AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

AFRICAN ECONOMIC OUTLOOK 2024

Driving Africa's Transformation

The Reform of the Global Financial Architecture

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COUNTRY NOTES

CENTRAL AFRICA

Cameroon

Recent macroeconomic and financial developments

The economic growth rate rose from 3.6% in 2022 to 3.8% in 2023 thanks to the good performance of the forestry and logging sector and the dynamism of the services sector. On the demand side, growth was driven mainly by private investment. Inflation, which stood at 6.3% in 2022, rose to 7.4% in 2023, driven by food prices, which rose 11.1%.

The budget deficit improved from 1.1% of GDP in 2022 to 0.9% in 2023 due to greater rationalization of public spending, policies aimed at broadening the tax base (from the current tax burden of 12.6% of GDP, and rising oil prices. Public debt fell from 45.3% of GDP in 2022 to 41.8% in 2023, though the International Monetary Fund still classifies the country as being at high risk of debt distress. The current account deficit narrowed from 3.4% of GDP in 2022 to 2.7% in 2023 due to improved primary income balances and increased gas production. The quality of the banking system's portfolio deteriorated slightly, with the gross delinquency ratio rising from 13% to 15.4% between end-2022 and mid-2023. But the equity ratio rose from 15% to 16.3% over the same period.

According to the World Bank, among the economically active population, the $2.15 a day poverty rate was an estimated 23% in 2023, and the unemployment rate was an estimated 3.7%, due to weak economic growth.

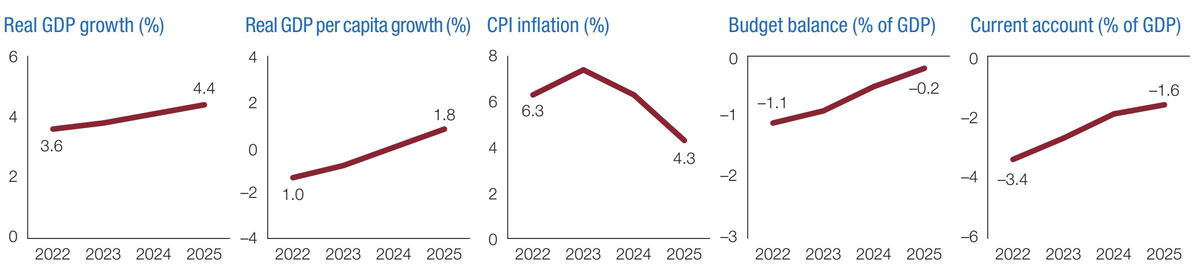
Outlook and risks

GDP growth is projected to reach 4.1% in 2024 and 4.4% in 2025 thanks to a gradual increase in domestic gas production and higher world commodity prices. Inflation is projected to fall to 6.3% in 2024 and 4.3% in 2025 due to the continued tightening of monetary policy by the Bank of Central African States. The budget deficit is projected to further improve to 0.5% in 2024 and 0.2% in 2025 thanks to continued tax reforms and rationalization of public spending. The current account deficit is also projected to improve to 1.9% in 2024 and 1.6% in 2025 as gas exports continue to increase. Risks of this growth outlook are linked to Russia's invasion of Ukraine and the Israel–Hamas war, with negative consequences for product supply chains, as well as a possible resurgence of social tensions within the country.

Reform of the global financial architecture

Structural transformation has been slow. Between 2000 and 2023, there was a net increase in the contribution of the services sector to GDP, from 44.3% to 51.9%, at the expense of the industrial sector, whose hare declined from 34.1% of GDP to 25%. The structure of employment changed considerably between 1990 and 2019, with a net decrease in the share of employment in the agricultural sector from 70% in 1990 to 43% in 2019, while the share in services rose from 20% to 42%. The share of employment in industry remained largely stable over the period.

To ensure structural transformation, the country must step up efforts to mobilize not only domestic resources but also the concessional external resources needed to finance energy and transport infrastructure projects at affordable rates. Reforming the global financial architecture to increase Africa's decisionmaking power in the major international financial institutions is imperative. This will enable Africa's priorities to be better taken into account, especially with respect to access to stable, long-term resources. For Cameroon, a Congo Basin country rich in natural resources, such reform would enable better valorization of its natural capital, revalue its national wealth, and provide access to additional financial resources, notably from a potential carbon market.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Central African Republic

Recent macroeconomic and financial developments

Although weak since 2020, economic growth has picked up slightly, from 0.5% in 2022 to 1% in 2023. On the supply side, this slight recovery was driven by the agriculture sector (up from 0.3% in 2022 to 1.2% in 2023). The industrial sector recorded growth of 0.5%, up from a decline of 0.8% in 2022, and the services sector a growth of 0.7%, up from 0.6%. Sectoral contributions to GDP were 52% for agriculture, 23% for industry, and 25% for services. On the demand side, growth was driven by final consumption (up 15.6%). Investment (up 0.9%) was limited by insufficient domestic and external financing. Inflation fell from 7.9% in 2022 to 5.6% in 2023 thanks to recovery in agricultural production and fuel price subsidies since July 2023.

The budget deficit narrowed from 5.4% of GDP in 2022 to 3.7% in 2023, reflecting the gradual modernization of public revenue collection. But the risk of external and global debt distress remains high, with the debt-to-GDP ratio at 49% in 2023. The current account deficit narrowed from 12.4% of GDP in 2022 to 8.5% in 2023 thanks to favorable balances in primary and secondary income accounts. The financial sector was marked by increased deposits (10.7%) in 2023. Nonperforming loans rose from 15.5% of gross loans in December 2022 to 16.4% in December 2023.

Poverty remains widespread. 68% of the population (4.2 million people) lives below the national poverty line (with €401 in annual income), and 10% of the non-poor population is vulnerable to poverty and likely to become poor in the event of a shock. Unemployment stands at 28% for men and 42.5% for women, and the Gini coefficient is 43.

Outlook and risks

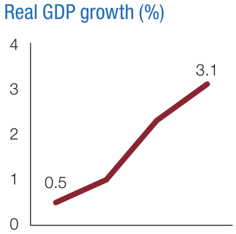
Economic recovery is projected to continue, with growth of 2.3% in 2024 and 3.1% in 2025 and inflation of 4.1% in 2024 and 3.4% in 2025. Likewise, prospects for reducing the public deficit are improved by measures under way to substantially boost domestic revenue mobilization through ongoing reforms, notably those affecting both tax and nontax revenues. Tailwinds for this outlook include consolidation of peace and internal security, improvements in energy and fuel supplies, and acceleration of implementation of ongoing projects, notably the Pointe-Noire–Bangui Corridor financed by the African Development Bank.

Reform of the global financial architecture

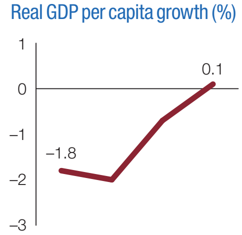
The economy remains heavily dependent on agriculture. Its contribution to GDP fell from an average of 42% over 2001–2010 to 35% over 2011–2020, while that of the services sector rose from 33% to 40% and that of the industrial sector remained mostly stable at 25% and 22%. Agriculture employs 70% of the workforce, and services employs 22%. This dynamic is strongly influenced by multiple conflicts that have led to the destruction of the capital stock that could have contributed to structural transformation.

To relaunch structural transformation, the country needs to improve its institutional governance and natural resources management, mobilize domestic and external resources without compromising debt sustainability, and boost overall factor productivity, particularly human capital. This would allow the landlocked country to take advantage of the opportunities under the African Continental Free Trade Area by industrializing by integrating into regional value chains. Achieving these ambitious aims will require substantial resources. Reforming the global financial architecture could facilitate access to financing opportunities offered by financial products based on valorizing natural resources, such as green bonds, and could encourage the establishment of a regional carbon market. To achieve this, the country will need a strategy for valuing and transforming its natural resources.

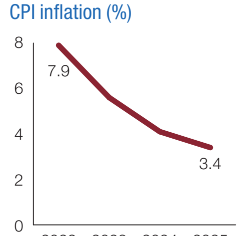
Real GDP growth (%)



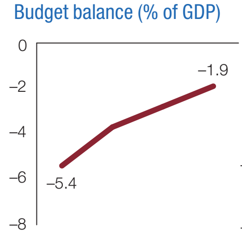
Real GDP per capita growth (%)



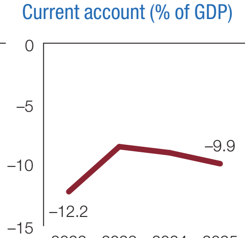
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Chad

Recent macroeconomic and financial developments

The economic growth rate stood at 4.3% in 2023, up from 3.4% in 2022, driven on the supply side by the oil sector (up 13.3% in 2023) and on the demand side mainly by net exports (up 7.4% in 2023). Inflation eased from 5.8% in 2022 to 4.8% in 2023, above the Economic Community of Central African States (ECCAS) target of 3%, fueled by high food prices (18.8% at end-December 2023).

The budget balance, in surplus since 2022, was 4.8% of GDP in 2023, due to an exceptional increase in oil revenues. The debt-to-GDP ratio was 20.5% in 2022. The country has benefited from the Group of 20's (G20) Debt Service Suspension Initiative and, in November 2022, reached an agreement in principle through the G20 Common Framework on close to $3 billion of debt. In 2022, public debt servicing fell to 5.7% of GDP, and the risk of debt distress is expected to be moderate in the medium term. The current account surplus improved from 5.9% of GDP in 2022 to 1.8% in 2023, underpinned by strong growth in oil exports. The banking system remains fragile. Bad debts accounted for 39.7% of total bank loans in 2023, up from 36.1% in 2022, and the risk coverage ratio was 5.8% in 2022, down from 9% in 2021.

The national incidence of poverty is 42.3%, and the Gini coefficient is 0.34. The unemployment rate was 18.5% in 2018, according to the country's National Institute of Statistics, Economic and Demographic Studies. Because of the Covid-19 pandemic, the extreme poverty rate rose from 31.2% in 2018 to 34.9% in 2021 and 35.4% in 2023, according to the World Bank.

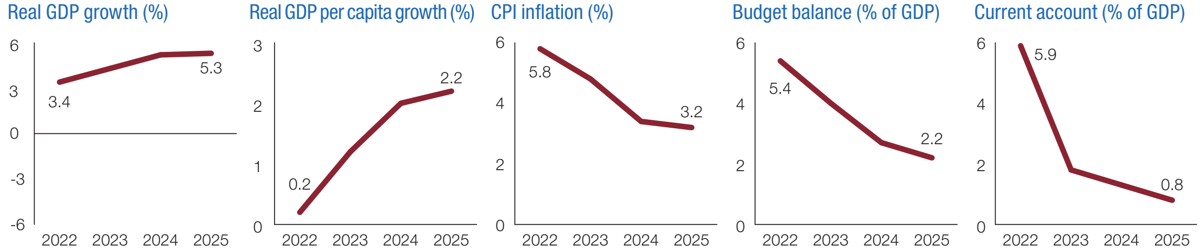
Outlook and risks

The economic outlook remains favorable, with projected growth of 5.2% in 2024 and 5.3% in 2025, driven by the buoyant oil sector. On the demand side, growth drivers are investment and exports. Inflation could fall to 3.4% in 2024 and to 3.2% in 2025, remaining above the ECCAS target of 3%. The budget balance is projected to be in surplus, at 2.7% of GDP in 2024 and 2.2% in 2025. Over the same period, the current account balance is also projected to remain in surplus, at 1.3% of GDP in 2024 and 0.8% in 2025, due to higher oil exports. The main risks to the medium-term macroeconomic outlook are possible tensions following the 6 May 2024 presidential election, subregional insecurity, volatile world oil prices, global geopolitical crises, and climate change impacts. Conclusion of the third review of the program signed with the International Monetary Fund in 2021 and supported by an Extended Credit Facility will further strengthen the macroeconomic framework, increase mobilization of nonoil fiscal resources, and improve debt sustainability.

Reform of the global financial architecture

From 2005 to 2023, agriculture accounted for almost 50% of GDP, followed by services and industry. Economic diversification is now the centerpiece of the country's development strategy, particularly in the agricultural sector, which has immense potential for creating value chains. In 2022, the agricultural sector (farming and livestock breeding) accounted for an average 25% of GDP and employed 69% of the working population. Services accounted for 21% of employment, and industry for 9.6%. But the pronounced shortfalls in agricultural production, energy, transport, and infrastructure development are major impediments to inclusive and sustainable growth. Added to these are constraints linked to climate change, which is affecting the ecological balance of some of the country's regions, specifically arid regions, and the livelihoods of people who depend heavily on livestock breeding and rain-fed agriculture.

To finance and accelerate structural transformation, the country could take advantage of its enormous natural capital, valued at $75.4 billion, to mobilize more international financing. Better access to both public and private climate financing (green bonds), substantial concessional resources, and innovative financing, such as partial risk guarantees, would help the country meet the enormous financing needs of the National Development Plan 2024–2028, estimated at $22.25 billion, including $4.33 billion to be raised from the international financial community.



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Democratic Republic of Congo

Recent macroeconomic and financial developments

The economic growth rate fell from 8.8% in 2022 to 7.5% in 2023, due to underperformance in extractive industries (where the growth rate fell from 22.3% in 2022 to 15.4% in 2023). Growth in nonextractive sectors rose from 3.1% in 2022 to 3.6% in 2023, driven by agriculture (up 0.45%), construction and public works (up 0.57%), and transport and telecommunications (up 0.61%). Growth was also supported by exports (up 17.3%) and investment (up 9.2%). Inflation rose from 9.3% in 2022to 19.9% in 2023, due to the Congolese franc's depreciation against the US dollar (down 21.8%) and constraints on food and energy supplies. As a result, the central bank has kept its prime rate at 25% since August 2023 to curb the monetary depreciation caused by budget deficit financing.

The budget deficit rose from 0.5% of GDP in 2022 to 1.7% in 2023 due to a 56.4% increase in exceptional spending (security and elections), despite a 5.4% increase in revenue and grants in 2023 (13.6% of GDP). The country faces a moderate risk of debt distress, with the public debt-to-GDP ratio falling from 22% in 2022 to 21.5% in 2023, and external debt rising from 14.8% of GDP in 2022 to 17.8% in 2023. The current account deficit widened from 4.9% of GDP in 2022 to 6.3% in 2023, driven by deteriorating terms of trade (–8.1%) and high imports. International reserves increased by 18% to 2.8 months of import cover in 2023. With the re-establishment of credit criteria by the central bank, the nonperforming loans ratio fell from 7.4% in 2022 to 6.5% in 2023.

The government is targeting inclusive growth and reduced inequality. The Gini coefficient was 0.511 in 2020, the poverty rate was 56.2%, and underemployment was 15.1%.

Outlook and risks

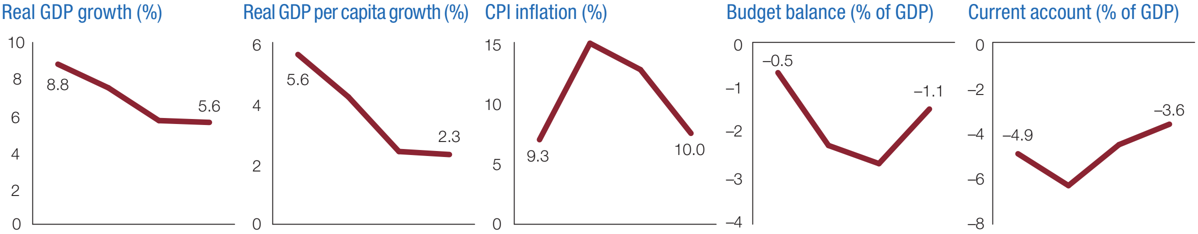
Growth prospects for the economy are projected to remain favorable, at 5.7% in 2024 and 5.6% in 2025, driven by the mining sector, construction and public works, and trade. Inflation is expected to fall to an average of 13.5% over 2024–25, in line with the central bank's restrictive policy. The budget deficit is projected to rise to 2% of GDP in 2024 as postelectoral institutions are installed and to fall to 1.1% in 2025. The strategy for clearing certified domestic arrears ($2.4 billion) is operational, and the average debt-to-GDP ratio is expected to remain below 20%. The current account deficit is projected to improve to an average of 4% of GDP due to foreign direct investment. Cumulative reserves are expected to reach $6.1 billion, or 2.3 months of import cover. Upside risks include uncertainties linked to Russia's invasion of Ukraine, the Israel–Hamas war, falling commodity prices, inflationary and foreign exchange tensions, and insecurity in the east of the country, with the looting of minerals. Solutions for carrying out structural transformation and improving GDP per capita (currently $731.3) include coordinating fiscal and monetary policies, implementing structural investments (in particular industrialization and agricultural transformation programs), and pursuing structural reform.

Reform of the global financial architecture

Structural transformation is slow and remains a major challenge. Over 2005–20, agriculture's share of employment fell from 71.1% to 60%, while industry's share rose from 7% to 10.7%. Services' share climbed even more, from 22% to 29.3%. Employment is shifting from agriculture to industry and services due to the low productivity of agricultural jobs, a large informal sector, and the dominance of the capital-intensive mining sector. Capital accounts for 82% of production inputs and labor for 18%. Constraints to structural transformation include border insecurity, infrastructure challenges, an unattractive business environment, and weaknesses in human capital, institutions, governance, and financing.

Financing problems are hampering structural transformation. To cover its development needs, the country would gain most by pursuing better governance of its natural capital and financial resources and would thus benefit from reform of the global financial architecture. The country could benefit from concessional financing and innovative financing windows (climate funds). But speeding up structural reforms by abolishing unfair mining contracts, improving public revenue and spending efficiency, and invigorating the business climate to take advantage of foreign direct investment and regional integration is expected to bring more financing for the country's structural transformation.

Real GDP growth (%) | Real GDP per capita growth (%) | CPI inflation (%) | Budget balance (% of GDP) | Current account (% of GDP)



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Republic of Congo

Recent macroeconomic and financial developments

The economic recovery strengthened in 2023, with growth of 3.9%, up from 1.7% in 2022. This was driven by the strong performance of the oil sector (up 1.4%) thanks to higher oil prices, as well as the nonoil sector (up 2.8%), with good dynamism in the agricultural sector (up 5.7%), especially food crops. On the demand side, growth was underpinned by domestic consumption (up 5.6%), the clearance of government arrears, and public investment spending (up 6.6%). Monetary policy was accommodating, enabling credit to the economy to grow 11.1% in 2023. Inflation stood at 4.1% in 2023, up from 3.3% in 2022, in line with the adjustment in fuel prices and rising domestic demand.

The country recorded a budget surplus of 4.2% of GDP in 2023, down from 8.9% in 2022, as a result of fiscal discipline and major reforms such as the 30% increase in fuel prices at the pump. The public debt-to-GDP ratio, up from 92.5% in 2022 to 96% in 2023, is considered sustainable. But the country still faces debt overhang due to the accumulation of temporary external arrears and the unfinished restructuring of domestic arrears. The current account posted a surplus of 3.5% of GDP in 2023, down 15 percentage points from 2022. Foreign exchange reserves stood at 2.6 months of import cover, up from 1.5 in 2022. On the financial front, overdue receivables were up 1.4% in 2023.

Though economic activity has picked up, stronger, more inclusive growth is needed to reduce the estimated rates of poverty (46.8% in 2023) and unemployment (21.8%).

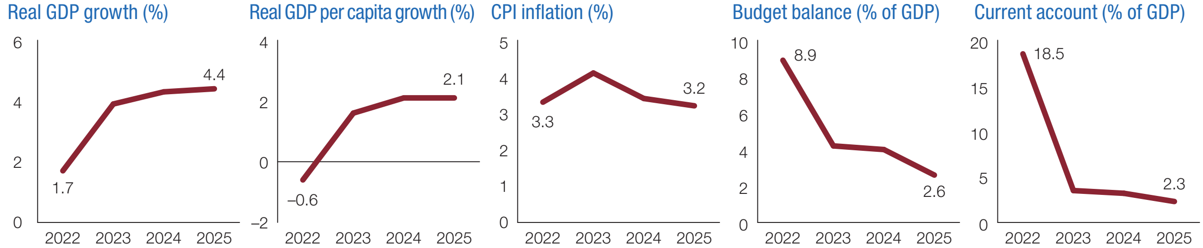
Outlook and risks

Economic growth is projected to accelerate to 4.3% in 2024 and to 4.4% in 2025 on increased oil production, planned investments in the gas sector, and planned clearance of the state's arrears to national economic operators. Inflation is projected to fall to 3.4% in 2024, slightly above the Central African Economic and Monetary Community (CEMAC) target of 3%, in anticipation of improved food supplies in the domestic market. The budget surplus is projected to reach 4% of GDP in 2024 and 2.6% in 2025 thanks to improved revenue and partly financed by the issuance of government securities on the regional market. The current account is expected to remain in surplus, at 3.2% of GDP in 2024 and 2.3% in 2025, due to increased oil and gas exports. However, economic performance remains subject to a number of risks, including persistent insecurity in the subregion; volatile oil production and prices due to restrictive policies by the Organization of the Petroleum Exporting Countries plus other oil-producing countries, which may affect oil prices and supply; rising food prices; and unfavorable weather.

Reform of the global financial architecture

Structural transformation has not yet occurred. Services, at 47.1% of GDP, and industry, at 45.3% of GDP, dominate the economy, with agriculture accounting for just 7.6% of GDP. From 1991 to 2021, agriculture's share of employment declined from 43.3% to 33.5%, while services' share rose from 31.1% to 45%, and industry's share rose very slightly, from 21.5% to 25.7%. The main obstacles to economic transformation are dependence on oil, weak human capital, poor governance, and an unattractive business environment. Accelerating structural transformation will require investment in transport and energy infrastructure and skills development.

The major challenge for structural transformation remains financing. In addition to mobilizing more domestic resources (from the current tax burden of 10.7% of GDP), the country should use its considerable natural capital to generate additional resources. After it restructures its debt and benefits from the Group of 20's Debt Service Suspension Initiative, reforming the global financial architecture should enable it to benefit from more concessional financing through improved access to regional and global financing windows (notably climate funds and carbon and green bond markets).



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Equatorial Guinea

Recent macroeconomic and financial developments

The economy went into recession in 2023, with real GDP contracting 5.7% after growing 3.7% in 2022, due to oil contracting to 12.8% of GDP in 2023 after growing 1.7% in 2022. Demand-side drivers were slowed by a 26.7% drop in net exports. Inflation fell from 4.9% to 2.5% in 2022, due to government measures to reduce prices (import of products resold at preferential prices). The monetary policy of the Bank of Central African States (BEAC) remained restrictive, with tighter bank refinancing conditions, a halt to liquidity injections, and larger liquidity withdrawals. These measures also helped curb inflation.

The budget recorded a 0.8% surplus in 2023, down from 11.9% in 2022, due to a 59% drop in oil tax revenue in 2023. The public debt-to-GDP ratio rose from 34.6% in 2022 to 42.1% in 2023, driven by domestic debt (31.9% of GDP). External debt servicing also rose from 4.3% of exports to 7.8% but remains low. The current account surplus shrank from 2.1% of GDP in 2022 to 0.9% in 2023, due to underperforming hydrocarbon exports (down 35%). As a result, international reserves stood at 5.4 months of import cover in 2023, down from 6.1 in 2022, but remain above the three-month target set by the BEAC.

Poverty was 76.8% in 2006 (the most recent data), and the Gini coefficient was 0.502. Provisional results from the second household survey are expected by the end of June 2024. The unemployment rate is 8.5%.

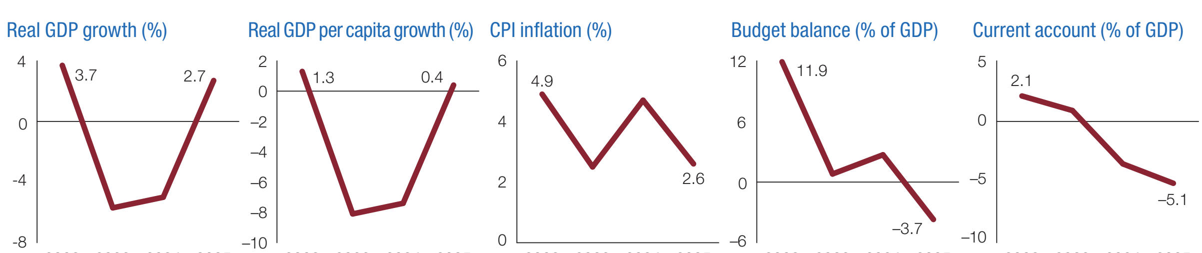
Outlook and risks

The recession is projected to continue, with GDP contracting 5% in 2024 and hydrocarbon production falling 6.3%. But development of new gas wells is expected to boost gas production by 2025. The budget balance is projected to improve in 2024 to a surplus of 2.7% of GDP, due to greater mobilization of nonoil revenue, but then to deteriorate in 2025 to a deficit of 3.7% of GDP. The current account balance is projected to continue to worsen, reaching a deficit of 3.5% of GDP in 2024 and 5.1% in 2025, driven by a structural deficit in the balance of services and income. Inflation is projected to rise to 4.7% in 2024, above the Economic Community of Central African States target of 3%, with the planned reduction in fuel subsidies, before falling back to 2.6% in 2025. The prospects of lower oil prices combined with aging oil fields and the consequences from the war in the Middle East and Russia's invasion of Ukraine present risks for the government's planned social programs.

Reform of the global financial architecture

The country has undergone some structural transformation. Agriculture's share of employment fell from 55% in 1991 to 40% in 2019, while industry's share rose from 10% to 19% and services' share rose from 35% to 41%. The main challenges to structural transformation are a downward trend in labor productivity in the industrial sector, weak development of value chains, and low mobilization of internal resources in the nonoil sector.

To finance structural transformation, the country needs to rehabilitate the financial sector in the short term and reduce the share of hydrocarbons in the economy (42% of GDP, 95% of exports, and 90% of total revenue) in the medium and long terms. The country could benefit from reforms to the global financial architecture by enhancing the value of its natural capital to revalue its national wealth and make itself more solvent for its financial partners. The country could also implement a regional carbon exchange among the Congo Basin countries.



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Gabon

Recent macroeconomic and financial developments

The economic growth rate slowed from 3% in 2022 to 2.3% in 2023 thanks to an 18% drop in oil prices linked to weak international demand. Growth was driven on the supply side by strong performances in construction and public works (up 25.3%) and cash crop farming (up 17.3%) and on the demand side by government consumption (election-related spending). During 2023, the central bank's monetary policy remained restrictive, with tighter bank refinancing conditions, a halt to liquidity injections, and larger liquidity withdrawals. These measures helped bring inflation down from 4.3% in 2022 to 3.6% in 2023.

The budget balance swung to a 0.1% deficit after a 1.4% surplus in 2022, due to a greater increase in public spending (election-related expenses) than in revenue. The debt-to-GDP ratio at the end of 2023 was 57.4%, up from 54.3% in 2022. Debt servicing amounted to 53.1% of budget revenue in 2023, up from 47.4% in 2022, due to the size of eurobond refinancing maturing in 2025 and 2031. The current account surplus was estimated at 2.8% of GDP in 2023, an improvement from 0.9% in 2022, due to a decline in the trade surplus and a more pronounced deficit in services and income. International reserves fell to 2.7 months of import cover in 2023 from 3.3 in 2022.

In 2023, high rates of poverty (34.3%) and unemployment (21.5%), combined with substantial income inequality (Gini coefficient of 0.38), will maintain social divisions in a country where GDP per capita is among the highest in Africa.

Outlook and risks

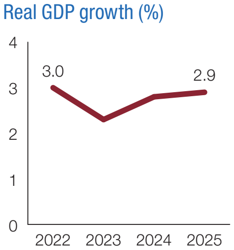
Economic growth is projected to accelerate slightly to 2.8% in 2024 and 2.9% in 2025, driven by the dynamism of the mining sector (manganese, iron) and public infrastructure investment. Inflation is projected to fall below the Economic Community of Central African States target of 3%, reaching 2.5% in 2024 and 2.3% in 2025, thanks to the central bank's restrictive monetary policy. The public budget deficit is set to further deteriorate, to 1.1% of GDP in 2024, before improving to 0.7% in 2025, due to increased government spending (salaries, capital expenditure). The current account balance is projected to improve in anticipation of higher prices for exported materials (oil, manganese, wood, and the like), swinging to a deficit of 0.9% of GDP in 2024 before returning to a surplus of 0.5% in 2025.However, this economic performance depends on developments in the national political and institutional situation following the coup of 30 August 2023 and on the state's capacity to mobilize resources, both internally and externally. Short-term growth could also be influenced by geopolitics in the Middle East as well as restrictive policies by Organization of the Petroleum Exporting Countries and other oil-producing countries, which will affect the price and supply of oil.

Reform of the global financial architecture

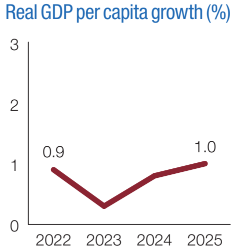
The Gabonese economy has begun a structural transformation but is proceeding slowly. Over 1992 to 2022, agriculture's share in employment fell from 44% to 29%, industry's share rose from 9% to 16%, and services' share rose from 46% to 55%. But productivity in the services sector and employment in industry are too low for the economy to benefit from these changes. The main obstacles to economic transformation are inadequate infrastructure, overdependence on oil, weak human capital, poor governance, and an unattractive business environment.

A key issue for structural transformation remains financing. Access to international financing often remains limited by criteria such as credit ratings, public indebtedness, and the ability to offer adequate guarantees, especially for the new transitional government in place since the August 2023 coup. The country can benefit from the global financial architecture to mobilize resources by taking advantage of concessional financing from multilateral banks, raising funds on regional and international financial markets, strengthening its domestic financial sector to facilitate local business financing and the issuance of green bonds, focusing on efficient and productive investment, and leveraging its substantial natural capital to generate additional resources.

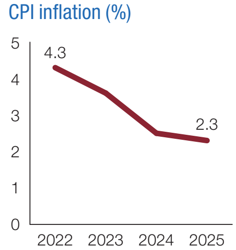
Real GDP growth (%)



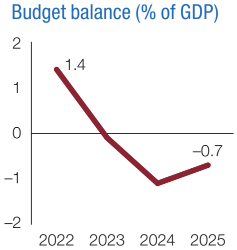
Real GDP per capita growth (%)



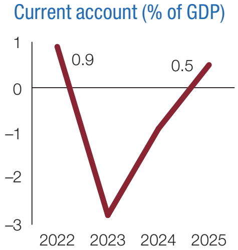
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

EAST AFRICA

Burundi

Recent macroeconomic and financial developments

Real GDP grew 2.8% in 2023, up from 1.8% in 2022, driven mainly by industry (up 4.7%) and services (up 2.7%) on the supply side and by public investment and private consumption on the demand side. Inflation rose from 18.8% in 2022 to 27.1% in 2023, due mainly to higher food prices (up 37.2%), driven by weak agricultural production and the 38.5% depreciation of the Burundian franc against the US dollar.

The budget deficit worsened from 5% of GDP in 2022 to 5.3% of GDP in 2023, following a greater increase in spending (29.2%) than in revenue (24%). Public debt rose from 68.4% of GDP in 2022 to 72.7% in 2023. According to the International Monetary Fund, the risk of external and global debt distress remain high. The current account deficit improved considerably from 13.7% in 2022 to 8.2% of GDP in 2023. But financial sector performance deteriorated, with the solvency ratio falling from 20.7% in 2022 to 19.8% in 2023 and nonperforming loans rising from 2.7% to 3.3% of gross loans.

According to the World Bank, the population living on less than $1.90 a day fell from 65.10% in 2013 to 62.10% in 2020. This was accompanied by a slight reduction in inequality, with the Gini coefficient dropping from 0.386 to 0.375 over the same period. The country has one of the lowest Human Development Index values in the world, 0.420 in 2022, ranking 187 out of 193 countries.

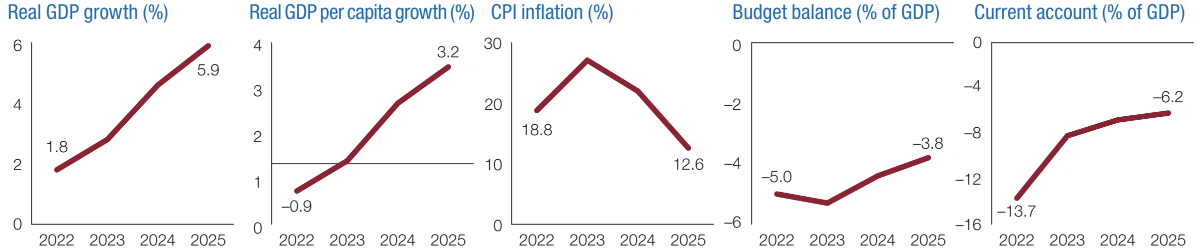
Outlook and risks

The outlook for 2024 and 2025 remains favorable, with real GDP growth projected at 4.6% in 2024 and 5.9% in 2025, boosted by investment in the mining sector and public investment. Inflation is expected to fall to 22% in 2024 and to 12.6% in 2025, following an improvement in local food supplies. The budget deficit is projected to improve to 4.4% of GDP in 2024 and to 3.8% in 2025, following a return to fiscal consolidation. The current account deficit is projected to improve to 6.8% of GDP in 2024 and to 6.2% in 2025. But Russia's invasion of Ukraine, climate hazards, deterioration in the country's political and regional security context, and weak mobilization of financing could compromise these prospects. Thus, Burundi needs to pursue the economic and financial reforms supported by the African Development Bank and other partners, the dialogue around inclusive governance, the integration of climate change resilience into development projects, and the continued support of development partners for the country.

Reform of the global financial architecture

The structure of the economy has changed little in recent years. From 2018 to 2022, the agricultural sector's share of GDP remained stable at 40%, while that of services stagnated at an average of 42% and that of industry stagnated at an average of 18%. Over the same period, the share of employment in the agricultural sector, which is characterized by low productivity, averaged 86.1%, while that in services (dominated by the informal sector) averaged 10.4% and that in industry averaged 3.5%. Improving agricultural productivity, promoting high-value-added manufacturing industries, and investing in infrastructure and human capital would help bring about genuine structural change in the economy.

Accelerating structural transformation, which is at the heart of the country's 2018–2027 National Development Plan, requires substantial financial resources. With a tax burden already at around 16%, the country will need access to external financing. Reforming the global financial architecture is becoming a necessity and would enable the country to benefit from more concessional financing while facilitating better access to existing financing windows at the regional and global levels (particularly climate funds). To achieve this, the country will need to step up reforms to public debt management and monetary and exchange rate policies to ensure macroeconomic and financial system stability and attract more private investment.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Comoros

Recent macroeconomic and financial developments

Economic recovery continued in 2023, with real GDP growth of 3.1%, up from 2.6% in 2022. Growth in 2023 was driven by services (up 3.6%) and agriculture (up 3.3%) on the supply side and by household final consumption (up 5.1%), supported by strong remittances from the diaspora, on the demand side. Inflation fell from 12.4% in 2022 to 9.1% in 2023 thanks to stable world prices. The central bank continued its liquidity recovery operations but reduced the reserve requirement rate in October 2023 from 15% to 12.5% to boost bank lending.

The budget deficit deteriorated from 3.8% of GDP in 2022 to 4.3% in 2023, due to higher civil servant salaries, lower grants, and spending on the country's presidency of the African Union, despite higher tax revenue (up 12%). The debt-to-GDP ratio was 38.2% in 2023. But the risk of debt distress is high, due to limited repayment capacity for nonconcessional loans. The current account deficit widened from 0.6% of GDP in 2022 to 6.1% in 2023, due to an increase in imports linked to major public infrastructure projects, a drop in clove exports, and a decline in external financing. Foreign exchange reserves were estimated at 6.9 months of import cover in 2023, up from 6.6 in 2022. The banking system's bad debt ratio rose from 13.9% in 2022 to 15% in September 2023.

The social situation remains precarious. The poverty rate was an estimated 38.4% in 2023, down slightly from 39% in 2022. The unemployment rate has stabilized at 6.5%, but underemployment remains high.

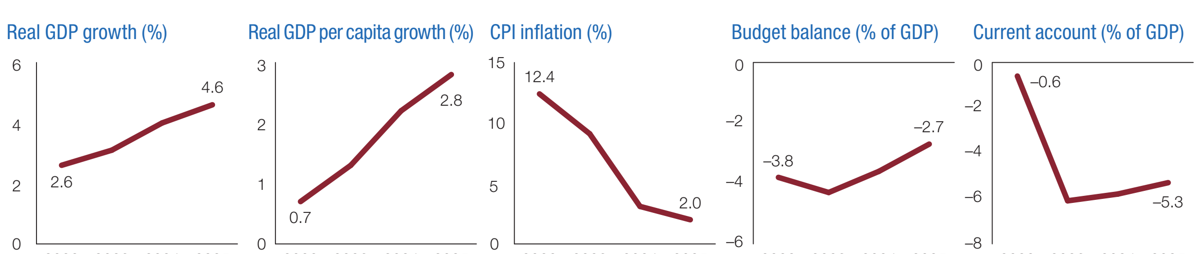
Outlook and risks

The economic outlook is favorable, though fragile, with projected growth of 4% in 2024 and 4.6% in 2025. This is expected to be underpinned by the acceleration of major government projects under the Emerging Comoros Plan, the International Monetary Fund Extended Credit Facility arrangement, and the initial economic benefits anticipated from accession to the African Continental Free Trade Area and the World Trade Organization. On the supply side, services and agriculture are projected to drive growth, while household consumption is projected to stimulate demand. Inflation is projected to continue to fall as world prices stabilize. The budget deficit is projected to remain high, due to rising public spending linked to support for economic recovery, notably public investment. The current account deficit is projected to remain high (5.8% of GDP in 2024) due to the continuing deterioration in the trade balance. Public debt is projected to increase moderately, and foreign exchange reserves are projected to remain high. Risk factors likely to disrupt this outlook include escalating geopolitical crises around the world, which would keep import prices high; declining external aid and financing; and spreading of the cholera epidemic.

Reform of the global financial architecture

The structural transformation of the economy has been slow to materialize despite changes in the structure of GDP and employment. From 2000 to 2022, the contribution of services to GDP rose from 47.2% to 56.1%, while that of agriculture fell from 40.9% to 34.5% and that of industry from 11.9% to 9.4%. This change in GDP structure was accompanied by the migration of some workers from agriculture to services. But this migration reflects nothing more than the disaffection of better-educated young people regarding agricultural occupations in favor of urban, often informal, services. To truly trigger structural transformation, the government should promote private investment as a new engine of growth in areas that bring greater value added, such as digital services, the blue economy, industry, and tourism while filling the human and physical capital deficits.

Because of the country's weakly developed financial sector, financing structural change requires strengthening the mobilization of domestic resources, strengthening the financial sector, optimizing transfers from the diaspora, and facilitating access to external financing through reform of the global financial architecture. Financing should be used to improve the business climate, bridge the infrastructure gap in the electricity and transport sectors, strengthen human capital, and reinforce the fight against climate change. It is also essential to consolidate the rule of law, promote political stability, and improve public governance.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Djibouti

Recent macroeconomic and financial developments

The upturn in economic activity was consolidated in 2023, with GDP growth estimated at 7.3%, up from 3.7% in 2022, driven mainly by trade (thanks to the revival of port activities) and transport. Services accounted for around 85% of GDP in 2023, followed by industry (14%) and agriculture (1%). Inflation fell from 5.2% in 2022 to 1.3% in 2023, due in particular to the slowdown in world food prices.

Despite an increase in debt servicing (up from 0.7% of GDP in 2022 to 1% in 2023), the budget deficit improved from 1.4% of GDP in 2022 to 0.5% in 2023, due mainly to higher grants (1.9% of GDP in 2023). The tax burden remains low, at an estimated 11% of GDP in 2023. Public external debt was stable at around 76% of GDP between 2022 and 2023. The current account surplus improved from 17.9% of GDP in 2022 to 21.2% in 2023. Nonperforming loans fell from 6.7% of gross loans in 2021 to 4.3% in 2022. The solvency ratio strengthened from 14.1% in 2021 to 16.8% in 2022. Foreign exchange reserves fell from 7.3 months of import cover in 2022 to 5.1 months (excluding the Free Zone) in 2023.

According to World Bank data, the poverty rate was an estimated 39.0% in 2022, down marginally from 39.8% in 2021. A quarter of the working-age population is employed; according to the International Labour Organization, the youth unemployment rate was around 73% in 2021, due mainly to a skills deficit.

Outlook and risks

The economic outlook is favorable, with GDP growth projected at 6.2% in 2024 and 6.6% in 2025, driven in particular by the revival of port and logistics activities, the dynamism of transport and communications, and the strengthening of the public administration and defense sectors. Inflation is projected at 1.7% in 2024 and 2.0% in 2025, reflecting the impact of international prices. Fiscal balance is expected in 2024 (a surplus of 0.4% of GDP) but will be very fragile, with a contraction of 0.2% of GDP in 2025, due in particular to a projected decline in revenues and grants. The current account surplus is expected to contract to 20% of GDP in 2024 and 19.6% in 2025 due to declines in trade and services balances.

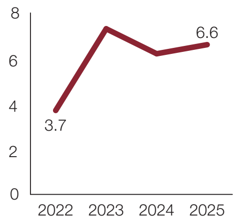
Factors likely to work against the favorable outlook include a slowdown in port traffic due to renewed instability in Ethiopia and heightened geopolitical tensions, particularly in the Middle East; difficulties repaying external public debt; Russia's invasion of Ukraine; and the effects of climate change.

Reform of the global financial architecture

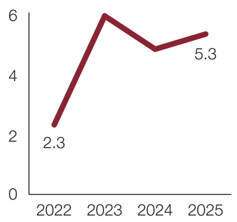
Structural transformation has been slow. Services accounted for an annual average of 83% of value added over 2004–23, with trade predominating (29%), suggesting the importance of informal activities. During the period, manufacturing accounted for around 3% of value added. Over 2010–19, labor migration to higher-productivity sectors was low. The share of employment in industry has stagnated at 13% a year. Diversifying production could accelerate structural transformation, as recommended in the African Development Bank's 2023 study on a new economic growth model for Djibouti.

Given the high risk of debt overhang, mobilization of domestic resources should be accelerated, with priority given to concessional financing. Financing structural transformation would help reduce the country's debt to a sustainable level. The Djibouti Sovereign Wealth Fund, launched in 2020, represents an opportunity to mobilize domestic and foreign investors to finance infrastructure in particular. Reforming the global financial architecture could help mobilize more private funding at lower cost as the perception of risk in African countries would decline and could facilitate access to external financing such as climate funds.

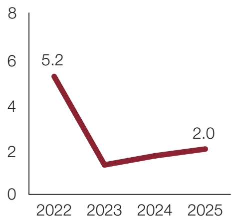
Real GDP growth (%)



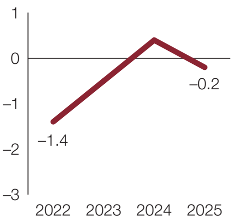
Real GDP per capita growth (%)



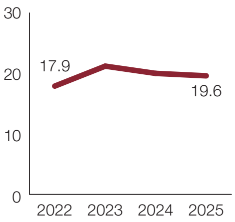
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Eritrea

Recent macroeconomic and financial developments

Real GDP expanded from 2.6% in 2022 to an estimated 2.9% in 2023. Growth was driven by industry, notably mining and services, on the supply side, and by household and public consumption on the demand side. Monetary policy was contractionary. Inflation subsided to 6.4%, supported by improved supplies and stability in global supply chains. The exchange rate is fixed at 15 nakfa to the US dollar.

The fiscal deficit narrowed to 0.1% of GDP in 2023 due to fiscal consolidation, with the tax-to-GDP ratio remaining stable at about 17%. The public debt-to-GDP ratio was estimated at 164% for 2022, with domestic debt accounting for 68%, implying minimal foreign currency risk. Eritrea's last debt sustainability analysis was undertaken in 2019 and is not publicly available. The current account surplus increased to an estimated 14.1% of GDP in 2023 with improvements in the merchandise trade balance as exports increased, mainly of minerals. The financial sector comprises a state-owned commercial bank and two nonbank institutions.

The working poverty rate declined from 55% in 2010 to 50% in 2020, and the uptick in real GDP growth per capita in 2023 may have reduced poverty further.

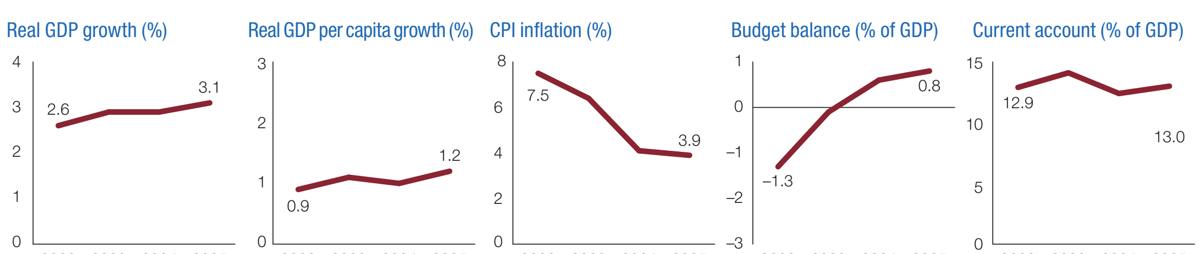
Outlook and risks

Real GDP growth is projected to stabilize at 2.9% in 2024 and increase to 3.1% in 2025. Growth will be led by mining and services on the supply side, consistent with strong growth in the mining sector. On the demand side, private consumption and investment will drive growth, reflecting improved per capita income and planned expansion in the mining sector. Inflation is projected to drop to under 5%, consistent with improved food supplies. Eritrea's fiscal balance is expected to improve to a surplus in 2024 and 2025, supported by fiscal consolidation. The current account surplus is projected to drop to 12.4% in 2024, reflecting fluctuations in global demand and prices for commodities. The key downside risks include delays in production at the Colluli potash mine due to challenges with mobilizing the necessary financing, fluctuations in international prices for metals, and insecurity in the Horn of Africa region.

Reform of the global financial architecture

Structural transformation remains nascent and could benefit from an industrial policy and investments in physical and human capital. Agriculture's share of GDP increased from 10.6% in 2004 to 17.6% in 2023, and industry's share from 19.6% to 32.0%. However, the share of manufacturing remains meagre despite increasing from 1.1% in GDP to 9.8%, consisting mostly of low-value agro-processing. The share of services in GDP dropped from 61.7% to 52.5%. Sectoral shares in employment remained basically unchanged between 2004 and 2021, at 62% for agriculture, 29.0% for services, and 9.0% for industry. Unprocessed minerals, ores, and metals account for 60% of merchandise exports.

Structural transformation will benefit from diversification of export products and markets to catalyze stable foreign exchange inflows and technology. Signing the African Continental Free Trade Area agreement and acceding to the World Trade Organization will enhance Eritrea's participation in regional and global value chains, enabling productivity growth and expanding market access. Negotiation of bilateral cooperation agreements will help Eritrea crowd-in investment and finance, notably in the natural resources sector. More clarity on the concept of comparable treatment of creditors, as part of reforms of the global financial architecture, will benefit Eritrea should debt restructuring be considered.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Eritrea's fiscal year, which runs from July 1 to June 30.

Ethiopia

Recent macroeconomic and financial developments

Ethiopia's economy grew 7.1% in 2022/23, up from 6.4% in 2021/22, led by 7.9% growth in the services sector, which accounts for 40% of GDP. Industry, at 28% of GDP, grew 6.9% and agriculture, at 32% of GDP, grew 6.3%, also supporting growth. Demand-side drivers of growth included private consumption and investment. Although inflation remained high, due to money supply growth and imported inflation, it dropped from 34% in 2021/22 to 29.2% in 2022/23 due to a tightening of monetary policy. The exchange rate depreciated by 5.3% on the official market and 15% on the parallel market, due to slow export growth.

The fiscal deficit, including grants, narrowed from 4.2% of GDP in 2021/22 to 3.3% in 2022/23 owing to fiscal consolidation, the peace dividend, and improved tax revenues, which grew by 35.8% in 2022/23 compared with 12.3% in 2021/22. The current account deficit narrowed from 3.9% of GDP in 2021/22 to 3.0% in 2022/23, due to a 60.3% increase in net services and a 5.3% reduction in imports. The financial sector is stable, with nonperforming loans at 3.5% of gross loans and a liquidity ratio of 24.2%, against thresholds of 5% and 15%, respectively. Ongoing reforms to allow foreign investment in the sector will increase competition and innovation.

Poverty declined from 31.1% in 2016 to 27% in 2019. Unemployment is estimated at 8% (youth unemployment at 23.1%) in 2020/21, with about 2.5 million new jobs needed annually to absorb new entrants. About 31.4 million people require humanitarian support due to conflict and climate-related shocks.

Outlook and risks

Growth is projected at 6.7% during 2024–25 due to fiscal consolidation. An envisaged slowdown in investment due to protracted debt restructuring negotiations could hold back access to development financing. Tighter monetary policy is expected to reduce inflation to 21.0% in 2023/24 and 15.4% in 2024/25. The fiscal deficit is projected to narrow in 2023/24 and 2024/25 as tax revenues improve, with the current account deficit reflecting similar trends as imports continue to decline consistent with reduced public investment and gradual growth in exports.

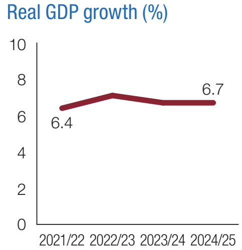
Key downside risks include structural bottlenecks, debt and climate vulnerabilities, conflicts, and high oil and food prices due to supply chain disruptions. Risk mitigation measures include ongoing homegrown economic reforms focusing on monetary, fiscal, financial, public debt, investment, and trade policies and on productive and public sectors. Implementation of the peace agreements and national dialogue will enhance stability and support recovery of tourism and investment.

Reform of the global financial architecture

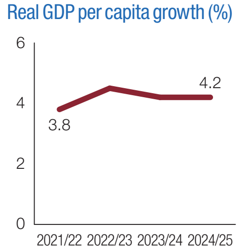
Ethiopia's structural transformation has been slow. Agriculture's share of GDP declined from 54% in 2000 to 32.0% in 2023, accounting for 62.8% of employment in 2022 (90.2% in 1990). The service sector's share of GDP increased from 37.6% in 2000 to 40.0% in 2023, accounting for 30% of employment (7.8% in 1990). Industry's share of GDP increased from 10.0% in 2000 to 28.8% in 2023, accounting for 7% of employment in 2022 (2% in 1990). Manufacturing contributed only 6.9% of GDP in 2023 (2% in 2000). Addressing macroeconomic imbalances, curbing structural rigidities, easing sectoral bottlenecks in tourism and information and communication technologies, and modernizing the financial sector will spur structural transformation.

Reforming the global financial architecture, notably clarifying the notion of comparable treatment of creditors, will facilitate debt restructuring and create fiscal space for investments in productive sectors. Negotiations are under way on a new International Monetary Fund program that is expected to facilitate Ethiopia's debt restructuring under the G20 Common Framework. Furthermore, channeling unused Special Drawing Rights through multilateral development banks and preparing bankable climate finance proposals will help to crowd in financing. Ethiopia could also leverage financing from its home-grown economic reforms, including expanding public-private partnerships, restructuring state-owned enterprises, and developing money and capital markets.

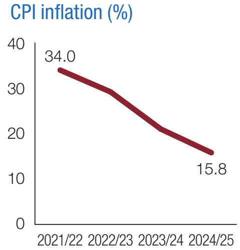
Real GDP growth (%)



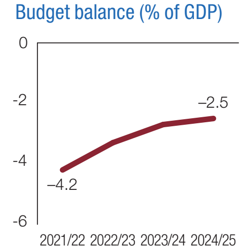
Real GDP per capita growth (%)



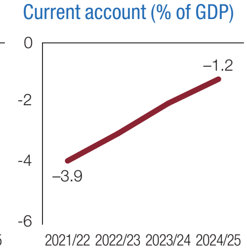
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Kenya

Recent macroeconomic and financial developments

Kenya's economy grew 5.2% in 2023, up from 4.8% in 2022, as agriculture rebounded, and services grew moderately. On the supply side, services accounted for 69% of the growth and agriculture for 23%, while on the demand side, household consumption accounted for 70%. Inflation edged up to 7.7% in 2023 from 7.6% in 2022, driven by core inflation (32% of the change), fuel inflation (26%), and cost-push inflation (9% year on year increase in the producer price index).

The policy rate was hiked 375 basis-points, to 12.5%, and central bank operations sought to anchor inflation expectations. The fiscal deficit widened from 6.3% of GDP in 2022 to 7% in 2023, as revenues underperformed, and interest costs rose. Public debt expanded from 66.7% of GDP in 2022 to 70.2% in 2023, driven by increased loans to finance the primary deficit and by exchange rate depreciation. The current account deficit narrowed from 5.2% of GDP in 2022 to 4.9% in 2023, as trade deficits shrank, and secondary incomes increased. The deficit was financed by drawing down reserves, which declined from 4.3 months of import cover to 3.6 months. The shilling depreciated by 24% year on year in 2023. The capital adequacy ratio of 18.6% in 2023 was above the prudential minimum of 14.5%, and the liquidity ratio of 49.7% was above the 20% prudential minimum. Nonperforming loans increased from 13.6% of gross loans in 2022 to 14.5% in 2023 due to rate hikes and public sector debt arrears (or outstanding government payments to contractors). Credit-risk concentration was high in manufacturing, real estate, and personal and household sectors.

Poverty increased from an estimated 33.6% in 2019 to 36.1% in 2021, and unemployment rose slightly, from 13.3% in 2021 to 13.9% in 2022. Income inequality from a Gini coefficient of 0.36 in 2020 to 0.39 in 2021.

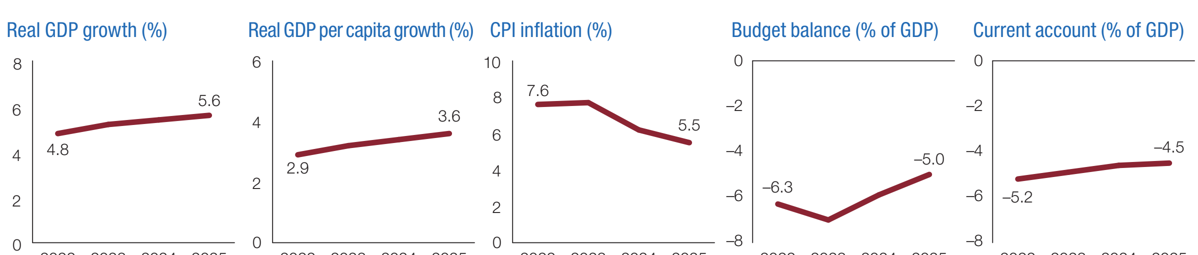
Outlook and risks

Kenya's GDP is projected to grow 5.4% in 2024 and 5.6% in 2025, driven by services and household consumption. Inflation is expected to fall to 6.2% in 2024 and 5.5% in 2025, as food and global inflation both decline. Monetary policy is expected to be accommodative due to projected stable inflation and exchange rates. The fiscal deficit is projected to narrow to 5.9% of GDP in 2024 and 5.0% in 2025 in response to a revenue-led fiscal consolidation program. The current account deficit is projected to narrow to 4.6% of GDP in 2024 and 4.5% in 2025 as a recovery in global trade reduces the trade deficit. However, the outlook is subject to considerable risks, including tight global financing, drought, political instability in neighboring countries, and slow recovery of global growth. Risk mitigation measures in the medium to long term include building fiscal and external buffers (e.g., foreign exchange reserves), strengthening disaster preparedness, and accelerating structural transformation.

Reform of the global financial architecture

Kenya's GDP growth averaged 4.6% between 2019 and 2023, lower than its 10% target in Vision 2030. Growth has been noninclusive, attributable to the minimal contribution of structural transformation to growth. This has resulted in the low poverty-reduction and employment-creation capacity of growth. On average, structural transformation accounted for 28% of labor productivity growth between 2007 and 2022. A quarter of GDP growth came from sectors resilient to shocks. Output growth of 5.8% a year is needed to absorb the 680,000 people entering the labor market. With accelerated structural transformation, GDP growth of 7.3% could create 1.36 million new jobs and cut unemployment to 7%. Achieving this requires improving governance, infrastructure, human capital development, access to finance, and macroeconomic stability.

The global financial architecture presents challenges to Kenya in meeting its financing gap. Kenya needs $12 billion annually by 2030 and $2 billion annually by 2063 to close its financing gap to fast-track structural transformation. Some of the funds could be raised through domestic resource mobilization; the current tax-to-GDP ratio of 13% is below its 27% potential. Other options include deepening the domestic financial market and mobilizing private capital and rents from natural resources. Kenya raised resources equivalent to 5% of GDP from external sources recently. Kenya is calling for changes to the global financial architecture, including the debt architecture, concessional finance, and voice and power in decisionmaking.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Kenya's fiscal year, which runs from July 1 to June 30.

Rwanda

Recent macroeconomic and financial developments

Real GDP growth stabilized at 8.2% in 2022 and 2023, buoyed by expansion in industry and services on the supply side and public sector expenditures on the demand side. GDP per capita growth stabilized at 5.9% in 2022 and 2023. Headline inflation increased from 13.9% in 2022 to 14.3% in 2023, reflecting the passthrough effects of the high cost of imported goods and low domestic food production. The exchange rate rose from 1,051 Rwandan francs to the US dollar in 2022 to 1,234 in 2023. The Central Bank monetary policy rate was raised from 6% in August 2022 to 7.5% in August 2023 to counter rising inflation.

The overall fiscal deficit declined from 7.7% of GDP in 2022 to 7.0% in 2023 due to improved domestic resource mobilization. The debt-to-GDP ratio declined from 71.3% in 2022 to 66.6% in 2023 due to budget rationalization. The current account deficit averaged 10.7% of GDP in 2022 and 2023 because of the high import bill. Foreign exchange reserves provided 4 months of import cover in 2023. Banks' capital adequacy ratio was 21.1% at the end of September 2023, above the prudential limit of 15%. The ratio of nonperforming loans to gross loans dropped from 4.3% in June 2022 to 3.6% in June 2023, reflecting prudent management of the loan portfolio.

Extreme poverty declined from 47% in 2019 to 45% in 2021, and unemployment fell from 43.4% in August 2022 to 40.2% in August 2023. Skills mismatch is one of the major causes of unemployment. About 20.6% of Rwanda's population is food insecure, with 18.8% experiencing moderate food insecurity and 1.8% facing severe food insecurity.

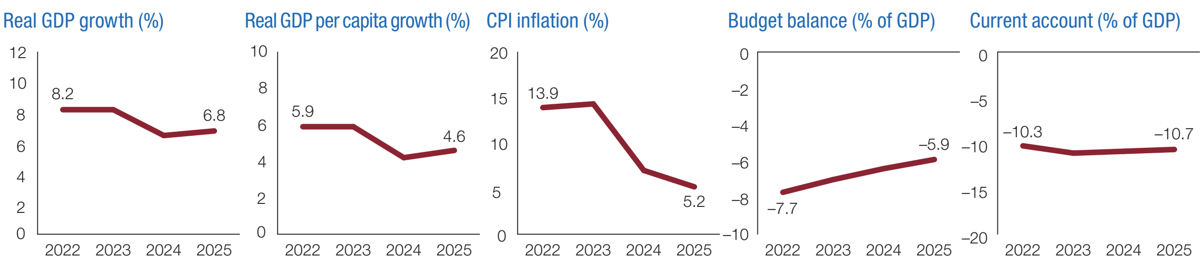
Outlook and risks

Real GDP growth is projected to drop to an average of 6.6% in 2024 and 2025, driven by climate shocks to agriculture. Inflation is expected to moderate to 7.0% in 2024 and 5.2% in 2025, reflecting stabilization of supply chains, monetary policy tightening, and falling international commodity prices. The fiscal deficit is projected to improve to 6.4% in 2024 and 5.9% in 2025 due to continued fiscal consolidation and stronger domestic revenue mobilization. Rwanda has committed to achieving a debt-to-GDP ratio of 65% by 2031. The current account deficit is projected to rise slightly to 10.9% of GDP in 2024 before narrowing to 10.7% in 2025 as capital imports decline, conference tourism receipts recover, and remittances from the diaspora improve. Foreign exchange reserves are expected to moderate to 4.8 months of import cover in 2024 and 5.2 months in 2025. The overall moderate economic performance is attributed to mitigation of climate shock risks by government climate risk action plans.

Reform of the global financial architecture

Rwanda has experienced very little structural transformation in the decade from 2013 to 2023. Sectoral shares of GDP remained almost unchanged: services declined from 49.8% to 47.9%, agriculture barely changed from 24.9% to 24.8%, and industry inched up from 17.6% to 18.9%. Factor deployment in production remained unchanged, with capital's contribution to growth estimated at 55% and total factor productivity at 22%. Capital-intensive services, including conferences and air transport, contributed to output growth without adding many nonfarm jobs. To accelerate structural transformation, the second National Strategy 2025–2029 is preceded by output-based costing with different scenarios highlighting required resources to meet structural transformation needs in the medium term.

In response to calls for global financial architecture reforms, development partners have committed to support Rwanda in mobilizing additional resources on competitive terms for transformative, sustainable, inclusive, and climate-smart investments. The interventions will support livelihood improvement by channeling resources to sectors that can promote structural transformation toward industry and services. Additionally, since March 2024, Rwanda has hosted the $1 billion African Continental Free Trade Area Adjustment Fund managed by Afreximbank's Fund for Export Development in Africa; $50 million has already been mobilized from the fund for transformative investments. Rwanda continues to attract international financial institutions through initiatives such as the Kigali International Financial Centre, where greater benefits are also expected.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Rwanda's fiscal year, which runs from July 1 to June 30.

Seychelles

Recent macroeconomic and financial developments

Real GDP growth in Seychelles moderated from a peak of 15% in 2022 to 2.5% in 2023. Tourism and fisheries remained supply-side growth drivers, while household consumption and investment were the main demand-side growth drivers. Tourist arrivals rose 5.7% in 2023 compared with 2022. Monetary policy remained accommodative, as inflation dipped from 2.6% in 2022 to –1.0% (deflation) in 2023. The main reasons for the deflation were low global fuel and food prices (the country's main imports), falling freight costs, and appreciation of the rupee (owing to increased tourist arrivals).

The fiscal balance widened from 1.5% of GDP in 2022 to 1.9% in 2023. The debt-to-GDP ratio declined from 58.9% in 2022 to 56.7% in 2023, reflecting a strong recovery and good public debt management. The current account deficit widened from 6.9% of GDP in 2022 to 8% in 2023 as import costs rose. External reserves improved from 3.2 months of import cover in 2022 to 3.7 months in 2023. The financial sector remained well capitalized although highly concentrated, with the three largest banks holding 80% of total assets, deposits, and loans. Bank nonperforming loans rose slightly from 6% of gross loans in 2022 to about 7% in 2023, mainly related to borrowing during the Covid-19 pandemic.

Social development indicators remain strong. Poverty is low at 0.5% in 2022/23, down from 0.7% in 2021. Unemployment remained low, at 3% in 2022 and 2023.

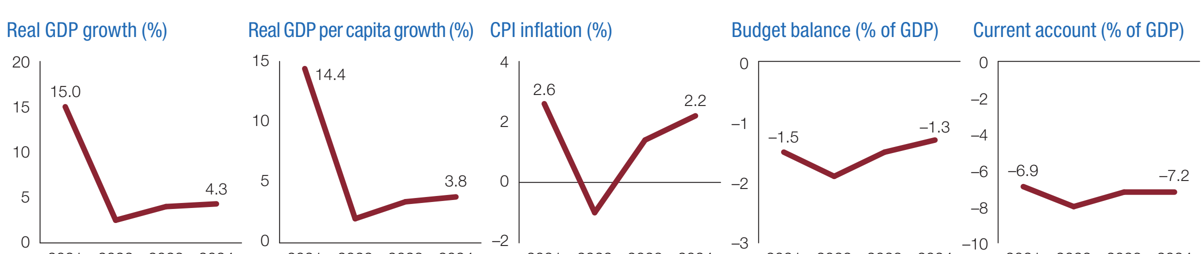
Outlook and risks

GDP growth is projected to improve to 4.0% in 2024 and 4.3% in 2025 amid sustained tourism receipts and enhanced performance of information and communication and financial services in line with priorities of the 2024–2028 National Development Strategy. Inflation is projected to rise to 1.4% in 2024 and 2.2% in 2025 as electricity tariffs and global food and fuel prices rise. Tourism and fisheries will remain key supply-side growth drivers. The fiscal deficit is projected to improve to 1.5% in 2024 and 1.3% in 2025 as revenue collection improves. The current account deficit is expected to narrow slightly and stabilize at 7.2% in 2024 and 2025, reflecting continuing recovery of tourism, while foreign reserves are projected to reach 3.9 months of import cover in 2024 and 2025. Downside risks to the economic outlook include disruptions to global supply chains from Russia's invasion of Ukraine and the Israel–Hamas war. Economic diversification and a continuing focus on renewable energy sources remain key for sustained growth and resilience.

Reform of the global financial architecture

Structural transformation of the economy has been slow over the last decade. Agriculture's share of GDP remained unchanged at about 2.5% from 2010 to 2021, and industry's share remained at around 15%. Within industry, manufacturing's share was low and falling, declining from 10.5% in 2012 to 8.3% in 2021. Consequently, services' share remained dominant, at 82% to 84%. Within services, tourism maintained it top position, at around 31%. Movement of labor from high- to low-productivity sectors was slow. Agriculture's employment share remained around 1% between 2012 and 2021, and manufacturing's at around 9%. The employment shares of emerging sectors such as financial and information technology services hovered around 5%–6%. The small size of the domestic market, shortages of skilled labor, inadequate access to finance, high electricity cost, and climate change risks impede structural transformation.

With the declining availability of financing from international markets and Seychelles' small domestic market, the global financial architecture is impeding its efforts to address these challenges of structural transformation. Moreover, as a high-income economy, Seychelles is not eligible for concessional financing. The global financial system should evolve to consider the unique challenges and vulnerabilities of small island developing countries like Seychelles to offer financing that can enable them to accelerate their structural transformation. Structural transformation is one of the six pillars of the country's 2024–2028 National Development Strategy.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Somalia

Recent macroeconomic and financial developments

GDP growth accelerated from 2.4% in 2022 to 2.8% in 2023. Growth was driven by services and the agricultural sector's recovery from drought on the supply side and by household consumption and investment on the demand side. A deceleration in global inflation boosted remittances, and the return of rains improved livestock output and growth. The stability of global supply value chains eased inflation in Somalia from 6.8% in 2022 to 6.1% in 2023. As part of its monetary and exchange rate policy reforms, Somalia is implementing a currency exchange program to gradually replace US dollars and counterfeit Somali shillings with new Somali shillings by 2026.

The fiscal deficit widened from a zero-cash fiscal balance in 2022 to 0.4% of GDP in 2023, as spending on security and social sectors offset the strong performance in domestic revenues. The fiscal deficit was financed by the government's cash savings. Somalia's public debt-to-GDP ratio plummeted from 64% in 2018 to 6.4% in December 2023 as Somalia reached the completion point in the Heavily Indebted Poor Countries (HIPC) debt reduction initiative, and its debt classification improved from in debt distress to moderate. The current account deficit was 12.4% of GDP in 2023, reflecting a rising trade deficit (estimated at 61% of GDP in 2023) driven by reduced livestock exports because of the drought. Nonperforming loans in the financial sector, which comprises 13 banks and 11 money transfer agents, dropped slightly, from 2.7% of gross loans in 2022 to 2.6% in 2023.

Poverty declined from 69% in 2021 to 54.4% in 2022, while youth unemployment remained high at 30.1% in 2022, well above the 21.7% overall unemployment rate.

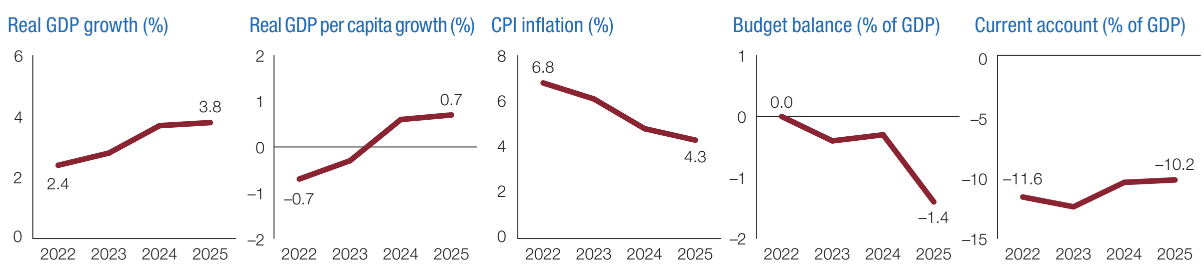
Outlook and risks

Real GDP growth is projected at 3.7% in 2024 and 3.8% in 2025 due to gradually increasing spending on infrastructure and social sectors, supported by an envisaged uptick in development financing after reaching the completion point in the Heavily Indebted Poor Countries debt reduction initiative. Growth will be driven by agriculture and services on the supply side and private consumption and public investment on the demand side. Inflation is projected to decline to 4.8% in 2024 and 4.3% in 2025 due to improved agricultural production. The downside risks to growth relate to the Somalia–Ethiopia contestations over ports in the Red Sea, climate shocks, insecurity, weaker remittance inflows, and slow domestic revenue growth. The fiscal deficit is projected to narrow to 0.3% of GDP in 2024 before widening to 1.4% in 2025, reflecting the uptick in public spending. The current account deficit is projected to narrow to 10.4% of GDP in 2024 and 10.2% in 2025, as livestock exports improve.

Reform of the global financial architecture

Somalia has yet to achieve structural transformation of its economy, with progress stymied by fragility arising from conflict, climate change, institutional weaknesses, and a poor business environment, including complex land tenure and licensing regulations. Services' share of employment rose marginally, from 55.9% in 2020 to 56% in 2021, and industry's share rose from 15% in 2020 to 17.7% in 2021. Meanwhile, agriculture's share of employment declined from 39% in 2020 to 26.3% in 2021. Exports of unprocessed livestock products accounted for 76% of total exports in 2022, followed by gold and fish exports.

Somalia needs to invest in growth enablers, including state and institutional strengthening, infrastructure, and agricultural technologies. Also, greater development of value chains, notably in leather and leather products, is needed to increase integration into global leather value chains. Developing special economic zones will help to generate agglomeration benefits. Sustaining economic and financial governance reforms, notably in the financial sector, and strengthening the business environment will improve economic competitiveness and Somalia's integration into the global financial architecture. Ongoing domestic revenue mobilization reforms, especially modernization of customs, will expand the fiscal space. Somalia is a major beneficiary of the global financial system, notably arrears clearance in 2020 and debt forgiveness after reaching the HIPC completion point in 2023. Reforms to enhance access to concessional and climate financing will expand Somalia's development financing.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

South Sudan

Recent macroeconomic and financial developments

Real GDP contracted by an estimated 0.4% in 2022/23, reflecting the easing of economic challenges resulting from the conflict in Sudan. That conflict has increased the cost of oil production, as South Sudan relies on Sudan's oil pipelines. Persistent floods also damaged some oil fields, partially offsetting the gains from improved global oil prices. Production in the agriculture sector remained stagnant, due largely to devastating floods. On the demand side, the growth contraction was driven by lower net exports due to decreased oil production. Inflation rose to an estimated 16.5% in 2022/23 due to supply chain disruptions caused by the war in Sudan.

The money supply grew from 47% in 2021/22 to about 72% in 2022/23 due to monetization of the fiscal deficit. The fiscal deficit improved to 4% of GDP in 2022/23, responding to fiscal consolidation. South Sudan is at high risk of debt distress, with the debt-to-GDP ratio estimated at 34.5% in 2023. The current account balance improved to a surplus of 7.0% of GDP in 2022/23, due to a gradual uptick in oil export revenues. International reserves were estimated at 0.5 month of import cover in 2022/2023, due partly to currency depreciation. Nonperforming loans rose from 9% of gross loans in 2021/22 to 14% in 2022/23, due to high interest rates.

Poverty remains high in this economy in transition, and 7 million people are food insecure. Unemployment increased from 12% in 2022 to 12.5% in 2023. In October 2023, there were more than 41,000 refugees from Sudan and more than 290,000 million returnees.

Outlook and risks

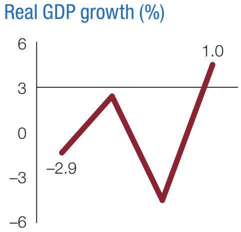
Real GDP is projected to contract by 5% in 2023/24 following vandalization of an oil pipeline due to the ongoing conflict in Sudan. GDP is expected to recover to 1% in 2024/25 as oil production and exports stabilize. Growth will be supported by industry, especially oil, and services on the supply side and consumption and investment on the demand side. The fiscal deficit is projected at 6% of GDP in 2023/24, narrowing to 2% of GDP in 2024/25 as oil production stabilizes and public revenues improve. Inflation is projected to average 17% between 2023/24 and 2024/25, reflecting high food prices and an expected uptick in elections-related spending. The current account deficit is projected at 7.0% of GDP in 2023/24, improving to 4% in 2024/25 as oil exports pick up. Key headwinds to growth relate to the conflict in Sudan and climate change impacts.

Reform of the global financial architecture

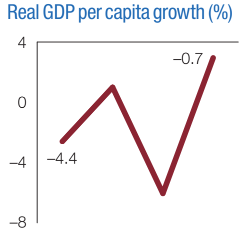
South Sudan is a young nation facing several challenges affecting its structural transformation, including low productivity and skills. The industry sector's (largely oil and mining) share of GDP dropped from 56.8% in 2012 to 41.6 % in 2022, driven by the impact on oil production of war-damaged oil infrastructure. The share of services in GDP increased from 39.1% to 52.5% in the same period. Manufacturing accounted for an average of 2% of GDP in 2022. Industry employs about 13% of the workforce, and services employs about 25%. Agriculture's share of GDP increased from 4.1% in 2012 to 6.0% in 2022, owing to partners' support including the Bank through access to quality seeds and fertilizers, which increased productivity.

Financing structural transformation in the short term requires ramping up domestic revenue mobilization and improving public spending efficiency to create fiscal space for investments in growth enablers. In the medium to long term, emphasis could be placed on debt restructuring, which would benefit from reforms to the G20 Common Framework, especially comparable treatment of creditors. Access to risk-sharing instruments could crowd in private investment and finance.

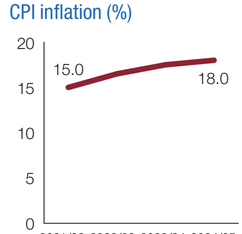
Real GDP growth (%)



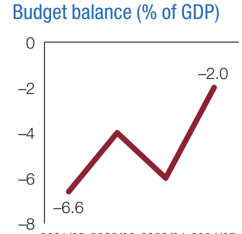
Real GDP per capita growth (%)



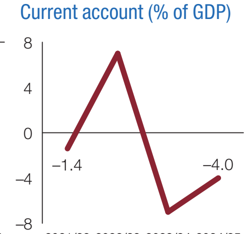
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Sudan's fiscal year, which runs from July 1 to June 30.

Sudan

Recent macroeconomic and financial developments

The ongoing armed conflict, which has resulted in about 15,000 deaths, 33,000 injuries, and 11 million people displaced and has created regional spillovers, has had a devastating impact on Sudan's economic performance. Real GDP contracted by 37.5% in 2023 due to destruction of production capacity and disruption of economic activities, with a decline in services dragging down growth on the supply side. On the demand side, the loss of income and the massive displacements have reduced consumption.

The fiscal deficit widened to 9.1% of GDP in 2023 as tax revenue declined from 5.6% of GDP in 2021 to 2.0% in 2023. Reduced government revenues together with increasing expenditures resulted in monetization of the fiscal deficit, driving inflation to 245.3% in 2023. Inflation was exacerbated by a shortage of consumer goods and by currency depreciation. Sudan remains in debt distress as political instability halted progress toward the completion point of the Heavily Indebted Poor Countries (HIPC) debt reduction initiative. The current account deficit, which was financed by remittances and international reserves, widened to 7.3% of GDP in 2023 due to weak export performance. Reserves dropped from 2.7 months of import cover in 2022 to 1 month in 2023. Whereas nonperforming loans remained below 5% of gross loans in 2022, subdued economic activities reduced borrowers' ability to service debt, raising nonperforming loans to above 10% of gross loans in 2023.

Poverty was high in 2022, at 66.1%, and has likely increased due to conflict and lower GDP per capita. Unemployment was high at 20.6% in 2022, with youth unemployment at 40%.

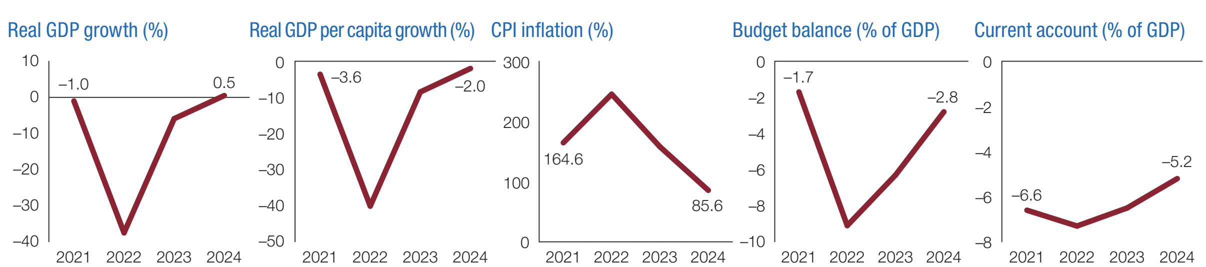
Outlook and risks

Because of the conflict, GDP is projected to contract another 5.9% in 2024, before a recovery to 0.5% in 2025, assuming that peace is restored in 2024. The recovery would be supported by reconstruction spending, especially on social services and infrastructure, and resumption of economic activity across sectors. If peace is restored, the anticipated increase in government revenues would moderate inflation to 157.9% in 2024 and further to 85.6% in 2025. The fiscal deficit would narrow slightly to 6.3% in 2024 and further to 2.8% in 2025. The current account deficit is expected to improve to 6.5% of GDP in 2024 and 5.2% 2025, reflecting an uptick in exports following the restoration of peace. Key downside risks to the outlook are the possibility of conflict persisting beyond 2024, the impacts of climate change, and weak institutional capacities. There is an urgent need to end hostilities, build climate resilience, and strengthen institutional capacities.

Reform of the global financial architecture

The ongoing conflict has reversed the limited progress Sudan has made in structural transformation. In recent years, productivity declined 30% in services, the main employment sector, while increasing 20% in industry and remaining unchanged in agriculture. Between 2010 and 2022, the share of employment in agriculture declined from 49.7% to 40%, while that of services increased from 41.8% to 45% and that of industry remained stable at 15%. To accelerate structural transformation, Sudan must restore peace and create an environment in which it can address infrastructure bottlenecks, develop the skills needed to support industrialization, and strengthen institutional capacities to enhance the governance framework for private sector growth.

In a postwar Sudan, effective financing of structural transformation will require greater domestic resource mobilization through targeted reforms in tax administration and natural resources management, and strengthened financial and economic governance for efficient government spending and public debt management and sustainability. Sudan has benefited from the global financial architecture through the clearance of debt arrears and attainment of the HIPC decision point in 2021. Sudan would benefit from further reforms to the global financial architecture, notably greater clarity of the concept of comparable treatment of creditors once the HIPC process resumes, as well as reforms to increase access to concessional financing.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Tanzania

Recent macroeconomic and financial developments

Real GDP grew 5.3% in 2023, up from 4.7% in 2022, driven by agriculture, construction, and manufacturing on the supply side and private investments on the demand side. Tight monetary policy, together with moderation in food and energy prices, helped reduce inflation from 4.3% in 2022 to 3.8% in 2023. The Tanzanian shilling depreciated by 8% in 2023, reflecting shortages of foreign exchange.

The fiscal deficit declined slightly from 3.6% of GDP in 2021/22 to 3.5% in 2022/23, responding to expenditure controls, and was financed by external and domestic borrowing. Public debt increased from 43.6% of GDP in 2021/22 to 45.5% in 2022/23 due to an increase in loans. The current account deficit narrowed from 7.3% of GDP in 2022 to 3.8% in 2023, benefiting from higher tourism receipts, and was financed by external commercial debt and official flows. Reserves declined from 4.7 months of import cover in 2022 to 4.5 months in 2023, explained by the authorities' response to the foreign exchange shortage. The banking sector, which accounts for 71% of financial assets, remained sound with the ratio of nonperforming loans to gross loans declining from 5.7% in 2022 to 4.3% in 2023, below the regulatory requirement of 5%.

The 2017/18 Household Budget Survey reported a decline in poverty from 28.2% in 2011/12 to 26.4% in 2017/18, although recent assessments by United Nations agencies estimate that poverty increased from 26.1% in 2019 to 27.7% in 2020 due to Covid-19. The 2021/22 Integrated Labor Force Survey revealed a decline in unemployment from 10.5% in 2014 to 9.3% in 2021/22.

Outlook and risks

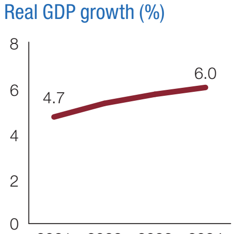
Real GDP growth is projected at 5.7% in 2024 and 6% 2025, driven by agriculture, manufacturing, and tourism and supported by public investments and reforms to improve the business environment. Inflation is projected to decline to 3.3% in 2024 and 3.4% in 2025, helped by stability in food and energy prices. The fiscal deficit, financed by domestic and external borrowing, is expected to decline to 2.5% of GDP in 2023/24 and stabilize at that level in 2024/25, supported by improvements in revenue performance. The current account deficit, financed by external borrowing, is projected at 4.0% of GDP in 2024 and 4.2% in 2025, supported by merchandise exports and tourism receipts. The major downside risks to the outlook include spillovers from geopolitical tensions and regional conflicts, sluggish global growth, the narrow tax base, and climate shocks.

Reform of the global financial architecture

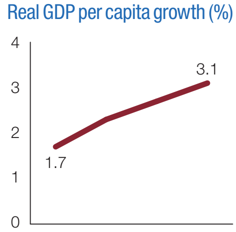
Structural transformation in Tanzania has been slow and constrained by several challenges, including declining industrial productivity and competitiveness and shallow financial markets. Agriculture's share in employment declined from 84.8% in the early 1990s to 65% in 2022, while industry's share rose from 2.6% to 6.8% and services' share rose from 12.6% to 29%. Agriculture's share in GDP dropped from 42% in the early 1990s to 26% in 2022. Manufacturing's share in GDP has remained unchanged at around 8% since the mid-1990s, and its share in total exports has remained below 25%. The slow pace of structural transformation is holding back labor productivity growth.

Actions to expedite structural transformation include adjusting the regulatory framework to improve the business environment and boost investments in manufacturing; addressing infrastructure bottlenecks, especially in energy and transport; and investing in human capital. Financing Tanzania's structural transformation requires deepening financial markets through digital financial solutions; increasing domestic revenue mobilization, notably by expanding the tax base; and strengthening capacities for negotiation of natural resources contracts. Reforms of the global financial architecture to increase access to concessional, low-cost, and long-term development and climate financing would be most beneficial to Tanzania.

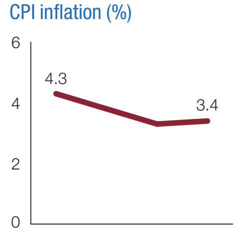
Real GDP growth (%)



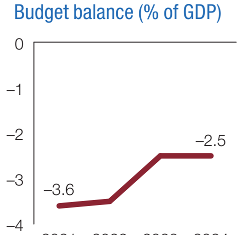
Real GDP per capita growth (%)



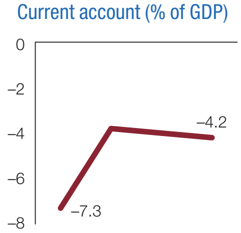
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Tanzania's fiscal year, which runs from July 1 to June 30.

Uganda

Recent macroeconomic and financial developments

Uganda's economy expanded 4.6% in 2023, lower than the 6.3% registered in 2022. Despite strong performance in mining, construction, and hospitality, lower manufacturing output and contractions in food production and public administration led to the slowdown. Tight fiscal policy contributed to slower economic growth, despite large investments in oil and gas. Consumer demand and foreign investment remain robust. Monetary policy has been tight, with the Bank of Uganda setting the policy rate at 10.25%. Inflation declined from 7.2% in 2022 to 5.5% in 2023. Net foreign assets declined during the second half of 2023, marginally depreciating the shilling–US dollar exchange rate by 1.8% in 2023.

The government continues its fiscal consolidation, focusing on reducing current and development expenditures more than on boosting domestic revenue. The deficit narrowed from 7.4% of GDP in 2021/22 to an estimated 5.1% in 2022/23. Since the rapid rise in public debt in response to the Covid-19 pandemic, public borrowing has been stabilizing. Despite a small increase in the debt-to-GDP ratio from 46.3% in 2020 to 49.6% in 2023, the risk of public debt distress is moderate, with the debt level considered sustainable. The current account deficit narrowed in 2023 but remained elevated at 7.9% of GDP. With the ratio of nonperforming loans to gross loans at 4.6% and a capital adequacy ratio (tier-1 capital to risk-weighted assets) of 25.3% in 2023, the financial sector remains well capitalized and able to withstand external shocks.

Previous gains in poverty reduction are reversing, with the poverty rate rising from 21.4% in 2017 to 30.1% in 2020.

Outlook and risks

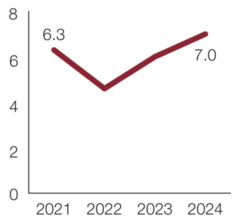
The economy is projected to expand by 6.0% in 2024 and 7.0% in 2025, buoyed by stronger regional growth as global supply chains normalize. The oil sector will continue ramping up investments in wells and pipelines, further underpinning growth and future exports. Rising imports of goods and services will keep the current account deficit elevated. Inflation is expected to converge to 5% as the Bank of Uganda maintains its tight monetary policy. The fiscal position is expected to further improve with continuing consolidation efforts. Nonetheless, external risks are tilted toward the downside. Supply chain disruptions around the Red Sea could slow trade as risk premiums rise, while intensifying regional insecurity could delay investments. Domestic risks are related to unexpected increases in public spending on infrastructure amid weak tax revenue performance. The International Monetary Fund's Extended Credit Facility will bolster reserves and set performance targets to guide the authorities.

Reform of the global financial architecture

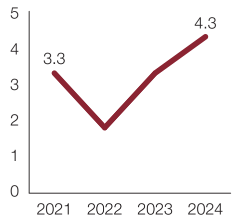
Despite a shift from agriculture to services, Uganda's structural transformation remains incomplete. Agriculture's contribution to GDP has declined from 53% in 1990 to 24% in 2022, yet 7 of 10 Ugandans are still subsistence farmers and working in low-value-added agricultural jobs, with agricultural labor productivity rising by just 26%. While productivity has advanced 294% in manufacturing and 164% in trade services, these sectors employ a small fraction of the workforce. Manufactured exports constituted only 13% of total exports in 2022. Accelerating structural transformation requires boosting agricultural productivity and investing in firms and jobs in industrial sectors and services. Also critical is scaling up skilling, promoting innovation through research, and boosting mechanization of agriculture.

The transition to higher value-added jobs requires greater investment in industry and services. Uganda receives $2 billion annually from development partners, but most of it is directed to social sectors. In the short term, the government could negotiate a reallocation of financing to productive sectors. Stronger collaboration between international financial institutions and the private sector is vital to providing risk capital for investment, for example, a green industrial finance facility. Over the medium term, government should increase financing for quality infrastructure and production factors to improve Uganda's export competitiveness, for example, by harnessing Global Gateway or Belt and Road Initiatives.

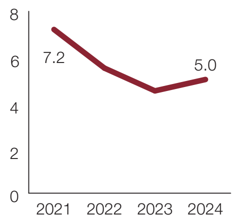
Real GDP growth (%)



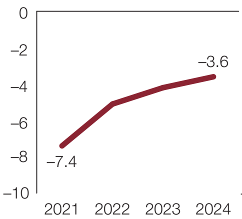
Real GDP per capita growth (%)



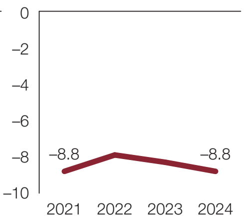
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Uganda's fiscal year, which runs from July 1 to June 30.

NORTH AFRICA

Algeria

Recent macroeconomic and financial developments

Economic growth rate accelerated from 3.6% in 2022 to 4.2% in 2023, driven by the hydrocarbon sector, industry, construction, and services. Inflation remained high (9.3% versus 9.2% in 2022) due to rising food prices. Monetary policy remained accommodative despite the central bank's decision in April 2023 to increase reserve requirements and accelerate liquidity absorption in the banking sector.

The budget deficit worsened, from 7.8% of GDP in 2022 to 10.2% in 2023, reflecting higher wage and pension payments for civil servants. Budget revenue rose around 5% from 2022, despite a slight drop in oil revenue. Public debt, mainly domestic, fell from 62.1% of GDP in 2021 to 55.1% in 2023. The external current account surplus narrowed substantially, from 8.6% of GDP in 2022 to 2.3% in 2023, leading to a drop in foreign exchange reserves from 18 months of import cover to 14 months. A new monetary and banking law was passed to stimulate financial innovation and inclusion and modernize financial supervision tools. The first two Algerian banks to open branches abroad were the Algerian Union Bank in Mauritania and the Algerian Bank of Senegal.

Unemployment remains high at 14.9% in 2022 and 14.5% in 2021. Since 2021, the government has instituted an unemployment benefit scheme, increasing the monthly amount to around $110 in December 2022.

Outlook and risks

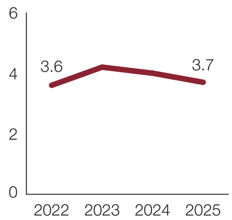
Real GDP growth is projected to continue at around 4% in 2024 and then slow to 3.7% in 2025. The hydrocarbon sector is expected to maintain its growth, with oil and natural gas exports growing at around 5% in 2024 and 2025. The upward trend in inflation is projected to reverse in 2024, falling to 6.8% in 2024 and 5.7% in 2025 as agricultural production increases. The budget deficit is projected to deteriorate to 11.1% of GDP in 2024 and 12% in 2025, under pressure from social spending, which is set to continue rising. The current account is projected to benefit from global disruptions to hydrocarbon supplies and remain in surplus, at 1.0% of GDP in 2024. The presidential election to be held in September 2024 is not considered a macroeconomic risk, given the stability of the national sociopolitical context. If the elections go well, the main risk for the economic outlook is the country's heavy dependence on the hydrocarbon sector.

Reform of the global financial architecture

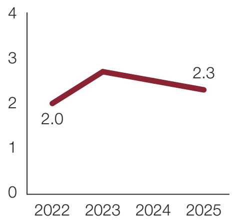
Economic growth depends heavily on the performance of the oil and natural gas sectors. Nevertheless, the share of hydrocarbons in GDP has been declining, from 44.3% in 2005 to 34.2% in 2012 and 19.5% in 2019, while that of services has been rising. The nonhydrocarbon industry's share of GDP has also been declining, from almost 15% in the early 1980s to 5.9% of GDP over 2015–19. Agriculture's share of GDP fell from 14% over 1990–99 to 10% over 2000–09 and then rose to 13% over 2010–16. By contrast, market services are on the rise, with their contribution to GDP rising from 25% in 2000–09 to 31% in 2010–16. The services sector's share of employment doubled from 13% in 2010 to 26% in 2018, while agriculture's share was almost halved, from 20.1% in 1990 to 10.4% in 2018.

The main development challenge remains the need to diversify its economy. Reforming the mechanisms of the global financial architecture would be in line with the government's vision of consolidating economic recovery and improving the business climate by accelerating the digital transition and developing the sectors driving development and economic growth, including agro-industry and fisheries. In the short term, it will be necessary to support local industries and invest in the technologies required for the industrialization strategy (digital economy and digitalization in particular).

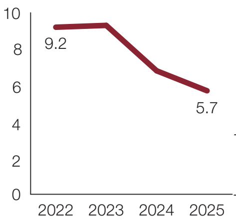
Real GDP growth (%)



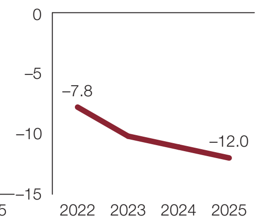
Real GDP per capita growth (%)



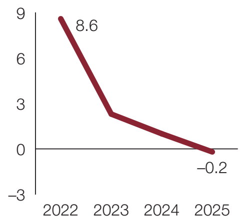
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Egypt

Recent macroeconomic and financial developments

Egypt's GDP growth declined to 3.8% in 2022/23, reflecting low performances in manufacturing and petroleum refining. Growth was propelled by private consumption and exports, despite high inflation. At 24% in 2022/23, inflation was well above the Central Bank of Egypt's (CBE) target of 7%, driven by rising international prices, domestic supply shocks, and exchange rate movements. The Egyptian pound lost 70% of its value against the US dollar between May 2022 and January 2023. To curb inflationary pressures, the CBE increased interest rates three times between March and August 2023.

The fiscal deficit decreased slightly to 6.0% of GDP in 2022/23, buoyed by higher tax revenues that raised the primary surplus to an estimated 1.6% of GDP. Central government debt increased to 95.7% of GDP in 2022/23, due largely to the devaluation of the Egyptian pound. The current account deficit narrowed to 1.2% of GDP in 2022/23 thanks to higher tourism receipts and Suez Canal revenues. Gross official reserves recovered slightly to $34.8 billion at the end of June 2023 (5.6 months of import cover).

The banking system remained well capitalized, at above the CBE's minimum threshold of 12.5%. Nonperforming loans improved from 3.4% in 2022 to 3% of gross loans in 2023. Government expenditures on subsidies and social protection programs increased to 20.4% of total expenditures in 2022/23 to reduce the impact of high inflation on households' purchasing power.

Despite these measures, the poverty rate, estimated at 29.7% in 2020, is expected to increase. Unemployment remained stable at an estimated 6.9% in 2023.

Outlook and risks

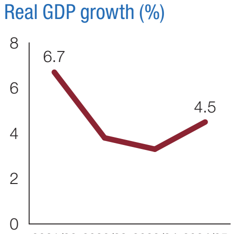
Egypt's economic outlook is positive, thanks to the strong financial support of international financial institutions and development partners. Egypt signed a $35 billion deal with the United Arab Emirates in February 2024 to develop the North Coast area of Egypt (Ras El Hekma). GDP growth is expected to decline slightly to 3.3% in 2023/24 before rising to 4.5% in 2024/25 within a more favorable economic context. The fiscal deficit is set to widen in 2023/24 due to higher interest payments but is then projected to improve in 2024/25. Inflation is expected to rise to 35.8% in 2023/24 before moderating to 22.7% in 2024/25 due to exchange rate movements. The current account deficit is projected to deteriorate slightly as tourism receipts and Suez Canal revenues decline. In the short term, Egypt remains vulnerable to global economic shocks, notably the war in Gaza, which poses a security risk in the Red Sea and could impair tourism receipts and Suez Canal revenues.

Reform of the global financial architecture

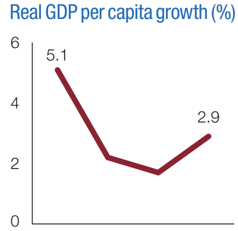
The structure of the Egyptian economy remained unchanged over the period 2012–2022, dominated by services (51% of GDP) and industries (34%). Manufacturing, estimated at 16.3% of GDP for the same period, has not yet emerged as an engine of structural transformation. Although employment in agriculture decreased by 9 percentage points over the period, employment shares in agriculture (19%) and services (53%) in 2022 remained higher than their output shares, indicating low productivity. The Egyptian economy benefits from a large consumer base, diversified economy, strategic geopolitical location, and several free trade agreements. However, structural transformation is impeded by slow private sector growth.

Creating an enabling environment for private sector development requires substantial public investment and additional resources, while Egypt is looking to reduce its public debt and interest service. Egypt could continue lengthening the maturity of its debt and diversifying its investor base to manage its refinancing needs. Reform of the global financial architecture, notably the proposal to increase development lending and improve terms of lending, could support Egypt's structural transformation and economic resilience. Egypt has always benefited from strong support from international financial institutions. A strategic partnership worth $8 billion was signed with the European Commission in March 2024, while the $3 billion International Monetary Fund program approved in December 2022 was increased to about $8 billion.

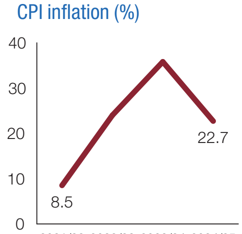
Real GDP growth (%)



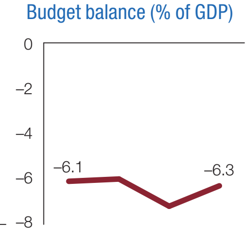
Real GDP per capita growth (%)



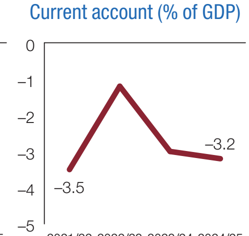
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data in the figure correspond to Egypt's fiscal year, which runs from July 1 to June 30.

Libya

Recent macroeconomic and financial developments

Libya's economy is heavily dependent on oil and gas, which constitute 97% of exports, more than 90% of fiscal revenues, and 68% of GDP. In 2023, as the country recovered from the 2022 recession, GDP grew 12.6%, thanks to sustained oil production made possible by the improved security situation. On the demand side, growth remained driven by private consumption and exports. The inflation rate fell to 2.4% in 2023 as domestic supply chains improved.

The current account surplus shrank to 18.5% of GDP and the fiscal surplus to 0.1% of GDP as global oil prices declined. In the absence of a unified state budget for the East and West of the country, public salaries, operating expenses, and subsidies continue to be prioritized at the expense of public investment. Foreign exchange reserves stood at $82 billion at the end of 2023 (more than 4 years of import cover). In August 2023, the Central Bank announced its reunification with its eastern branch. The capital adequacy ratio averaged 17.5% over 2019–2022, above the Central Bank's threshold of 12.5%. The ratio of nonperforming loans to gross loans is high, estimated at 23.1% in the third quarter of 2023.

The number of people in need of humanitarian assistance declined from 1.5 million in 2021 to 803,000 in 2022 as security improved. The unemployment rate was estimated at 19.3% in 2022 (51.4% for youth), attributable to a labor market dominated by public sector and informal employment.

Outlook and risks

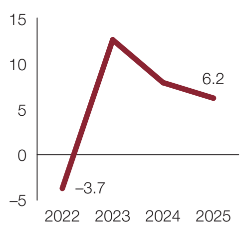
Libya's peace remains fragile as election challenges are still unresolved. The economy is projected to grow at 7.9% in 2024 and 6.2% in 2025, under the assumption that oil and gas prices and production remain stable. Inflation is forecast to remain subdued, at around 2.8% in 2024 and 2.6% in 2025, reflecting expected stability in global food prices. The fiscal surplus is projected to improve to 4.2% of GDP in 2024 and to 8.7% in 2025, while the current account surplus is expected to remain at double digits in 2024 and 2025 due to projected increases in oil and gas exports. Libya's political and security environments are fragile, highly dependent on the oil and gas sector, and vulnerable to climate change. A rise in insecurity could lead to an oil blockade and slow GDP growth, while a slowdown in global economic growth could negatively affect international oil prices, shrinking Libya's fiscal space.

Reform of the global financial architecture

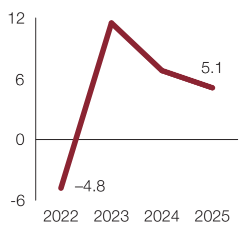
Over 2004–2022, the industrial sector (led by oil and gas) contributed an estimated 61.7% to GDP, while manufacturing contributed just 4.0% and agriculture just 2.8%. In 2022, the employment shares of services (70%) and agriculture (9.2%) were higher than their output shares, indicating low productivity. Structural transformation in Libya has been hindered by limited political will and interest in economic diversification, weak capacity of institutions and policy coordination, and political instability and insecurity since 2011. Many sectors have been paralyzed by more than a decade of conflict.

Libya has the necessary financial resources to support a structural reform program. Historically, Libya has relied little on external borrowing thanks to its abundant foreign reserves from oil and gas exports. However, reform of the global financial architecture to increase development lending and make it more affordable could create incentives for Libyan authorities to turn to external borrowing. Indeed, substantial financing needs are expected for the country's reconstruction and post-conflict recovery. Structural transformation will require achieving political stability and building strong and efficient institutions, in addition to implementing a holistic structural reform program to create a conducive environment for private investment and build modern and sustainable infrastructure.

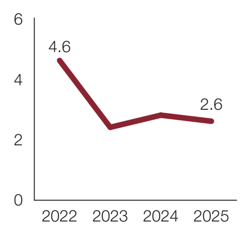
Real GDP growth (%)



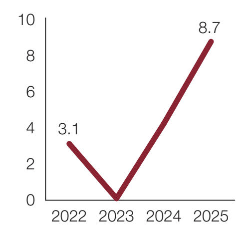
Real GDP per capita growth (%)



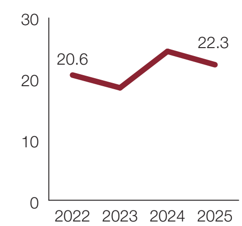
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Mauritania

Recent macroeconomic and financial developments

The economic growth rate fell from 6.4% in 2022 to 3.4% in 2023, reflecting a drop in industrial and fisheries production on the supply side and lower public investment on the demand side. Inflation fell from 9.6% in 2022 to 5% in 2023, due to tighter monetary policy and deceleration in food prices.

The budget deficit improved from 3.6% of GDP in 2022 to 2.3% of GDP in 2023, as tax revenue rose from 13.1% of GDP in 2022 to 14% in 2023. Public debt fell from 52.4% of GDP in 2021 to an estimated 48% in 2023 following a debt restructuring agreement with Saudi Arabia. As a result, the risk of debt distress dropped from high to moderate in 2023. The current account deficit improved from 14.7% of GDP in 2022 to 9.8% in 2023, due to the rising value of exports, iron ore specifically, and reduced imports of food and petroleum products. The soundness of the banking sector improved. Nonperforming loans fell from 43.3% of gross loans in 2021 to 35% in 2022. The overall capital adequacy ratio was 18% in 2022, against a 10% norm.

The Covid-19 pandemic, inflationary pressures in 2022, and climate shocks had a negative impact on people's social circumstances, leading to an increase in the extreme poverty rate from 5.4% in 2019 to 6.3% in 2022. Youth unemployment, estimated at 24% in 2023, remains high.

Outlook and risks

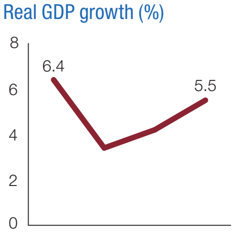
The economic outlook remains favorable, with real GDP growth projected at 4.2% in 2024 and 5.5% in 2025, underpinned by the expected export receipts from gas production scheduled for late 2024, which is projected to generate approximately $500 million in annual revenue over 2024–51. With a continuing restrictive monetary policy and good agricultural prospects, the country is projected to contain inflation at 4.7% in 2024 and 4.2% in 2025. The budget deficit is projected to improve to 2% of GDP in 2024 and to 1.6% in 2025, linked to additional revenue generated by the gas sector. Public debt is projected to fall in the short term, keeping the risk of debt distress moderate. The current account deficit is projected to improve to 8.5% of GDP in 2024 and 7.4% in 2025, due to projected increases in gas exports and a drop in food and oil import costs. These forecasts face major risks, including security tensions in the Sahel, unfavorable fluctuation in iron ore prices, delays in the launch of the Grand Tortue Ahmeyim gas project, and the impacts of climate change.

Reform of the global financial architecture

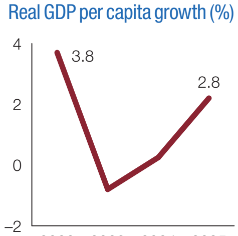
Progress in structural transformation has been slow, attributable to a growth model based on extractive resources. Manufacturing's share of GDP fell from 10.4% in 2000 to 6.5% in 2022, and agriculture contracted from 26.1% to 23.2%. The economy is dominated by services, which accounted for 46% of GDP in 2022, compared with 42.4% in 2000. Agriculture's share of employment fell from 44.8% in 2000 to 33% in 2022, and industry's share fell from 15.3% to 14.7%. Employment migrated to informal services (52.3%, up from 39.9%). To accelerate structural transformation and avoid Dutch disease will require redirecting gas revenues to diversify the economy; developing local value chains and infrastructure; improving the business climate to develop the private sector; strengthening human capital; and accelerating digitalization of the economy.

In addition, the country should improve its access to international financial markets to finance its structural transformation. To enable Mauritania to take greater advantage of the global financial architecture, development partners must support its sovereign credit rating process, which is a prerequisite for issuing debt on international markets, and increase concessional financing. The government must ensure sound management of debt and gas revenue, improve the business climate, and develop the domestic financial market with the introduction of green bonds.

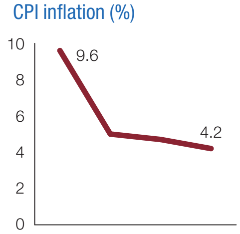
Real GDP growth (%)



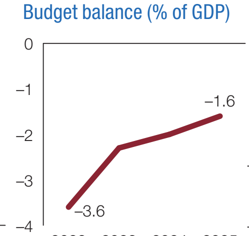
Real GDP per capita growth (%)



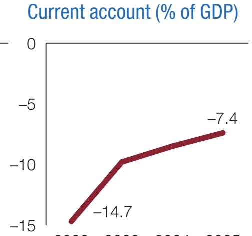
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Morocco

Recent macroeconomic and financial developments

After weak economic performance in 2022, with growth of just 1.3%, growth rebounded in 2023 to 3.02%, due to the revival of agricultural activities and services and moderate recovery in domestic demand. Inflation fell to 6.1% in 2023, after peaking at 6.6% in 2022, as imported inflationary pressures eased. The budget deficit improved from 5.2% of GDP in 2022to 4.7% in 2023, due to the combined effect of strong budget revenue and lower subsidies. The 2023 financing requirement was covered mainly by issuing eurobonds, after a period when government securities were used. Public debt was estimated at 69.7% of GDP in 2023, compared with 71.5% in 2022. The current account deficit decreased by 2 percentage points, from 3.5% in 2022 to 1.4% in 2023, due to a smaller trade deficit, record tourism receipts, and higher remittances. Foreign exchange reserves covered 5.1 months of imports in 2023, down from 5.5 months in 2022. The financial system is sound, with an average bank solvency ratio of 15.8% at the end of June 2023, compared with 15.6% in 2022, and nonperforming loans stabilized at 8% of gross loans.

Morocco, an upper-middle-income country, had an income per capita of $9,410 in purchasing power parity terms in 2022. Progress must be consolidated through more inclusive growth to reduce the poverty rate, which rose from 3% in 2021 to 4.9% in 2022, and mitigate the rise in the unemployment rate, which rose from 11.8% in 2022 to 13% in 2023, affecting especially young people (35.8%), college graduates (19.7%), and women (18.3%).

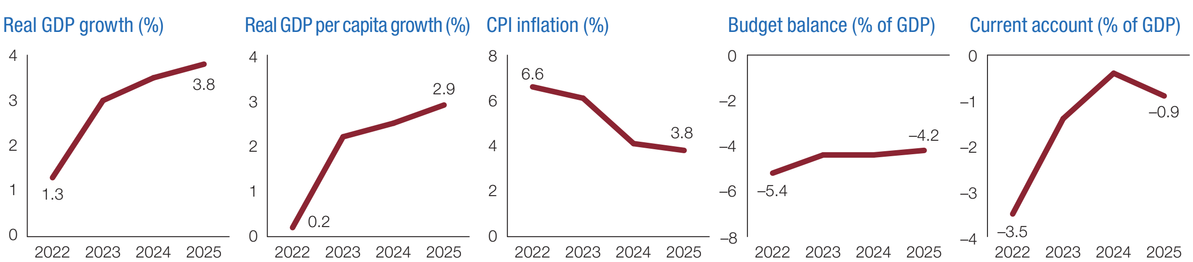
Outlook and risks

GDP growth is projected to rise moderately to 3.5% in 2024 and strengthen to 3.8% in 2025, boosted by higher investment. Inflation is projected to fall slightly to 4.1% in 2024 and 3.8% in 2025, as world food prices decline. The budget deficit could fall gradually to 4.4% of GDP in 2024 and 4.2% in 2025, benefiting from economic recovery and lower subsidies on butane gas prices. The current account is projected to record a small deficit of 0.4% of GDP in 2024, worsening moderately to 0.9% of GDP in 2025, as a result of higher imports. Growth prospects could be reduced by poor rainfall or slower economic growth in the European Union, which could worsen terms of trade. Rising tensions related to Russia's invasion of Ukraine could trigger another shock in food prices. Risk mitigation factors include implementing structural mechanisms to manage climate shocks and natural disasters and the royal social protection initiative.

Reform of the global financial architecture

Structural transformation has been slow and has benefited the services sector, with the workforce shifting from agriculture to services and industries. From 2011 to 2022, the services sector accounted for 52% of GDP and employed 42.3% of the working population. Over the same period, the industrial sector accounted for approximately 25% of GDP, and the manufacturing sector for 14.7%. Manufacturing's share of employment fell from 12.2% in 2000 to 11% in 2019. Agriculture accounted for approximately 35% of employment in 2011–2022.

The country has prepared a new development model to strengthen its structural transformation by making it more inclusive. The model promotes manufacturing, trade integration, infrastructure connectivity, and human capital development. To implement this model while taking advantage of the global financial architecture, Morocco must maintain access to high volumes of lower-cost external financing with long maturities. The country can take advantage of increased Special Drawing Rights at the International Monetary Fund, partial guarantees of credit risk from multilateral development banks, and climate funds to mitigate water stress. It must implement reforms to position itself in global value chains, mobilize more domestic resources by developing the private sector, rationalize tax spending, and make public procurement more open to micro, small, and medium enterprises.



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Tunisia

Recent macroeconomic and financial developments

The GDP growth rate fell to 0.4% in 2023, due to the drought that hurt the agricultural sector and a decrease in domestic demand. Inflation continued to rise, reaching 9.3% in 2023 fueled by higher commodity prices.

Despite a tax burden of 24.5%, the budget deficit remained unchanged at 6.8% of GDP in 2023. The current account deficit improved to 2.8% of GDP, due to reduced imports and resilience in manufacturing exports, tourism receipts, and remittances. The improvement in the current account deficit bolstered foreign exchange reserves ($7.3 billion by end-2023). But the dinar–US dollar exchange rate, which remains volatile, depreciated over 2023. Public debt, 60% of which is external, rose from 77.6% of GDP in 2022 to 80.2% in 2023. A February 2024 law authorized the central bank to grant exceptional financing of 7 billion dinars ($2.2 billion) to the treasury on advantageous terms, enabling the government to meet some of its external debt repayments. The bank solvency ratio consolidated to 14% in 2022, up from 13.3% in 2021, and the share of nonperforming loans fell from 13.1% of gross loans in 2021 to 12.6% at the end of 2022, due to loan writeoffs.

Tunisia ranks 101st of 193 countries worldwide on the 2022 Human Development Index and 5th of 54 African countries. Unemployment stood at 16.4% in the fourth quarter of 2023, particularly affecting youth ages 15–24 (40.9%), college graduates (23.2%), women (22.2%), and inland regions. The poverty rate, at 15.3% nationally, is higher in rural areas (26%) than in major urban centers (6.3%).

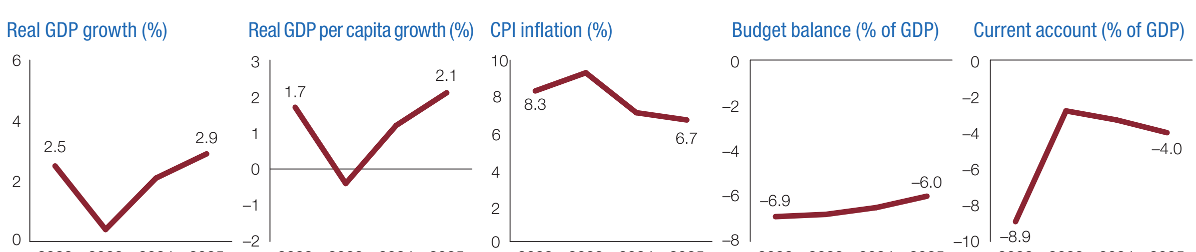
Outlook and risks

GDP growth is projected to remain modest in the medium term, at 2.1% in 2024 and 2.9% in 2025. Inflation is projected to be 7.1% in 2024 and to fall gradually to 6.7% in 2025, as global inflationary pressures ease. The budget deficit is projected to improve to approximately 6% in 2025 as fiscal discipline is maintained. But the current account deficit is expected to worsen gradually to 4% in 2025, due to imports of capital goods needed to boost economic growth. The medium-term economic outlook could worsen due to high risk of debt distress limiting access to external financing, social tensions caused by the high cost of living, and continued high interest rates in developed economies. But accelerating reforms (in particular, those aimed at improving governance of public enterprises, the business climate, and control of current spending) could boost growth and reverse the debt trajectory. Moody's outlook on the country's sovereign rating (Caa2) was upgraded from negative to stable in March 2024, due to the rise in foreign exchange reserves.

Reform of the global financial architecture

The structural transformation of the economy is benefiting the services sector (which accounts for 65% of GDP) rather than industry (which accounts for 25% of GDP). From 1990 to 2020, agriculture's share of employment fell from 24% to 14.5%, mainly favoring services, which accounts for 52% of employment. Industrial productivity has been declining for two decades. Around 96% of businesses are micro, small, or medium enterprises, and the informal sector accounts for almost two-thirds of employment.

Reforming the global financial architecture would facilitate the mobilization of resources for the structural transformation of the economy. The reform could include the adoption of guarantees and risk-sharing instruments to mobilize more private resources for green industrialization and the creation and modernization of regional financial markets to favor the deployment of green bonds and access to local currency financing for small and medium enterprises. Other measures that Tunisia could implement to accelerate structural transformation include restoring public finance sustainability to secure the support of development partners and improve investors' risk perceptions; accelerating the upgrading of industry; improving the business climate; developing human capital; facilitating access to financing and formalization for micro, small, and medium enterprise; and digitalizing and strengthening the resilience of its economy.



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SOUTHERN AFRICA

Angola

Recent macroeconomic and financial developments

Angola is one of the most oil-dependent African countries, with oil accounting for 28.9% of GDP and 95% of exports. Oil also affects growth indirectly in non-oil sectors. GDP grew an estimated 0.9% in 2023, much lower than the 3.5% projected at the beginning of the year and the 3% growth in 2022. The first half of 2023 was marked by falling oil production and prices, higher external debt amortizations as the debt service moratorium ended, and a 60% currency devaluation. Driven mostly by the devaluation and the high share of dollar-denominated debt, the public debt-to-GDP ratio rose to 84% at the end of 2023 after falling to 69.2% in 2022. On the positive side, the ratio of debt service to total income declined from 279% in 2022 to 100% in 2023, reflecting the efficacy of the authorities' strategy to reduce financing costs.

Inflation dropped from 21.7% in 2022 to 13.6% in 2023, with food prices accounting for 68.8% of the national consumer price index. The National Bank of Angola raised the basic interest rate to 18% in November 2023 and 19% in March 2024 and increased the reserve requirement ratio in national currency. The decline in imports compensated for the 28% drop in exports in 2023, leaving international reserves basically unchanged at the end of 2023 ($14.7 billion) from the end of 2022 ($14.6 billion), equivalent to 7.5 months of import cover.

Angola was ranked 148 of 191 countries on the Human Development Index in 2021, and the official monetary poverty rate was 40.6% in 2019. Most jobs in Angola are informal (79.9%), and the unemployment rate is high (29.6%), driven by rural areas (38%) and youth (52.9%).

Outlook and risks

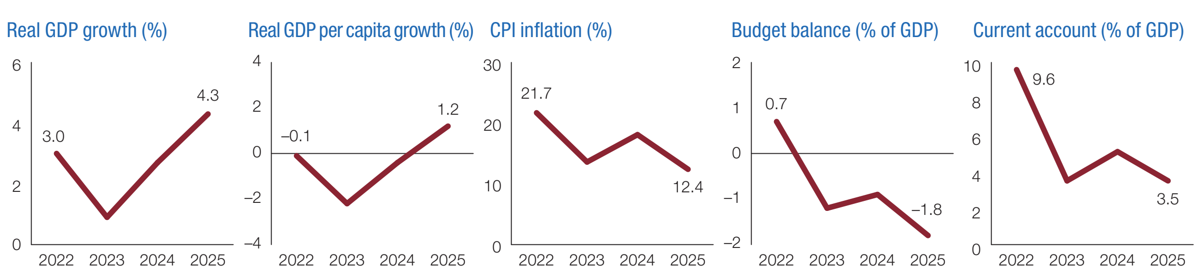
The short-term outlook has deteriorated. Inflation is expected to peak at 18.1% in 2024 and then drop to 12.4% in 2025, driven largely by the currency devaluation in 2023. The basic interest rate was raised to 19% in March 2024. The government is managing this shock by tightening fiscal policy (the 2024 budget considers lower oil production and prices) and taking fiscal consolidation measures (including reducing fuel subsidies), showing enhanced resilience.

After debt repayments of $18 billion in 2023 and $14 billion in 2024, the debt repayment profile is projected to decline going forward, opening up more fiscal space. The International Monetary Fund shares this positive perspective on Angola's risks, projecting a 14 percentage point decline in the debt-to-GDP ratio in 2024, from 84% to 70%, in its March 2024 Country Report.

Reform of the global financial architecture

Economic diversification remains elusive as oil production declines and global decarbonization looms in the medium term. The agriculture sector has grown faster than the economy for four consecutive years, and several indigenous private sector companies have diversified their portfolio from oil services and construction into agro-processing. However, structural transformation must be accelerated and consolidated, and several sectors still need to be opened to foreign direct investment. The government has identified agribusiness and agriculture as the drivers of industrialization and job creation over the next five years. Additional support will come from investment in infrastructure, especially through integrated development corridors such as the Lobito corridor, the first public-private partnership in the country.

The government has a stated policy of longer-term borrowing from multilateral institutions to fund its development expenditures. It has progressively substituted more expensive resource-backed loans and prefers issuing longer-term debt instruments to smooth out repayment peaks. Under the country's decarbonization agenda, the energy system received the largest share of climate finance, at 69%. Cross-sectors followed, with 19%, while agriculture, forestry, other land use, and fisheries together received 11%. Public finance sources account for the majority of climate finance in Angola, at 88%. Among these finance sources, development finance institutions hold the largest share, at 44%, and the private sector accounts for 17%.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Botswana

Recent macroeconomic and financial developments

Real GDP growth shrank to 2.7% in 2023 as water and electricity production declined and the diamond trade slowed. The declines reflected drought conditions and weak global diamond demand. Average inflation fell to 5.3% in 2023—within Bank of Botswana's 3%–6% acceptable range—reflecting downward domestic fuel price adjustments and lower imported inflation. In April 2024, with inflation expectations well anchored, the central bank maintained its monetary policy rate at 2.4% after having reduced it by 25 basis points in December 2023.

The 2023/24 fiscal deficit widened to 2.5% of GDP, driven by lower -than -expected mineral earnings and higher -than -planned recurrent spending. Public debt was sustainable at 22.0% of GDP. The decline in the current account surplus to 0.9% of GDP in 2023 reflected lower mineral exports and Southern African Customs Union (SACU) revenues. International reserves improved to $4.8 billion in January 2024 (8.7 months of import cover), up from $4.0 billion at the end of 2022 (7.6 months). Year on year, the pula appreciated by 0.8% against the South African rand and depreciated by 3.4% against International Monetary Fund Special Drawing Rights in March 2024.

The banking sector's capital adequacy ratio averaged 19.7% in 2023, above the 12.5% prudential floor. The nonperforming-loan-to-gross-loan ratio was stable at 3.7% in December 2023 against 3.8% in December 2022.

Botswana's poverty headcount ratio shrank from 17.0% in 2019 to 14.5% in 2022. In 2021, 20.8% of the population was multidimensionally poor. Unemployment was high, at 25.9% (25.4% in 2022), driven by 34.4% youth unemployment (third quarter of 2023).

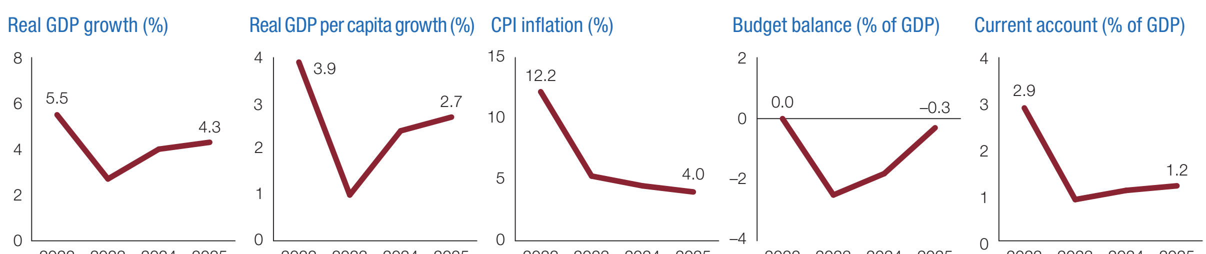
Outlook and risks

Growth is expected to rebound to 4.0% in 2024 as diamond sales recover. The outlook's downside risks include higher than expected inflation from supply chain disruptions as geopolitical tensions rise, weaker diamond trade if demand remains depressed, El Niño-driven weather patterns, and the potential for persisting weak economic conditions in South Africa. With the economy operating below full capacity, inflation may fall to 4.5% in 2024, staying within the central bank's range. A narrowed fiscal deficit of 1.8% of GDP in 2024/25 will be supported by improved public finance management, business environment reforms, and successful implementation of the two-year Transitional National Development Plan. A current account surplus is projected, with higher diamond earnings and SACU revenues. Unemployment may be addressed in part by the 2023 De Beers diamonds sales deal in which Botswana's higher control of diamond production (from 25% to 50%) is expected to generate new jobs along the industry's value chains.

Reform of the global financial architecture

Botswana is stable with strong institutions and democratic governance. The country prudently manages its diamond flows through the Pula Sovereign Wealth Fund and has been diversifying away from mining. The contribution of non-minerals in real GDP rose from 71.1% in 2013 to 76.2% in 2023. Over the same decade, the mining sector's GDP contribution fell from 20.0% to 16.7%, and its share of employment dropped from 5.8% to 1.4%. Industry's contribution fell from 18.2% to 16.6%, and its share of employment dropped from 31.4% to 16%. Agriculture's GDP contribution declined from 2.0% to 1.6%, but its share of employment rose from 3.1% to 9.8%. Services' contribution increased from 59.6% to 65.1%, and its share of employment rose from 39.7% to 56.1%. To advance its structural transformation, Botswana should target higher value addition in sectors with the highest job creation potential.

To close the 41% financing gap in its $4.7 billion public investment program and position itself to take full advantage of the redesigned global financial architecture, Botswana could emphasize reforms that sustainably improve its legal and operational efficiencies to attract higher private capital flows. Botswana could also strengthen and mainstream the technical skills necessary for effective engagement in global financial negotiations and identification of well-targeted bankable projects for investment.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. The fiscal years start in the named April and conclude the end of March in the following year.

Lesotho

Recent macroeconomic and financial developments

Lesotho's economic growth decelerated from 1.3% in 2022 to an estimated 0.9% in 2023 owing to slowing manufacturing and agricultural activities. Inflation dropped from 8.3% in 2022 to about 6.4% in 2023, as food inflation declined in South Africa, Lesotho's main trading partner. Public debt fell from 60.6% of GDP in 2022 to 57.5% in 2023, mainly because of the redemption of treasury bonds. Official reserves stood at 4.7 months of import cover in 2023.

The loti, which is pegged at par with the South African rand, depreciated against all major currencies in 2023, including the euro (12.58%), the pound (24.73%), and the US dollar (29.63%) as the rand depreciated. Following a deficit of 4.3% of GDP in 2022, the fiscal balance was estimated at a surplus of 1.0% in 2023 as South African Customs Union (SACU) revenues recovered. The current account deficit improved from 8.4% of GDP in 2022 to an estimated 3.4% in 2023, due to rising textile exports. The deficit was financed with South African capital transfers (foreign direct investment flows). The banking sector is sound. Monetary policy tightening led to a decline in nonperforming loans from 4.2% of gross loans in 2020 to 3.84% in December 2023. The capital adequacy ratio dropped from 22.95% in December 2020 to 17.16% in December 2023, which is still above the 8% minimum prudential requirement.

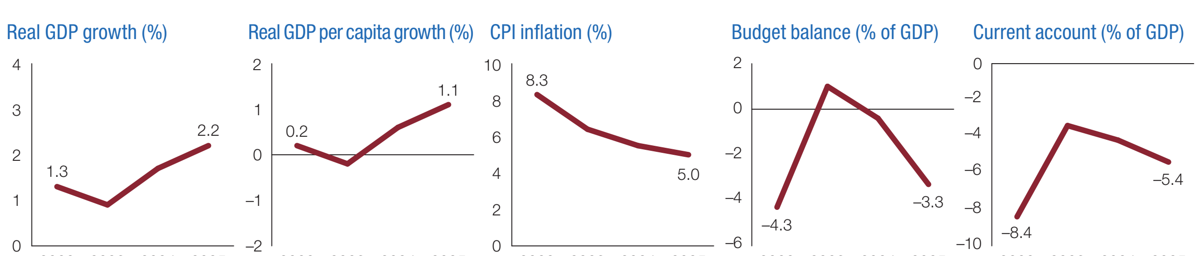
Outlook and risks

Real growth in GDP is projected to rise to 1.7% in 2024 and 2.2% in 2025 with expected recovery in the mining and manufacturing sectors. The fiscal balance is projected to deteriorate from a surplus of 1% in 2023 to a deficit of 0.4% of GDP in 2024 and then to 3.3% in 2025 owing to elevated expenditures associated with the second phase of the Lesotho Highlands Water Project. The current account deficit is projected to deteriorate further to 3.4% in 2024 and 4.2% in 2025 due to an increase in imports associated with the second phase of the Lesotho Highlands Water Project. The risks to the domestic outlook are diverse. Inflation could remain high if some of the upside risks to inflation materialize. Global economic growth could come out weaker than projected, negatively affecting Lesotho's export-oriented industries, especially textiles. Declining manufacturing activity could slow economic growth and job creation, compounded by the uncertainty surrounding renewal of the US African Growth and Opportunity Act. Finally, South Africa's persistent economic underperformance is likely to spill over to Lesotho, given the close commercial ties between the two countries. Fiscal consolidation and improvements in public financial management are expected to restore fiscal sustainability.

Reform of the global financial architecture

Lesotho's economy has undergone some structural transformation since the 1990s. Between 1990 and 2022, manufacturing grew from 13.2% of GDP to about 22%, and the service sector's share expanded from 40.3% to about 60%. At the same time, agriculture's share of GDP plummeted, from 20% to 5.12%. Despite this structural transformation, Lesotho lacks the financial capacity to address its challenges. The global financial architecture has not provided Lesotho with the resources needed to support its development agenda. For example, of the total $650 billion in Special Drawing Rights issued by the International Monetary Fund, Lesotho received only $43.028 million.

The global financial architecture needs to be reformed in order to help countries in need like Lesotho. Multilateral financial institutions should expand their contingency financing to such countries, which are frequently stricken by drought and other shocks, and scale up their development and climate finance to resource-poor countries like Lesotho. Lesotho should enhance its domestic resource mobilization and strengthen its public finance management. It should also build fiscal buffers using revenues from diamond exports. Finally, the government should restore fiscal sustainability through fiscal consolidation.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Lesotho's fiscal year, which runs from April 1 to March 31.

Madagascar

Recent macroeconomic and financial developments

Economic activity remained robust in 2023, with growth estimated at 4.4%, up from 4.3% in 2022. Growth was driven by extractive industries (up 5.2%), tourism (up 14.6%), and telecommunications (15.2%) on the supply side and by buoyant exports and booming public investment (12.2% of GDP in 2023, up from 5.4% in 2022) on the demand side. Inflation rose from 8.2% in 2022 to 9.9% in 2023, driven by the continuing rise in energy and food prices.

Higher spending, linked to measures for mitigating the effects of the Covid-19 pandemic and Russia's invasion of Ukraine, increased the budget deficit from 5.4% of GDP in 2022 to 6.1% in 2023. The deficit was financed by public debt, which rose from 54.9% of GDP in 2022 to 56.1% in 2023. But the risk of debt distress remains moderate. Buoyant prices for export products (nickel, cobalt, graphite) and the upturn in tourism narrowed the current account deficit from 5.3% of GDP in 2022 to 4.5% in 2023. Overall, the financial system is healthy, with credit to the economy up 11% in 2023, and the bad debt ratio down from 9.1% at the end of 2022 to 8.3% at the end of 2023.

According to the World Bank, the national poverty rate remains high, at 75.2% in 2022. Poverty is especially high in the south and the southeast, where it exceeds 91.2%, due to climate shocks (droughts, cyclones, and floods). Income inequality is high, with a Gini coefficient of 0.368 in 2022. The unemployment rate was an estimated 6.6% in 2022, according to the country's National Institute of Statistics, and youth ages 15–30 account for 70% of the unemployed according to the International Labour Organization. .

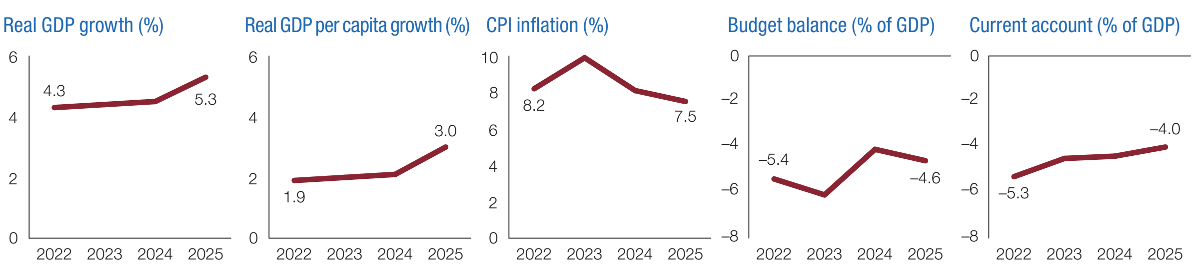
Outlook and risks

The economic outlook is good, with projected growth of 4.5% in 2024 and 5.3% in 2025. Growth is expected to be driven by strong performance in the mining sector, recovery in tourism, a surge in public investment, and buoyant exports (graphite, nickel, cobalt) due to sustained global demand for these minerals, which support the country's energy transition. Continuing restrictive monetary policy is expected to lower inflation to 8.1% in 2024 and 7.5% in 2025. The budget deficit is projected to improve to 4.1% of GDP in 2024, due to an anticipated rise in oil product revenue as a result of reforms, but then to worsen to 4.6% in 2025. The current account deficit is projected to narrow to 4.4% of GDP in 2024 and to 4% of GDP in 2025. The main downside risks to the outlook are climate shocks, rising energy and food prices, and geopolitical tensions (Russia's invasion of Ukraine and the war in the Middle East). These risks could be mitigated by implementing the General State Policy and reforms in public finance, mining, telecommunications, and energy, with the support of development partners.

Reform of the global financial architecture

Over the past two decades, the country's economic structure has undergone a structural change in favor of industrialization, with increased investment in the mining sector. But because mining is not labor intensive, the transformation has been too slow to substantially reduce poverty. The industrial sector's share of GDP rose from 16% in 2000 to 27% in 2021, but its share of employment remained at an average of 8.5%. Agriculture's share of GDP fell from 29% in 2000 to 25% in 2021, and services' share fell from 55% to 48%. But services' share of employment rose from 14.7% in 2000 to 27.4% in 2021, though mostly in informal activities, to the detriment of employment in agriculture, which fell from 77% to 64.1% .

The structural transformation should be accelerated by implementing the Industrial Programming Agreement, which aims to speed up and diversify industrialization by 2040. Similarly, the country should boost domestic revenue, develop the domestic financial market, improve the business environment, and build resilient infrastructure. It should also take advantage of a reformed global financial system, enabling access to more concessional resources, co-financing, mixed financing (climate, green, and blue bonds), International Monetary Fund Special Drawing Rights mobilization, and facilitation of private investment and trade.



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Malawi

Recent macroeconomic and financial developments

Real GDP growth is estimated at 1.5% in 2023, a moderate recovery from 0.9% in 2022. Cyclone Freddy reduced agricultural output and disabled a third of the country's power generation, slowing industrial activity. Falling real incomes due to elevated inflation, monetary tightening, and foreign currency shortages reduced both corporate and consumer demand. Inflation rose from 20.8% in 2022 to 28% in 2023 despite a tightening of monetary policy that raised the policy rate by 400 basis points to 22% by end of 2023. The Malawi kwacha remains under pressure as indicated by an increasing parallel foreign exchange market premium. Following devaluations of 25% in May 2022 and 44% on 9 November 2023, exchange rate premium fell from 50% to 4.1% but quickly rose to 12.1% by the end of November 2023. Official foreign exchange reserves of $198.8 million in 2023 represent less than one month of import cover.

The fiscal deficit widened from 9.6% of GDP in 2022 to 10.1% in 2023 reflecting a budget-exceeding wage bill and underperforming revenues. Public debt was 82.1% of GDP in 2023, an increase of 5.6% over the previous year. The current account deficit widened from 2.8% of GDP in 2022 to 7.3% in 2023 as the economic recovery led to rising import demand. Weak overall export performance has kept international reserves low. At 6.6% of gross loans on 31 December 2022, nonperforming loans were above the internationally accepted level of 5%. Despite the financial sector's profitability in 2023, its increasing exposure to government poses a threat to stability. The core capital ratio for the banking sector rose from 17% in 2021 to 19% in 2022 and the total capital ratio rose from 20% to 22.4%.

Poverty remains a challenge, with 72% of the population below the $2.15 international poverty line in 2023, up somewhat from 70.1% in 2019. The unemployment rate improved slightly, from 6.8% in 2022 to 6.7% in 2023.

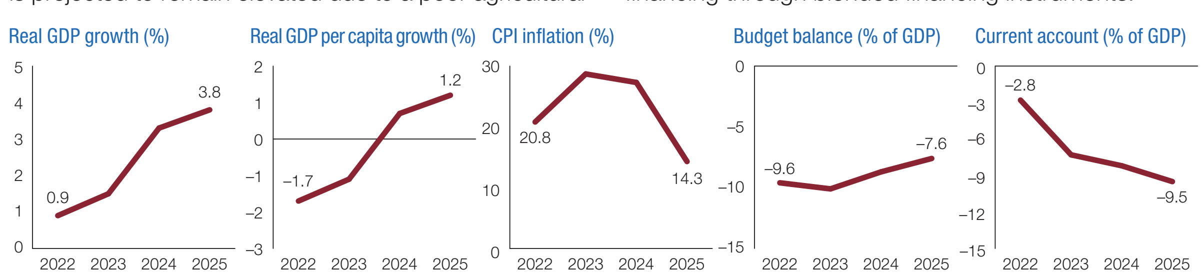
Outlook and risks

Economic growth is projected at 3.3% in 2024 and 3.8% 2025, lower than the January 2024 projections due to the negative impact of drought on agriculture. Growth will be driven by the mining, retail, and tourism sectors. Inflation is projected to remain elevated due to a poor agricultural season. Fiscal consolidation measures are expected to narrow the fiscal deficit to 8.7% in 2024 and 7.6% in 2025. As the economy recovers, the current account deficit is projected to widen in both 2024 and 2025, when it could reach 9.5%. Malawi's economy faces significant headwinds, most notably a shortage of international reserves, macroeconomic instability, and drought. Dependence on rain-fed agriculture, given the increasing vulnerability to climate change, is also a major risk. Ongoing debt restructuring negotiations, if successful, could reduce debt to sustainable levels. Increased inflows of donor resources following the approval of the International Monetary Fund Extended Credit Facility in late 2023 are likely to reduce the foreign currency squeeze.

Reform of the global financial architecture

Since 1990, Malawi's economy has been dominated by services, at 55% of value added, and agriculture, at 31%. Manufacturing contributed an average of about 10% of value added over the same period, while all the other sectors contributed a meagre 5%. Agriculture's share of employment has fallen from its peak of 86% in 1990 to about 60% in 2021, while services' share has more than trebled, from 9% to about 30%. To radically transform the economy, manufacturing capacity, underpinned by agricultural-based diversification and beneficiation in the minerals sector, needs to expand. Increased inflows of global climate funds are needed to help Malawi adapt to climate change and mitigate its challenges.

The International Monetary Fund estimated that Malawi needed about $1.6 billion (almost 5 times larger than 2023 receipts) in external financing to meet its development needs in 2023 alone. Meeting the financial needs of the country requires increasing both external and domestic resource mobilization, including debt and nondebt sources. Because of its debt distress, Malawi must emphasize nondebt or highly concessional financing, including the restructuring of existing debt under the G20 Common Framework to achieve debt sustainability. Malawi needs to tap into global nondebt financing instruments such as carbon trading; enhance private sector financing, including through domestic financial sector deepening; and access cheaper foreign financing through blended financing instruments.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Malawi's fiscal year, which runs from July 1 to June 30.

Mauritius

Recent macroeconomic and financial developments

Real GDP growth remained robust at 7% in 2023, though down from 8.9% in 2022. Growth was driven by services (construction and tourism) on the supply side and by consumption and investment on the demand side. Since the beginning of 2023, the authorities have paused monetary policy tightening as inflationary pressures eased. Average headline inflation declined from 10.8% in 2022 to 7.0% in 2023 as international commodity prices fell.

The fiscal deficit narrowed from 6.1% of GDP in 2021/22 to 5.3% in 2022/23 as fiscal consolidation measures focused on boosting revenues and containing expenditure. Gross public debt decreased from 86.1% of GDP in 2022 to 79% in 2023 due to sustained economic recovery and measures to improve debt sustainability. The current account deficit narrowed from 11.7% of GDP in 2022 to 5.1% in 2023, driven by tourism earnings and a larger surplus in the primary income account. The current account deficit was financed by the financial account. Gross international reserves stood at $6.7 billion at the end of October 2023, offering 10 months of import cover, a decline from 13.5 months at the end of October 2022. Nonperforming loans stood at 5.8% of gross loans in September 2023, up from 5.2% in September 2022, while the ratio of regulatory capital to risk-weighted assets was 21.3% in September 2023.

The poverty rate (at the international poverty level of $6.85 a day for upper-middle-income countries) was estimated at 13% in 2023, down from 17% in 2020. Unemployment was an estimated 6.1% at the end of 2023, while youth unemployment was 17.3%.

Outlook and risks

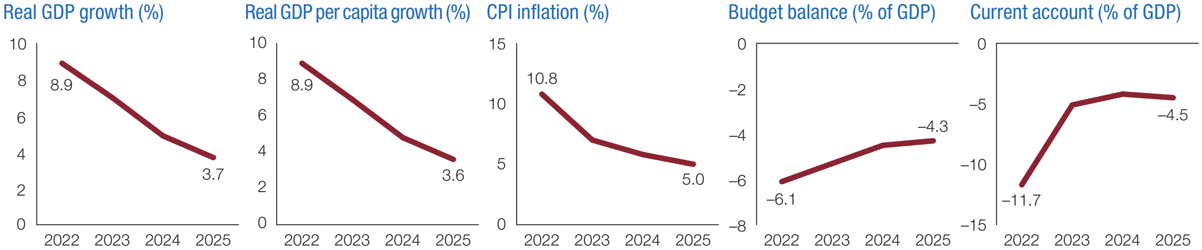
Growth is projected to slow to 4.9% in 2024 and 3.7% in 2025 on expected weaker external demand for exports. Inflation should decline to 5.8% in 2024 and 5% in 2025 due to a projected easing of global commodity prices. The fiscal deficit is expected to narrow further to 4.5% of GDP in 2024 and 4.3% in 2025, attributable to higher tax revenues supported by robust economic growth and expenditure rationalization. The current account deficit is projected to narrow further to 4.2% of GDP in 2024 and 4.5% in 2025, driven largely by solid performance in the tourism sector. Risks to the growth outlook remain, however, and include uncertainties due to persistence of the economic effects of Russia's invasion of Ukraine, an elevated debt burden, geopolitical fragmentation, and the impact of climate change. Moreover, the rapidly aging population could put greater fiscal pressure on the universal welfare system, making long-term growth more vulnerable. Risk mitigation measures could include strengthening tax enforcement and compliance, prioritizing domestic debt to reduce foreign exchange risks, stepping up reforms to gain greater access to global climate funds, and more tightly targeting welfare programs.

Reform of the global financial architecture

Agriculture's (including forestry and fishing) share of GDP declined from 6.1% in 2001 to 3.5% in 2022, while its share of total employment shrank from 11.7% to 5%. Over the same period, industry's shares also declined, from 26.7% of GDP to 18% and from 36.5% of employment to 21.5%, while services' shares increased from 56% of GDP to 66% and from 51.6% of employment to 73.4%. The declining shares of agriculture and the rising shares of services highlight the remarkable progress Mauritius has made in structural transformation. To consolidate these gains, the country should foster economic diversification and address climate change vulnerabilities so that it can move up the value chain and become a high-income country.

To finance its development priorities and address structural vulnerabilities, Mauritius needs to enhance its domestic resource mobilization and tackle its debt vulnerability risks, including limiting its exposure to foreign exchange risks and adjusting the maturity structure and interest mix of its public debt. As a small island developing country, Mauritius is extremely vulnerable to climate change, making adaptation to climate change particularly critical. However, according to the International Monetary Fund, current donor funding to the country is directed mainly to mitigation efforts. To fully finance both adaptation and mitigation, Mauritius needs to focus on mobilizing more resources through grants, concessional loans, global climate funds, and climate financing debt instruments (such as green bonds) and on rechanneling unused Special Drawing Rights, a key proposal of the Bridgetown Initiative. In the long term, the country needs to deepen its capital market to attract more foreign direct investment, expand trade, and foster integration into regional and global value chains.

Real GDP growth (%) | Real GDP per capita growth (%) | CPI inflation (%) | Budget balance (% of GDP) | Current account (% of GDP)



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Mozambique

Recent macroeconomic and financial developments

Real GDP grew by an estimated 5.0% in 2023, up from 4.2% in 2022, driven mainly by extractive industries as liquefied natural gas processing matured in the Coral South Field. The extractive and service sectors were the main drivers of growth on the supply side, while private consumption drove growth on the demand side. Tight monetary policy and lower local food and transport prices reduced inflation from 10.3% in 2022 to an estimated 7.1% in 2023.

The fiscal deficit improved from 5.1% of GDP in 2022 to about 2.8% in 2023, reflecting cuts in public spending and higher domestic revenue collection as the economy gradually recovered. Mozambique is in debt distress, but its debt is assessed as sustainable on a forward-looking basis. The current account deficit has improved from 34.2% of GDP in 2022 to an estimated 11.1% in 2023 led by increased exports and declining imports. Foreign direct investment and external borrowings were the main sources of financing of the current account deficit. International reserves dropped from 3.1 months of import cover in 2022 to 2.2 months in 2023 due to currency depreciation. Asset quality remains low, with nonperforming loans at 9.1% of gross loans in September 2023 and 9.3% in September 2022, driven by high lending rates.

Poverty remains high at an estimated 74.5% in 2023, with about 24 million people living in poverty. The employment rate fell from 75.6% in 2019 to 73.6% in 2020 as recent growth has not been inclusive.

Outlook and risks

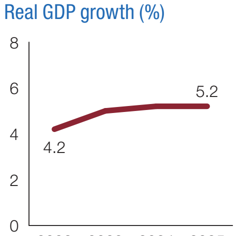
Real GDP is projected to grow by an average of 5.2% between 2024 and 2025, driven by the extractives sector, particularly gas production. Growth will be supported by extractives and agriculture on the supply side and by private consumption and foreign direct investments on the demand side. Key headwinds arise from climate change, a slowdown in reforms implementation with the upcoming general election in October 2024, and continuing global supply chain disruptions due to Russia's invasion of Ukraine. The fiscal deficit is projected to widen to 3.4% of GDP in 2024 before narrowing to 1.3% in 2025 as fiscal consolidation and improved revenue collection take hold. Inflation should fall to an average of 4.8% between 2024 and 2025, in response to prudent monetary policy. The current account deficit is projected to increase to 38.1% of GDP in 2024 and 43.0% in 2025 as imports rise.

Reform of the global financial architecture

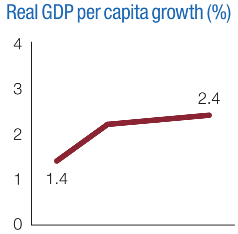
Mozambique's economic structure is determined largely by the extractives sector, with its large gas reserves of 180 million cubic feet, the third largest in Africa. There has been only limited structural transformation of the economy, with a slight shift from agriculture to services. In 2001, the services sector was the main contributor to GDP growth, accounting for 50%, followed by agriculture at 32.2%, industry (including extractives) at 18%, and manufacturing at 12.2%. Two decades later, economic activity continues to be driven by the services sector, which accounted for 51.7% of GDP in 2021, while agriculture's share had fallen to 28%. Mozambique's structural transformation is hampered by skills shortages and a high illiteracy rate among 15- to 34-year-olds (31.4%), skills mismatches, lack of infrastructure, high public debt, and a low level of industrialization.

Financing structural transformation in Mozambique requires multiple measures over different timeframes. In the short term, government needs to strengthen debt management capacity, fiscal discipline, and financial sector regulation. In the medium term, government needs to fast-track debt restructuring under the G20 Common Framework, and multilateral development banks need to deploy risk mitigation instruments to attract private investors and provide technical assistance to mobilize climate financing. In the long term, international private sector support is needed for identifying and mitigating key investment risks.

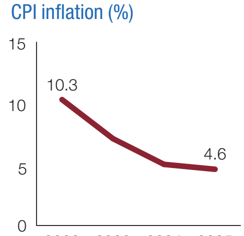
Real GDP growth (%)



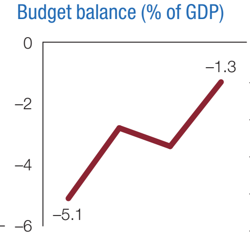
Real GDP per capita growth (%)



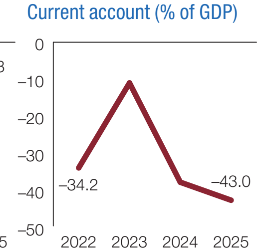
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Namibia

Recent macroeconomic and financial developments

The Namibian economy grew an estimated 4.2% in 2023, down from 5.3% in 2022, owing to weak global demand and contraction in agriculture. Inflation moderated slightly from 6.1% in 2022 to 5.9% in 2023 as demand for Namibian diamonds slowed.

The Namibia dollar depreciated 6.4% against the US dollar, 12.5% against the euro, and 12.2% against the British pound in 2023 owing to depreciation of the South African rand to which the Namibian dollar is pegged. The fiscal deficit narrowed from 5.1% in 2022 to 3.8% in 2023. The current account deficit declined from 12.9% of GDP in 2022 to 10.3% in 2023 down, reflecting slightly lower imports. Nonperforming loans declined from 6.4% of gross loans in 2019 to 1.1% in 2022, while the capital adequacy ratio reached 15.6% in 2022, just 0.776% less than in 2021.

In 2022, Namibia had an unemployment rate of 29.9%, a poverty incidence of 26.9%, an HIV prevalence rate of 16.9%, and a Gini coefficient of 0.61.

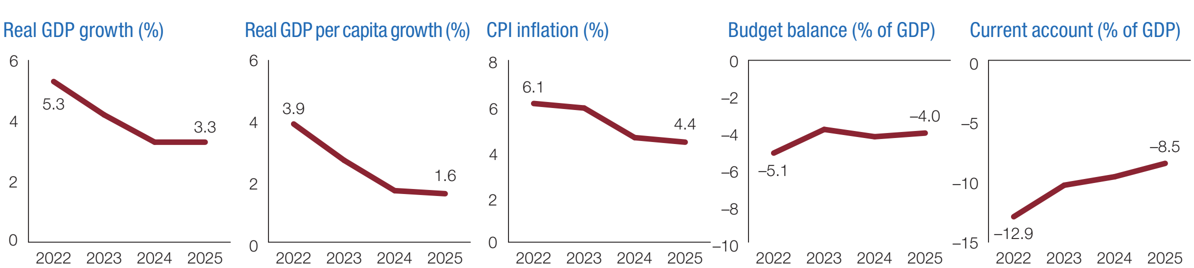
Outlook and risks

Real GDP is projected to decline to 3.3% in both 2024 and 2025 owing to anticipated weak global demand and contraction in agriculture. Inflation is expected to moderate further to 4.6% in 2024 and 4.4% in 2025. The fiscal deficit is projected to remain at 4% of GDP in 2024 and 2025 on expectations of improved revenue collection. The current account deficit is expected to moderate to 9.6% of GDP in 2024 and 8.5% in 2025. Downside risks are related to monetary policy tightening, which will slow growth; the high costs of key imports; and Russia's continuing invasion of Ukraine, which will raise commodity prices. Other domestic risks include water supply interruptions that affect mining production as well as impacts of climate change. As a mitigating measure, the Central Bank hiked its interest rates by 50 basis points in June 2023.

Reform of the global financial architecture

Overall, there has been very little, if any, structural transformation of the Namibian economy, as evidenced by the slow pace of change in the manufacturing sector. Manufacturing's share in GDP ranged from 7% in 1990 to 11% in 2022. Agriculture's share varied even less, ranging from 8% to 9%, while services' share declined from 54.2% in 1990 to 26.1% in 2022.

Though Namibia is an upper-middle -income country, it faces many of the same challenges as low-income countries owing to its past. The global financial architecture has failed to provide adequate resources to support Namibia's development. The International Monetary Fund should scale up financing for Namibia by increasing its Special Drawing Rights allocation. Its loans to Namibia should also contain a contingency clause. The country should also receive preferential treatment in accessing global grant funds. On the domestic front, Namibia should intensify efforts at financial market deepening, which has the potential of diversifying domestic sources of finance. The Aid-for-Trade Initiative will also help Namibia increase its exports. The country should also improve management of its sovereign wealth fund.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data for the budget balance as a % of GDP reflect a financial year that begins April 1 and ends March 31 the following year.

São Tomé and Principe

Recent macroeconomic and financial developments

Real GDP growth rose slightly from 0.1% in 2022 to an estimated 0.5% in 2023. The slow growth was due mainly to the prolonged impact of power disruptions on the economy, aggravated by Russia's invasion of Ukraine, which led to higher food and oil prices in global markets. Inflation rose sharply, from 8.1% in 2021 to 17.9% at the end of 2022 and 21.3% at the end of 2023, responding to supply shocks and global demand on the back of the Covid-19 pandemic.

As a result of low revenues and high expenditures, the country continues to face a structural fiscal deficit, which is estimated at 4.2% of GDP in 2023, a decline from the 6.2% in 2022. The fiscal deficit is financed mostly through grants and loans from multilateral and bilateral partners. The current account deficit narrowed to 14.5% of GDP in 2022 and to 13.8% in 2023. São Tomé and Principe has a peg currency agreement with Portugal for the dobra. The country faces a major challenge in ensuring its energy and food security. As a result, net international reserves experienced a sharp decline, from $29.9 million in 2021 to $0.51 million in December 2023, covering less than a month of imports, including fuel. Nonperforming loans rose from 8.1% of gross loans in 2022 to 11.9% in 2023, reflecting the private sector's inability to meet its obligations in the unfavorable economic environment affecting the local market.

The multidimensional poverty rate fell from 40.7% in 2008 to 11.7% in 2019. The national unemployment rate rose to 15.7% in 2022 from 8.9% in 2017, with women (14.6%) and youth ages 15–24 (21.3%) being the most affected.

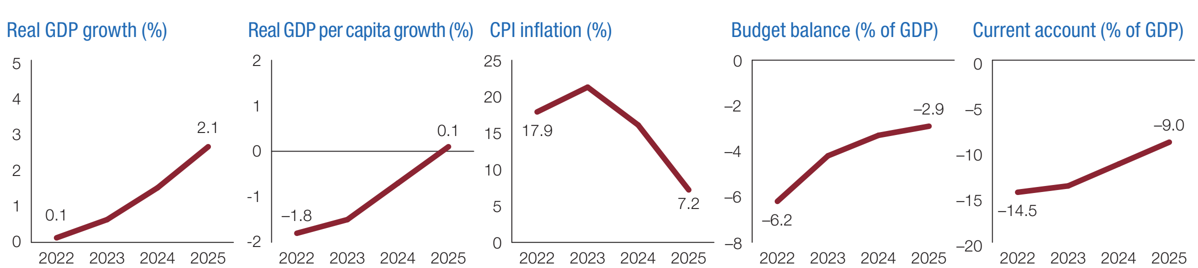
Outlook and risks

São Tomé and Principe's medium-term economic outlook is uncertain due to the combined impact of external shocks and structural weaknesses. The economy is projected to grow slowly, at 1.2% in 2024 and 2.1% in 2025. Meanwhile, inflation is projected to continue its downward trend, reaching an average of 16.1% in 2024. The fiscal deficit is expected to decline to 3.3% of GDP in 2024 and 2.9% in 2025. The current account is also expected to continue its downward trend and should stand at 11.4% of GDP in 2024 and 9% in 2025. The government is discussing a program with the International Monetary Fund to anchor the economic recovery. Medium-term risks to growth include the poor business environment, sometimes unstable energy supply, and lack of investment in key trade infrastructure.

Reform of the global financial architecture

São Tomé and Principe's economy suffers from a limited production base that hinders economic diversification and reduces the country's resilience to economic and climate shocks. As a result, the country is unable to achieve the more inclusive and higher growth trajectory needed for sustainable poverty reduction. In 2022, services contributed the largest share of GDP, at 81.5%, followed by the agriculture, forestry, and fishery sector, at 13.4%, and industry, at 5.1%. There are only a few medium-size manufacturing companies in the country, and these focus on cacao, beverages, vanilla, and timber transformation. The investment inflow is insufficient to meet the country's overall investment needs for infrastructure and productive value chains. Meeting the infrastructure investment needs will require financing of around $5 billion for the next five years.

São Tomé and Principe would benefit from an easing of financing requirements from public international institutions, financial standard-setters for private finance, regional financial arrangements, and creditor groups to ensure adequate financing for infrastructure. It could also gain from technical assistance in setting up standards for governance policies, structured sectoral strategies, and dynamic and world-class financial services. There is need for reform of the global financial architecture to respond to São Tomé and Principe's urgent investment requirements. In the medium to long term, the country should strengthen the domestic financial sector by connecting to global markets and introducing low-cost digital financial services and a capital market.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

South Africa

Recent macroeconomic and financial developments

Real GDP growth decelerated from 1.9% in 2022 to 0.6% in 2023, due to persistent electricity shortages, transport sector constraints, and lower international prices for gold and platinum group metals. These factors resulted in a deceleration of growth in the key sectors of agriculture (down 3.2%) and mining (down 1.6%) in 2023 compared with 2022. Manufacturing picked up marginally (up 0.2%) owing to increased demand for petrochemicals and vehicles. Household consumption declined from 2.8% in 2022 to 0.7% in 2023 due to higher interest rates. Inflation declined from 6.9% in 2022 to 6.0% in 2023 reflecting lower international fuel prices. The exchange rate of the South African rand weakened by 12.4% against the US dollar in 2023, to 18.40 rand to the dollar, due to declining terms of trade for South Africa's main exports.

The fiscal deficit remained at 4.6% of GDP during 2021/22 and 2022/23. The current account deficit widened from 0.5% of GDP in 2022 to 1.6% in 2023 as the import bill grew due to depreciation of the rand and lower prices for commodity exports. Official reserves stood at $61.7 billion (5.3 months of import cover) as of November 30, 2023. The financial sector is resilient, well capitalized, and profitable. Capital adequacy stood at 17.3% in 2023 compared with 17.8% in 2022, nonperforming loans at 45% compared with 4.2%, and liquid assets ratios at 14.9% compared with 13.7%.

The poverty rate was estimated at 21.6% in 2023, and the Gini coefficient was 0.63. Overall unemployment stood at 32.1% and youth (25–34 years) unemployment at 39%. South Africa is among the top 10 most unequal countries globally.

Outlook and risks

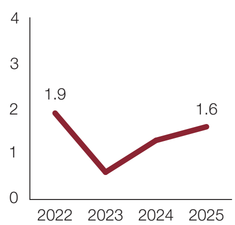
The outlook is weakly positive, with GDP growth projected at 1.3% in 2024 and 1.6% in 2025, as new infrastructure investments support construction and recovery of other sectors. Inflation is expected to moderate at 4.8% in 2024. The fiscal deficit is projected to decline to about 4.3% of GDP in 2023/24, as tax revenue collections improve. The current account deficit is expected to widen to 3.0% of GDP in 2024, due mainly to lower growth of exports than imports because of constraints in the transport sector and power shortages. Key risks include persistent electricity supply shortages, transport bottlenecks, fiscal vulnerabilities arising from bailouts of state-owned enterprises, volatile commodity prices, and climate change shocks. The 2024 general elections could also generate a risk of investor apprehension. However, macroeconomic reforms, investment, and trade are expected to stimulate the economy.

Reform of the global financial architecture

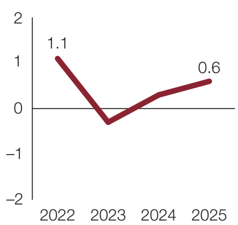
Progress on structural transformation has been mixed, with an expanding share of services in GDP but a declining share of industry. The services sector contributed 62.6% of GDP in 2022, up from 51.3% in 1990, driven by financial services, real estate, and transport. However, this expansion has shown limited capacity to absorb workers with low skills. Industry's share of GDP declined from 36% in 1990 to about 25% in 2023. Manufacturing's share halved to 12% of GDP in 2023 from 24% in 1990, while agriculture's contribution remained static at 13%. This pattern has led to growth stagnation and slowed job creation.

Deepening financial markets and promoting public-private partnerships for infrastructure development are needed to facilitate investment, particularly in the energy sector, which is essential for inclusive economic growth and structural transformation. Reform of the global financial architecture, to improve capitalization and investment, is needed to adequately respond to emerging shocks. Financial deepening is also critical for reducing inequalities by improving access to credit and other financial products that can stimulate economic growth.

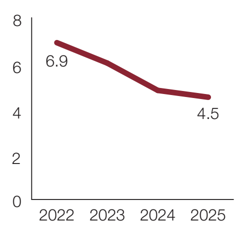
Real GDP growth (%)



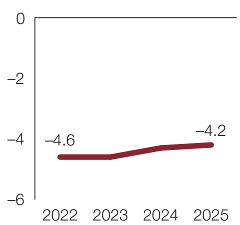
Real GDP per capita growth (%)



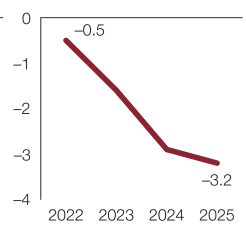
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Africa's fiscal year, which runs from April 1 to March 31.

eSwatini

Recent macroeconomic and financial developments

Eswatini's economy grew from 0.5% in 2022 to an estimated 4.8% in 2023, driven by stronger performance of the services sector. Aggregate demand is driven largely by consumption, which constitutes 84% of GDP, and investment, at 13% of GDP. Inflation rose to 5% in 2023, and in the context of the currency peg, monetary authorities gradually raised the discount rate from 3.75% in March 2022 to 7.75% in July 2023 before adjusting it to 7.5% since August 2023. The rand/lilangeni depreciated in 2022 and 2023 amid weak investor sentiment about South Africa's economic prospects.

The fiscal deficit widened from 4.5% in 2022 to an estimated 6.3% of GDP in 2023 as revenues underperformed. The debt-to-GDP ratio marginally declined from 43% in December 2022 to an estimated 41% in December 2023, above the desired level. Domestic tax revenues increased slightly from 15.6% of GDP in 2022 to about 16.1% in 2023. The current account balance recovered from a deficit of 2.6% of GDP in 2022 to an estimated surplus of 3.9% in 2023, buoyed by an improved trade balance and secondary income inflows. Reserves improved slightly to 2.7 months of import cover in 2023, from 2.5 months in 2022. The financial sector was stable, although nonperforming loans remained elevated at around 7.2% of gross loans in 2023. Banks maintained a strong capital adequacy ratio, which averaged around 18% in 2022/23, above the statutory minimum requirement of 8%.

Poverty (58.9% in 2017), youth unemployment (56% in 2023), and inequality (0.55 Gini coefficient in 2016) remain high.

Outlook and risks

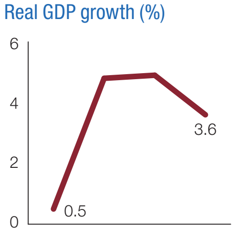
The economic outlook is positive, although downside risks remain. Growth is projected at 4.9% for 2024, underpinned by improvements in industry and services, then tapering in 2025 due to slowing agricultural growth. The fiscal deficit is expected to narrow further in 2024 and 2025 on the back of high Southern Africa Customs Union receipts. The public debt-to-GDP ratio is also poised to decline further because of positive growth prospects. The current account surplus is expected to rise to 4%, buoyed by improving trade balances and secondary income inflows. Inflation is projected to decline slightly to 4.8% in 2024 following global trends, but planned electricity tariff hikes, a weaker exchange rate, and high food prices could reverse the trend. Other downside risks stem from ongoing economic challenges in South Africa, especially energy supply, elevated prices, climate change impacts on agricultural output, and tighter credit conditions that may stymie new investments.

Reform of the global financial architecture

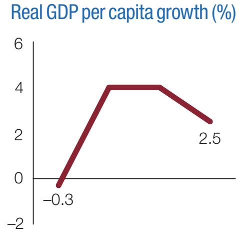
Eswatini is slowly shifting its output and employment from agriculture to services. The share of services in GDP rose from 45.6% in 2000 to 53.5% in 2023, while the share of agriculture dropped from 12.3% to 8.1% and industry from 39.1% to 33%. Manufacturing (85% of industry) is highly concentrated in food and beverages. Over the same period, service jobs increased by 5.2%, while agricultural jobs declined by 4.3% and industrial jobs by 1.3%. Accelerating structural transformation requires boosting total factor productivity through economic governance reforms aimed at attracting private investment, diversifying productive capabilities, and expanding local and regional value chains.

Eswatini's financing gap to achieve structural transformation by 2030 is estimated at 9.5% of annual GDP. Its status as a lower-middle-income country presents challenges to unlocking adequate concessional finance to propel structural transformation. The global financial system ought to be reformed to consider the unique situations and diverse needs of middle-income countries in order to boost their access to financial resources and accelerate their structural transformation. These include increasing concessional resources from multilateral development banks and special project funds for middle-income countries. Moreover, strengthening the financial sector through legal and regulatory reforms will ensure financial sector stability and greater economic diversification.

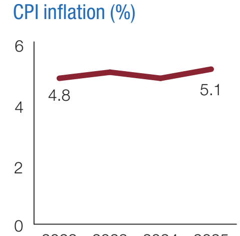
Real GDP growth (%)



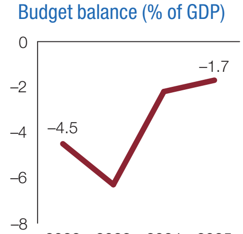
Real GDP per capita growth (%)



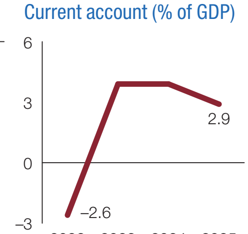
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Zambia

Recent macroeconomic and financial developments

Real GDP has grown steadily, from 5.2% in 2022 to 5.8% in 2023, driven by wholesale and retail trade, agriculture, and mining and quarrying on the supply side and by household and corporate consumption on the demand side. Inflationary pressures persist, with inflation at 11.0% at the end of 2022 and 10.9% at the end of 2023, driven mainly by food, transport costs, and the nominal exchange rate. The monetary policy rate has targeted curbing inflationary pressures, with upward revisions from 9.5% in September 2022 to 11.0% in November 2023.

The fiscal deficit improved marginally, from 8.2% of GDP in 2022 to 6.6% in 2023, owing to higher mining sector revenue collections. The current account went from a surplus of 3.8% of GDP in 2022, on higher export volumes and prices and subdued imports of consumer goods, to a deficit of 1.1% in 2023. International reserves declined from 4.4 months of import cover at the end of 2022 to 3.4 months in November 2023, on account of the use of the Extended Credit Facility and Special Drawing Rights from the International Monetary Fund. Improved financial sector performance in 2023 was due to increased economic activity. The ratio of nonperforming loans to gross loans improved from 6.1% in 2022 to 5.1% in 2023. The primary capital adequacy ratio was strong, at 23% at the end of October 2023 and 22.7% at the end of December 2022, owing to increased retained earnings.

About 60% of the population lives below the national poverty line, a slight improvement from 58% in 2015. Poverty levels are much higher in rural areas (78.8%) than urban areas (31.9%). Unemployment remains high, at 13%, especially among youth (24.7%).

Outlook and risks

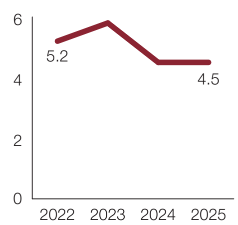
The economy is projected to grow at 4.5% in 2024 and 2025, as the mining, services, and manufacturing sectors continue to recover, and global copper prices rebound. Inflation is expected to decelerate from 9.3% in 2024 to 7.0% in 2025, driven by falling food and fuel prices. Fiscal deficits are projected to narrow to 5.2% of GDP in 2024 and 3.4% in 2025 in response to ongoing fiscal reforms. The current account balance is expected to improve from a deficit of 1.1% in 2023 to surpluses of 3.3% in 2004 and 8.4% in 2025 as copper output rises. Downside risks to the growth outlook include continuing drought, fluctuating copper prices, slippages in reform program execution, and the inflationary impacts of Russia's invasion of Ukraine on fertilizer and fuel prices. The government is expected to continue tightening monetary policy to curb inflation, maintaining a flexible exchange rate to reduce volatility, and shoring up foreign reserves through higher export earnings, the addition of locally mined gold bullion to foreign reserves, and the promotion of stable foreign investment flows.

Reform of the global financial architecture

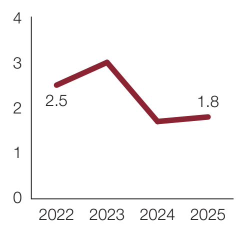
Zambia needs to accelerate its structural transformation and diversification. Copper contributed disproportionately to GDP in 2022 (12.9%) and to export revenues (70%). The service sector contributed about 57% of GDP, while industry contributed 33.8%, with manufacturing contributing just 8.1%. Construction, utilities, and industrial activities accounted for about 10.9% of GDP. Agriculture's contribution to GDP shrank from 9.3% in 2012 to 3.3% in 2022, even though the sector employs 24% of the labor force (58.5% men and 41.5% women). Productivity is low, as evidenced by widening productivity gaps between sectors. Structural transformation will require $3.5 billion in annual financing, along with improvements in institutional quality and sustained policy reforms.

Zambia's debt restructuring negotiations under the G20 Common Framework have taken considerably longer than the speedy process initially envisioned when the Common Framework was initiated. When Zambia was categorized as being in debt distress in 2017, multilateral development banks stopped providing nonconcessional financing. The major credit rating agencies may have escalated the debt crisis by overestimating sovereign risks. Thus, Zambia's experience with debt restructuring underscores the urgent need for reforms and transformation of the global financial architecture.

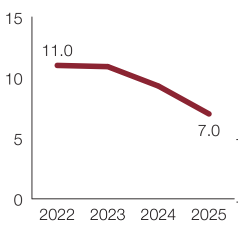
Real GDP growth (%)



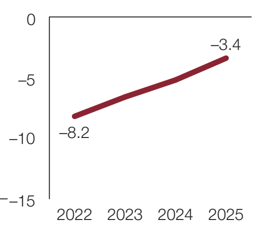
Real GDP per capita growth (%)



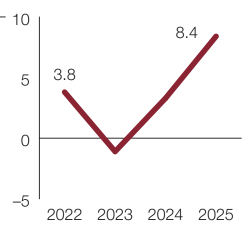
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Zimbabwe

Recent macroeconomic and financial developments

Real GDP growth moderated from 6.1% in 2022 to 5.0% in 2023, due mainly to drought and floods that affected agricultural output and to higher costs of fuel and food imports. Zimbabwe has a multicurrency monetary system, with the Zimbabwe dollar (ZWL) and the US dollar ($) as dominant currencies. The nominal exchange rate depreciated by 89.8% in 2023, reaching ZWL6,104/$1 by December 2023. To rebuild trust and confidence in the local currency, the Reserve Bank of Zimbabwe (RBZ) introduced a new currency on 5 April 2024, Zimbabwe gold (ZIG), which replaced the Zimbabwe dollar. The ZIG exchange rate is market determined and backed by the US dollar and mineral reserves. On its introduction, the exchange rate stood at ZIG13.55/$1. Inflation declined from 41.9% in December 2022 to 29.4% in December 2023 mainly due to the adoption of a blended inflation measure and rebasing of inflation estimates.

The fiscal deficit remained low, at 2.0% of GDP in 2023 from 2.1% in 2022, due to a combination of enhanced revenue mobilization and expenditure cuts. The current account surplus increased marginally from 1.0% of GDP in 2022 to 1.3% in 2023, reflecting increased export earnings. The financial sector remained strong in 2023, with a capital adequacy ratio of 33%, a ratio of nonperforming loans to gross loans of 1.5%, and a liquidity ratio of 60%, all above minimum regulatory requirements of 12%, 5%, and 30%, respectively.

Poverty remains high, estimated at 38.7% in 2023. Unemployment stood at 21% in the third quarter of 2023.

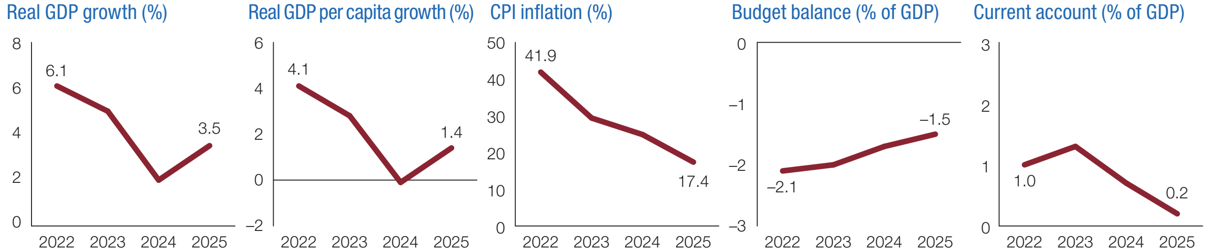
Outlook and risks

Slower GDP growth of 2.0% is projected for 2024, mainly on account of below average agricultural output due to the El Niño weather phenomenon. Mining output is also expected to remain subdued because of lower international mineral prices. Inflation is projected to average 24.9% in 2024 as the exchange rate stabilizes. The downside risks are elevated due to drought caused by El Niño weather patterns that has affected the agriculture sector, while unstable international commodity prices pose further risks to the mining sector. A slowdown in global economic growth would be a major risk to the outlook. Zimbabwe expects to adopt a Staff Monitored Program (SMP) of the International Monetary Fund (IMF) in second half of 2024. Maintaining ZIG exchange rate stability and eliminating the quasi-fiscal operations of the RBZ and transferring all its liabilities to the Treasury could underpin macroeconomic stability.

Reform of the global financial architecture

The economy has experienced only minimal structural transformation in the last two decades, with structural change impeded by crippling public debt accumulation estimated at 87% of GDP in 2023. The services sector has remained the major contributor to GDP over the last decade, averaging over 50% since 2010 and reaching 55% in 2023. Persistent socioeconomic pressures led to human capital flight of an estimated 3 million mostly skilled workers. Labor shifted from higher value-added sectors, such as agriculture, industry, and high-productivity services, to lower value-added sectors, including wholesale and retail trade. Zimbabwe's labor productivity growth remains depressed and ranked very low among 17 lower-middle-income countries in Africa.

Prerequisites for Zimbabwe's structural transformation are debt restructuring and clearance of arrears to create fiscal space for investment, attract foreign direct investment, and unlock access to global financing opportunities. Since 2022, the country has engaged with the international development community and has agreed to implement economic and governance reforms that would unlock arrears clearance. Zimbabwe's main creditors, including multilateral and bilateral donors, which account for 76% of its debt, have a key role in accelerating agreed reforms and arrears clearance.



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WEST AFRICA

Benin

Recent macroeconomic and financial developments

The economy continued its strong, sustained growth momentum in 2023. The main drivers were the beverage industries (up 14.7%) and telecommunications (up 9.2%) on the supply side and public and private investment (up 16%) on the demand side. In 2023, inflation doubled as contraband fuel prices rose, although remaining below the West African Economic and Monetary Union convergence standard of 3%.

To cope with the lingering effects of recent crises (the Covid-19 pandemic, Russia's invasion of Ukraine) and to finance infrastructure (roads, ports, urban sanitation, and energy), the government kept public spending high, at 19.3% of GDP in 2023, slightly below the 19.8% in 2022. Public revenue rose from 13.8% of GDP in 2022 to 14% in 2023. The budget deficit remained high, although slightly down from 2022, and was financed by public debt. Public debt outstanding rose from 46.1% of GDP in 2020 to 53.8% in 2023. Debt distress was moderate at the end of 2023, according to the International Monetary Fund. The current account deficit improved in 2023 as import prices stabilized. The financial sector continued to expand, with credit to the private sector up 9% in 2023 following a 21.4% increase at the end of 2022.

The poverty rate fell to 36.2% in 2022 from 38.5% in 2019, according to the National Institute for Statistics and Demography. This improvement was the result of investment in progress toward achieving the Sustainable Development Goals. Strengthening the social inclusion of vulnerable populations remains a challenge, which the government is tackling through social protection programs (health insurance, retirement insurance).

Outlook and risks

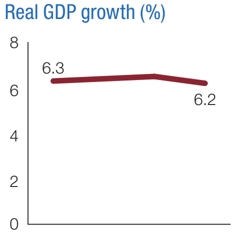
The startup of several industrial production units and the acceleration of public infrastructure projects are projected to keep growth strong at 6.5% in 2024 and 6.2% in 2025. Inflation is projected to remain below 3% in the short term. With reforms aimed at improving tax administration, the budget deficit is expected to continue to fall, reaching 3% in 2025. The current account deficit is projected to contract to 4.4% in 2024 and 4.2% in 2025 thanks to increased manufacturing exports. The main risks to the outlook concern the decline in trade with Nigeria, the negative effects of climate change, the deteriorating security situation in the north, and the uncertainty linked to the exit of Burkina Faso, Mali, and Niger from the Economic Community of West African States. To consolidate its economic resilience, the country should accelerate the economic transformation initiated through the Glo-Djigbé Industrial Zone, with the aim of moving up the value-added chain for agricultural products, including cotton. Climate action and resilience should also be emphasized.

Reform of the global financial architecture

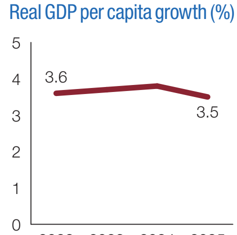
Structural transformation remains slow due to the low productivity of production factors and the mismatch between skills and jobs. Over the past two decades, the structure of the economy has evolved slightly, with the share of services increasing from 44.6% of GDP in 2003 to 51.6% in 2022, at the expense of industry, whose share fell from 25.8% to 18.7%. The share of agriculture has stagnated at 29.6%. The evolution of sectoral employment has differed from that of GDP, as workers have shifted from agriculture and industry to low value-added services (trade, transport).

From 2021 to February 2024, the public authorities raised $1.67 billion on international capital markets. Access to capital markets was facilitated by instruments such as the African Development Fund's €195 million partial credit guarantee, which enabled Benin to raise €350 million on favorable terms in 2023. To enable Benin to take advantage of the global financial architecture to accelerate its structural transformation, international financial institutions should strengthen their role as advisors and providers of guarantee instruments to mobilize innovative financial vehicles for sustainable finance (green, blue, and social bonds). Public authorities should pursue structural reforms (macroeconomic stability, debt management, tax revenue mobilization), which are essential to fostering sustainable access to capital markets.

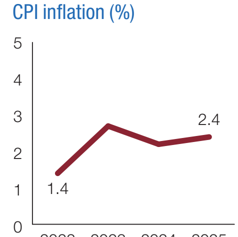
Real GDP growth (%)



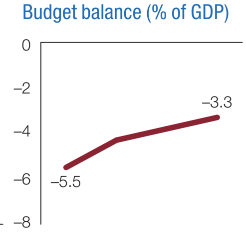
Real GDP per capita growth (%)



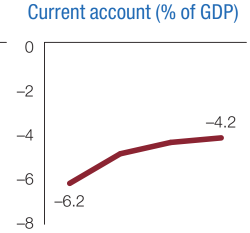
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Burkina Faso

Recent macroeconomic and financial developments

Despite the security crisis, the growth rate rebounded to 3.6% in 2023, still below the 6.0% recorded over 2010–19. The economy is driven by services and agriculture. Extractive activities continue to be affected by the security context. On the demand side, rising final consumption supported growth. Inflation slowed from 14.1% in 2022 to 0.7% in 2023, due to improved food supplies and a restrictive monetary policy.

The budget deficit improved from 10.4% of GDP in 2022 to 6.9% in 2023 thanks to higher tax revenue (17.8% of GDP in 2023 versus 17.0% in 2022). The reform program agreed in September 2023 between Burkina Faso and the International Monetary Fund has strengthened fiscal discipline and economic governance. But security-related spending remains high, affecting budget margins. Risk of debt distress remains moderate, though public debt, estimated at 60.8% of GDP in 2023, has risen with the increased issuance of government securities. The current account deficit deteriorated to 8.2% of GDP in 2023 following a decline in the value of cotton exports. The banking sector's portfolio deterioration rate dropped from 7.5% in 2021 to 5.7% in 2022, while the solvency ratio rose from 13.4% in 2021 to 14.2% in 2022, against a minimum standard of 11.25%.

The security context, humanitarian crisis, and climatic shocks have had a deteriorating impact on social conditions. Poverty rose from 41.4% in 2018 to 43.2% in 2021, and the precariousness of youth employment remains a major challenge.

Outlook and risks

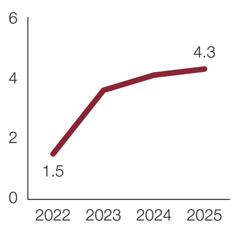
The economic outlook is favorable, with growth projected at 4.1% in 2024 and 4.3% in 2025, underpinned by rising extractive and agricultural production. But these sectors remain dependent on the domestic security and sociopolitical climates and on the dynamics with the Economic Community of West African States (ECOWAS). Inflation is projected to rise to 2.1% in 2024 and to 2.2% in 2025 due to higher food prices. The budget deficit is expected to narrow to 6.0% of GDP in 2024 and to 5.4% in 2025, in line with higher tax revenues. Debt is projected to remain sustainable, rising to 65% of GDP in 2024–25, driven by increased issuance of public securities to cover the financing gap. The current account deficit is projected to improve to 6.5% of GDP in 2024 and to 5.4% in 2025 thanks to higher gold and cotton exports. Downside risks to this outlook include a deterioration in the security situation and budgetary slippage and external risks linked to climatic shocks, falling prices of exported raw materials (gold and cotton), and the terms of the country's exit from ECOWAS.

Reform of the global financial architecture

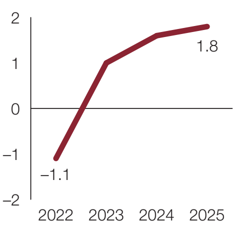
Structural transformation has been slow, with agriculture still the main sector of the economy. Between 2000 and 2022, manufacturing's share of GDP fell from 16.2% to 9.9%, agriculture's share fell from 26.4% to 21.7%, and services' share rose from 48.8% to 50.5%. The share of extractive industries rose from 1.9% to 14.5%. Over the same period, industry's share of employment rose from 4.2% to 7.0%, services' share rose from 10.4% to 18.8%, while agriculture's share fell from 85.4% to 74.2%.

Accelerating structural transformation will require returning to security and institutional stability, developing promising agro-pastoral and industrial value chains, adopting an adequate energy mix, opening the country to trade, improving the business climate, and developing the private sector. Strengthening the macroeconomic and financial framework and increasing the mobilization of domestic resources will also be necessary. Developing innovative financial vehicles (diaspora bonds and the like) will also be useful. In addition, in the short term, the country will need the support of international financial institutions to access more concessional resources and technical assistance to better manage its mining sector. In the medium term, access to nonconcessional windows could be explored on a case-by-case basis for structuring projects with long maturities at reduced costs and the use of partial guarantee and credit instruments.

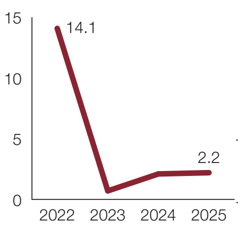
Real GDP growth (%)



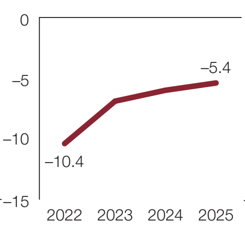
Real GDP per capita growth (%)



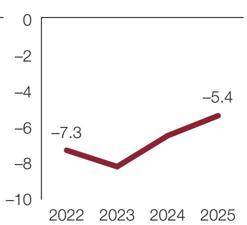
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Cabo Verde

Recent macroeconomic and financial developments

Cabo Verde's GDP growth remains volatile due to its dependence on tourism-intensive activities and its vulnerability to climate-related shocks. On the demand side, private consumption bolstered growth, amid falling inflation as food and energy prices declined.

In 2023, monetary policy was tightened to narrow the interest rate differential and preserve the peg to the euro. Policy reforms to streamline arrears in collection of the value added tax and the use of electronic invoicing boosted tax revenue from 18.1% of GDP in 2022 to 18.9% in 2023, and the fiscal deficit shrank from 4.6% of GDP to 4.4%. The current account deficit deteriorated from 5.8% of GDP in 2022 to 6.1% in 2023, driven by high import bills and lower exports. International reserves increased from €626 million in 2022 to €728 million in 2023 (about 6.7 months of imports cover), boosted by the disbursement of $21.2 million under the International Monetary Fund's Extended Credit Facility. Cabo Verde's external debt risk is moderate, and its public debt-to-GDP ratio declined from 127.1% in 2022 to 119.9% in 2023 due to higher nominal GDP growth and fiscal overperformance. The financial sector appears sound, with a capital adequacy ratio of 21.4%, well above the 12% minimum regulatory requirement. Nonperforming loans increased from 7.8% in 2022 to 8.7% in June-2023, following the unwinding of Covid-19 credit moratoriums.

Although Cabo Verde performs well on social indicators, poverty and unemployment remain challenges. Poverty increased from 26% in 2019 to 31.1% in 2022 exacerbated by Covid-19. Unemployment was at 14.5%.

Outlook and risks

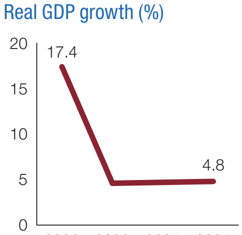
Economic growth is projected at 5.2% in 2024 and 5.4% in 2025, boosted by agriculture, energy, the digital economy, and private consumption. The outlook is premised on a stable global environment and vibrant tourism. Inflation is projected to average 2.1% over 2024–2025 on the back of weaker demand and declining food and energy prices. The fiscal deficit is expected to narrow to 3.0% of GDP in 2024 and 2.1% in 2025 owing to fiscal consolidation measures, higher tax revenues, and privatization of state-owned enterprises. The current account deficit is projected to narrow to 5.2% of GDP in 2024 and 4.4% in 2025, supported by tourism receipts and remittances. Risks to the growth outlook include an economic slowdown in Europe, disruptions in oil supply chains, limited progress in state enterprise reform, and impacts of climate change. Actions to reduce fiscal risks from state enterprises and address infrastructure gaps are fundamental for sustainable growth.

Reform of the global financial architecture

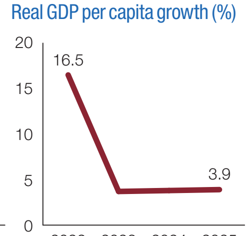
Structural transformation of Cabo Verde's economy has been slow over the past two decades, with limited economic diversification. Agriculture's share of GDP dropped from 9.7% in 2000 to 7.8% in 2021, while the shares increased for industry (19.7% to 21.8%) and services (57% to 65%). Employment shares declined in low-productivity agriculture (23% to 10.6%), with excess labor being absorbed by high-productivity industry (20.5% to 21.8%) and services sectors (55.9% to 67.6%) between 2000 and 2021. Investments in skills, technological innovation, and modernization of ports and airports are vital to expand the economy and take advantage of the Africa Continental Free Trade Area.

Cabo Verde could learn from the experiences of Seychelles, in harnessing the blue economy through blue bonds and debt swaps, and Maldives in diversifying the economy beyond tourism by upgrading the fishery value chains. Reform of the global financial architecture could leverage additional funds on more advantageous terms. To ensure access to and optimal use of financing for development, crucial reforms in the short term include establishing a blue grants fund and blue investment fund, deepening capital markets, and enhancing macroeconomic stability. In the medium to long term, strengthening infrastructure financing, notably in inter-island transportation, is imperative for commercial viability and competitiveness.

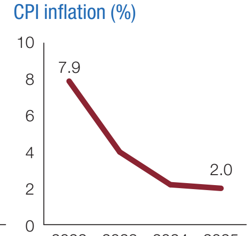
Real GDP growth (%)



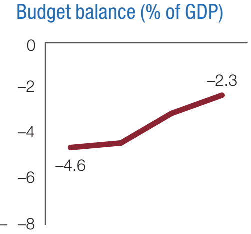
Real GDP per capita growth (%)



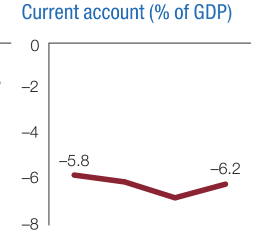
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Côte d'Ivoire

Recent macroeconomic and financial developments

Economic activity was vigorous in 2023, with real GDP growth estimated at 6.5%, up from 6.2% in 2022, driven by investment (public and private) and domestic consumption. Despite a 22.7% drop in cocoa production, economic growth was sustained by the dynamism of food-producing agriculture, construction and public works, manufacturing and extractive industries, trade, and transport. Inflation decelerated from 5.2% in 2022 to 4.4% in 2023 responding to restrictive monetary policy by the Central Bank of West African States, as well as government measures to combat the high cost of living.

Continued reforms to increase domestic revenue and improve budget management helped reduce the budget deficit from 6.8% of GDP in 2022 to 5.2% in 2023, enabling the debt ratio to stabilize at 56.8% of GDP in 2023 (compared with 56.7% in 2022). The current account deficit widened from 7.7% of GDP in 2022 to 8.2% in 2023 due to deficits in services and income. Financial sector performance remains satisfactory, with credit to the economy up 16.2% between 2022 and 2023 and nonperforming loans down 7.2% between December 2022 and June 2023.

According to the second Harmonized Survey of Household Living Conditions, the poverty rate fell from 39.4% in 2018 to 37.5% in 2021. Although the youth (ages 15–24) unemployment rate declined from 5.4% in 2020 to 4.9% in 2023, it remains a major challenge to social cohesion. Strengthening the inclusiveness of growth and enabling the creation of more jobs for young people are at the heart of the government's 2022–24 social program and 2023–25 youth program.

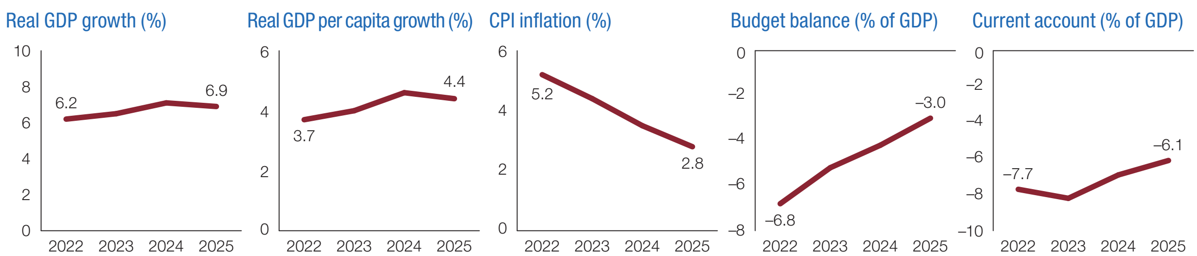
Outlook and risks

The economic outlook remains favorable, with real GDP growth projected to average 7% in 2024–25, driven by increased cocoa production in response to higher cocoa prices, investment in infrastructure, the development of agro-industrial value chains, and the exploitation of the Baleine field, whose potential is estimated at 2.5 billion barrels of oil and 3,300 cubic feet of natural gas. Inflation is projected to fall below the West African Economic and Monetary Union target of 3% in 2025 thanks to an increase in the local supply of food products. Fiscal consolidation is projected to contain the budget deficit at 4.2% of GDP in 2024 and 3% in 2025. The current account deficit is projected to narrow to 6.9% of GDP in 2024 and 6.1% in 2025, supported by improvements in the terms of trade. However, this outlook could be jeopardized by a deterioration of the security situation in the north, worsened by high youth unemployment; the impact of Russia's invasion of Ukraine; tighter international financial conditions; and climate hazards. Strengthening macroeconomic stability, the inclusiveness and sustainability of growth, and security and institutional stability should make it possible to contain these risks.

Reform of the global financial architecture

The structural transformation of the economy is proceeding slowly. The industrial sector's share of GDP rose from 16.4% in 2000 to 22% in 2022, while agriculture's share declined from 18.7% to 16.8% and services' share fell from 59.6% to 53.9%. Agriculture's share of employment contracted from 51.1% in 2000 to 40.2% in 2019, while services' share expanded from 36.2% to 47%, and industry's share remained virtually unchanged at 12.6% in 2000 and 12.9% in 2019. Improved agricultural productivity, more complex export products, and investments in infrastructure, technological innovation, and human capital, combined with reforms to increase domestic resources, improve the business climate, and ensure active management of public debt, will accelerate structural transformation.

Since 2014, Côte d'Ivoire has had regular access to international bond markets, with its latest eurobond issue in January 2024 raising $2.6 billion at an average yield of 6.61%. In addition, it has also benefited from a €400 million partial credit guarantee from the African Development Bank, which raised €533 million in sustainable financing on favorable terms. Reforming the global financial architecture should enable the country to benefit from more guarantees, with a view to mobilizing more innovative financing (green funds, sustainable bonds, thematic bonds) on advantageous terms and increase private investment.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

The Gambia

Recent macroeconomic and financial developments

Economic activity was resilient in 2023. Real GDP growth improved from 4.9% in 2022 (2.4% in per capita terms) to 5.6% (3.1% per capita). Growth was underpinned by improvements in tourism, construction, and industry on the supply side and by private investment and public spending on the demand side. Inflation accelerated, reflecting higher food and energy prices and a 9.9% exchange rate depreciation. In response, the monetary policy rate was tightened from 10% in March 2022 to 17% in September 2023.

The fiscal deficit narrowed from 4.9% of GDP in 2022 to 3.5% in 2023, due to expenditure restraint and improved customs revenues, but tax revenue remains low at 9.8% of GDP. The public debt-to-GDP ratio improved substantially, from 82.8% of GDP in 2022 to 71.8% of GDP in 2023, on strong nominal GDP growth. The current account deficit deteriorated from 6.1% of GDP in 2022 to 7.6% in 2023, driven by low agricultural exports and higher commodity import prices. International reserves dropped from $454.7 million (5.3 months of import cover) in 2022 to $416.4 million (4.4 months) in 2023 due to higher imports. The financial sector remained resilient, with nonperforming loans down from 4.6% of gross loans in 2022 to 3.5% in 2023, below the prudential requirement. The capital adequacy ratio of 24.6% exceeded the regulatory requirement of 10%.

The cost of living crisis worsened, eroding household incomes and pushing poverty rates from 45.8% in 2019 to 53.4% in 2021. Aggregate unemployment was an estimated 31.6% in 2023.

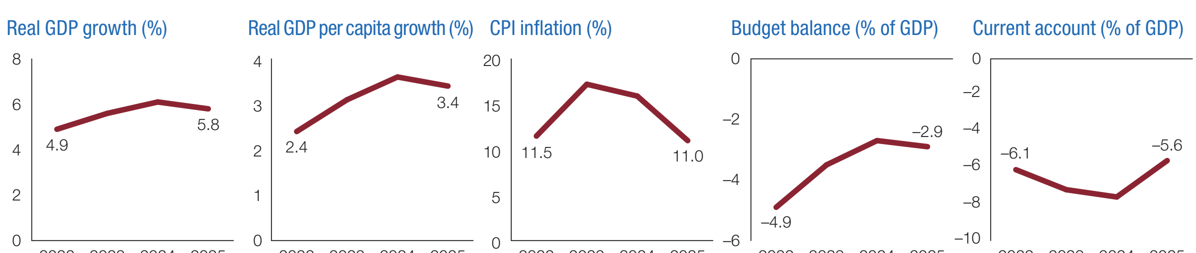
Outlook and risks

Economic growth is projected at 6.1% in 2024, driven by agriculture, services, and construction and by strong public infrastructure development. The ongoing $25 million threshold program will bolster growth, but vulnerability to extreme weather events could decelerate growth to 5.8% in 2025. Benefiting from strong growth in 2024, the fiscal deficit should narrow to 2.7% of GDP and the current account deficit to 7.2%. Public debt should drop to 65.2% of GDP in 2024 and stabilize at 60.8% in 2025 owing to fiscal consolidation. Inflation could decrease to 12.5% in 2024 and 11% in 2025 in response to restrictive monetary policies and declining global food and energy prices. Risks to growth includer potential disruptions in global supply chains for oil and fertilizers, the impacts of climate change, and a shortfall in budget support disbursements. Fiscal consolidation, improved debt management, and economic diversification are critical for sustained growth.

Reform of the global financial architecture

The Gambian economy has experienced dynamic changes in the past decade, with agriculture's share in GDP value added dropping from 35% in 2010 to 23% in 2021, industry's share rising from 9% to 14%, and services' share up from 54% to 62%. Nonetheless, structural transformation has been slow. Labor has exited low-productivity agriculture (down from 30% share in 2010 to 25% in 2021), but it has moved directly into services (up from 52% to 59%), bypassing the high-productivity industry sector (down from 16% in 2010 to 14% in 2021). Investments in infrastructure, technological innovation, and access to finance are critical to bridge the $2.8 billion financing gap essential to fast-track structural transformation.

The Gambia signed a shareholder agreement with Africa50 to govern management of the Senegambia bridge under the Asset Recycling Program. This will unlock capital for further investment in infrastructure. The Gambia also secured $4.14 million in 2020 under the G20 Debt Service Suspension Initiative and $129 million in deferred payments from official bilateral creditors between 2020 and 2024. To benefit from the reform in the global financial architecture, the government should strengthen debt sustainability by prioritizing highly concessional loans. Furthermore, promoting cross-border trade and infrastructure development is crucial to enable The Gambia to benefit from the Africa Continental Free Trade Area.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Ghana

Recent macroeconomic and financial developments

Ghana's real GDP growth decelerated from 3.8% in 2022 to 2.9% in 2023, reflecting spillover effects from Russia's invasion of Ukraine, tight global financial conditions, and macroeconomic challenges. Growth was led by industry on the supply side and by private consumption on the demand side. Inflation worsened from 31.5% in 2022 to 40.3% in 2023, driven mainly by food prices and currency depreciation.

The pace of exchange rate depreciation slowed from 60% in 2022 to 17% in 2023, responding to adjustments in macroeconomic policies. The fiscal deficit narrowed from 11.8% of GDP in 2022to 4.5% in 2023 due to fiscal consolidation and improved revenue performance. Public debt dropped from 92.4% of GDP in 2022 to 84.9% in 2023, reflecting the benefits of the Domestic Debt Exchange Program. The current account deficit narrowed from 2.1% of GDP in 2022 to 1.7% in 2023 on improved export performance. Gross international reserves shrank from $6.3 billion at the end of 2022 (2.7 months of import cover) to $5.0 billion (2.3 months) in November 2023. The financial sector remained sound, with a capital adequacy ratio above the 10% threshold but declining (from 18.22% in 2022 to 13.96% in 2023).

Multidimensional poverty worsened slightly, from 46% in 2017 to 46.7% in 2022, due to the impacts of the Covid-19 pandemic. Youth unemployment remains high at 7.16%, particularly among youths ages 15–24, especially women (36.7% compared with 29.3% among men).

Outlook and risks

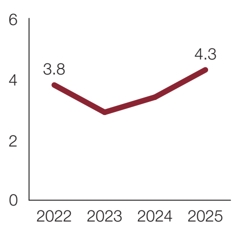
The medium-term growth outlook is positive. GDP growth is projected to rise to 3.4% in 2024 and 4.3% in 2025, led by industry and services on the supply side and private consumption and investment on the demand side. Inflation is expected to remain outside the Bank of Ghana bound of 8±2 at 20.9% in 2024 and 11.1% in 2025. The fiscal deficit is projected to widen slightly to 4.9% in 2024 before narrowing to 4.2% in 2025 as fiscal consolidation efforts continue. The current account deficit is projected to widen to 1.9% in 2024 and 2.3% in 2025. The outlook is clouded by several factors, including the impact of fiscal consolidation under the Post-Covid Program for Economic Growth, the lingering effects of Russia's invasion of Ukraine, limited access to finance and foreign exchange, and global macroeconomic shocks. Prudent macroeconomic management policies could mitigate the risks.

Reform of the global financial architecture

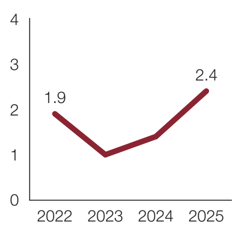
Ghana's structural transformation needs reinforcement. Productivity has stagnated in services, the dominant employment sector, and is rising only slowly in industry and agriculture. Agriculture's employment share declined from 53.9% in 2007 to 29.8% in 2019, while industry's share rose from 14.1% to 21.0% and services' share rose from 31.9% to 49.2% over the same period. To fast-track structural transformation, Ghana must enhance its competitiveness by easing infrastructure bottlenecks; accelerate agro-industrialization by strengthening skills development, value addition, and private sector development; and create a policy framework for technology adoption and innovation.

Financing structural transformation in Ghana requires selective investments in value-added activities that can drive the desired transformation. It also requires building resilience against global shocks, including measures to enhance macroeconomic management and domestic resource mobilization. Key reforms should include improving the coordination and sequencing of public sector development initiatives in line with the country's fiscal position; fast tracking the ongoing debt restructuring, enhancing the scope for concessional finance, and deepening financial markets to increase access to affordable credit; and strengthening stakeholder engagement and coordination of development assistance to maximize synergies and impact.

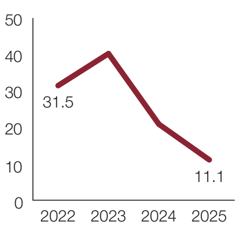
Real GDP growth (%)



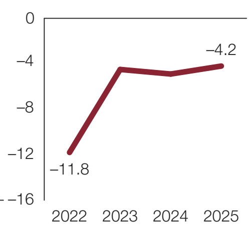
Real GDP per capita growth (%)



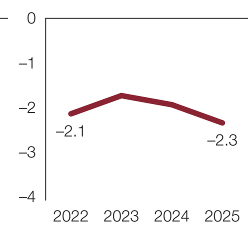
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Guinea

Recent macroeconomic and financial developments

The Guinean economy is one of the most resilient in West Africa. Driven by agriculture and mining, GDP grew an estimated 5.7% in 2023, up from 4% in 2022. Inflation fell from 10.5% in 2022 to 7.8% in 2023. The near stability of the exchange rate against the US dollar has offset imported inflation.

The budget deficit rose from 0.8% of GDP in 2022 to 1.6% in 2023, reflecting the impact of electricity and fuel subsidies, but remains one of the lowest in the Economic Community of West African States (ECOWAS). The budget deficit was financed by bond issues. Public debt fell from 40.1% of GDP in 2022 to 35.2% in 2023. The risk of external debt distress is moderate, but capacity to absorb shocks is limited. The budget deficit and public debt are in line with ECOWAS convergence criteria. The current account deficit remained stable at 8.6% of GDP in both 2022 and 2023, financed by foreign direct investment in the Simandou iron ore mine. Foreign exchange reserves declined from 3.4 of import cover in 2022 to 2.5 months in 2023. The banking sector remains adequately capitalized, but nonperforming loans rose slightly from 8.77% of gross loans in 2022 to 8.95% in 2023.

According to the National Institute of Statistics, Guinea's poverty rate was 43.7% in 2019, down from 55.2% in 2012. The economy is dominated by the informal sector, which in 2023 generated 42% of GDP and 96% of employment (generally not decent jobs). However, GNI per capita rose from $1,010 in 2021 to $1,180 in 2023, moving Guinea from low-income to lower-middle-income status.

Outlook and risks

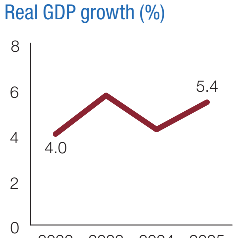
GDP growth is projected at 4.2% in 2024, driven by mining production and investment in the Simandou iron ore mine. The growth deceleration from 2023 is attributable to fuel shortages following the oil depot explosion in December 2023 and a reduction in hydroelectric power supply. Growth is projected to recover to 5.4% in 2025, as electricity supply improves. Inflation is projected to rise above 10% in 2024 and 2025, due to exchange rate depreciation and higher freight costs linked to Russia's invasion of Ukraine. The budget deficit is projected to widen to under 3% of GDP in 2024 and 2025, due to the resumption of infrastructure investment, higher energy subsidies, and election spending. In 2024 and 2025, imports of capital equipment for Simandou are expected to raise the current account deficit above 2023 levels. The generally favorable outlook could be impaired by sociopolitical tensions and by declining foreign direct investment due to geopolitical tensions. Prudent political management and the signing of a program with the International Monetary Fund (IMF) could mitigate risks.

Reform of the global financial architecture

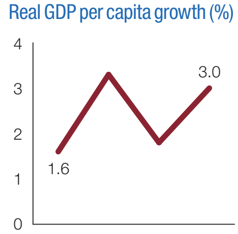
Though dominated by low-productivity services, the economy is diversifying toward industry. Industry's share of GDP rose from 32.1% over 1990–99 to 39.4% over 2010–19, while the share of agriculture, which is undiversified and capital intensive, grew from 19.6% over 2010–19 to 25.6% over 2020–21, with the introduction of improved seeds and fertilizers. These dynamics benefit from investment incentives; greater hydropower supply, which needs to be consolidated; connectivity infrastructure to regional markets; and the import substitution strategy promoted through the National Economic and Social Development Plan 2016–2020 and the Interim Transition Reference Program 2022–2025.

The Interim Transition Reference Program has an annual financing gap of $1.125 billion, in addition to the $1.39 billion a year required over 2020–30 for climate resilience. To bridge this gap, Guinea needs to strengthen its macroeconomic framework, improve the business environment, increase domestic resource mobilization, stimulate dormant private financing (stock market, pension funds, green finance), and attract more foreign direct investment. Signing a program with the IMF would also be a helpful signal for mobilizing the approximately $7 billion in financing from the Dubai Round Table on UN Principles for Responsible Investment. In the short term, multilateral development banks should let Guinea benefit from more Special Drawing Rights and partial risk and credit guarantees. In the medium and long terms, graduation to nonconcessional windows and financing would be useful.

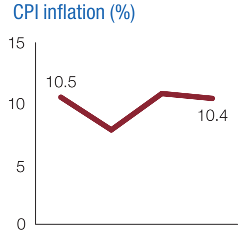
Real GDP growth (%)



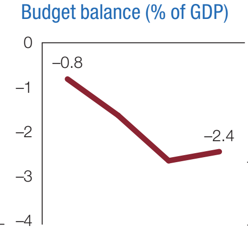
Real GDP per capita growth (%)



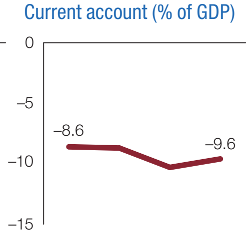
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Guinea Bissau

Recent macroeconomic and financial developments

Despite the difficult economic and political context in Guinea-Bissau, GDP grew 4.3% in 2023, up from 4.2% in 2022, driven by renewed dynamism in agriculture thanks to strong rice production. On the demand side, growth was driven by investment. Higher food prices and higher international rice prices pushed inflation to 7.2% in 2023 from 6.9% in 2022.

Budgetary management was marked by a drop in revenue mobilization, due to tax subsidies on basic necessities and higher spending linked to legislative elections. The budget deficit deteriorated from 6.5% of GDP in 2022 to 7.3% in 2023. It was financed by grants, loans, and public securities, bringing public debt to over 80% of GDP, creating a high risk of debt distress. The current account deficit widened from 8.2% of GDP in 2022 to 8.6% in 2023, impacted by a deterioration in the terms of trade and a drop in sales of cashew nuts, the main export product. Except for one undercapitalized systemically important bank, the financial sector's situation was adequate, marked by a decrease in nonperforming loans from 19.4% of gross loans in 2021 to 10.4% in 2022.

According to World Bank data, the poverty rate (at $3.65 a day in 2017 purchasing power parity terms) rose from 59.9% in 2022 to 60.4% in 2023, reflecting the low yields in cashew nut production, the main source of income for poor households. The youth unemployment rate was an estimated 3.9% in 2023.

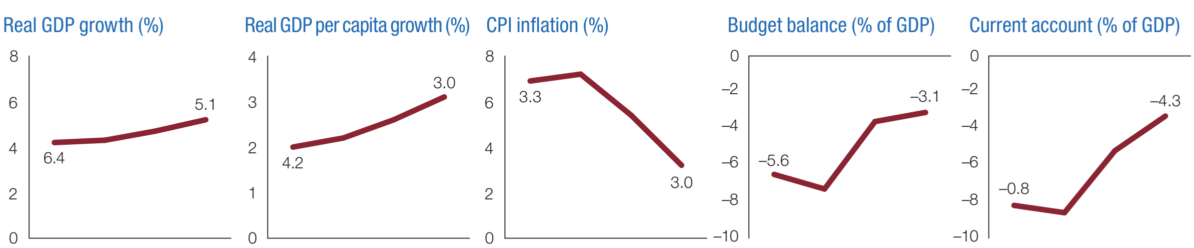
Outlook and risks

Economic growth is set to consolidate at 4.7% in 2024 and 5.2% in 2025, reflecting continued investment, governance reforms to improve the business environment, and normalization of cashew nut exports. Inflation is projected to fall to 5.4% in 2024 and to 3.1% in 2025, in response to the continued tightening of monetary policy by the Central Bank of West African States. The budget deficit is projected to fall to 3.6% of GDP in 2024 and to 3.2% in 2025 thanks to the government's commitment to accelerate measures to control the wage bill and increase tax revenue. The current account deficit is projected to narrow to 5.2% of GDP in 2024 and to 3.3% in 2025 as cashew nut exports recover. The main downside risks to the outlook include political instability, which could slow fiscal consolidation; uncertainties about cashew nut production; lower demand for raw materials; unfavorable weather conditions; and tighter regional financial conditions, which could limit the issuance of government securities. Mobilizing additional grants and concessional loans from development partners would help the country to cope with persistent external shocks.

Reform of the global financial architecture

The economy remains dependent on agriculture, which accounted for around 45% of GDP over 2000–20. Industrial production has been low, and its contribution to GDP is estimated at 14%, while services account for 41%. Progress in structural transformation and productivity has been very slow, due to inadequate physical and human capital accumulation. Agriculture's share of employment fell from 61% in 2020 to 50.9% in 2020, while services' share rose from 29% to 39%. Intersectoral productivity is virtually nonexistent, and labor productivity has been low, particularly in agriculture. Investment in manufacturing industries, development of local value chains (agriculture, fishing), capacity building, and access to infrastructure would help boost productivity.

Guinea-Bissau has undertaken reforms and projects that should advance the structural transformation of its economy. However, given the country's high debt, achieving momentum for structural transformation requires substantial concessional external financial support. To take advantage of the global financial architecture, the authorities will need to ensure political and institutional stability, accelerate reforms aimed at transparent governance and mobilization of domestic resources, and improve debt management to reduce the risk of debt distress. International financial institutions could mobilize trust fund resources, simplify access to financing through country risk guarantees, and encourage innovative regional financing (such as green bonds).



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Liberia

Recent macroeconomic and financial developments

GDP growth is estimated to have declined from 4.8% in 2022 to 4.5% in 2023, driven largely by growth in mining and construction on the supply side and public spending on the demand side. Despite restrictive monetary policy, inflation rose from 7.6% in 2022 to 10.5% in 2023, led mainly by rising domestic food prices and global fuel prices.

The exchange rate depreciated by 22.6% year on year from December 2022 to December 2023 due to increased demand for imports. The fiscal deficit narrowed from 6.5% of GDP in 2022 to 3.0% in 2023 as public spending was cut by 2.9 percentage points of GDP compared with 2022. As of October 2023, public debt stood at 52.6% of GDP, down from 53.4% in 2022, reflecting faster growth in GDP than in debt. The current account deficit narrowed from 23.9% of GDP in 2022 to 22.4% in 2023 due to reductions in the trade deficit. International reserves stood at $478 million in October 2023 (3.8 months of import cover), down from $691 million in 2022 (4.5 months of imports) largely because of depreciation. The financial sector remained sound, with a capital adequacy ratio of 18.2% in October 2023 against a 10% threshold, although the nonperforming loan ratio remained high at 18.2% of gross loans against a 10% threshold.

The poverty rate ($2.15 per person per day) declined from 35.4% in 2022 to 34.2% in 2023. Unemployment is estimated at 3.7% in 2023, unchanged from 2022.

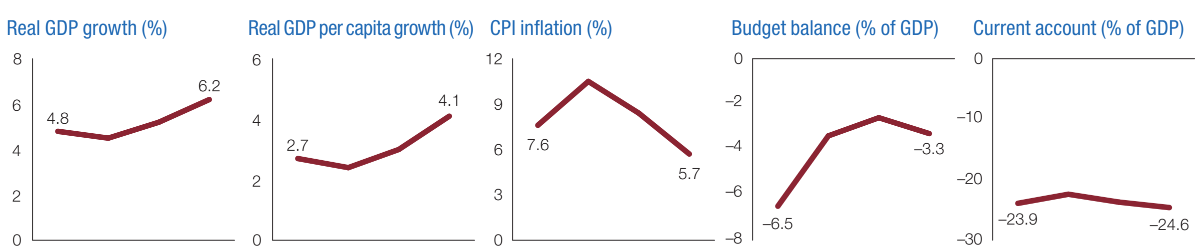
Outlook and risks

Growth is forecast at 5.2% in 2024 and 6.2% in 2025, driven by the expansion of services and agriculture and existing mining projects. Inflation is projected to decline to 8.4% in 2024 and 5.7% in 2025 due to anticipated stability in the exchange rate and tighter monetary policy. The fiscal deficit is forecast to edge from 3.4% of GDP to 4.2% in 2024 and deteriorate further to 4.5% in 2025 on projected increases in government expenditure. The current account deficit is forecast to increase to 23.7% of GDP in 2024 and to 24.6% in 2025, due to projected increases in imports. The exchange rate and financial market are projected to remain stable. Downside risks include Russia's continuing invasion of Ukraine and deterioration of the terms of trade for gold and rubber. Tailwinds include increased demand for Liberia's exports. Mitigation measures could include fiscal consolidation and improved governance.

Reform of the global financial architecture

Structural transformation has been slow. Agriculture's share in value added declined from 66% in 2002 to 29.5% in 2023, while services' share rose from 30% to 51% and industry's from 3.8% to 19.5%. Agriculture's share of total employment declined from 51% in 2002 to 42% in 2023 and industry's from 22% to 10%, while services' share increased from 37% to 48%. Government should promote productivity in natural resources through greater value addition and invest in human capital and infrastructure, particularly roads and energy.

Adequately financing structural transformation in Liberia requires improving revenue collection, reducing public expenditure, managing natural resources, leveraging international support, promoting sustainable debt financing, and strengthening institutions. Liberia needs to establish a Green Bank and to capitalize on its carbon sink services in the carbon market. However, carbon trading should be informed by a robust strategic vision and policy framework. The International Monetary Fund's global financial safety net needs to increase its liquidity provision for Liberia. In the short term, the government should mobilize domestic financial resources and manage its international aid more effectively, focusing on grants and concessional loans that do not raise debt levels. In the medium term, the government should encourage foreign direct investment by improving the business environment.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team. Data on the budget balance correspond to Liberia's fiscal year, which runs from July 1 to June 30.

Mali

Recent macroeconomic and financial developments

Mali's economic recovery from the impacts of the Covid-19 pandemic continues, with growth of 4.3% in 2023, up from 3.7% in 2022. This performance was driven on the supply side by higher production of cotton (up 10.8%) and gold (up 3.02%) and on the demand side by a revival of investment (up 41.8%) and household consumption (up 0.7%). Inflation fell from 9.7% in 2022 to 2.2% in 2023, in response to the combined effects of restrictive monetary policy by the Central Bank of West African States, uninterrupted supply of products to local markets, and the government's 25% customs duty exemption in return for setting ceiling prices on sugar.

The budget deficit improved from 4.9% of GDP in 2022 to 3.8% in 2023, reflecting good mobilization of public resources (98.5% of forecasts) and tight control of spending (92.8% execution rate). Tax revenue mobilization improved from 13.5% of GDP in 2022 to 14.7% in 2023, due to tax reforms. The current account deficit widened from 8% of GDP in 2022 to 8.7% in 2023, due to higher imports of machinery and vehicles (up 55.5%), food products (up 23.2%), and textiles and leather (up 15.1%) and lower exports of cotton (down 13.5%) and gold (down 4.6%). The net deterioration rate of the banking portfolio rose from 4.2% in December 2022 to 5.7% in 2023.

Social conditions improved slightly. The poverty rate fell from 45.5% in 2022 to 45.3% in 2023, as the unemployment rate improved from 7.7% to 6.7%.

Outlook and risks

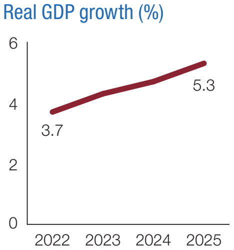
The upturn in economic activity is projected to continue, with growth of 4.7% in 2024 and 5.3% in 2025. Growth will be driven by extractive activities, with the start of lithium production in 2024, the revival of the textiles sector, and development of wheat production and processing potential. Linked to the continuing restrictive monetary policy, inflation is expected to continue to fall to 2% in 2024 and 1.8% in 2025. The budget deficit is projected to worsen to 4.3% of GDP in 2024 and then improve to 3.4% in 2025. The current account deficit is projected to improve to 6.4% of GDP in 2024 and to 5.9% in 2025, due to higher cotton exports in 2024 and higher gold exports in 2024 and 2025, combined with the start of lithium exports in 2024. The main downside risks to the outlook include the postponement of the presidential election, which had been scheduled for February 2024; the energy crisis; the country's withdrawal from the Economic Community of West African States; climate shocks; and insecurity. Mitigation measures include continuing political and institutional reforms, support for the energy sector, and the ongoing fight against terrorism.

Reform of the global financial architecture

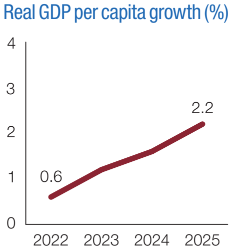
Structural transformation has been slow, with agriculture's share of employment falling from 69.3% in 1991 to 67.7% in 2021, and industry's share rising only slightly, from 8% in 1991 to 10% in 2021. Accelerating structural transformation requires urgent measures to mitigate the electricity deficit, strengthen transport infrastructure to increase internal trade and external trade at the regional level, reinforce the agricultural growth pole program, improve the business climate, and accelerate development of human capital.

Insecurity and political instability reduced Mali's access to the international financial market in 2022. Reforming the global financial architecture should enable the country to increase external financing. Priority should be given to political and institutional reforms and to strengthening security. As a backup, other reforms should aim to reduce risks that increase the cost of debt and prepare for a securities issue on the international financial market, following unsuccessful attempts at a eurobond issue in 2019. In addition, Mali should diversify its financing sources and consider issuing government bonds targeting its large diaspora, to channel their resources toward restructuring investments and green bonds. Reforming the global financial architecture should promote access to more grants (only 60.7% of which were implemented in 2023) and concessional financing, including budget support (suspended since 2022 due to political instability) and the granting of partial risk, credit, and trade guarantees.

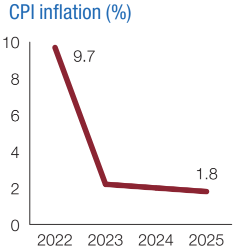
Real GDP growth (%)



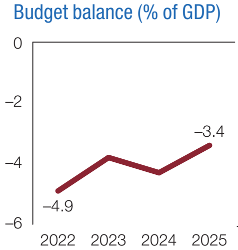
Real GDP per capita growth (%)



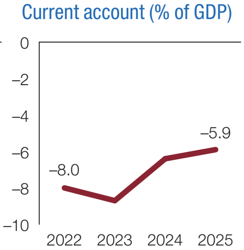
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Niger

Recent macroeconomic and financial developments

Economic activity slowed to 2.5% in 2023, as the political regime changed in July, economic and financial sanctions were imposed by the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU), and external funding was frozen by the country's main technical and financial partners. The limited economic growth was due mainly to higher oil production and agriculture on the supply side and to increased final consumption on the demand side. Inflation fell from 4.2% in 2022 to 3.7% in 2023, due to a good agricultural season.

The budget deficit improved to 5% of GDP in 2023, linked to reduced investment spending because of a freeze on external financing. Despite accumulated debt servicing arrears, debt stabilized at approximately 50% of GDP in 2023. The current account deficit narrowed from 16.1% of GDP in 2022 to 12.8% in 2023, due mainly to a large sanction-linked drop in imports from 27.2% of GDP in 2022 to 23.5%. The economic and financial sanctions also slowed banking activity, depreciated the quality of bank receivables (for example, the gross portfolio deterioration rate rose from 15.9% in the second quarter to 21.5% in the third quarter of 2023, well above the WAEMU average), and reduced foreign exchange reserves to 4.6 months of import cover. The rate of nonperforming loans was 18.2% of gross loans.

Sanctions increased the estimated incidence of poverty by 1.9 percentage points to 43.9% at the end of 2023, according to the National Institute of Statistics. Food insecurity and the precarious health situation prior to the political change also worsened.

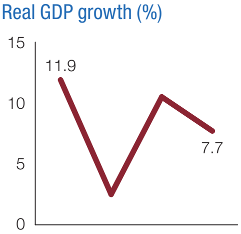
Outlook and risks

The economic outlook for 2024 and 2025 is favorable. Growth is expected to be driven mainly by hydrocarbons—with a five-fold increase in crude oil production to approximately 100,000 barrels a day, up from 20,000—and by the resilience of the agricultural sector. Economic activity is projected to also benefit from the lifting of ECOWAS economic and financial sanctions and the resumption of external financing by the main technical and financial partners. Economic growth is projected to reach 10.4% in 2024 then to slow to 7.4% in 2025. Inflation in 2024 and 2025 should be contained by agricultural sector performance. A substantial increase in tax revenue with the resumption of commercial activities and oil revenue is expected to result in budget consolidation in 2024 and 2025. But the budget deficit is projected to remain above the WAEMU convergence criterion (3% of GDP). The current account balance is projected to improve greatly, benefiting from the surge in oil production. Downside risks to these favorable economic prospects are linked to climate change, insecurity, and the negative effects of the country's announced exit from ECOWAS.

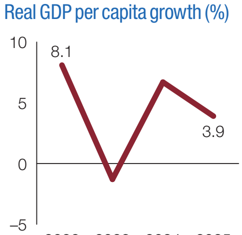
Reform of the global financial architecture

The structure of the economy has changed little over the past two decades. From 1991–2000 to 2011–2020, agriculture's share of GDP rose from 33% to 34.9%,industry's share rose from 21.3% to 22.4%, and services' share rose from 36.9% to 38.7% The main obstacles to structural transformation in Niger are linked to low factor productivity, which hinders economic diversification. The infrastructure deficit is a major impediment to competitiveness and structural transformation. The financial sector remains underdeveloped for mobilizing and allocating savings to development needs. Despite recent progress driven by the financial inclusion strategy, Niger's financial sector represents only 4.1% of WAEMU's market share. The credit-to-GDP ratio is barely 13%, compared with a WAEMU average of above 25%. Before the change in the political regime in July 2023, the country had substantially increased the concessional resources mobilized from bilateral and multilateral development institutions (including the African Development Bank, the World Bank, and the International Monetary Fund), mainly by implementing economic reforms. To continue to benefit from the global financial architecture and concessional resources, Niger must first return to institutional stability and pursue economic and financial reforms. In the medium to long term, it needs more effective strategies for developing the financial sector and mobilizing revenue from exploitation of its natural resources.

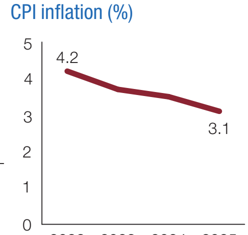
Real GDP growth (%)



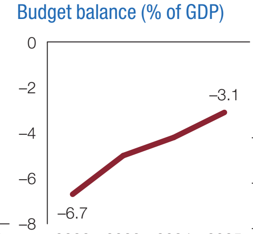
Real GDP per capita growth (%)



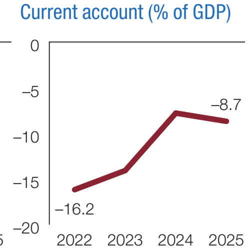
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Nigeria

Recent macroeconomic and financial developments

Economic growth in Nigeria slowed from 3.3% in 2022 to 2.9% in 2023 due to high inflation and sluggish growth in the global economy, which declined from 3.5% in 2022 to 3.2% in 2023. Growth was driven by services and agriculture on the supply side and by consumption and investment on the demand side. Inflation rose from 18.8% in 2022 to 24.5% in 2023, due to rising fuel costs and a depreciating naira. Petrol prices increased 167%, from naira 254 per liter in May 2023 to naira 671 in December 2023.

The exchange rate depreciated by 95.6% in 2023, resulting from the floating of the naira in June 2023. Monetary policy was tightened to control inflation, with the policy rate increased from 17.5% in January 2023 to 18.75% in December 2023. The fiscal deficit narrowed from 5.4% of GDP in 2022 to 5.1%, as general government revenues improved from 6.7% of GDP in 2022 to 7.6% in 2023, although remaining low. The deficit was financed mainly by domestic borrowing, including from the Central Bank's Ways and Means. Public debt remained low at 40% of GDP in 2023, but the federal government debt service to revenue ratio was high, at 111%, due to weak revenues. The current account surplus improved from 0.2% of GDP in 2022 to 0.9% in 2023, driven by higher oil prices and exports. International reserves remained robust but dropped from 6.6 months of import cover in 2022 to 5 months in 2023, reflecting tight global financing conditions.

The poverty level remains high, with multidimensional poverty at 63% and income poverty at 40%. Income inequality is lower than in many middle-income countries, with a Gini coefficient of 0.35.

Outlook and risks

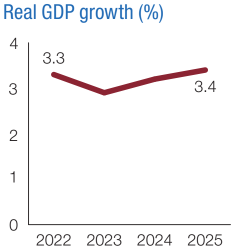
Economic growth is projected to increase to 3.2% in 2024 and 3.4% in 2025, due to improved security, higher oil production, and stronger consumer demand. Inflation is expected to rise to 31.6% in 2024, driven by higher food prices and continued depreciation of the naira, before moderating to 20.7% in 2025 as inflationary pressures abate. The fiscal deficit, financed by domestic borrowing, is projected to narrow to 4.3% of GDP in 2024 and 4.1% in 2025 as both oil and non-oil revenues improve. The current account surplus is expected to improve to 3.0% of GDP in 2024 and 3.6% in 2025 due to higher oil exports. Headwinds include insecurity, lower oil production, rising fuel and food prices, and further exchange rate depreciation. Tailwinds include new oil production from the Dangote refinery, which is expected to lower energy prices as it starts supplying the local market.

Reform of the global financial architecture

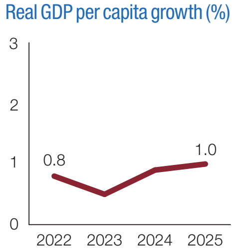
Despite some evidence of structural transformation, reflected in agriculture employment's falling share in total employment from 49.3% in 2000 to 35.2% in 2021, the pace of transformation is not sufficient to propel industrial take-off. Labor has relocated to the services sector, whose share of employment rose from 39.4% in 2000 to 52.1% in 2021. However, industry's share of employment has increased only marginally over the past 20 years, from 11.3% to 12.7%, reflecting slow industrialization. Furthermore, wage employment is low, at 11.8%, reflecting low-quality jobs and characterized by high informality, at 92.6%.

To finance structural transformation, Nigeria needs to accelerate domestic resource mobilization, especially by reforming tax administration. The African Development Bank is supporting the introduction of an integrated unique identification system aimed at improving tax compliance. Nigeria also faces exorbitant financing costs in global financial markets, with its 30-year bond trading at a double-digit yield of 11.11% in January 2023 (and 10.58% in April 2024) compared with 8.25% at issue in 2021. Consequently, Nigeria was unable to mobilize financing from the eurobond market in 2023. As part of the reform of the global financial architecture, establishing an African Financial Stability Mechanism could help Nigeria access liquidity at a lower cost. Furthermore, multilateral development banks can reform their risk capital models to allow additional lending capacity to regional member countries, including through risk transfer and balance sheet optimization instruments.

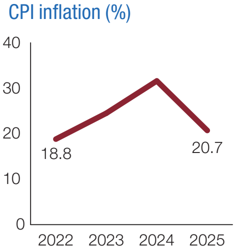
Real GDP growth (%)



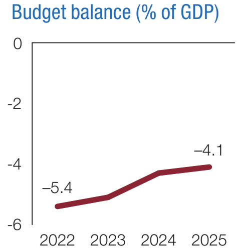
Real GDP per capita growth (%)



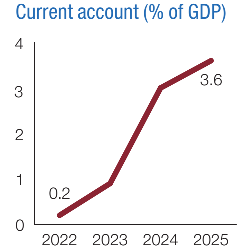
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Senegal

Recent macroeconomic and financial developments

The real GDP growth rate rose from 3.8% in 2022 to 4.3% in 2023, driven by the resilience of the agricultural sector. While services experienced a downturn (from 6.7% growth in 2022 to 3.9% in 2023), due to restrictive measures on the Internet and transport, GDP growth was sustained by agriculture and industry. Inflation fell from 9.7% in 2022 to 5.9% in 2023, responding to government efforts and tighter monetary policy by the Central Bank of West African States, which raised the minimum liquidity injection rate from 2% in 2022 to 3.25%.

Due to increased revenue and rationalized subsidies, the budget deficit narrowed from 6.5% of GDP in 2022 to 4.9% in 2023. The fiscal deficit buildup led to an increase in debt from 76% of GDP in 2022 to 80% in 2023. The current account deficit narrowed from 20% of GDP in 2022 to 15.2% in 2023 due to reduced oil investment. The financial sector performed well, with equity rising 13.4% in 2023 and nonperforming loans falling from 11.3% of gross loans in 2022 to 9.9% in 2023. Credit to the private sector increased by 20.8% in 2023 against 22.2% in 2022.

According to the National Agency for Statistics and Demography, the poverty rate fell from 38% in 2011 to 32.9% in 2019, due to rising agricultural income, higher public investment, and stronger social services. However, according to the World Bank, that trend has been reversed by recent shocks, and the poverty rate was projected to rise from 35.9% in 2021 to 36.3% in 2022. Extended unemployment fell from 24.1% in 2021 to 19.5% in 2023 and affects women (32%) more than men (10%).

Outlook and risks

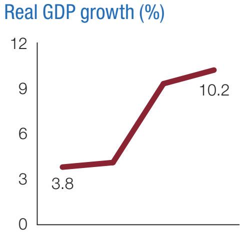
Projected oil production for 2024 makes the macroeconomic outlook very favorable. Economic growth is projected to reach 9.3% in 2024 and 10.2% in 2025. The fiscal deficit is projected to narrow further to 4% of GDP in 2024, with the implementation of measures to reduce energy subsidies from 3% of GDP in 2023 to 1% in 2024. These efforts and the robust growth prospects are expected to reverse the upward trend in debt. The external position is expected to further improve with the start of hydrocarbon production in 2024. But this outlook faces major risks if there is a lack of consensus on the review process for oil and mining contracts. Other risks to the macroeconomic outlook include structural vulnerability linked to climate change, delay in oil production, Russia's invasion of Ukraine, the war in the Middle East, deterioration in terms of trade, and tightening financial conditions. Greater macroeconomic stability and economic diversification are key to mitigating these risks.

Reform of the global financial architecture

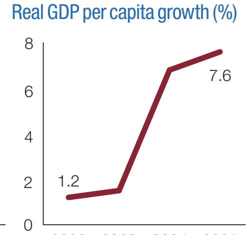
Over time, the structure of the economy has shifted to services. As the agricultural sector's share of employment declined from 50% in 2000 to 20% in 2022, the services sector's share rose from 38% to 56%. The services sector has made the greatest contribution to productivity through intersectoral growth, facilitating the flow of labor from the low-productivity agricultural sector. The government's Plan for an Emerging Senegal has identified flagship projects (the Train Express Regional, highways, renewable energy) to boost productivity. Structural transformation could be accelerated through implementation of the new industrial policy, the private sector development strategy, and agricultural growth poles.

To accelerate structural transformation, Senegal will need to mobilize more resources on international capital markets. Senegal raised $5.3 billion in eurobonds between 2009 and 2021, reflecting the country's stability and solid institutions. Reforming the global financial architecture should enable the country to mobilize additional financing on more favorable terms. But to take full advantage of these financing options, the government needs to maintain macroeconomic stability to bolster the confidence of international investors, focus on public securities in local currency, deepen the regional market with the introduction of green bonds, and prioritize external financing on concessional terms. Support from international financial institutions will also be needed, with guarantees for borrowing on competitive terms.

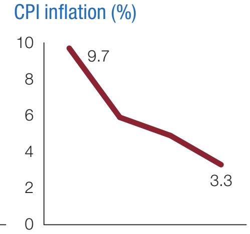
Real GDP growth (%)



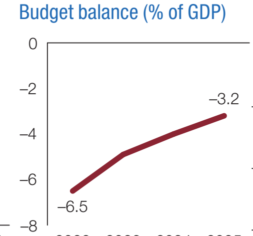
Real GDP per capita growth (%)



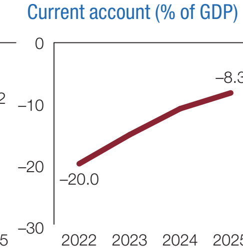
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Sierra Leone

Recent macroeconomic and financial developments

Sierra Leone's economic growth slowed from 3.5% in 2022 to 2.6% in 2023 as Russia's invasion of Ukraine triggered rapid increases in commodity prices. Growth was driven by higher mining and agribusiness exports on the demand side and by iron ore production and recoveries in agriculture, manufacturing, and tourism sectors on the supply side. Inflation accelerated from 27% in 2022 to 46.6% in 2023 driven by food and fuel prices, depreciation of the leone, and supply-side constraints. The Bank of Sierra Leone tightened monetary policy, raising the policy rate from 18% in 2022 to 22.25% in December 2023.

The fiscal deficit narrowed from 9.6% of GDP in 2022 to 5.8% in 2023. The public debt-to-GDP ratio declined from 98.8% in 2022 to 90.5% in 2023 due to the lower primary deficit. The current account deficit narrowed from 8.3% of GDP in 2022 to 6.1% in 2023, reflecting increases in exports and grants. The current account deficit was financed from the financial account. Gross foreign reserves stood at $432.9 million in October 2023 (3 months of import cover). The depreciation of the leone moderated from 39.1% in 2022 to 17.2% in 2023 as administrative barriers were lifted in the foreign exchange market. Nonperforming loans fell from 14.8% of gross loans in 2021 to 11.6% in 2022 against a regulatory limit of 10%. The capital adequacy ratio declined from 39.8% in 2021 to 35% in 2022.

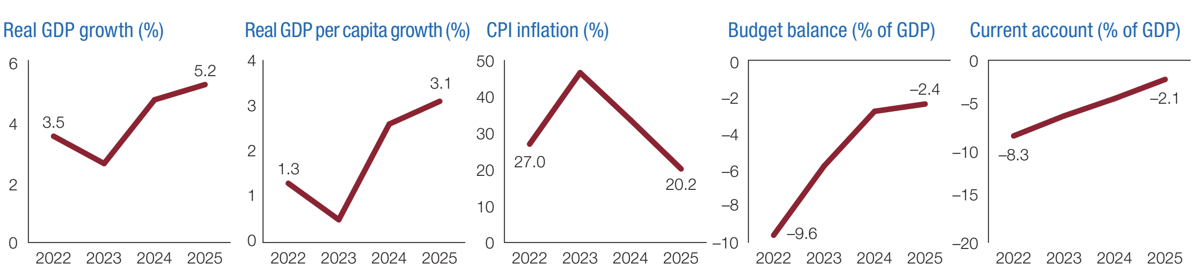
The poverty headcount ratio was 56.8% in 2018, and the extreme poverty rate was 25% in 2023. Youth unemployment was 10% in 2022, but underemployment is much higher.

Outlook and risks

Growth is projected to improve to 4.7% in 2024 and 5.2% in 2025, driven by the mining sector and recovery in agriculture, manufacturing, construction, and tourism. Inflation is projected to decline to 33.6% in 2024 and 20.2% in 2025, as external shocks subside. The fiscal deficit is projected to narrow to 2.8% of GDP in 2024 and 2.4% in 2025, due to higher tax revenue. The current account deficit is expected to narrow to 4.2% of GDP in 2024 and 2.1% in 2025, as official and private grants increase. Downside risks to the outlook include the possibility of a global economic recession, the continuation of Russia's invasion of Ukraine, and declining international financial assistance. Risk mitigation measures could include boosting domestic revenue mobilization, reprioritizing spending to create fiscal space, and accelerating reforms to improve economic diversification, accelerate structural transformation, and increase resilience to recurring external shocks.

ReReform of the global financial architecture

Sierra Leone has not made progress in structural transformation. Agriculture grew from 47% of GDP in 2003 to 60% in 2022, while its employment share dropped from 66.5% to 43%. Industry declined from 10% of GDP in 2003 to 7% in 2022, while its employment share rose from 6.2% to 12%. Services contracted from 37.6% of GDP in 2003 to 29% in 2022, while its employment share expanded from 27% to 45%. The country needs more investment in infrastructure and human capital to foster industrialization and structural transformation. The government has ramped up investments in power, nearly doubling the installed electricity generation capacity to 253 megawatts in the past five years. To finance structural transformation, Sierra Leone needs to focus on domestic resource mobilization and governance of its natural resources. It also needs to leverage international development assistance through reform of the global financial system. To reduce debt vulnerabilities in the short term, the government should prioritize grants and concessional loans and improve the business regulatory environment to attract foreign direct investment. In the long term, the government needs to develop domestic capital markets, enhance trade, and deepen regional integration.



Source: Data are as of April 2024 and are from domestic authorities; figures for 2023 are estimates and figures for 2024 and 2025 are projections by the African Economic Outlook team.

Togo

Recent macroeconomic and financial developments

Economic activity remains sluggish, with real GDP growth falling from 5.8% in 2022 to 5.6% in 2023, driven by developments in agriculture (contributing 1 percentage point to GDP growth), industry (2 percentage points), and services (2.6 percentage points). Inflation fell from 7.6% in 2022 to an estimated 5.3% in 2023, driven by lower food prices and subsidies on fuel and electricity prices.

The budget deficit narrowed from 8.3% of GDP in 2022 to 6.9% in 2023, responding to fiscal consolidation and public finance management reforms. The current account balance remained structurally in slight deficit, worsening from 2.8% of GDP in 2022 to 3.2% in 2023, due to rising prices for imported goods. Credit to the economy, in particular to the private sector to boost economic activity, increased 4.5% in 2023, from CFAF 1.663 trillion in 2022 to CFAF 1.739 trillion. The gross deterioration rate in banks' loan portfolios fell from 11% in March 2022 to 9% in 2023 due to recovery in overdue loans, which boosted the financing capacity of the banking system. The risk of debt distress is moderate. Outstanding public debt, at 67.2% of GDP in 2023 compared with 67.2% in 2022, was below the West African Economic and Monetary Union ratio of 70%.

Poverty and inequality remain high. According to the latest Harmonized Household Living Conditions Survey (2018), poverty incidence was an estimated 45.5% in 2019, down from 53.5% in 2017. Inequality persists, with the Gini coefficient rising from 0.393 in 2011 to 0.427 in 2017.

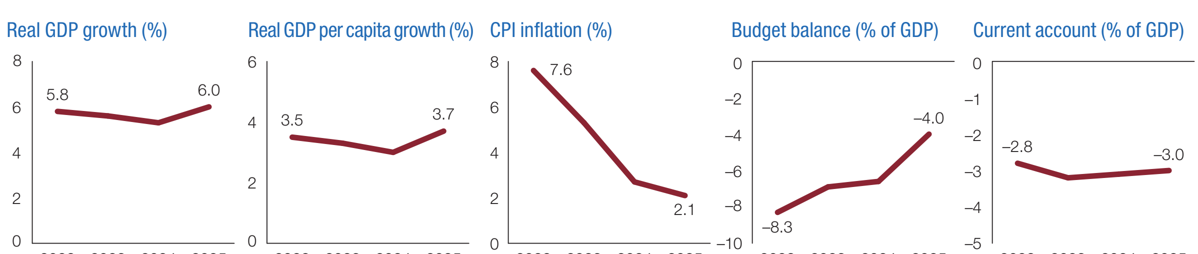
Outlook and risks

The economic outlook is favorable, benefiting from structural reforms and key investment projects. Real GDP is projected to grow 5.3% in 2024 and 6.0% in 2025, driven by the dynamism of agriculture and private investment. The inflation rate is expected to continue its downward trend to 2.7% in 2024 and 2.1% in 2025, as energy price subsidies continue. The budget deficit is projected to improve to 6.6% of GDP in 2024 and to 4% in 2025, attributable to public finance management reforms. However, energy subsidies could keep the budget in deficit over the long term. The current account deficit is projected to narrow to 3.1% of GDP in 2024 and 3% in 2025, due to lower prices for imported goods, including petroleum products. The main risks to the economic outlook are a potential escalation of terrorist violence in parts of the country, lower agricultural yields, and volatility in world phosphate prices. In addition, economic activities are likely to be hampered as the new constitution goes into effect. But these risks can be mitigated through effective coordination of fiscal policies, continued structural reforms, political dialogue, and social calm.

Reform of the global financial architecture

Foreign trade accounts for 58% of Togo's GDP, and phosphates are one of the country's main foreign currency–earning exports. Togo's transport infrastructure makes it a regional hub for hinterland countries such as Burkina Faso, Mali, and Niger. Structural transformation of the economy is in its early stages, and momentum needs to be consolidated. The agricultural sector's share of value added GDP declined from 32.8% in 2001–2010 to 27.7% in 2011–2020, while services' share rose from 48.9% to 51.9% and industry's share rose from 18.2% to 20.4%. The Togo 2025 Roadmap, which targets structural transformation and sustainable, inclusive growth, needs to be accelerated.

Accelerating structural transformation requires modernizing agriculture and increasing productivity, improving access to energy, consolidating the industrial fabric by developing agro-industrial processing zones, and creating a business climate that can attract lower cost financing. In addition, reforming the global financial architecture should make it possible to optimize the benefits of international capital flows, giving Togo privileged access to substantial concessional resources to meet its growing development needs. In the medium term, obtaining technical assistance to access nonconcessional resources—in particular, partial guarantees (risk, credit, and trade) for public-private partnerships—and strengthening the macroeconomic framework should be explored.



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