a new cash-reserve ratio to boost credit growth to the economy, with higher reserve requirements for banks with lower loan-to-deposit ratios. Ghana's case is a reminder that fiscal pressures and debt distress can increase risks to financial stability through the bank–sovereign nexus, subsequently reducing credit to the economy and, in turn, economic growth.

Financial stability risk can also arise through banks' holdings of private debt on their balance sheet and the dampening of household and business activity due to high inflation, rising interest rates, and foreign exchange shortages. Combined, this could become a source of vulnerabilities when interest rate hikes lead to nonperforming loans, causing banks to limit credit for investment in the real sector. For instance, in Ghana, high interest rates and high inflation led to a surge in nonperforming loans when the country went into sovereign default, which were already high at 15 percent of gross loans in December 2022, and as of June 2024, had increased to 24 percent.

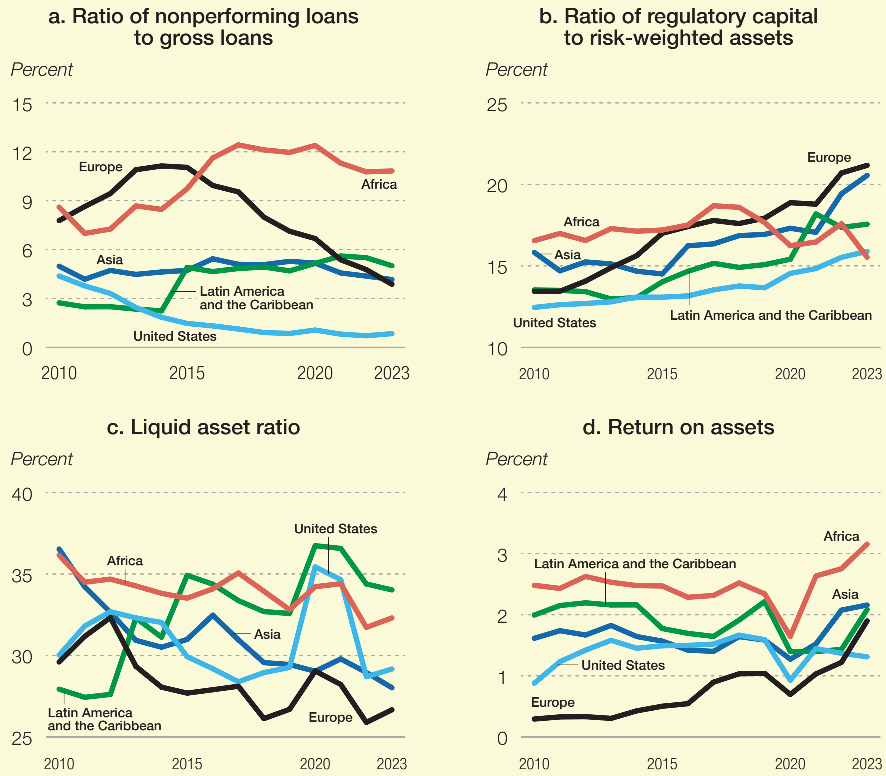
From a historical perspective, nonperforming loans have always threatened the viability of banks in emerging markets, especially in Africa. Box figure 2.2.1 shows that, on average since 2010, nonperforming loans have been on the rise in Africa, in stark contrast to marked declines in Europe and the United States. Given the tightening of financial conditions globally, the upward trend in nonperforming loans on the continent is worrisome. Nevertheless, Africa's commercial banks have accumulated enough capital buffers and robust profitability to withstand the growing nonperforming loans. For instance, the average capital-adequacy ratio for South Africa's commercial

(continued)

BOX 2.2 **Interplay between monetary policy, financial stability, and resilience of the banking sector in Africa** *(continued)*

banks stood at 17.9 percent in January 2023, far above the regulatory minimum of 10 percent. Moreover, Africa's banks are subject to stricter minimum capital requirements, as shown by the regulatory capital to risk-weighted assets ratio, which was consistently above that in all counterpart regions until 2019. In addition, African banks appear to have more liquid assets relative to total assets than their counterparts in Europe and the United States. However, the performance of African banks has been overtaken by banks in Latin America and the Caribbean in terms of liquidity (liquid asset ratio), although they remain profitable on return on assets.

BOX FIGURE 2.2.1 **Selected banking sector performance indicators**



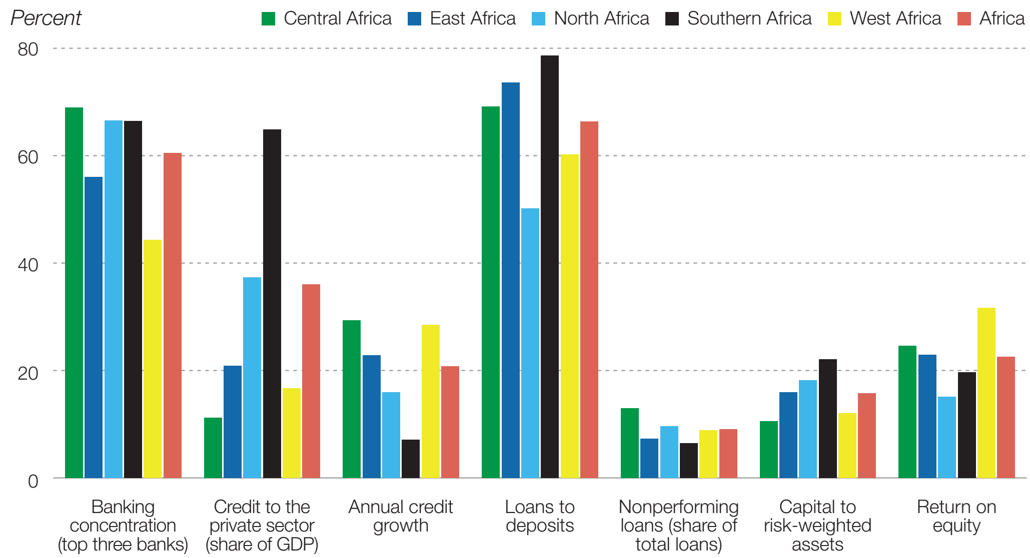
Source: International Monetary Fund Financial Soundness Indicators.

Note

1. Adrian et al. 2018.

Although the banking sector remains resilient, African central banks should remain vigilant in monitoring both domestic and global inflationary pressures to tailor their policy responses. If Africa's pivot toward disinflation is effective—driven by tighter monetary policies and the easing of global supply shocks, such as stabilizing energy prices and improved global supply chains—this could create opportunities for lowering policy rates. Countries with relatively low inflation, such as Kenya, South Africa, Algeria, and Morocco, could consider cutting interest rates further. Keeping rates elevated in

FIGURE 2.5 Key banking sector indicators, Africa and subregions, 2023



Source: International Monetary Fund Financial Soundness Indicators.

The continued weakening of African currencies in 2024 reflects the lingering effects of prolonged monetary tightening in advanced economies and constrained global demand for African exports

these countries as inflation declines would lead to a sharp rise in real interest rates, potentially hampering economic growth. Conversely, economies with entrenched inflation should maintain a restrictive monetary stance to ensure that long-term inflation expectations remain anchored.

Exchange rates

Depreciation of African currencies against the US dollar persisted through 2024, although prospects for exchange rate stability are emerging

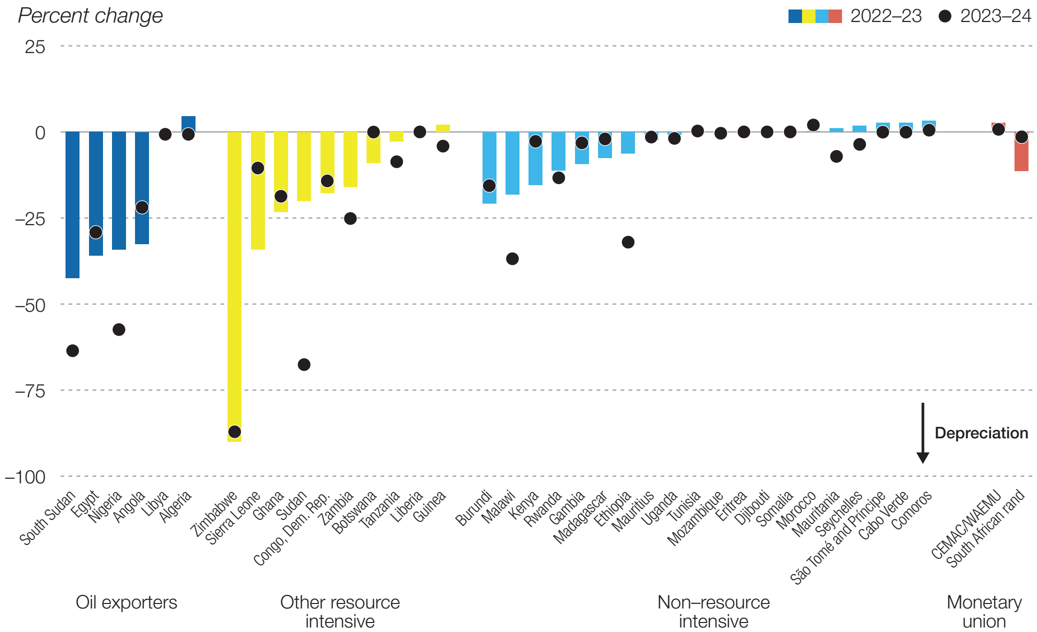
Most African currencies experienced significant and sustained depreciation in 2023 and 2024 (figure 2.6). Notable depreciations occurred in Zimbabwe (–90.0 percent and –87.1 percent), Sudan (–20.0 percent and –67.6 percent), South Sudan (–42.5 percent and –63.6 percent), Nigeria (–34.2 percent and –57.4 percent), and Egypt (–36.0 percent and –29.1 percent). The continued weakening of African currencies in 2024, despite eased global financial conditions and recent policy rate cuts in advanced economies, reflects the lingering effects of prolonged monetary tightening in advanced economies and constrained global demand for African exports.

Additionally, the decline in policy rates in advanced economies has been gradual, and rates remain elevated relative to early 2022 levels, reducing the attractiveness of African assets. These dynamics have limited foreign exchange inflows to Africa, curbing opportunities for currency appreciation. Further exacerbating the depreciation are persistent multiple shocks, emerging challenges, and short-term external financing pressures, given that many African countries faced—and still face—substantial debt repayments in 2024 and 2025.

For most of Africa's commodity exporters (oil and non-oil resource producers), sustained exchange rate depreciation is linked to reduced foreign-currency inflows as commodity prices retreated from their mid-2022 peaks. Further, political instability has been central to sharp and persistent depreciation in several countries. In Sudan, for example, the protracted conflict has greatly depressed export earnings and foreign exchange reserves, placing huge downward pressure on the Sudanese pound. Regional spillover effects are seen in South Sudan, whose crude oil exports transported through Sudan have been disrupted.

In Nigeria, the shift to a free float exchange rate regime in June 2023 resulted in continued depreciation of the Naira, driven by macroeconomic imbalances, including excess demand for foreign exchange against limited supply, given weak oil receipts. In Egypt, the central bank's 35 percent devaluation of the pound in March 2024 and the return to a free float exchange rate regime aimed

FIGURE 2.6 Exchange rate changes in Africa, 2022–23 and 2023–24



Note: CEMAC = Central African Economic and Monetary Community; WAEMU = West African Economic and Monetary Union.

Source: African Development Bank statistics.

at correcting market distortions contributed substantially to currency depreciation. While complementary measures, such as interest rate hikes and external support,[3] helped moderate the depreciation, the pound struggled to regain its value against major global currencies. In Ghana, despite periods of relative stability supported by the ongoing IMF program, the cedi continued to depreciate, albeit at a more moderate pace, fueled by multiple factors.[4]

Currency depreciation in non-resource-intensive countries was moderate in 2024, with this grouping having the most countries with stabilizing or strengthening currencies. In this grouping, Malawi's kwacha was the worst-performing currency in 2024, depreciating by 36.8 percent, driven by pressures from volatile terms of trade and climate-related shocks. (Like neighboring Zambia and Zimbabwe, Malawi experienced a severe drought in the first half of 2024.) The Ethiopian birr was the second worst-performing currency, depreciating by an estimated 32 percent as monetary authorities shifted policy toward a market-based exchange rate system and limited foreign exchange intervention.

The pockets of exchange rate stabilization are expected to expand and firm up in 2025. Stronger prospects for global economic growth could boost demand for African products, providing support for exchange rates. Expected interest rate cuts in advanced economies could also narrow interest rate differentials, increasing the attractiveness of African assets and encouraging financial inflows. Further, foreign exchange reforms in several African countries are expected to reduce misalignment between official and parallel markets in 2025, if well designed and supported by sound monetary and fiscal policies (even if these reforms initially triggered instability). Longer term, exchange rate stability will be critical for Africa's growth.

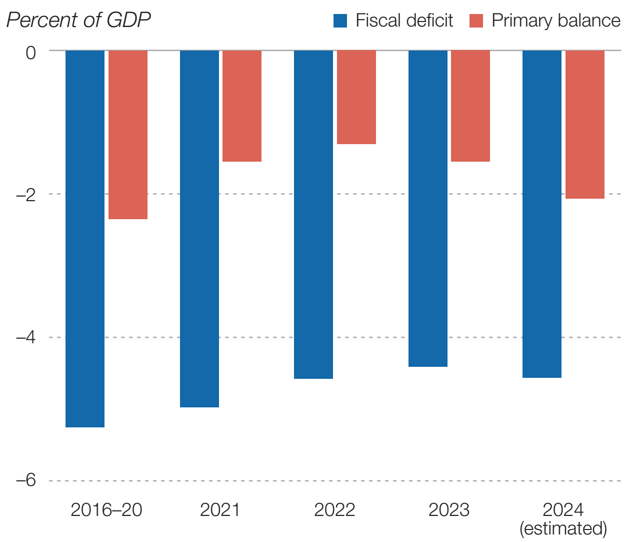
Expected interest rate cuts in advanced economies could narrow interest rate differentials, increasing the attractiveness of African assets and encouraging financial inflows

Fiscal balance

Fiscal deficits have widened across the continent, and prospects for reducing the deficits in the short term are jeopardized by uncertainties

Africa's average fiscal deficit is estimated to have widened slightly from 4.4 percent of gross domestic product (GDP) in 2023 to 4.6 percent in 2024, driven mainly by an increase in the primary deficit from 1.6 percent of GDP to 2.1 percent (figure 2.7). The widening primary deficit reflects slowing momentum in fiscal consolidation efforts, although this has led to some relief in public finances in countries, such as Ghana, Zambia, and Ethiopia, that have undertaken austerity measures during debt restructuring. Africa's deteriorating fiscal performance is the result of reduced government revenue, due mainly to declines in tax and oil receipts, and to increased public spending on infrastructure projects and debt servicing.

FIGURE 2.7 **Continent-wide fiscal deficit and primary deficit, 2020–24**

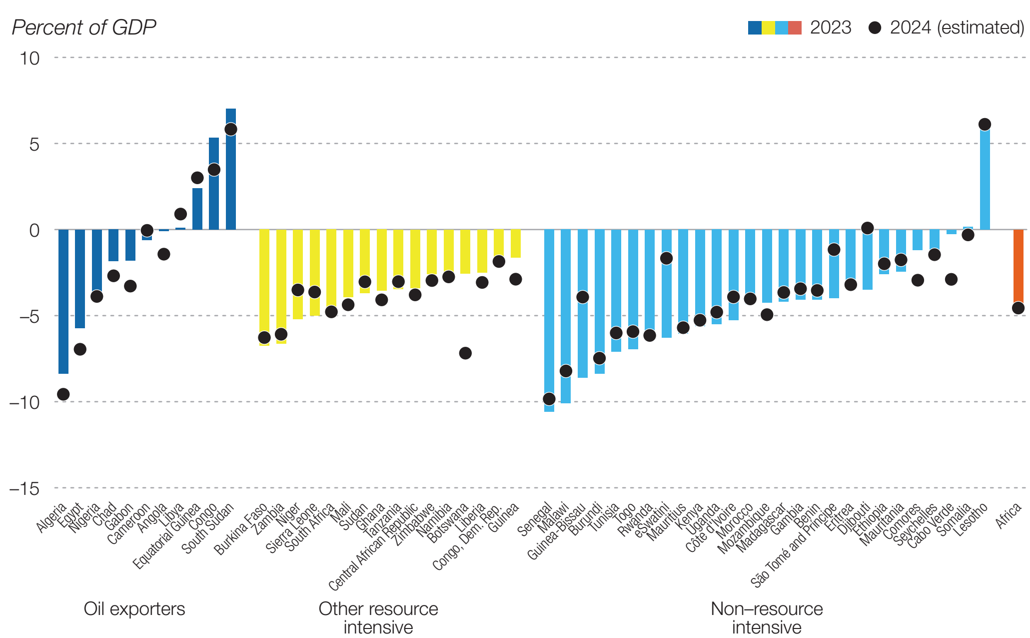


Source: African Development Bank statistics.

Among country groupings, 6 of the 11 oil-exporting countries—Algeria, Angola, Chad, Egypt, Gabon, and Nigeria—posted fiscal deficits in 2024 (figure 2.8). Four of the others—Republic of Congo, Equatorial Guinea, Libya, and South Sudan—recorded fiscal surpluses, while Cameroon had a balanced budget. The grouping recorded an average fiscal deficit of 5.3 percent of GDP in 2024, compared with 4.5 percent in 2023. Although Republic of Congo, Equatorial Guinea, and South Sudan posted fiscal surpluses exceeding 3 percent of GDP, large fiscal deficits for Algeria (9.6 percent of GDP), Egypt (7.0 percent), and Nigeria (3.9 percent) weighed heavily on the grouping's fiscal deficit.

The average fiscal deficit of non-resource-intensive countries narrowed from 4.8 percent of GDP in 2023 to 4.1 percent in 2024, driven by lower import bills and higher revenues from a slight uptick in economic activity. More than 80 percent of the countries in this grouping improved

FIGURE 2.8 **Fiscal balance by country, 2023–24**



Source: African Development Bank statistics.

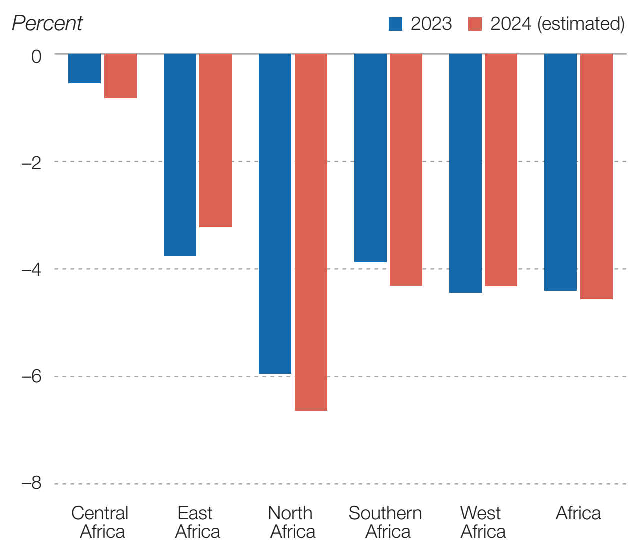
their fiscal balance in 2024, with Guinea-Bissau, Eswatini, São Tomé and Príncipe, and Djibouti reducing their fiscal deficit by more than 2 percentage points of GDP. Among other resource-intensive countries, the average fiscal deficit widened slightly, from 3.9 percent of GDP in 2023 to 4.1 percent in 2024. All 16 countries in this country grouping recorded a fiscal deficit in 2024, with the largest deficits as a share of GDP in Botswana (7.2 percent), Burkina Faso (6.3 percent), and Zambia (6.1 percent).

By region, Central Africa's moderate fiscal deficit in 2023 at 0.5 percent of GDP is estimated to have increased slightly to 0.8 percent of GDP in 2024 (figure 2.9). The largest deteriorations were in the Republic of Congo—the fiscal surplus narrowed from 5.3 percent to 3.5 percent—and Gabon—the fiscal deficit widened from 1.8 percent to 3.3 percent, largely due to declining oil revenues. In East Africa, the fiscal deficit narrowed by 0.5 percentage point to 3.2 percent of GDP in 2024. Djibouti recorded the biggest improvement, switching from a deficit of 3.5 percent of GDP in 2023 to a surplus of 0.1 percent in 2024, partly attributed to reduced interest payments under the debt service moratorium with a major creditor, Exim Bank China, in effect until 2028 (which offset lower tax revenue and grants).

In North Africa, the fiscal deficit is estimated to have worsened from 5.9 percent of GDP in 2023 to 6.6 percent in 2024, driven primarily by Algeria and Egypt, whose fiscal deficits widened by 1.2 percentage points each to 6.6 percent and 9.6 percent of GDP in 2024, respectively. In Algeria, the deterioration was due to measures introduced in the 2024 Finance Law to support purchasing power and encourage investment, and in Egypt to a chronic shortage of foreign currency, high inflation (leading to increased public spending to support vulnerable households), and fluctuations in oil prices (impacting revenues from hydrocarbon exports).

Southern Africa's fiscal deficit is estimated to have widened to 4.3 percent of GDP in 2024, from 3.9 percent in 2023, driven mainly by Botswana, where the deficit widened by 4.6 percentage points to 7.2 percent of GDP in 2024, reflecting a decline in mining revenues, a 1.7 percent contraction in GDP, and increased public spending tied to

FIGURE 2.9 Fiscal deficit as a share of GDP by region, 2023–24



Source: African Development Bank statistics.

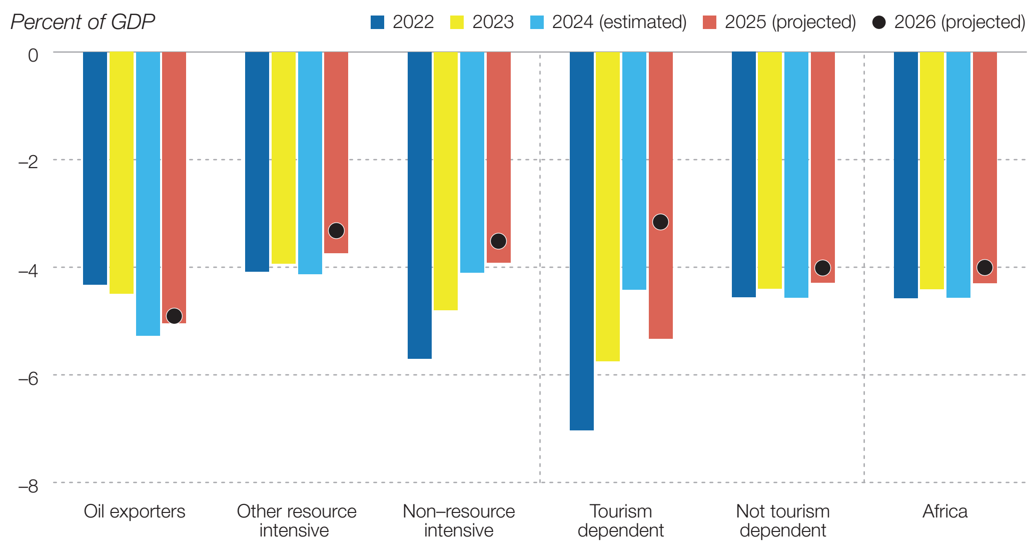
the government's ambitious investment programs, including the Transitional National Development Plan for developing infrastructure and boosting employment.

The fiscal deficit in West Africa is estimated to have narrowed slightly from 4.4 percent of GDP in 2023 to 4.3 percent in 2024. Several countries in the region, including Côte d'Ivoire, Guinea-Bissau, Niger, Sierra Leone, and Togo, improved their fiscal position by at least 1 percentage point in 2024.

In the short term, Africa's fiscal deficit is expected to narrow to 4.3 percent in 2025 and 4.0 percent in 2026, remaining above the conventional target of 3 percent of GDP for macroeconomic convergence (figure 2.10). Despite the pressure that government interest payments will continue to exert on public spending and the overall budget deficit, fiscal consolidation efforts are expected to continue in several countries and help reduce Africa's primary deficit.

Even with oil prices expected to stabilize at around $73 a barrel, oil-exporting countries are expected to slightly narrow their fiscal deficit, to 5.0 percent of GDP in 2025 and 4.9 percent in 2026. Other resource-intensive countries are expected to narrow their fiscal deficit, from 4.1 percent of GDP in 2024 to 3.7 percent in 2025

FIGURE 2.10 Fiscal balance as a share of GDP by country grouping, 2022–26



Source: African Development Bank statistics.

Unlike other country groupings, tourism-dependent countries are expected to see their fiscal deficit widen

and 3.3 percent in 2026. This improvement is relatively evenly distributed. In this grouping, South Africa and Botswana are projected to improve their fiscal deficits in line with anticipated higher economic growth, particularly Botswana.

Non-resource-intensive countries are expected to see the same narrowing trend, reaching 4.1 percent of GDP in 2025 and 3.9 percent in 2026, consistent with their stronger economic performance.

Unlike other country groupings, tourism-dependent countries are expected to see their fiscal deficit widen, to 5.3 percent in 2025 before narrowing to 3.2 percent in 2026. Mauritius is expected to contribute strongly to this trend, with its fiscal deficit widening by 1.0 percentage point to 6.7 percent of GDP in 2025 before narrowing to 4.5 percent in 2026. Lower than expected tax receipts in 2025, coupled with sustained public expenditures, will feed into the country's wider deficit, though fiscal consolidation focused on increasing revenues and controlling expenditures should bear fruit in 2026.

Overall, Africa's fiscal position remains heavily influenced by external and domestic shocks, presenting challenges to government control of public finances. Fiscal rules can be instrumental in ensuring fiscal sustainability by providing a robust framework for budgeting and debt management (box 2.3), but while many African countries have fiscal rules in place, enforcement is challenging.

BOX 2.3 Rethinking fiscal policy in Africa: The role of fiscal rules

Fiscal sustainability challenges in many countries have led to a growing concern over the years to find ways to entrench fiscal prudence and boost fiscal space. This has led to calls for the adoption of fiscal rules with the stated aims of mitigating policy uncertainty, achieving fiscal sustainability, and putting countries on a path of sustainable development.[1] According to the International Monetary Fund, "fiscal rules" refer to lasting constraints on fiscal policy through numeric limits on fiscal aggregates.[2] Therefore, the fiscal policy constraints should be anchored on a legal framework to enhance its operation. Africa's journey to adopting fiscal rules has been long, with Kenya the first country to adopt fiscal rules, in 1997. To date, many African countries have explicit fiscal anchors in their legislation, either in the form of a debt rule, deficit rule (or balanced budget rule),

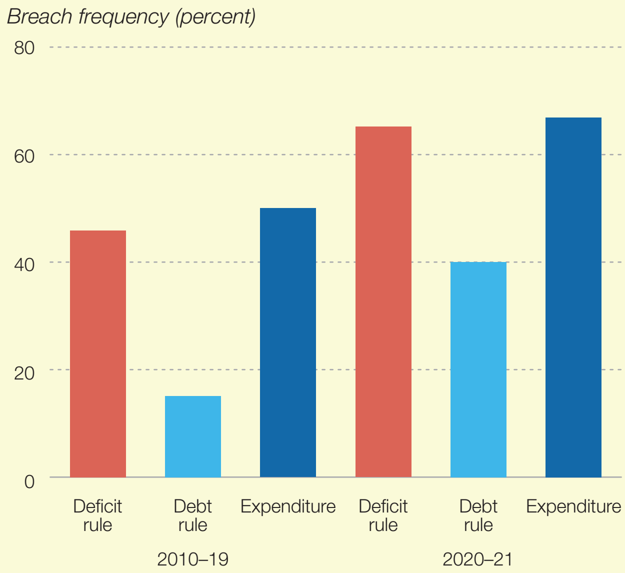
(continued)

BOX 2.3 **Rethinking fiscal policy in Africa: The role of fiscal rules** *(continued)*

expenditure rule, or revenue rule. In 2021, 26 countries in Africa had fiscal rules, with 20 of them operating under regional frameworks—the Central African Economic and Monetary Union, West African Economic and Monetary Union, and East African Monetary Union project.

The debt rule and deficit rule are widely used in Africa, with the expenditure rule used only in Botswana and Namibia. A typical threshold for the debt rule is 70 percent of GDP, and the most common ceiling for the deficit rule is 3 percent of GDP. Efforts to introduce fiscal anchors in legal frameworks have not, however, systematically led to sustained improvements in policymaking, as indicated by fiscal rule breaches since 2010 (box figure 2.3.1).[3] In the decade preceding the Covid-19 pandemic, African countries with fiscal deficit ceilings breached this type of rule on average half of the time—a much higher frequency than in other groups (advanced economies have a noncompliance rate of about 20 percent)—and deviations in Africa have typically been much larger (2.2 percent of GDP compared with 1.4 percent in other developing countries and advanced economies). By comparison, deviations from debt rules have been less frequent, which is not surprising because most countries operating a debt rule benefited from the Heavily Indebted Poor Countries Initiative and related Multilateral Debt Relief Initiative programs at the turn of the century and entered the 2010s with relatively low debt ratios. In the period since the pandemic, however, deviations from deficit ceilings in Africa have been less than in advanced economies.

BOX FIGURE 2.3.1 **Frequency of fiscal rule breaches in Africa**



Source: International Monetary Fund Fiscal rules database and authors' calculations.

The use of fiscal rules, if well implemented, can signal to global capital markets the authorities' goal to entrench fiscal discipline and so attract investment to achieve the country's development goals, though more effort is required to enhance the efficacy of fiscal rules in Africa to achieve these goals. The design of fiscal rules is crucial to enhance their efficiency and effectiveness,[4] although they should be simple and flexible with an escape clause that allows for suspension of the rule during periods of shock. Additionally, their linkage to public financial management supported by institutions, such as fiscal councils, is critical for instilling discipline, although only Kenya, South Africa, and Uganda have such councils. In countries such as Chile, such institutions have been important in providing annual policy advice that informs budget planning and steps to fiscal prudence.

Notes

1. Kopits 2001.
2. Hamid et al. 2022.
3. IMF 2023a.
4. Brandle and Elsener 2024.

Balancing fiscal discipline with the need for growth-oriented spending remains critical.

Current account balance

Africa's current account balance remains weak, due largely to volatility in global commodity markets

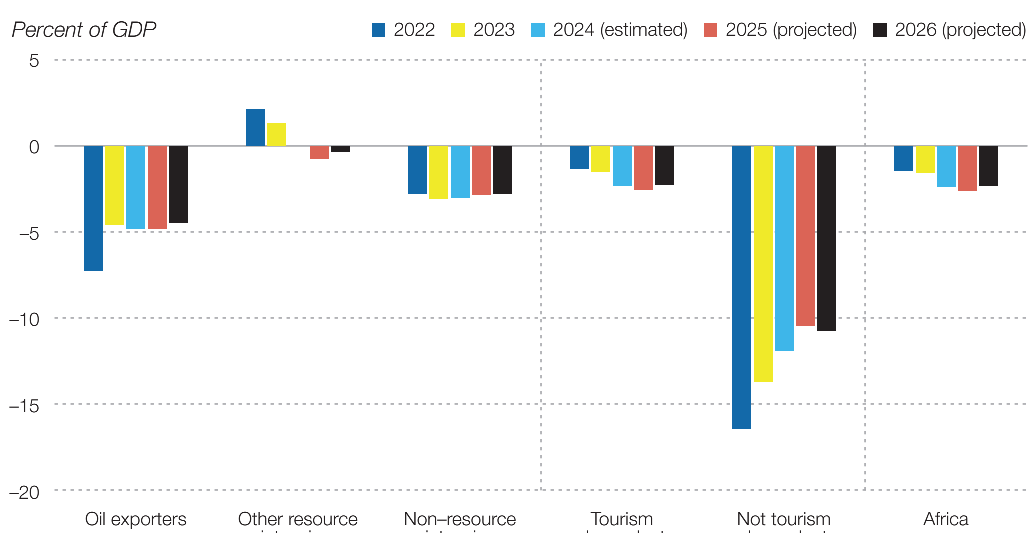
The continent's average current account deficit is estimated to have widened from 1.6 percent of GDP in 2023 to 2.4 percent in 2024 (figure 2.11), driven by a rise in the value of imports, with exports adversely affected by climate shocks, geopolitical conflicts, fragmentation, and fluctuations in commodity prices. The post–Covid-19 pandemic current account surplus of net oil-exporting economies of 1.3 percent of GDP in 2023 switched to a marginal deficit of 0.03 percent of GDP in 2024. This change reflects an 18.5 percent decline in oil prices since 2022, stabilizing in 2023 on rather sluggish global demand. Stabilization in non-energy commodity prices has benefited other resource-intensive countries, with their current account deficit estimated to have narrowed marginally from 3.1 percent of GDP in 2023 to 3.0 percent of GDP in 2024.

Africa's average current account deficit is projected to widen slightly in 2025, reflecting expectations that oil prices will stabilize, with reduced import bills for net oil-importing economies and a continued decline in oil revenues for net oil-exporting countries

Under continued pressure from currency depreciation and despite somewhat lower food and energy prices, the average current account deficit for non-resource-intensive economies is estimated to have widened slightly from 4.6 percent of GDP in 2023 to 4.8 percent in 2024. For tourism-dependent countries, a steady upward trend in visitor arrivals and tourism receipts will have helped reduce the current account deficit from 13.7 percent in 2023 to an estimated 11.9 percent in 2024, when international tourism is expected to have returned to pre–Covid-19 pandemic levels.

Africa's average current account deficit is projected to widen slightly in 2025 to 2.6 percent of GDP before narrowing to 2.3 percent in 2026, reflecting expectations that oil prices will stabilize at around $73 per barrel, with reduced import bills for net oil-importing economies and a continued decline in oil revenues for net oil-exporting countries. By country grouping, the average current account deficit for net oil-exporting countries is projected to widen to 0.7 percent of GDP in 2025 before narrowing to 0.4 percent in 2026. That for other resource-intensive countries is expected to narrow a little and stabilize at around 2.8 percent of GDP in 2025 and 2026, reflecting the effects of lower import bills, while the fall in non-energy commodity prices is expected to be contained in 2025 and 2026. For non-resource-intensive economies, the current account deficit is projected to stabilize at 4.8 percent of GDP in 2025 before

FIGURE 2.11 **Current account balance by country grouping, 2022–26**



Source: African Development Bank statistics.

improving to around 4.3 percent of GDP in 2026. That for tourism-dependent countries is projected to narrow further to 10.5 percent of GDP in 2025 before widening slightly to 10.8 percent of GDP in 2026, with tourism revenues expected to increase less quickly as global tourism returns to pre–Covid-19 pandemic levels.

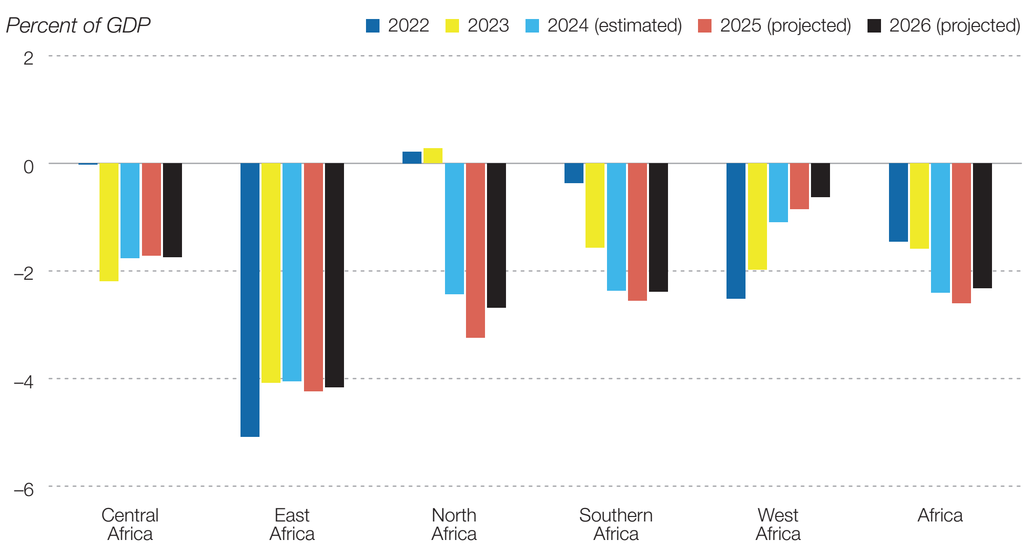
By region, Central Africa's current account deficit narrowed from 2.2 percent of GDP in 2023 to 1.8 percent in 2024 and is expected to stabilize at around this level in 2025 and 2026 (figure 2.12). In the region, the most significant improvements were in the Democratic Republic of Congo and Cameroon, which saw their current account deficits narrow by 2.2 and 1.0 percentage point of GDP. The improvement in the Democratic Republic of Congo's current account balance was driven by rising mining revenues, while that of Cameroon benefited from natural gas exports. The Republic of Congo recorded the largest deterioration, with its current account surplus contracting by 4.0 percentage points of GDP to 2.2 percent of GDP in 2024.

In East Africa, the average current account deficit is estimated at 4.0 percent of GDP in 2024, the biggest among all regions despite notable current account surpluses in Djibouti and Eritrea, at 22.2 percent and 12.4 percent of GDP, respectively. These surpluses were offset by large deficits in several countries in the region, including Burundi (14.9 percent of GDP), Somalia (8.7 percent), Rwanda (11.4 percent), and Uganda (7.3 percent). In Rwanda and Burundi, higher food and fuel import bills, coupled with capital imports for infrastructure projects (such as the new airport in Rwanda and the expansion of electricity supply in Burundi), as well as the negative impact of internal shocks on the primary sector (unfavorable weather and an animal health crisis in Burundi), fueled the persistence of current account deficits. The persistent current account deficit in Somalia is attributed to a continued decline in diaspora remittances, and to consequences of extreme weather events, such as droughts and floods, which have disrupted agricultural production.

After a cycle of current account surpluses, North Africa has entered a phase of deficits that are expected to persist in the short term. In 2024, the region recorded a current account deficit of 2.4 percent of GDP, from a surplus of 0.3 percent in 2023. This deficit is projected to widen to 3.2 percent in 2025 before declining to 2.7 percent in 2026. Algeria aside, all countries in the region recorded current account deficits in 2024, with the largest in Mauritania and Egypt, at 8.7 percent and 5.4 percent of GDP, respectively. In Mauritania, increased investment in the extractive sector, fueling the bill for imports of capital goods, largely explains the deficit. The country

In East Africa, the average current account deficit is the biggest among all regions despite notable current account surpluses in Djibouti and Eritrea

FIGURE 2.12 Current account balance by region, 2022–26



Source: African Development Bank statistics.

also faces unfavorable fluctuations in the price of iron, its main export, in international financial markets. Egypt's current account deficit is driven by a widening trade deficit, falling revenues from the Suez Canal, and reduced remittances from expatriate workers.

In Southern Africa, the current account deficit widened from 1.6 percent of GDP in 2023 to 2.4 percent in 2024 and is expected to hit 2.6 percent in 2025 before narrowing to 2.4 percent in 2026. The region's countries are among those in Africa with the widest current account deficits—Mozambique at 30.5 percent of GDP, Malawi at 17.7 percent, and Namibia at 14.7 percent. Mozambique's deficit is due to increased imports for liquefied natural gas projects and to higher interest payments on external debt. In Namibia, drought has affected agriculture, leading to reduced exports of agricultural products and increasing the need for food imports.

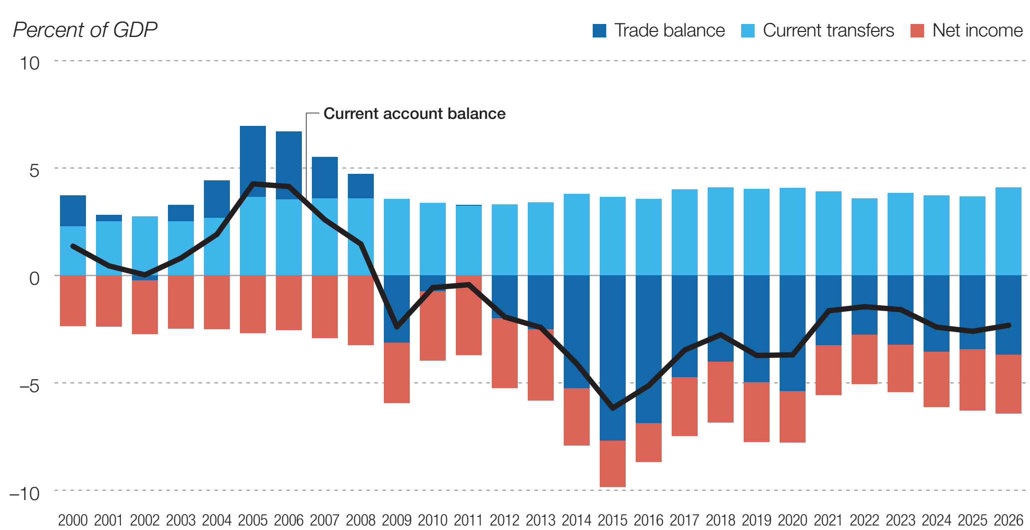
Southern Africa's countries are among those in Africa with the widest current account deficits, while West Africa's current account deficit is expected to continue to decline

West Africa's current account deficit continued to decline, from 2.0 percent of GDP in 2023 to 1.1 percent in 2024, and is expected to continue to do so, with the deficit projected to narrow to 0.9 percent of GDP in 2025 and 0.6 percent in 2026. Nigeria (+4.5 percent of GDP) and Ghana (+1.7 percent of GDP) are the main drivers of this performance, offsetting the surge in Liberia's current account deficit to 28.7 percent of GDP. Expectations of Nigeria's positive performance are attributable to increased oil exports, reduced imports, and improved net transfers, particularly from diaspora remittances. In Liberia, the current account deficit will be fueled by a sharp increase in imports, particularly of food, fuel, equipment, and services, partly reflecting the expansion of investment outlays by ArcelorMittal on developing rail and port infrastructure to ramp up production and exports of premium iron ore.

The decomposition of Africa's current account balance (figure 2.13) indicates that its widening in 2024 is due to the increased trade deficit (0.3 percent of GDP), the decline in net income (0.4 percent), and the drop in current transfers (0.1 percent). Box 2.4 shows that Africa's structural current account deficit is partly due to low intra-regional trade in manufactured goods, which is expected to be boosted by the African Continental Free Trade Area. The net income deficit is projected to widen in 2025 to 2.9 percent of GDP, from 2.6 percent in 2024, before narrowing to 2.7 percent in 2026. In contrast, the trade deficit is expected to narrow slightly to 3.4 percent of GDP in 2025 before widening to 3.7 percent in 2026. Current transfers are expected to stabilize at 3.7 percent of GDP in 2025 before improving to 4.1 percent in 2026.

An alternative decomposition of the current account balance shows that most of the changes

FIGURE 2.13 **Current account balance in Africa, 2000–26**



Source: African Development Bank statistics.

from 2023 to 2024 are explained by changes in net private savings (figure 2.14). Indeed, while the current account deficit widened by 0.8 percentage point of GDP, nearly all—0.7 percentage point—can be attributed to the decline in net private savings, with only 0.1 percentage point due to the worsening fiscal balance. The same trends are expected to continue in 2025 and 2026, with the fiscal balance further improving and net private savings continuing to decline.

External financial flows

External financial flows rebounded in 2023, but the outlook remains uncertain amid challenging global financial conditions, despite easing monetary policy

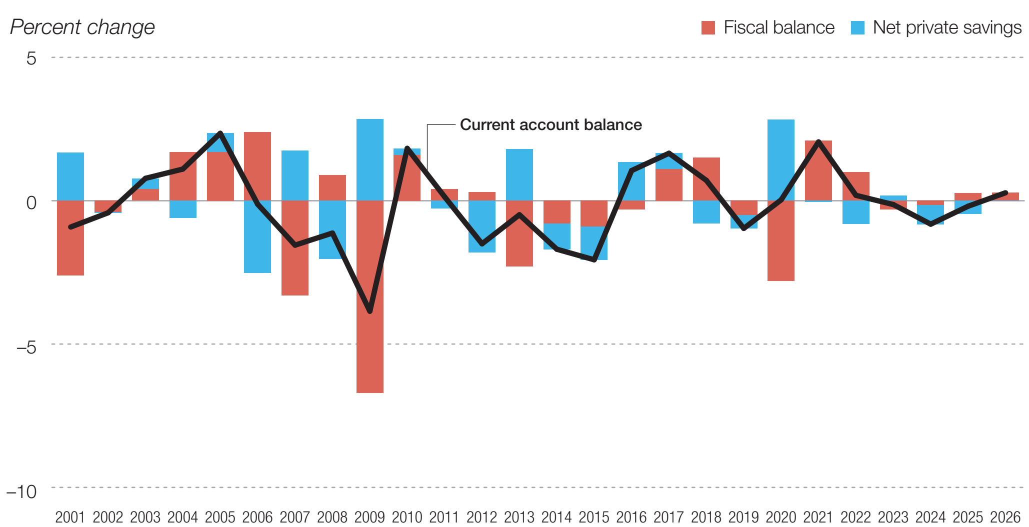
After the sharp contraction of over 12.4 percent in 2022, total external financial flows to Africa—portfolio investment, foreign direct investment (FDI), remittances, and official development assistance (ODA)—rebounded by 8.7 percent to $207.9 billion in 2023, or about 7.1 percent of Africa's GDP[5] (figure 2.15). This notable recovery was driven by a sharp reduction in net portfolio outflows compared with the previous year.

Portfolio investment, the most volatile component of financial flows, was the driver of the rebound in total external financial inflows in 2023. Net portfolio investment outflows fell sharply in 2023, to $1.7 billion from $22.8 billion in 2022, increasing the prospects for reversing the net portfolio outflows that Africa has recorded since 2020. Before the Covid-19 pandemic, the continent accumulated decade-long net inflows in portfolio investment, aided by accommodative monetary policies in advanced economies after 2008's global financial turmoil. The pandemic and subsequent multiple shocks reversed this trend, leading to sustained net outflows as investors sought safer markets.

Despite challenges in 2023, international investment conditions improved amid easing supply disruptions and a slowdown in monetary policy tightening toward the second half of the year in advanced countries. This supported portfolio investment inflows, particularly in frontier-market economies such as Nigeria ($6.2 billion), Ghana ($2.5 billion), and Morocco ($2.4 billion). Nigeria has sustained positive net inflows since 2021, which was key to containing the weakening of the naira. Ghana and Morocco transitioned from negative to positive net inflows. These trends highlight the sensitivity of portfolio investment decisions not only to changes in global financial conditions but also to domestic fundamentals.

The recovery in total external financial flows to Africa was driven by a sharp reduction in net portfolio outflows

FIGURE 2.14 Change in fiscal balance, net private savings, and current account balance in Africa, 2001–26



Source: African Development Bank statistics.

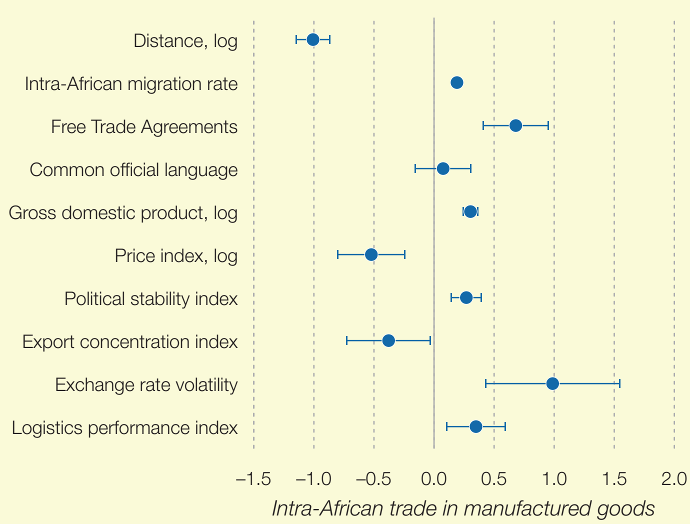
BOX 2.4 Drivers of intra-regional trade in manufactured goods

The structural current account deficit in Africa is partly due to the structure of its trade, particularly the low volume of trade in manufactured goods. Manufactured goods account for 68 percent of global trade but make up only 43 percent of Africa's total trade—63 percent of imports and 23 percent of exports. Intra-African trade in manufactured goods represents just 6.3 percent of Africa's total trade. African countries, to reduce their exposure to global risks and break the cycle of structural current account deficits, need to strengthen regional trade, particularly in manufactured goods. Since the early 2000s, Africa's trade deficit in manufactured goods has increased fivefold, reaching $268 billion.

To boost intra-African trade in manufactured goods, it is important to identify the factors that boost—or hinder—it, which was done with a gravity model (annex 3). The results summarized in box figure 2.4.1 indicate that trade in manufactured goods between two African countries decreases with a greater distance between them, higher product prices, and greater export concentration. Several factors act as accelerators: increased intra-African migration, free trade agreements between countries, higher GDP, greater political stability, and quality transport infrastructure.

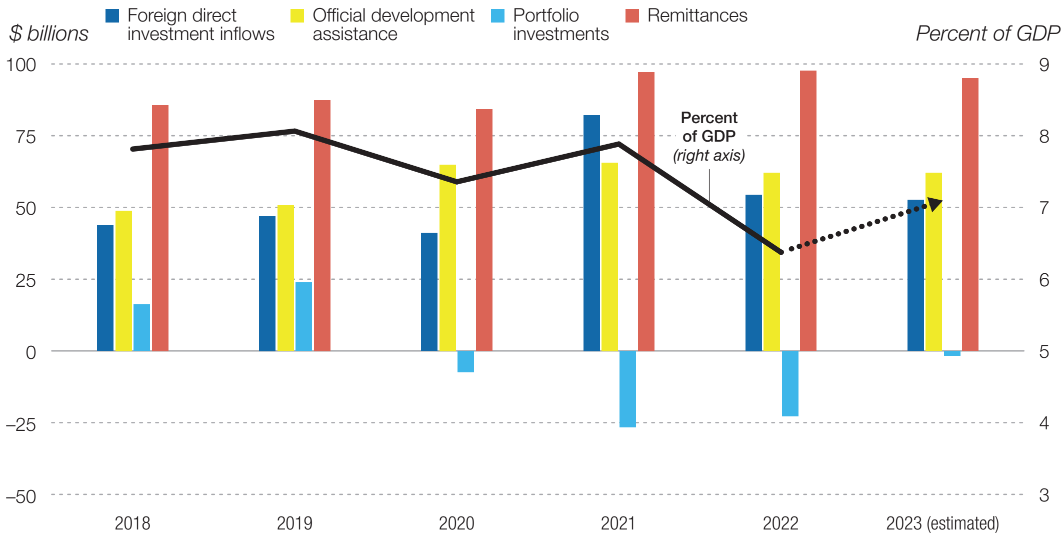
These results highlight the strong benefits that effective implementation of the African Continental Free Trade Area could bring to regional integration in Africa, particularly through reduced trade barriers. At the same time, African countries should adopt local-content policies and preferential procurement strategies, including supporting local production through incentives, such as tax reductions for businesses investing in manufacturing industries in the continent. Governments should also encourage public procurement of local products and promote regional partnership agreements to stimulate trade and demand for African-made goods. Further, it is essential to strengthen regional value chains, improve transport infrastructure, and facilitate workers' mobility in order to make African products more competitive and to promote sustainable economic growth. Policies should also include measures to improve political stability, promote local consumption through awareness campaigns, offer incentives for purchasing local products, and support the creation of regional industrial clusters.

BOX FIGURE 2.4.1 Factors influencing intra-African trade in manufactured goods



Source: African Development Bank staff calculations.

FIGURE 2.15 External financial flows to Africa, 2018–23



Note: Constant official development assistance flows are assumed in 2023 for lack of data.

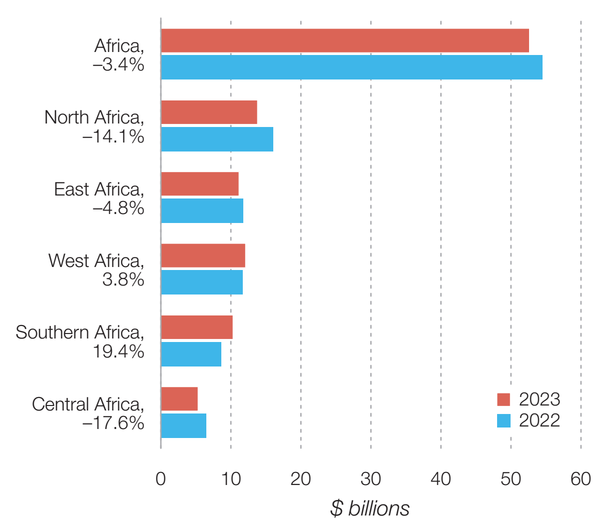
Source: African Development Bank statistics and staff calculations.

Mirroring global trends, **FDI inflows to Africa** weakened in 2023, with a 3.4 percent fall of $52.6 billion. This decline, steeper than the global contraction of 2.0 percent, marked the second consecutive year of shrinking FDI inflows, after a heavy 33.7 percent tumble in 2022. Yet, Africa's performance in 2023 remained resilient relative to that in other developing economies, with FDI inflows to the entire developing region falling by nearly 7 percent.

The declining trend of FDI flows reflects the challenging global investment environment, characterized by overlapping shocks that weaken growth prospects, as well as emerging issues such as geoeconomic fragmentation, divergent regulatory environments (including protectionist measures), and reconfigured global supply chains. While these shifts present opportunities for economies that are well integrated into global value chains—as exemplified by the 9 percent increase in flows to developed economies—many African countries remain exporters of primary commodities, and investment tends to be directed to extractive industries, limiting their ability to capitalize on the changes impacting the attractiveness of investment in non-resource sectors.

The drop in FDI in 2023 was broad based, with about half of African countries recording decreases. Only Southern Africa (up 19.4 percent from 2022) and West Africa (up 3.8 percent) saw gains. Central Africa and North Africa registered deep contractions of 17.6 percent and 14.1 percent, respectively (figure 2.16). Despite being among countries where FDI flows fell in 2023, Egypt, South Africa, and Ethiopia were Africa's largest FDI recipients in 2023, collectively

FIGURE 2.16 Distribution of FDI in Africa by region, 2022–23



Source: African Development Bank statistics.

accounting for over one-third of total inflows. These countries remain attractive FDI destinations, especially for green projects. Egypt, for example, secured $10.8 billion in greenfield investment in green ammonia and green hydrogen projects, as the Suez Canal Economic Zone completed agreements for these initiatives.[6] Likewise, large hydrogen projects in South Africa worth $7.1 billion have been announced, supported by fiscal and non-fiscal incentives to promote renewable energy.

Nigeria is the fourth African economy with the largest increases in FDI flows in 2023 (after Algeria, Lesotho, and Namibia), of over 100 percent to $1.9 billion from $895 million in 2022, despite major macroeconomic challenges in 2023. Nigeria highlights the relatively weak influence of immediate domestic conditions on FDI investment decisions, which are more motivated by long-lasting interest in the host country and therefore by longer-term perspectives. Foreign direct investors might have perceived the opportunities that lie in the wide-reaching and bold economic reforms undertaken by the government of Nigeria after mid-2023, including in the foreign exchange market and the energy sector. For example, the removal of fuel subsidies opened opportunities for investment in the energy markets, notably in renewable technologies. The government is also establishing special agroprocessing zones and industrial clusters to attract more investment and promote domestic production and jobs.

Remittance flows to Africa declined by 2.7 percent to $95 billion in 2023, though they remain the largest source of external finance for Africa

Given its role in capital formation and technology transfer, the continued and broad-based decline in FDI inflows presents a threat to sustained and robust long-term growth in Africa. While external shocks have been a major factor, domestic conditions—political stability, governance, the investment climate, and the capacity to absorb emerging technologies—are also critical and will determine the ability of African economies to sustain high FDI flows in the medium and long term.

Several countries have made good strides in creating environments for FDI promotion. Examples include Nigeria and South Africa, which adopted a range of fiscal and non-fiscal incentives aimed at encouraging investment in renewable energy. Egypt introduced an investment tax credit and other fiscal incentives specifically for promoting green hydrogen. These measures have helped these countries attract large greenfield projects. The value of greenfield projects announced across Africa fell, however, to $175 billion, from $196 billion in 2022, despite most countries registering increased numbers of projects. This highlights the need for FDI-enabling measures to be intensified and expanded across all African countries, if the continent is to remain a competitive and attractive locale on the global investment landscape.

Remittance flows to Africa declined by 2.7 percent to $95 billion in 2023, though they remain the largest source of external finance for Africa. As in other low- and middle-income countries, the retreat in remittances in 2023 reflects a normalization of trends following the strong resurgence of 15.5 percent in 2021 and the stabilization in 2022. The decline also stems from structural and cyclical factors in migrant destination countries such as challenging job markets for migrants and more stringent immigration policies.

Despite the decline in 2023, remittance flows were 9 percent higher than 2019's pre–Covid-19 pandemic level. The volume of remittance receipts is driven by Egypt ($24.2 billion) and Nigeria ($20.5 billion), which together accounted for nearly 50 percent of total flows. The two countries rank among the top 10 recipients of remittances worldwide. Despite a 15 percent decrease in receipts in 2023, Egypt retained its position as Africa's top recipient of remittances. In Nigeria, remittance flows increased by 2 percent, proving particularly beneficial in helping households cope with the socioeconomic impacts of reforms, such as the removal of fuel subsidies and the cost-of-living pressures associated with exchange rate depreciation.

As the single most significant non-debt source of financial inflows to Africa, remittances continue to have a considerable role in African economies. In smaller economies such as Gambia, Lesotho, and Comoros, remittances account for over 20 percent of GDP. This is a crucial source for mobilizing capital, with the potential to catalyze widespread socioeconomic transformation for the continent if well harnessed.

But with remittance transfers primarily motivated by the need to provide family support to cover basic living expenses, the productive use of remittances has been limited. Indeed, there is no strong evidence that remittances have contributed to significant economic growth in Africa despite the large flows and broadly steady increases over the years (box 2.5).

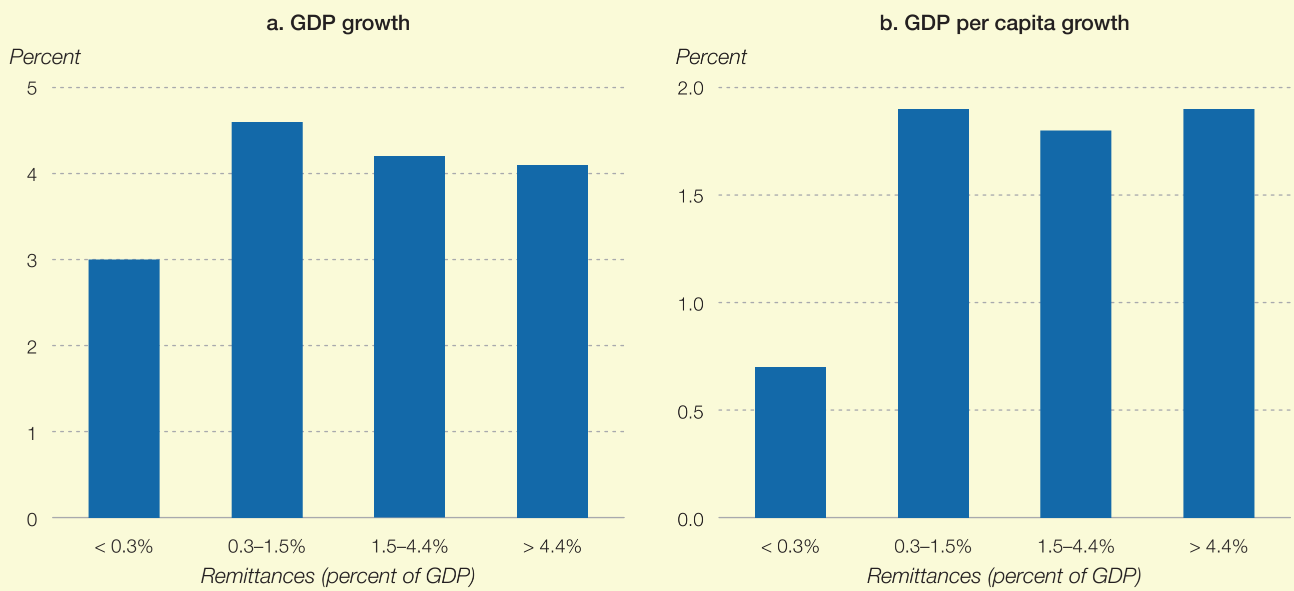
Compared with the pre–Covid-19 pandemic period, **ODA to Africa** has increased sharply, averaging $64.2 billion annually in 2020–22, up 30 percent from $49.1 billion annually in 2017–19. This rise reflects donors' efforts to step up support to African countries amid growing development financing and humanitarian needs following the pandemic. Despite being the second-largest

BOX 2.5 Limited growth effect of remittances in Africa due to low productive utilization

The significant flow of remittances to African economies has immense potential to improve lives. Remittances benefit economies in two main ways. First, as personal transfers driven by family support, they help recipients afford basic living expenses. Second, they hold considerable potential for driving growth and development financing by funding investment in human or physical capital and supporting new businesses.

This second potential remains largely untapped in Africa, however. Despite decades of substantial remittance inflows, there is limited evidence to suggest that remittances have significantly contributed to economic growth in Africa. Using meta-analysis and Bayesian model averaging techniques, remittances have not been found to be growth-enhancing on the continent.[1] A comparison of growth performance across levels of remittance receipts reveals no systematic link between higher remittance inflows and stronger economic performance (box figure 2.5.1).

BOX FIGURE 2.5.1 Economic performance by level of remittances (percent of GDP)



Note: Based on data from 2000 to 2023. The bins (class intervals) are informed by the quartiles (Q1 = 0.3 percent, Q2 = 1.5 percent, and Q3 = 4.4 percent). If higher levels of remittances were associated with stronger economic performance, the heights of the bars would have been higher as one moves from a lower to a higher category of remittances. Moreover, using the highest category (> Q3) as reference group, the difference is significant only for the lowest category (< Q1).

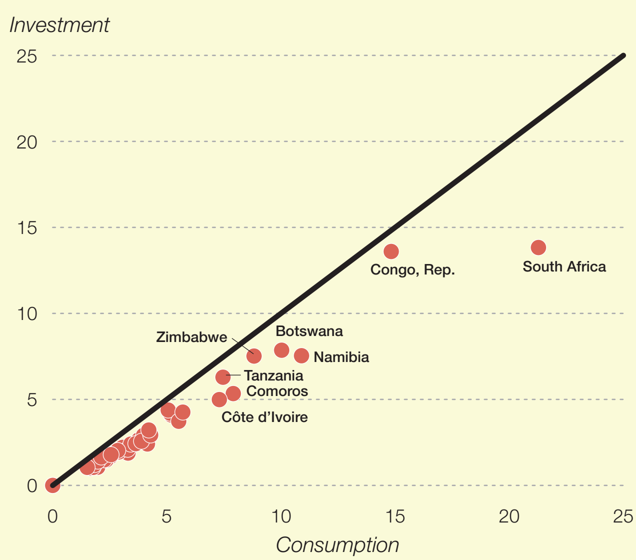
Source: Okara et al. (forthcoming); staff calculations based on African Development Bank statistics.

(continued)

BOX 2.5 **Limited growth effect of remittances in Africa due to low productive utilization** *(continued)*

This puzzling non-correlation raises questions about the propensity of remittances to finance investment in Africa. Remittances could stimulate growth by funding productive activities such as business development and capital investment.[2] Remittances provide recipients with financial support that can be utilized for various purposes, primarily consumption. By boosting disposable income, remittances also offer recipients the flexibility to save, invest, or develop businesses. At the aggregate level, the use of remittances is shaped by personal decisions regarding consumption and investment, influenced by beneficiaries' needs, objectives, and the broader economic conditions of their countries.

BOX FIGURE 2.5.2 **Responses of consumption and investment to remittances in Africa**



Note: Based on a sample of 42 African countries with data from 2000 to 2023. The elasticities are obtained by ordinary least squares regressions of investment on remittances, and consumption on remittances. Control variables are excluded to observe how investment and consumption respond to increases in remittances under prevailing conditions across different contexts, without normalizing countries to their specific environments. This partly explains the large elasticities observed in some countries, particularly Libya, Angola, and Gabon, which are excluded from the final result. Eritrea and South Sudan are also excluded because their elasticities are not statistically significant.
Source: Staff calculations based on African Development Bank statistics.

The responsiveness of consumption and investment to remittances in African countries is analyzed using data on remittance flows, domestic investment, and final consumption from 2000–23. Box figure 2.5.2 plots the elasticities of consumption and investment relative to changes in remittances. The results show that remittance inflows are positively associated with both consumption and investment in the sample of 42 African countries included in the analysis. However, the increase in consumption consistently outpaces investment, as all countries in the sample lie below the 45-degree line. The median elasticities are estimated at 2.4 percent for investment and 3.5 percent for consumption. While this analysis relies on correlations, it highlights the dynamic interplay between consumption and investment driven by remittance inflows.

The key challenge for governments and policymakers is to devise strategies that channel a greater share of remittance flows into productive investment. With remittances playing a vital and multifaceted role in alleviating poverty and improving household welfare,[3] the next step is to leverage them for broader economic development. Policies to achieve this goal include fostering financial inclusion, developing diaspora bonds, improving investment climates, ensuring macroeconomic stability, and advancing infrastructure and sociopolitical stability. By creating environments that encourage productive use of remittances, African economies can unlock their transformative potential and make remittances a key driver of sustainable and inclusive growth.

Notes

This box builds on Okara et al. (forthcoming).

1. Cazachevici et al. 2020.
2. Straubhaar and Vădean 2006; Zarate-Hoyos 2004.
3. See, for example, Adams and Page (2003, 2005) and Gupta et al. (2009).

source of external financial flows to Africa, ODA flows remain insufficient to meaningfully reduce Africa's financing gap. After the sharp increase of nearly 30 percent in 2020, ODA flows are slowly returning to pre-pandemic trends while financing challenges in Africa are still mounting. In 2022, amid fiscal challenges faced by major donor countries and mounting global uncertainty on account of multiple shocks, ODA flows to Africa fell by over 5 percent to $54.5 billion.

With global growth projected to remain subdued and public pressures by citizens in developed countries advocating for more nationalistic policies, the prospects of a significant increase in ODA appear uncertain in the near term. These developments underscore the urgent need for Africa to explore and prioritize endogenous local solutions to address its development financing challenges.

NOTES

1. https://www.al-monitor.com/originals/2024/09/egypt-urban-inflation-rises-262-august-first-jump-five-months.
2. See IMF (2025).
3. The European Union provided $8 billion, and the IMF financing was increased from $3 billion to $8 billion.
4. These included low reserves due to payments by the energy sector—given demand for foreign currency to pay for oil imports, energy consumption, and goods and services including capital goods in oil exploration and production activities—and by the corporate sector, including repatriation of profits by multinationals and payment of dividends, as well as drought-induced crop failures and associated weak export performance following the Ghana Cocoa Board's decision to revise the output target for the new season downward by 19.8 percent.
5. Constant ODA flows assumed in 2023 for lack of data.
6. UNCTAD 2024.

AFRICA'S DEBT DYNAMICS AND IMPLICATIONS FOR ITS DEVELOPMENT FINANCING

3

Africa's debt dynamics and implications for its development financing

Public debt ratios are stabilizing—though above pre–Covid-19 pandemic levels—and risks remain

The easing of global financial conditions, with strong growth momentum and fiscal consolidation measures taken since the end of the Covid-19 pandemic (table 3.1), are helping stabilize public debt-to–gross domestic product (GDP) ratios. After two years of tight global financial conditions that limited the access of many African countries to eurobond markets and increased debt burdens, African sovereign spreads are narrowing. This marks the end of the two-year absence from international capital markets, with many countries having recently issued eurobonds. Moreover, several countries have either implemented (full or partial) removal of fuel subsidies (Angola, Guinea, Kenya, and Nigeria) or plan to eliminate energy subsidies by 2025 (Senegal and Egypt). Further, debt restructuring negotiations have provided an additional incentive for prudent fiscal management in Ghana, Zambia, and Ethiopia. Still, given the exchange rate effects and still-elevated borrowing costs despite easing financial conditions, debt ratios have remained above pre-pandemic levels and debt vulnerabilities remain elevated due to increasing debt repayments.

The fiscal consolidation measures instituted by several governments have forestalled new debt accumulation in many countries, which together with post–Covid-19 pandemic economic recovery has helped put debt on a declining path. The median debt-to-GDP ratio is estimated to have edged down to around 60.0 percent in 2024 from 63.5 percent in 2021–23 and is projected to decline further to 59.2 percent in 2025. Nonetheless, debt vulnerabilities remained elevated as of October 2024, with 9 African countries in debt distress and 11 others at high risk of debt distress. Debt vulnerabilities have been amplified by the increase in debt service costs stoked by high global interest rates and a stronger US dollar.

The decomposition of debt-creating flows highlights the prominence of primary deficit, interest payments, and economic slowdown as drivers of debt accumulation during the Covid-19 pandemic in 2020 (figure 3.1). Since 2022, however, the relative influence of Africa's debt accumulation drivers has progressively shifted from the primary deficit to exchange rate depreciation and interest expense.

This shift underscores how important exchange rate risks have become, as over 70 percent of Africa's debt is denominated in foreign currency, predominantly the US dollar, and most African currencies depreciated sharply against the dollar in 2023–24. Yet, to a degree, Africa's strong growth rates in recent years had an offsetting impact, supported by high inflation, helping reduce the pace of debt accumulation: in 2021–23, the cumulative contribution of real GDP growth was strong enough to offset the interest rate influence, contributing to debt reduction. Other debt-creating flows, such as off-budget operations, support to weak state-owned enterprises, recapitalization of public banks, and arrears clearance, also helped shape the debt trajectory. Given these flows, debt tends often to increase faster than dictated by fiscal conditions.[1]

Despite fiscal consolidation measures to rein in debt burdens, if sustained improvements in governments' primary balance cannot be achieved to offset higher real rates and lower potential growth, sovereign debt will continue growing, with debt

TABLE 3.1 Revenue measures introduced in selected African countries, 2020–24

Country	Year	Measure
Burundi	2023	Introduction of tax of 5 percent for hotels and restaurants and 22 percent on mobile financial services.
Cameroon	2022	Introduction of a 0.2 percent tax on the transfer and withdrawal of money via mobile wallets.
Congo, Rep.	2020	Introduction of e-stamp duty of 50 CFA francs per (data) postpaid invoice.
Congo, Dem. Rep.	2020	Introduction of a new tax on mobile consumers, comprising an annual payment of $1 for 2G handsets and $7 for 3G/4G handsets.
Ethiopia	2023	Introduction of new taxes on telecommunication service of mobile and wireless telephone (internet, voice, and SMS) at 5 percent.
Ghana	2021	Introduction of 1 percent on value of goods (Covid-19 Health Recovery Levy), similar to a value-added tax/gross sales tax increase.
	2022	Introduction of a new 1.5 percent tax on all electronic transactions above 100 cedi ($13, £11) effective May 1, 2022.
Guinea	2021	Increase of mobile marketing tax from 400 to 640 Guinean francs per connection per year; increase of excise duty on voice calls from 1 to 2 Guinean francs per second.
Kenya	2021	Increase of excise duty on mobile services from 15 percent to 20 percent.
	2024	Phaseout of preferential corporate tax rates applicable to special economic zones and export processing zones, with rate at zero.
	2024	Authorities are considering, in the Medium-Term Revenue Strategy (2024/25–2026/27), a proposal to reduce corporate income tax from 30 percent to 25 percent.
Lesotho	2020	Increase of value-added tax from 12 percent (reduced rate) to 15 percent (general rate).
Mauritania	2020	Increase of customs duty on scratch cards from 15 percent to 30 percent.
	2023	Increase of value-added tax on telecommunications from 16 percent to 18 percent plus special income tax of 5 percent on telecoms companies.
Nigeria	2020	Increase of value-added tax rate from 5 percent to 7.5 percent.
	2022	National Health Insurance Authority Act 2022 imposed a telecommunications tax of not less than 1 kobo per second on Global System for Mobile Communications calls.
	2022	Introduction of 5 percent excise duties on telecommunications services (postpaid and prepaid).
Rwanda	2023	Rwanda income bracket in Rwandan francs and tax rate: 0–60,000: exempt from tax; 60,001–100,000: 10 percent; 100,001–200,000: 20 percent; ≥ 200,001: 30 percent.
Sierra Leone	2020	Increase of excise duty on incoming international calls from $0.09 to $0.14 per minute.
Tanzania	2021	Introduction of levy on airtime recharge ranging from 5 to 223 Tanzania shillings depending on recharge value.
	2021	Introduction of levy on mobile money transfer and withdrawal transactions from 10 to 10,000 Tanzania shilling.
Uganda	2021	Introduction of 12 percent excise duty on data from 1 July 2021.

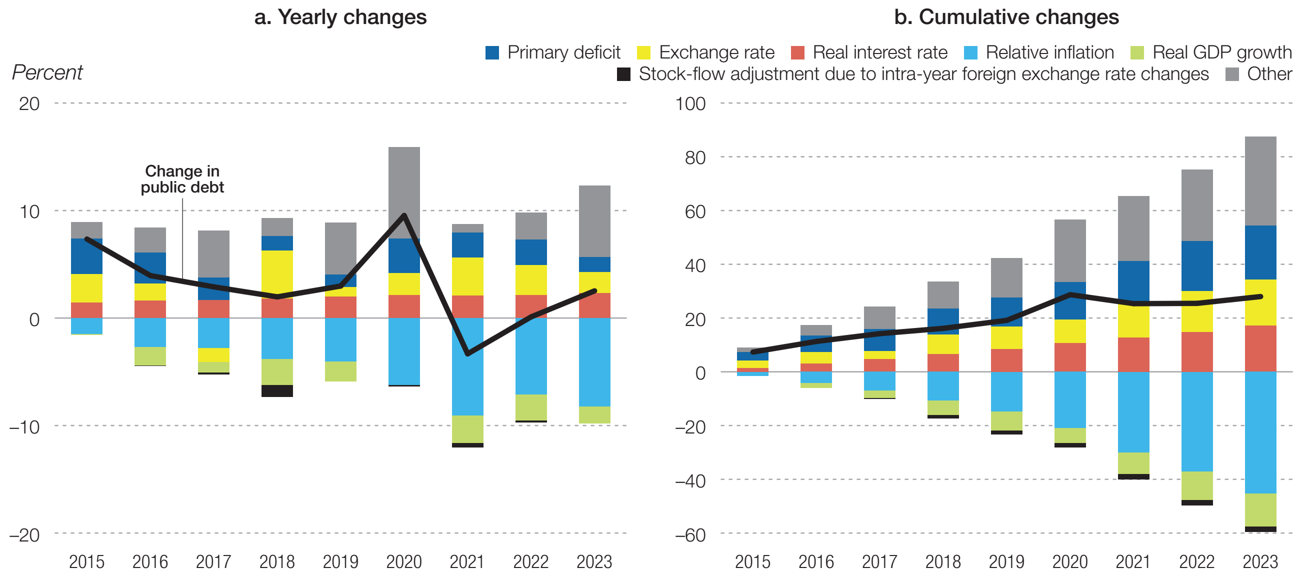
Source: GSMA 2023.

burdens persisting and reversing gains from fiscal consolidation (box 3.1).

Debt amortization accounts for a substantial share of general government revenue in Africa (figure 3.2), with the median total debt service estimated at 28.1 percent for 2024; it is projected to rise to 29.2 percent in 2025. External liquidity pressures are also expected to rise, reflected in the increasing ratio of total debt service to exports of goods and services, from 22.0 percent in 2015–19 to 29.2 percent in 2020. This ratio was estimated at 22.0 percent in 2024 and is projected to increase, albeit marginally, to 22.7 percent in 2025. With the majority of Africa's debt denominated in US dollars, liquidity pressures may further increase if export revenues or other sources of foreign exchange do not compensate for resource outflows arising from higher debt service payments.

Rising debt burdens and external liquidity pressures have compelled governments to reduce public spending on critical areas of development. In 2010–19, for instance, average public expenditure on education in Africa was 3.6 percent of GDP, below the world average of 4.2 percent, with public spending on health even lower at 1.8 percent.[2] Regaining fiscal fitness and a sustainable debt position

FIGURE 3.1 Decomposition of drivers of Africa's debt, 2015–23



Source: African Development Bank statistics.

BOX 3.1 Impact of interest-growth differential on public debt in Africa

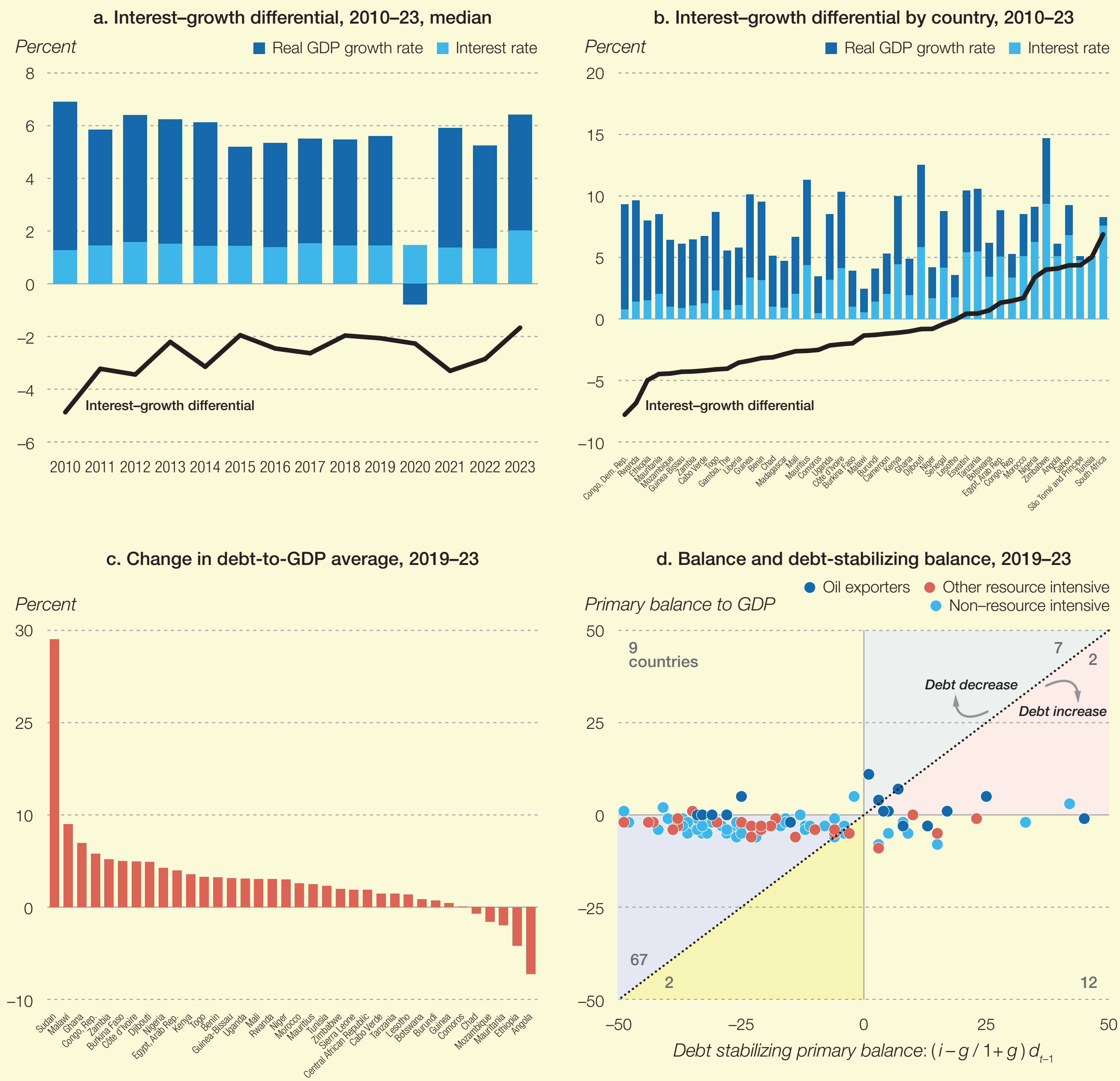
The median interest-growth differential in Africa increased gradually from –4.9 percent in 2010 to –1.7 percent in 2023 (box figure 3.1.1a).[1] In 2010–19, strong GDP growth and low global interest rates explained the stronger negative interest-growth differential. During the Covid-19 pandemic, weak GDP growth led to a median interest-growth differential of –3.3 percent in 2020–21. The tightening of global financial conditions that started in 2022 saw interest rates increase, dampening Africa's above-world average growth rate and contributing to reducing the median negative interest-growth differential to –1.7 percent in 2023. African countries show a wide dispersion, with the differential ranging between –7.8 percent in the Republic of Congo and +6.9 percent in South Africa in 2023 (box figure 3.1.1b).

For most African countries, the negative interest-growth differential was sufficient to put Africa's debt on a declining path in 2022–23. During this period, the debt ratio of most countries in the continent increased despite the negative differential. This increase occurred because most African countries accumulated high primary deficits above debt-stabilizing levels. Nonetheless, favorable interest-growth differentials ensured that countries such as Angola, Ethiopia, Mauritania, Mozambique, and Chad reduced their debt ratios (box figures 3.1.1c and 3.1.1d). While this provides short- to medium-term benefits, it may pose long-term risks if growth slows or interest rates increase, or if governments become complacent and accumulate too much debt. In addition, reductions in debt-to-GDP ratios may not necessarily lead to increased fiscal space. Debt interest and amortization payments are made from government revenue and are not necessarily tied to the size of GDP. Thus, a decline in the size of debt relative to the country's GDP may also be accompanied by an increased debt burden and the diversion of limited government revenue from infrastructure and social investment to debt service payments.

(continued)

BOX 3.1 Impact of interest-growth differential on public debt in Africa *(continued)*

BOX FIGURE 3.1.1 Interest-growth differential in Africa

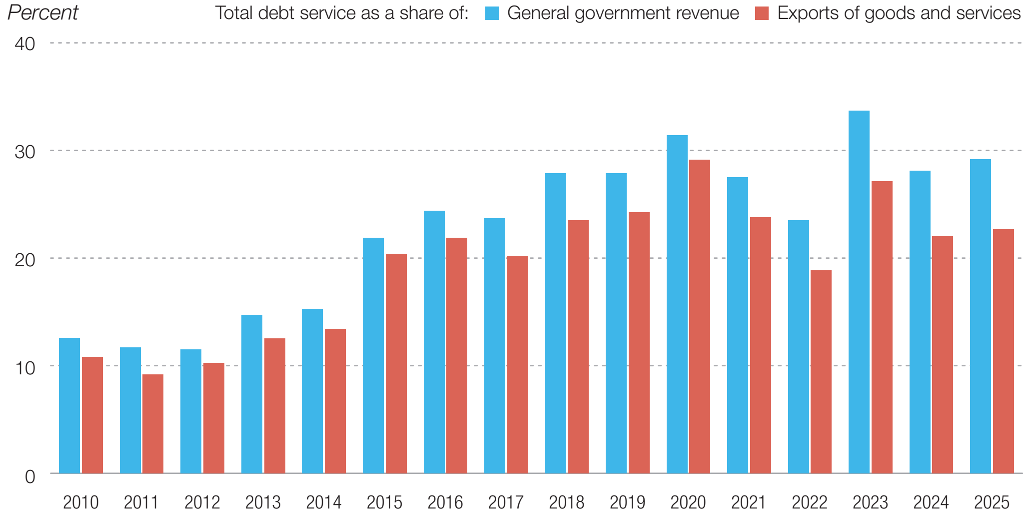


Source: African Development Bank staff calculations using data from World Bank International Debt Statistics and African Development Bank statistics.

Note

1. Due to data restrictions, the interest rate used in this analysis is the average interest on new external debt commitments.

FIGURE 3.2 Total public debt service in Africa, 2010–25



Source: African Development Bank staff calculations using data from World Bank International Debt Statistics.

may require many African countries to restructure and reprofile their debt maturities. Already Zambia, Ghana, and Ethiopia have made progress in negotiating debt restructuring, offering lessons for countries seeking to restructure their debt.

After four years of cascading shocks, global financial conditions are easing, ending a two-year absence from eurobond markets

African sovereign yield spreads are trending down but remain substantially above the global average (figure 3.3). Several African countries, including Benin, Côte d'Ivoire, Kenya, and Senegal, have since returned to international markets to issue sovereign bonds as global market conditions improve, but these issuances came at higher cost than previously. Kenya's new eurobond, for instance, was issued at a coupon rate higher than the 6.875 percent offered on the eurobond maturing in 2024. Senegal followed suit, raising $750 million in a eurobond issuance in June 2024, at a lower rate of 7.75 percent than

African sovereign yield spreads are trending down but remain substantially above the global average

FIGURE 3.3 Africa sovereign spread versus Emerging Market Bond Index (EMBI Global)

Source: African Development Bank staff calculations based on Haver Analytics.

those incurred by Benin (7.9 percent) and Kenya (10.37 percent) on their issuances, and similar to Côte d'Ivoire, which raised $2.6 billion at 6.61 percent in January 2024.

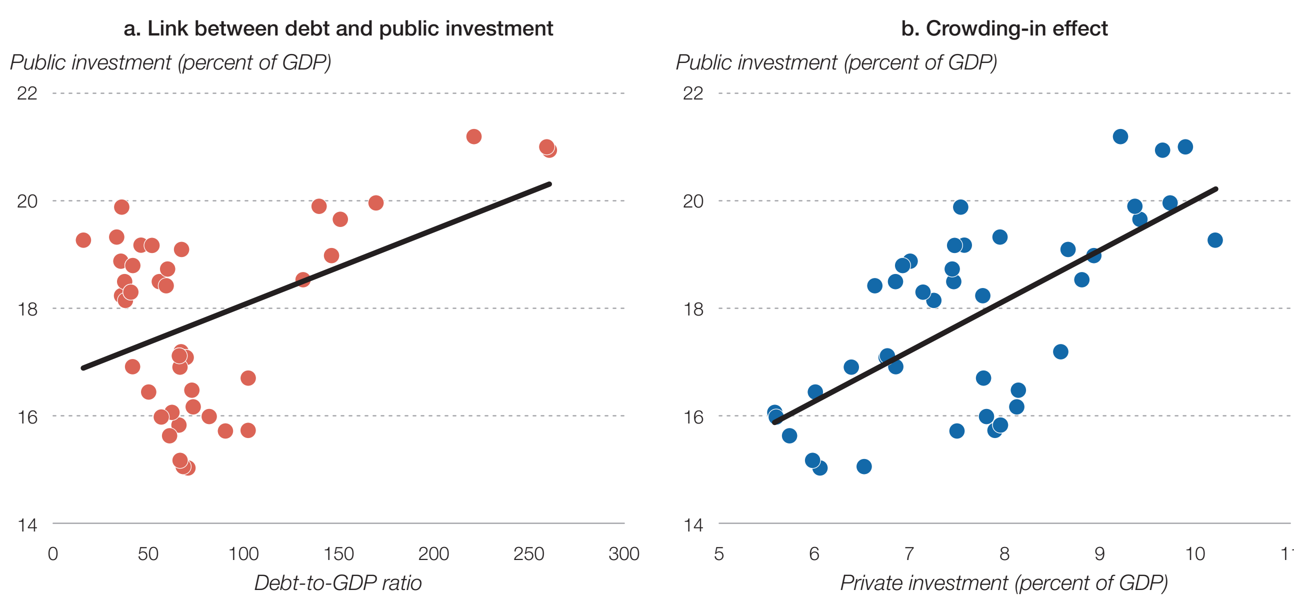
The return to the capital markets by African countries underscores the fact that eurobonds remain an option for financing African development, but with significant debt repayments scheduled for 2024 ($74 billion) and 2025 ($67 billion), most issuances were and are intended to refinance the earlier maturing debt, rather than invest in productive sectors and human capital development, thereby endangering future growth prospects and debt-repayment capacity. Further, these bond issuances offer higher coupon rates than those of previously issued and maturing debt. While global financial conditions are easing gradually, African governments will continue to grapple with the combination of a high debt burden, external funding squeeze, and temporary liquidity pressures.

Africa's debt accumulation has been used to stimulate investment, but debt-financed investment has not supported growth due low efficiency

Large and ambitious public investments have been a significant source of the recent debt buildup. Given limited domestic resources, debt is an important tool for financing public investment. Yet, an excessive debt burden may be costly as it could lead to reputational damage, loss of access to financial markets, depressed private sector activity, and withdrawal of foreign direct investment from countries. Indeed, debt accumulation between 1980 and 2022 is positively correlated with the increase of public investment (figure 3.4a). In addition, public investment in Africa is positively correlated with private investment (figure 3.4b), underscoring the crowding-in effect, which is key for driving economic growth. However, although many African countries took advantage of financing available at historically low rates to finance investment, especially in the 2010s, many did not take full advantage of that opportunity to support inclusive growth, and either wasted some of the vital financing or spent it on investment projects with low economic and social returns.

While debt accumulation is associated with increased public investment, there is also evidence that the link between debt financing and the growth-enhancing role of public investment is weakened by low efficiency. Indeed, growth returns to debt-financed investment are lower in Africa than in other low- and middle-income economies. Evidence shows that Africa has a public

FIGURE 3.4 **Public debt, investment, and growth in Africa, 1980–2022**



Source: African Development Bank staff calculations using data from International Monetary Fund World Economic Outlook statistics.

investment efficiency gap of 39 percent, higher than either Europe (17 percent) or Asia (29 percent).[3] This suggests that with policies focused on improving efficiency and returns, African countries can maximize the outcomes of public investment without increasing spending. If future investment programs are to pay for themselves, policymakers should be aware that improving the quality of institutions is the most important determinant of public investment efficiency, which is key in ensuring that debt is directed toward productive investments that spur growth.

NOTES

1. Absent reliable, consistent information on other debt-creating flows, this report does not attempt to isolate their contributions. Instead, these flows are grouped with residuals, which partly explains the large contribution of other flows in the final outcomes. A recent study has shown that on average across all Sub-Saharan African countries, median stock flow adjustments (SFAs) have represented about 1.5 percent of GDP a year in 2013–22 (IMF 2023b).
2. African Development Bank 2024.
3. African Development Bank 2021.

4

DOMESTIC RESOURCE MOBILIZATION FOR FINANCING AFRICA'S DEVELOPMENT

African countries continue to struggle to increase government revenue, including tax revenue

Africa's structural transformation and the implementation of the United Nations 2030 Agenda for Sustainable Development, the African Union's Agenda 2063, the Paris Climate Agenda, and the African Development Bank's Ten-Year Strategy 2024–2033 and the High 5 Agenda, require increased domestic resource mobilization and strategic policy actions to enhance the productivity of the continent's capital in all economic sectors. The cost of achieving the Sustainable Development Goals by 2030 in Africa is estimated at about $1.3 trillion a year, equivalent to 42 percent of the continent's projected 2023 gross domestic product (GDP).[1]

To raise such colossal financing, African countries should first increase domestic resource mobilization by focusing on government revenue—generally consisting largely of tax revenue—which is the main instrument that African governments use to finance economic and social development. Sufficient domestic resource mobilization from government revenue can help sustain efforts at providing adequate and quality social services and developing infrastructure to support more inclusive and sustainable growth. Despite recent efforts, however, Africa's average government revenue (excluding grants) dipped from 23.1 percent of GDP in 2010 to 20.2 percent in 2022 (figure 4.1a).

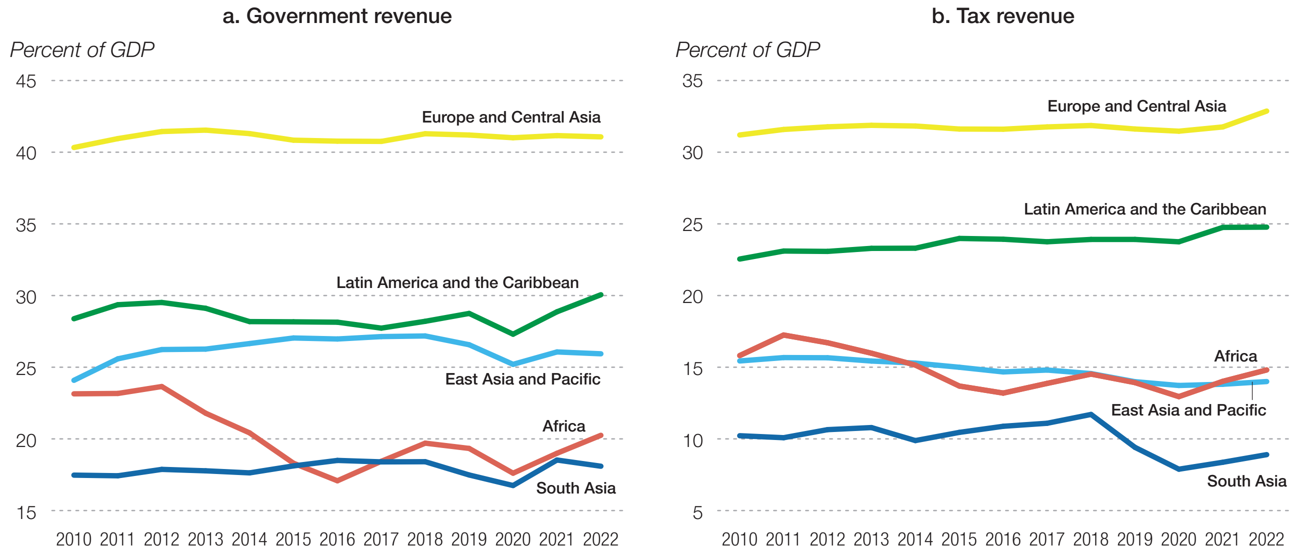
The reduction in government revenue is due mainly to a steady decline in tax revenue, which is the main source of domestic financing in most African countries. Tax revenue declined from 15.8 percent of GDP in 2010 to 14.8 percent of GDP in 2022 (figure 4.1b). The decline stemmed partly from inefficient tax collection systems and insufficient use of digital technologies. In 2015–19, Africa's average tax revenue was only 13.9 percent of GDP, below the 15 percent threshold needed for a developing country to finance meeting its Sustainable Development Goals.[2] This ratio is also well below the corresponding period average for Latin America (23.9 percent) and less than half the average for Europe and Central Asia (31.7 percent).

Across Africa, the Covid-19 pandemic exacerbated already-weak revenue collection, worsening the fragile fiscal situation in African economies. At the height of the pandemic in 2020, tax revenue fell by 1.0 percentage point to 12.9 percent of GDP from 2019. The economic recovery after resumption of economic activities led to a gradual improvement in revenue ratios toward pre-pandemic levels. Estimates for the post-pandemic period (2021–22) highlight the recovery in tax revenue to an average of 14.4 percent of GDP. Although 30 African countries recorded an increase in tax revenue in 2022 relative to the five-year average before the Covid-19 outbreak, only 20 countries had tax revenue above the 15 percent threshold.

The trends in government revenue mirror those in tax revenue. Government revenue declined by 1.7 percentage points to an average of 17.6 percent of GDP in 2020 from 19.3 percent in 2019. In 2022, government revenue reached 20.2 percent of GDP, a recovery from the Covid-19 pandemic–induced decline. Here too, Africa's performance was below comparator global regions, except South Asia (18.1 percent of GDP).

Reflecting economic diversity in the continent, government revenue ratios vary widely by

FIGURE 4.1 **Government revenue and tax revenue by global region, 2010–22**

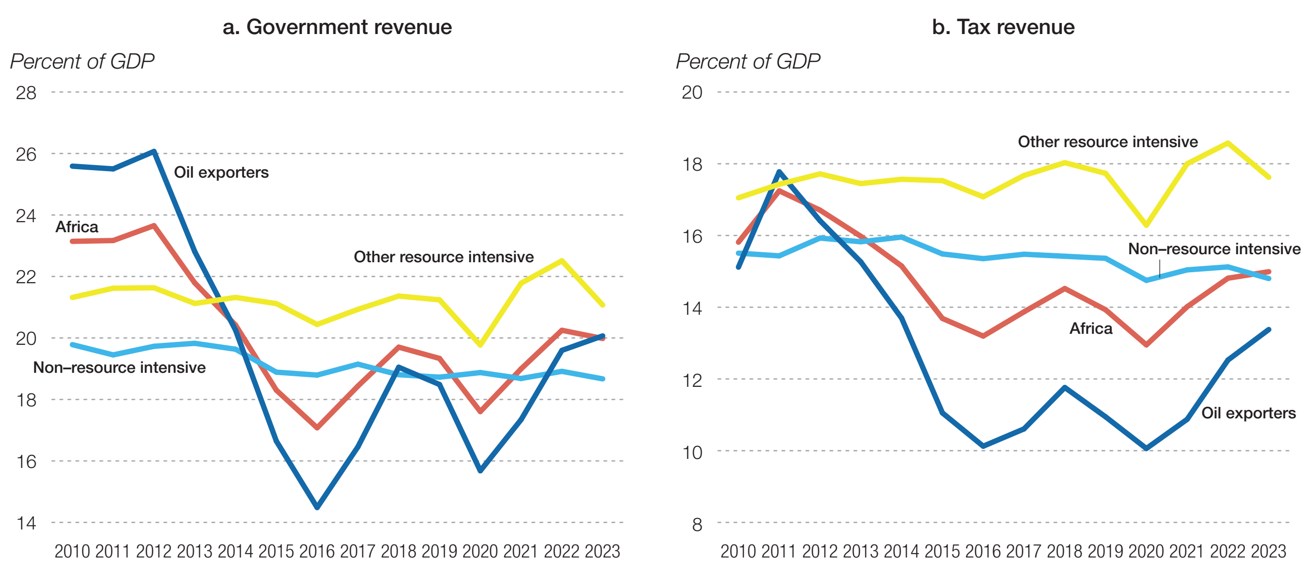


Note: Data refer to 2010–23 for government revenue and 2010–22 for tax revenue for other regions except Africa where 2023 data are available. For consistency, the figures for government revenue in 2023 are excluded.

Source: African Development Bank staff calculations using data from International Monetary Fund World Economic Outlook.

country grouping. The revenue trend in Africa was driven mainly by other resource-intensive countries (figure 4.2). For this grouping, government revenue and tax revenue in 2023 amounted to 21.1 percent and 17.6 percent of GDP, maintaining this grouping's decade-long position as the best performers in revenue mobilization. In oil-exporting countries, government revenue rose steadily from 15.7 percent of GDP in 2020—the lowest among country groupings—to 20.1 percent in 2023, after falling by 2.8 percentage points from 2019 to 2020 due to weak energy prices. Tax revenue followed a similar trend, increasing steadily in the post–Covid-19 pandemic period to reach 13.4 percent of GDP in 2023, up from 10.1 percent in 2020.

FIGURE 4.2 **Government revenue and tax revenue by country grouping, 2010–23**



Source: African Development Bank staff calculations using data from International Monetary Fund *World Economic Outlook.*

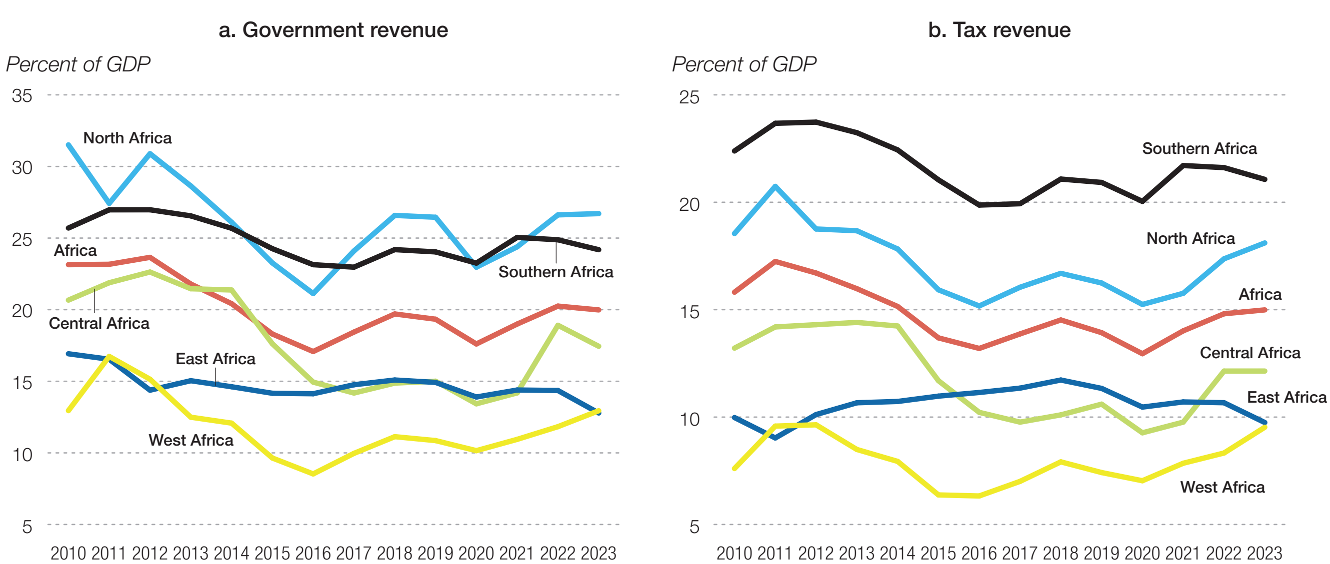
Both government revenue overall and tax revenue have been influenced by the cyclicality of commodity prices. Tax revenue in non-resource-intensive countries, which rely on direct income taxes such as corporate income tax and pay-as-you-earn schemes, has remained relatively stable since 2020, hovering around 15 percent of GDP. The stagnation highlights persistent inefficiencies in tax collection systems, as these levels remain below the 2010s, when tax revenue–to-GDP ratios were in a range of 15.3–16.0 percent.

Revenue mobilization differs by African region, with North and Southern Africa the top performers (figure 4.3). Average government revenue in 2010–23 came to 26.2 percent in North Africa and 24.8 of GDP in Southern Africa. For North Africa in particular, reforms aimed at improving tax collection and public financial management have enabled considerable progress in domestic resource mobilization in recent years.[3] Tax revenue collection in North Africa was highest in Algeria (27.8 percent of GDP in 2023) and Tunisia (25.2 percent), mainly reflecting efforts centered on adapting the legislative framework, giving in-depth training to staff at revenue collection offices, strengthening international cooperation to bolster tax administration and compliance, and using digital technologies to modernize tax system efficiency. In Morocco, the tax revenue ratio was 21.0 percent of GDP, reflecting benefits of several tax reforms, including simplifying tax procedures, broadening the tax base, and improving tax administration.

The relatively high tax revenue in Southern African reflects several tax reforms that have helped expand the tax base. Examples include Angola, where the government has improved the efficiency of tax collection and reduced tax evasion; São Tomé and Príncipe, where domestic resource mobilization has been improved through the introduction of value-added tax and planned energy reforms; and South Africa, where fiscal authorities implemented a global minimum tax to bolster the corporate income tax base and deployed artificial intelligence, as well as machine-learning technologies, to make revenue collection more efficient through assuring improved tax compliance and enforcement.

The regions with the lowest tax revenue ratios are West Africa and East Africa, averaging 7.9 percent and 10.6 percent of GDP in 2010–23. In West Africa, Cabo Verde and Senegal had the highest ratios in 2023 at 18.8 percent and 18.7 percent, followed by Burkina Faso at 18.3 percent. Despite being the region's largest economy, Nigeria's tax revenue–to-GDP ratio of 5.2 percent was the region's lowest in 2022. The country has, however, made strides in collecting non-oil revenue, with the ratio averaging an estimated 10.8 percent of GDP in 2019–22.

FIGURE 4.3 Government revenue and tax revenue by region, 2010–23



Source: African Development Bank staff calculations using data from International Monetary Fund *World Economic Outlook.*

African economies still face momentous challenges, hampering their capacity for domestic resource mobilization to finance development and promote sustainable and inclusive growth

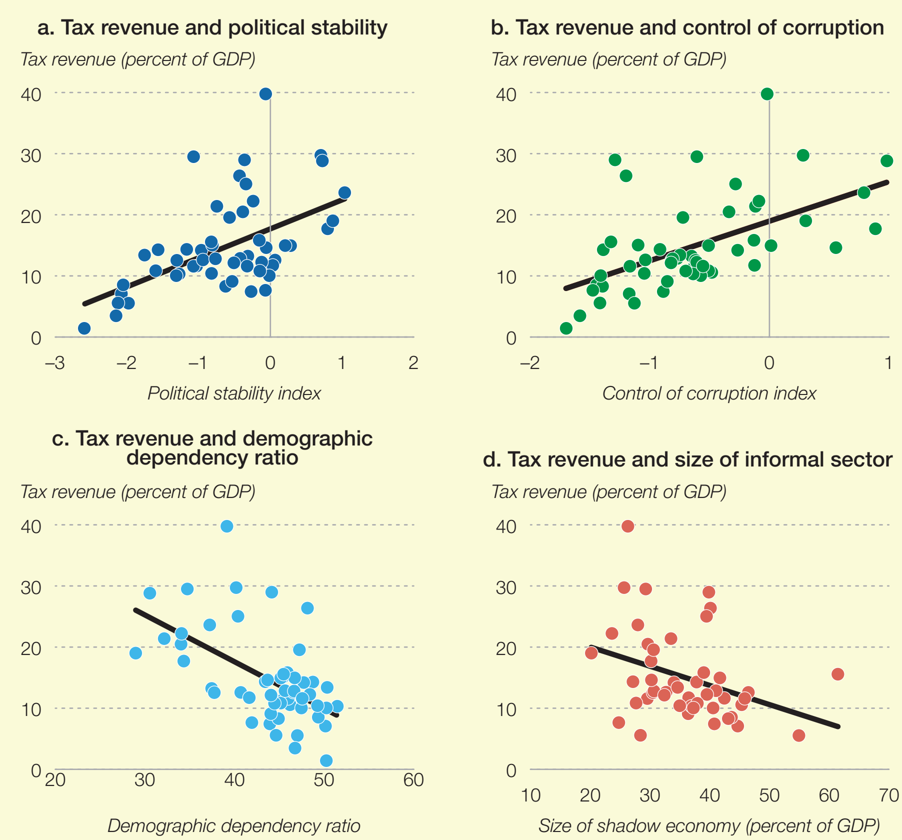
The empirical evidence shows that a country's domestic resource mobilization performance depends on multiple factors (box 4.1). Macroeconomic factors include development level, outstanding debt level, private investment rate, size of manufacturing sector, terms of trade, ease of access to private credit, inflation, and size of the informal sector. Demographic factors, such as the proportion of the working or economically

BOX 4.1 Institutional factors affecting tax revenue in Africa

The extreme bounds analysis is used here to identify the determinants of domestic resource mobilization in African countries over 2010–22. Consistent with other studies,[1] the empirical results show that better institutional quality, such as political stability, control of corruption, a lower demographic dependency ratio, and a smaller informal sector are associated with higher domestic resource mobilization in Africa. By disrupting economic activity, political instability and armed conflict can reduce mobilization of tax revenue through several channels. Indeed, they generally discourage domestic and foreign investment, reduce the tax base, and trigger substantial capital flight, making it harder to conduct domestic resource mobilization.

Box figure 4.1.1 shows clear positive and negative correlations between tax revenue and some of the determinants identified. Confirming the importance of political stability, the results show

BOX FIGURE 4.1.1 Tax revenue (percent of GDP) and institutional factors



Source: African Development Bank statistics.

(continued)

BOX 4.1 Institutional factors affecting tax revenue in Africa *(continued)*

that countries facing conflict, such as Somalia, Sudan, Central African Republic, and Democratic Republic of Congo, are the least effective at domestic resource mobilization. Corruption also has a detrimental effect on domestic resource mobilization, contributing to misappropriated public funds, dissuading citizens from paying taxes, and encouraging illicit financial outflows from Africa, depriving countries of a valuable source of revenue.

Although the African population is on average young, the demographic dependency ratio, measured by the ratio of the economically inactive population (0–14 years and 65 years and above) to the economically active population (15–64 years) varies widely by country. The dependency ratio increases with unemployment and inactivity, which impairs domestic resource mobilization. Finally, increased informal activity lowers the tax base and hence domestic resource mobilization. Reducing the size of the informal sector is therefore a key challenge for increased domestic resource mobilization in Africa.

Note

1. Sala-i-Martin 1997; Hlavac 2016; Bruns and Ioannidis 2020.

dependent population and the degree of urbanization, are also determinants of domestic resource mobilization. At institutional level, authorities' ability to maintain a stable political environment and fight corruption, and to create a favorable economic environment (including sound property rights and simplified administrative procedures), is critical. Weak tax administrations in most African countries are also a key hindrance to domestic resource mobilization.

NOTES

1. African Development Bank 2023.
2. According to Gaspar, Jaramillo, and Wingender (2016), a tax revenue–to-GDP ratio of 15 percent is found to accelerate growth and sustainable development.
3. African Development Bank 2023.

5

POLICY RECOMMENDATIONS

Although Africa's economic prospects have improved, they remain fragile in the face of numerous global, regional, and domestic shocks. As a result, many African countries continue to face macroeconomic challenges, including volatile growth, persistent inflationary pressures, high debt vulnerabilities, large fiscal deficits, and low domestic resource mobilization. Mutually reinforcing monetary, fiscal, and structural policies will be required to achieve the twin objectives of stimulating growth and of reducing inflation. While a broad range of stimulative policies is required, there is a need for better coordination and sequencing of these policies in the short, medium, and long term, and—whenever there is limited policy space for maneuver—support of the international community would be warranted.

Short-term policy recommendations

Ensure close coordination of monetary and fiscal policies aimed at addressing supply-side constraints

- Success here will help in achieving low and stable inflation, sustaining current growth prospects, and shielding the economy from global and domestic shocks. In the short term, central banks in Africa should maintain their contractionary monetary policy to curb inflation while fiscal authorities provide targeted support to the most vulnerable populations through social safety nets to help prevent a further deterioration in living standards. Better coordination between monetary and fiscal policies is needed and, now more than ever, should be aimed at strengthening the supply side of the economy and at enhancing firms' ability to adapt to domestic and external shocks.
- Policies include improving infrastructure to lower transportation and energy costs, investing in agriculture to increase food production and reduce dependency on food imports, investing in human capital to ensure complementarity with infrastructure, increasing domestic production of refined petroleum products to reduce reliance on global supply chains, and promoting industrialization to create jobs and diversify economies.
- Strengthening regional trade and cooperation can also help buffer against global economic shocks by reducing reliance on external markets. This move would address the persistent inflationary pressures that Africa has been facing due to supply-side constraints while putting the continent on a more sustainable and inclusive growth path; build resilience; and save foreign exchange reserves. Further, if contractionary monetary policy leads to strains in the financial system, macro-prudential tools should be employed to address financial stability risks.

Build foreign reserves buffers to strengthen resilience to global shocks and to the adverse impacts of exchange rate depreciation on macroeconomic performance, trade, and the broader economy

- Exchange rate pressures have far-reaching economic consequences for African economies. The recent waves of downward pressure on their currencies have imposed onerous costs, including higher living expenses, increased debt burdens, pressures on foreign exchange reserves, heightened uncertainty, and business disruptions—all of which threaten macroeconomic and financial stability. While many of these pressures have been driven by global factors, domestic issues such as inappropriate foreign exchange and reserve management policies, fiscal deficit monetization, and low relative productivity are also significant.

- To enhance resilience against global shocks, African governments should build foreign reserve buffers, which are necessary to shield the economy against foreign exchange liquidity pressures and exchange rate depreciation, and to avoid systemic financial risks arising from balance sheet and maturity mismatches. Capital-flow management measures during disruptive outflows and foreign exchange interventions can be pursued but should not be a substitute for necessary macroeconomic adjustments. Further, removing sector-specific and other financial barriers to investment can attract foreign capital to shore up foreign exchange reserves, stabilize the exchange rate, increase exports, and lay the foundation for future economic growth.

To enhance resilience against global shocks, African governments should build foreign reserve buffers

Pursue preemptive debt restructuring to prevent more countries from falling into debt distress and potential default

- Countries at risk of debt distress, facing high repayments over 2025–26 and under liquidity pressure due to limited access to the international capital market to buy back maturing debt, need to undertake preemptive debt restructuring to avoid default. Multilateral development banks and the broader international community must help ensure timely, accountable, and transparent conclusion of debt treatment.
- The recent restructuring experiences in Zambia and Ghana can serve as models for other countries seeking to restructure their debt under the G20 Common Framework. For example, the time for staff approval of Official Creditors Committee assurances was reduced from seven months in Zambia to five months in Ghana. This timeframe is comparable to that observed in recent restructuring cases not covered by the Common Framework, such as Suriname (seven months) and Sri Lanka (five months). The time lag between Official Creditors Committee assurances and agreement on the main terms of debt treatment has shortened considerably from 12 months in Zambia's restructuring case to 6 months in Ghana's case. For non-Common Framework cases, the observed timeframe is 7 months for Suriname and 10 months for Sri Lanka.
- In contrast, countries facing high repayments but whose macroeconomic fundamentals are improving and creating some room for further borrowing can still borrow to refinance maturing debt to avoid the threat of default and further jeopardizing their economic situation.

Medium- to long-term policy recommendations

Radically step up and prioritize investment in integrated productive physical infrastructure by deploying domestic and foreign capital

- Africa's recent tepid growth outturns and projected modest pickup in 2025–26 is attributed to continued global and domestic macroeconomic and structural challenges. Its continued vulnerability to shocks calls for policy prioritization aimed at building the foundation for future growth resilience through enhanced macroeconomic stability and for accelerated structural reforms to foster stronger and more inclusive growth.
- Investment in integrated productive infrastructure will encourage innovation across large parts of the economy, open productive sectors to private participation, and spur technological spillovers from global markets into the continent. Such investment is key to accelerating the pace of structural transformation and economic diversification, which would help lessen countries' exposure to commodity price volatility and its concomitant negative effects on growth.
- Further, investment in climate-proofed infrastructure, sustainable water management, greater use of drought-resistant seeds, and support for resilient farming practices will reduce the vulnerabilities to climate change. Countries need also to invest in early warning systems against extreme weather conditions, such as droughts and floods, and establish climate-risk management mechanisms to minimize their economic impact.

Leverage regional integration and trade policies under the African Continental Free Trade Area (AfCFTA) for export diversification and improved domestic competitiveness—the key for driving inclusive and sustainable development

- The potential benefits of the AfCFTA are immense. According to World Bank estimates, the AfCFTA could lift 40 million people out of extreme poverty by 2035, increase intra-Africa trade by 81 percent, and raise incomes by $450 billion—all in the first phase of implementation. Fast-tracking implementation of commitments under the AfCFTA to realize the potential of the world's largest free trade area would provide a ready, continental market for African countries and thus lessen exposure to global shocks that affect demand for exports.
- Implementing structural reforms, including expediting trade integration and improving the business environment to attract more foreign direct investment, may well diversify funding sources and the economy.
- Given the difficult external financial environment and growing financing needs, especially for the green transition, African countries will need more support from the international community, including multilateral and regional development banks. Reforms to the international financial system[1] could help unlock access to more affordable, long-term funding to help developing and emerging countries fight poverty, tackle global challenges—including climate change—and maximize development impact.

Develop long-term strategies both to enhance the business environment for efficient provision of quality public services and to accelerate the pace of structural transformation

- Possible strategies include, for instance, replacing colonial laws and rules with new ones suited to Africa's present-day development imperatives, improving standards for the business environment, and defining policies to guide potential investors.
- The absence of clear and robust long-term policies to attract private investment in many countries fosters increased perception of investment risk and deters private actors from investing in the continent. For instance, despite the advent of green and smart technologies, only 7 African countries have long-term strategies, and only 18 have policies and regulations specifically designed to attract private participation in green growth projects. African countries should therefore translate their national development plans into comprehensive sectoral strategies and plans, and design regulatory mechanisms that respond to the needs of the modern economy, covering all sectors. These strategies should also be fully mainstreamed into the whole economy—not developed and implemented in silos—to stimulate economywide productivity gains.
- Further, African countries could facilitate the emergence of national champions tasked with leading economic diversification and foster backward and forward linkages with smaller firms, which will deepen domestic markets.[2] Policies such as preferred procurement to encourage domestic production and the growth of small and medium enterprises, and local-content and franchising policies to create incentives that will attract investment from multinational corporations, should be prioritized.

Accelerate policy reforms to incentivize technology transfer between foreign and local firms

- Proactively pursuing and promoting franchising while leveraging the technological know-how of foreign firms can also promote cross-border investment among African countries to complement local-content policies and requirements, especially where capacity—technical and financial—is lacking. But to maximize the benefits of franchising, countries need to identify domestic capacity gaps and select franchising models that suit their own contexts and serve best their interests.
- The experience of Morocco offers pertinent lessons. Leveraging on significant investments in the mid-2000s, particularly in transport and logistics infrastructure, the country embarked on an export-driven industrial strategy—the Industrial Acceleration Plan 2014–2020—focused on scaling up the country's participation in technology-intensive global value chains.

Fast-tracking implementation of commitments under the AfCFTA to realize the potential of the world's largest free trade area would provide a ready, continental market for African countries and thus lessen exposure to global shocks that affect demand for exports

- The development of industrial and logistic hubs around the country's world-class infrastructure, complemented by policies to incentivize manufacturing firms to relocate their operations to these hubs, facilitated substantial investment by major automotive groups and car component makers, contributing to manufacturing sector's share of foreign direct investment rising from 15 percent in 2010 to 37 percent in 2019. Morocco is now Africa's leading producer and exporter of cars, with manufacturing value added accounting for 15 percent of the country's gross domestic product in 2023.[3]

To grow out of debt sustainably, countries need to improve the efficiency and productivity of debt-financed investment by ensuring that debt is used to finance the most productive projects that generate enough growth and fiscal revenue to pay off debt

Ensure effective implementation of macroeconomic policies and structural reforms, given African countries' increasing debt vulnerability and limited domestic resource mobilization

- Recent debt trends in many African countries have highlighted the need for vigorous governance reforms to strengthen debt management capacities. Countries need therefore to initiate and consistently implement governance reforms to strengthen debt management capacity and transparency.
- A stronger link between debt and investment—the productive use of debt—would help ensure debt sustainability on the continent. To grow out of debt sustainably, countries thus need to improve the efficiency and productivity of debt-financed investment by ensuring that debt is used to finance the most productive projects that generate enough growth and fiscal revenue to pay off debt. Countries also need to develop intertemporal fiscal rules to avoid becoming overindebted or falling into a debt crisis.
- Addressing the risk of high public debt calls for strengthening domestic fiscal councils—where they exist—and debt management offices with clearly defined mandates to monitor fiscal management and provide policy advice to governments. In Africa, only Kenya, South Africa, and Uganda have fiscal councils, and if well designed and effectively utilized, can be an important avenue for providing annual policy advice that feeds into budget planning and contributes to prudent fiscal management.
- Countries also need to increase debt transparency by improving the collection, reporting, and management of debt statistics and by strengthening the monitoring of state-owned enterprises to reduce fiscal risks from undisclosed debt and contingent liabilities.
- Other measures to improve public finances that focus on revenue mobilization are still the first line of defense in a world of higher borrowing costs and lower financing options. Still, the priority should be to minimize the impact of fiscal consolidation on lives and livelihoods.
- On the financing side, there remains an urgent need for concessional financing. This is an area where the international community will need to provide more support, with multilateral and regional development banks potentially exploring options to further leverage their balance sheets in support of a more inclusive, sustainable, and prosperous future. The African Economic Outlook 2024 underscored the importance of implementing the multilateral development bank capital-adequacy reforms and rechanneling special drawing rights through the multilateral development banks as an important mechanism to increase concessional financing for Africa.

Harness value addition in critical and rare earth minerals so as to mobilize additional domestic resources for complementing tax revenue in Africa

- Projections by the International Energy Agency show that demand for critical minerals will increase 3.5 times from 2021 levels to more than 30 million tons by 2030 under the 2050 net-zero emissions scenario.[4] Electric vehicles and battery storage will be the main drivers of demand growth, alongside major contributions from low-emission power generation and electricity networks. Under the 2050 scenario, global revenues from the production of just four key minerals—copper, nickel, cobalt, and lithium—are estimated to amount to $16 trillion over the next 25 years (in 2023 US dollar terms), with Africa expected to reap more than 10 percent of these cumulative revenues.
- For African countries rich in these critical minerals, this boom provides an opportunity to mobilize resources to complement their

domestic tax revenues for financing structural transformation by moving from merely extracting and exporting these raw minerals to processing them, thereby increasing value added, creating higher-skilled green jobs, and increasing foreign reserves.

Reform the international debt architecture to make it more transparent, flexible, accessible, and affordable to developing countries

- To facilitate debt restructuring, the International Monetary Fund and World Bank Debt Sustainability Framework methodology for assessing debt sustainability needs to be improved. This includes updating the framework to reflect the changing structure of economies and the impact of shocks on economies, particularly in Africa. The Debt Sustainability Framework methodology should be made publicly available so that the results can be easily replicated and independently validated.
- The Debt Sustainability Framework should consider climate risks, loss and damage, and the resources needed for increased investment in climate resilience, the transition to a green economy, increased defense spending to mitigate the threat of insurgency, and the provision of regional and global public goods.
- On creditworthiness, cooperation between multilateral development banks and international rating agencies needs to be strengthened to improve country risk assessment methodologies and reduce the subjectivity of African credit ratings. This will reduce the perceived risk of private investment in African countries.
- African countries should work with these rating agencies to provide up-to-date data and clarify the risk perceptions assigned to them in order to mitigate apparent subjectivity. Sovereign debt can also help reshape African sovereign debt risks in a world characterized by increasing macroeconomic uncertainty.

NOTES

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2. African Development Bank 2024.
3. Kateb 2024.
4. IEA 2023.

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ANNEX 1

DETERMINANTS OF GROWTH VOLATILITY IN AFRICA: RESULTS FROM THE EXTREME BOUNDS ANALYSIS APPROACH

Variable	(1) Coef.	(2) SE	(3) Pct ($\beta \neq 0$)	Normal model (N)	
				CDF ($\beta \leq 0$)	CDF ($\beta > 0$)
Inflation volatility	0.014	0.008	62.164	6.666	93.334
Foreign exchange reserves volatility	0.404	0.141	56.978	0.274	99.726
Investment volatility	0.118	0.108	49.232	14.688	85.312
Export concentration index	1.907	1.412	40.717	11.401	88.599
Fuel dependency	0.074	0.046	39.821	9.312	90.688
Rainfall volatility	0.076	0.042	38.412	5.409	94.591
Financial development	–0.011	0.011	26.12	83.319	16.681
Net foreign asset volatility	0.06	0.032	25.16	8.641	91.359
Financial openness	0.893	0.471	24.584	15.657	84.343
Official development assistance volatility	0.159	0.107	23.367	7.778	92.222
Rule of law	–0.983	0.632	20.294	91.954	8.046
Terms of trade volatility	0.057	0.056	19.974	19.547	80.453
Public debt ratio	0.012	0.007	19.526	4.885	95.115
Trade openness	0.008	0.008	16.581	19.781	80.219
Foreign direct investment volatility	0.166	0.106	15.365	6.414	93.586
Drought	–0.156	0.25	10.691	72.581	27.419
World uncertainty, country level	0.178	2.029	7.426	46.707	53.293
Human capital	–0.132	0.454	5.634	61.376	38.624
Food dependency	0.079	0.064	4.994	12.366	87.634
Political stability	–0.315	0.497	4.289	71.358	28.642
Inequality index	0.026	0.022	1.985	12.053	87.947
Remittance volatility	0.108	0.187	0.512	28.676	71.324
Intercept	0.954	0.898	52.745	17.659	82.341

Note: Differences presented are robust to heteroskedasticity. The variance inflation factor is set at 7 to avoid the multicollinearity problem. Variables that more significantly explain growth volatility in African countries are colored and ranked in decreasing order of significance level (see column 3).

Source: African Development Bank staff calculations.

ANNEX 2

REVISITING INFLATION PERSISTENCE IN AFRICA

Dependent variable: Headline inflation using full sample (1998–2022)

	Africa	Central Africa	East Africa	North Africa	Southern Africa	West Africa
π_{t-1}	0.634*** (0.192)	0.998*** (0.241)	0.676*** (0.133)	0.801*** (0.153)	0.415* (0.208)	0.405*** (0.106)
π_{t-2}	−0.147 (0.171)	−0.567* (0.250)	−0.391** (0.147)	−0.341** (0.128)	0.106 (0.143)	−0.132** (0.0508)
q_t	1.365*** (0.501)	4.185 (2.826)	2.369 (1.561)	0.424 (0.229)	2.370* (1.312)	0.796** (0.367)
x_t	−0.0196 (0.0118)	−1.223 (0.663)	0.0385 (0.0607)	0.0104 (0.00569)	−0.0677 (0.0598)	−0.00441 (0.00551)
Constant	5.822*** (0.798)	23.96* (11.67)	8.267*** (1.860)	1.691* (0.685)	9.556** (3.240)	4.439*** (0.666)
Observations	1,209	161	267	138	299	344
Number of groups	54	7	13	6	13	15

Dependent variable: Headline inflation using pre–Covid-19 pandemic sample (1998–2019)

	Africa	Central Africa	East Africa	North Africa	Southern Africa	West Africa
π_{t-1}	0.713*** (0.235)	1.000*** (0.238)	0.458** (0.170)	0.762*** (0.186)	0.362 (0.267)	0.384*** (0.114)
π_{t-2}	−0.261 (0.179)	−0.572* (0.248)	−0.436*** (0.105)	−0.354* (0.156)	0.202 (0.167)	−0.117** (0.0518)
q_t	2.042 (1.963)	11.41 (8.540)	2.939 (2.147)	1.660* (0.674)	5.396 (4.262)	0.278 (0.790)
x_t	−0.0298** (0.0144)	−1.494 (0.769)	0.0388 (0.0438)	0.0175*** (0.00383)	−0.0823 (0.0510)	−0.00926 (0.00544)
Constant	6.495*** (0.932)	29.80* (14.65)	11.02*** (3.048)	1.639** (0.517)	9.732*** (2.446)	4.439*** (0.628)
Observations	1,050	140	231	120	260	299
Number of groups	54	7	13	6	13	15

Note: Data are sourced from International Monetary Fund World Economic Outlook 2024 database. Output gap is calculated as the difference between actual and potential output as a percentage of potential output, with potential output being determined using an Hodrick–Prescott filter. The Driscoll and Kraay (1998) estimation method was used; it provides robust standard errors to correct for heteroskedasticity, autocorrelation, and cross-sectional dependence in panel data.

Source: African Development Bank staff calculations.

ANNEX 3

DETERMINANTS OF INTRA-AFRICAN TRADE IN MANUFACTURED GOODS: A GRAVITY MODEL

To study the determinants of intra-African trade in manufactured goods, a gravity model—an econometric approach known in the literature to analyze trade flows between two entities (countries, regions, etc.)—was used. This model is based on an analogy with the law of gravity, where trade is proportional to the "economic mass" of countries (gross domestic product [GDP]) and inversely proportional to the "economic distance" (trade costs, barriers, etc.). The basic equation is presented as follows:

$$Trade_{ij} = \rho \cdot \frac{GDP_i \cdot GDP_j}{Distance_{ij}^{a}} \cdot e^{-\theta Z_{ij}}$$

where $Trade_{ij}$ represents the trade flows between countries i and j, GDP_i (GDP_j) represents the GDP of country i (country j), $Distance_{ij}$ is the distance between i and j, Z_{ij} is a vector of additional explanatory variables (Economic Community of West African States membership, trade policy, etc.), and ρ, α, θ are the parameters to be estimated.

Taking the logarithmic transformation and expressing it in the form of a panel data econometric model yields the following specification:

$$\ln(Trade_{ij,t}) = \beta_0 + \beta_1 \ln(Distance_{ij}) + \beta_2 \ln(GDP_{i,t}) + \beta_3 \ln(GDP_{j,t}) + \sum_l \partial^l Z^l_{ij,t} + \varepsilon_{ij,t}$$

For this study, and in line with recent literature, a panel data model was used, specified as follows:

$$\begin{aligned}\ln(ManufTrade^{AFR}_{ij,t}) \\ &= \beta_0 + \beta_1 \ln(Dist_{ij}) + \beta_2 \ln(Mig^{AFR}_{ij,t}) + \beta_3 \ln(FTA_{ij,t}) + \beta_4 \ln(GDP_{ij,t}) \\ &+ \beta_5 \ln(Price_{ij,t}) + \beta_6 PS_{ij,t} + \beta_7 Xconc_{ij,t} + \beta_8 LPI_{ij,t} + \beta_9 ComLang_{it} + \varepsilon_{ij,t}\end{aligned}$$

In this specification,

- $ManufTrade^{AFR}_{ij,t}$ represents for a given country the intra-African trade in manufactured products, as a percentage of the country's GDP.
- $Mig^{AFR}_{ij,t}$ represents the intra-African migration rate, measured for a given country i by the sum of the number of intra-African immigrants and emigrants, relative to the population of country i.
- FTA_{ij} represents free trade agreements, an important variable capturing the effects of trade policy decisions.
- $GDP_{ij,t}$ measures the product of the GDPs of the destination and origin countries.
- $Price_{ij,t}$ measures the product of the consumer price indices in the two countries, to capture the effect of prices on trade.
- $PS_{ij,t}$ is the cumulative political stability index in the two trading countries to assess the impact of political stability on trade.
- $Xconc_{ij,t}$ is the cumulative export concentration index of the two countries.
- $LPI_{ij,t}$ is the cumulative logistics performance index (quality of trade and transport-related infrastructure) of the two countries to capture the effect of transport infrastructure on trade between them.
- $ComLang_{ij}$ are binary variables (1/0) capturing the effects of sharing a common official language.

TABLE A3.1 The drivers of intra-regional trade in manufactured products

	(2)	(3)
Variables	**PPML2**	**PPML3**
Distance, log	–1.001*** (0.072)	–1.003*** (0.072)
Intra-African migration rate	0.213*** (0.020)	0.183*** (0.011)
Free trade agreements	0.707*** (0.112)	0.730*** (0.139)
Common official language	0.290*** (0.101)	0.041 (0.119)
Gross domestic product, log	0.341*** (0.027)	0.303*** (0.033)
Price index, log	–0.291*** (0.090)	–0.390*** (0.144)
Political stability index	0.290*** (0.047)	0.248*** (0.067)
Export concentration index	–0.972*** (0.203)	–0.444** (0.186)
Logistics performance index		0.378*** (0.127)
Constant	–7.534*** (1.322)	–7.221*** (1.988)
Observations	10,316	6,499
R-squared	0.276	0.381
Time fixed effects	Yes	Yes

Note: Standard errors in parentheses are robust to heteroscedasticity. *, **, and *** denote significance at the 10 percent, 5 percent, and 1 percent confidence level, respectively. The regressions were performed on five-year data from 2000 to 2023.

Source: African Development Bank staff calculations.

ANNEX 4

METHODOLOGICAL NOTE ON AFRICA'S DEBT DECOMPOSITION EXERCISE

The methodology for decomposing Africa's debt drivers builds on Acosta-Ormaechea and Martinez (2021), aligned with the International Monetary Fund's Debt Sustainability Analyses. This approach examines the dynamics of general government gross debt by incorporating all key contributing factors. The debt dynamics equation can be expressed as follows:

$$
\begin{aligned}
d_t - d_{t-1} = {} & \frac{i_t}{(1+g_t)(1+\pi_t)}\, d_{t-1} - \frac{\pi_t}{(1+\pi_t)}\, d_{t-1} \\
& + \frac{\varepsilon_t^{eop} + i_t^f\left[(1+\varepsilon_t^{eop})\, e_t^{avg} / e_t^{eop} - 1\right]}{(1+g_t)(1+\pi_t)}\, \alpha_{t-1} d_{t-1} - \frac{g_t}{(1+g_t)(1+\pi_t)}\, d_{t-1} \\
& - pb_t + of_t + sf_t^{ier},
\end{aligned}
$$

where:

- d_t is the debt-to–gross domestic product (GDP) ratio in year t;
- $i_t = \alpha_{t-1}(1+i_t^f) + (1-\alpha_{t-1})(1+i_t^d) - 1$ is the nominal weighted average effective interest rate without exchange rate valuation effects, i_t^f and i_t^d denoting the effective interest rate on foreign-currency and domestic-currency debt, respectively and α, the share of foreign-currency debt in total debt;
- g_t is the real GDP growth rate, and π_t is the inflation rate, measured by GDP deflator;
- e_t^{eop} and e_t^{avg} denote the end-of-period and average exchange rates, respectively, expressed in terms of national currency per one unit of foreign currency. $\varepsilon_t^{eop} = e_t^{eop}/e_{t-1}^{eop} - 1$ therefore, gives the depreciation rate of the end-of-period exchange rate;
- pb_t is the primary deficit as a proportion of GDP;
- of_t refers to other net debt-creating flows as a share of GDP and includes transactions affecting gross debt but not captured in the overall balance, such as contingent liabilities, debt relief, and drawdown of assets;
- sf_t^{ier} is the stock-flow adjustment due to intra-period exchange rate fluctuations in the proportion of GDP (see Acosta-Ormaechea and Martinez, 2021).

This decomposition assumes one foreign currency, which could be a limitation when countries borrow in multiple foreign currencies. However, this approach is standard and should not create significant discrepancies as long as there are not large fluctuations in the exchange rate between the currencies in which the debt is denominated.

The equation decomposes changes in sovereign debt-to-GDP ratios into seven key components. These components, in the order they appear in the equation, represent the contributions of real interest rate; relative inflation; exchange rate; real GDP growth; primary deficit; other net debt-creating flows; and stock-flow adjustment. While this framework captures the primary drivers of debt dynamics, actual changes in debt-to-GDP ratios may not align perfectly with the sum of these contributions. This discrepancy arises from various factors, such as unidentified flows due to cross-exchange rate valuation effects not fully captured; intra-period exchange rate fluctuations not reflected in the annual difference between average and end-of-period exchange rates, and differences between accrual and cash accounting. A residual term is therefore used to capture those differences between the observed changes and the identified contributions.

While this decomposition provides detailed insights into the key drivers of public debt, its implementation poses significant data challenges, particularly when applied across a large set of countries, as the analysis aims to do for the widest possible number of African nations. In consequence, the implementation of the methodology in this report relies on some simplifying but realistic assumptions and proxies.[1] For example, due to lack of consistent, comprehensive data on foreign-currency debt, it is approximated using external debt, which is reasonable to the extent that the bulk of foreign-currency debt in African economies is held by non-residents. Interest expense is derived as the difference between the primary balance and the overall balance. Then, interest expense for each currency (foreign and national) is approximated using information on the share of foreign-currency debt in total debt. In the absence of reliable, consistent information on other debt-creating flows, this report does not attempt to isolate their contribution. Instead, these flows are grouped with residuals, which partly explains the large contribution of other flows in the final outcomes.

1 Thanks to Leonardo Martinez and Maria Anastacio for their support in this exercise.

ANNEX 5
STATISTICAL APPENDIX

TABLE A5.1 Real gross domestic product growth (percent)

	2023	2024 (estimated)	2025 (projected)	2026 (projected)
Central Africa	**4.5**	**4.0**	**3.9**	**4.1**
Cameroon	3.2	3.8	4.2	4.4
Central African Rep.	1.0	1.1	2.1	3.0
Chad	4.9	3.1	3.6	3.8
Congo, Rep.	2.0	2.7	3.7	3.5
Congo, Dem. Rep.	8.6	5.5	5.3	5.0
Equatorial Guinea	–5.1	1.6	–2.4	0.8
Gabon	2.4	3.2	2.9	2.6
East Africa	**1.2**	**4.4**	**5.3**	**6.1**
Burundi	3.3	2.0	3.5	4.5
Comoros	3.1	3.3	4.1	4.3
Djibouti	7.5	6.8	7.0	6.8
Eritrea	2.8	2.9	3.1	3.1
Ethiopia	6.6	7.3	6.4	6.7
Kenya	5.6	4.9	5.0	5.1
Rwanda	8.2	7.3	7.1	7.1
Seychelles	3.1	3.3	4.0	3.9
Somalia	4.2	4.0	4.1	4.0
South Sudan	2.5	–26.4	27.2	41.6
Sudan	–37.5	–10.8	–3.4	1.2
Tanzania	5.1	5.6	6.1	6.1
Uganda	4.9	6.2	6.8	7.6
North Africa	**3.8**	**2.7**	**3.9**	**4.2**
Algeria	4.1	4.0	3.7	3.2
Egypt	3.8	2.4	3.9	4.8
Libya	9.1	–3.2	7.5	3.1
Mauritania	6.5	4.8	4.6	5.2
Morocco	3.4	2.9	3.9	3.6
Tunisia	0.1	1.2	1.4	1.8

(continued)

	2023	2024 (estimated)	2025 (projected)	2026 (projected)
Southern Africa	**1.7**	**1.8**	**3.0**	**3.1**
Angola	1.0	3.5	4.0	4.3
Botswana	2.7	–1.7	4.0	4.5
Eswatini	5.0	3.6	6.8	4.5
Lesotho	1.8	2.5	2.7	2.2
Madagascar	4.2	4.3	4.8	5.0
Malawi	1.9	1.8	4.0	4.2
Mauritius	5.6	5.1	4.5	4.0
Mozambique	5.4	3.8	3.5	4.0
Namibia	4.2	3.5	2.6	4.7
São Tomé and Príncipe	0.4	1.7	3.1	4.7
South Africa	0.7	0.9	1.7	1.8
Zambia	5.4	1.2	6.2	5.7
Zimbabwe	5.3	2.0	5.3	4.0
West Africa	**3.6**	**4.1**	**4.6**	**4.5**
Benin	6.4	6.5	6.4	6.9
Burkina Faso	3.6	4.8	5.6	5.1
Cabo Verde	5.1	5.9	5.3	4.6
Côte d'Ivoire	6.5	6.5	6.3	6.3
Gambia	5.3	5.7	6.0	5.3
Ghana	2.9	4.4	4.5	4.9
Guinea	5.7	4.1	5.8	5.7
Guinea-Bissau	4.4	5.1	5.6	5.8
Liberia	4.6	5.1	5.7	5.8
Mali	4.7	4.9	5.1	5.3
Niger	2.7	8.8	7.7	6.2
Nigeria	2.9	3.1	3.5	3.6
Senegal	4.3	4.6	10.5	6.6
Sierra Leone	5.7	3.9	4.7	4.9
Togo	6.4	6.6	6.8	6.9
Africa	**3.0**	**3.2**	**4.1**	**4.4**

Source: African Development Bank statistics.

TABLE A5.2 Country groupings

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
		South Sudan			Seychelles
		Sudan			South Africa
		Tunisia			Tanzania
		Uganda			Tunisia
					Zimbabwe

Africa's economies continue to contend with economic and social challenges stemming from the persistence of multiple shocks: the growing impact of geopolitical fragmentation, regional and global tensions, climate change, and other risks exacerbated by the effect of COVID-19. Inflationary pressures also remain entrenched and persistent and have all but eroded any marginal gains from the continent's recent growth performance due to sustained increases in the cost of living, with large segments of the population facing reduced purchasing power and deterioration in living standards.

In the face of these mutually reinforcing challenges, Africa's economic performance and prospects have improved, although signs of fragility remain. Average real GDP growth in Africa was estimated at 3.2 percent in 2024. While this growth rate is less than half the minimum of 7 percent threshold considered necessary to lift millions of poor people out of poverty, it is slightly higher than the 3.0 percent recorded in 2023.

Growth is projected to accelerate to 4.1 percent and 4.4 percent in 2025 and 2026, respectively. The projected medium-term improvement in growth performance will be underpinned by the benefits of economic reforms implemented in many African countries over the past two years, including those aimed at tackling the cost-of-living crisis and improving the fiscal and debt positions. In 2025, growth in 24 African countries, led by Djibouti, Niger, Rwanda, Senegal, Libya and South Sudan, is expected to exceed 5 percent, and Africa will account for twelve of the world's top 20 fastest growing economies.

Although Africa's medium-term prospects appear more favorable, growth remains fragile due to a myriad of countervailing factors. While continued fiscal consolidation efforts and successful conclusion of both external and domestic debt treatments could significantly reduce public debt vulnerabilities, further improving Africa's fiscal outlook and growth, downside risks related to rising protectionism—fueled by deglobalization and geopolitical tensions, could disrupt trade between Africa and its main trading partners, thereby weakening the medium-term outlook for growth.

Against this backdrop, this January 2025 edition of *Africa's Macroeconomic Performance and Outlook* proposes a mix of well-coordinated short- and medium- to long-term policies to address the impact of the multiple shocks and increase the resilience of Africa's growth prospects:

- **Close coordination of monetary and fiscal policy to address supply-side constraints to curb inflation.**
- **Building up foreign exchange reserve buffers to strengthen resilience to global shocks and the negative impact of exchange rate depreciation on macroeconomic performance.**
- **Preventive debt restructuring to prevent further countries from falling into debt distress and potentially defaulting.**
- **Leveraging value addition in critical minerals and rare earths to mobilize additional domestic resources to supplement fiscal revenues.**
- **Reforms to the international financial and debt architecture to make it more transparent, flexible, accessible and affordable for developing countries.**

African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org

QR to come