COUNTRY NOTES
CENTRAL AFRICA
Recent macroeconomic and financial developments

In 2021, GDP growth picked up to 3.5% from 0.5% in 2020, driven by revival of nonoil activity and continued investment. The budget deficit narrowed to 3.1% of GDP in 2021 from 3.3% in the two previous years, stemming from budgetary consolidation measures aimed at reducing expenditure and increasing nonoil budgetary revenue. Of the SDR 264.5 million allocation in August 2021, SDR 61.5 million was used in fiscal year 2021. The realization of structural infrastructural projects financed for the most part by commercial and public loans and implemented within the framework of the country emergence politics has led to a strong increase in debt. The rate of public debt distress rose from 28.8% of GDP in 2015 to 46% in 2021.

Inflation reached 2.5% in 2021, up from 2.4% in 2020, owing to a price control system for necessities. In March 2022, the central bank raised its principal key rate from 3.5% to 4%. Gross receivable NPLs represented 16.8% of outstanding banking system loans. The current account deficit widened to 4.1% of GDP in 2021 from 3.5% in 2020, linked to the sharp increase in import prices. Foreign exchange reserves fell slightly in 2021 to 3.7 months of imports from 3.8 months in 2020. In 2021, the unemployment rate stood at 6.1%, up from 3.84% in 2020, while the underemployment rate declined by 4 percentage points, to 65%.

Outlook and risks

Growth could reach 4.1% in 2022 and 4.3% in 2023, due particularly to increased gas output. With continued budgetary consolidation engaged within the framework of an economic and financial program signed with the IMF in July 2021, the budget deficit is forecast to improve to 1.9% of GDP in 2022 and 1.3% in 2023. Inflation should remain below 3% in 2022 and 2023, due mainly to continuation of the price control system and government consultation with actors in the production and marketing of the main consumption products. The current account is likely to remain in deficit, owing to the rigidity of the decrease in import prices. Foreign exchange reserves are projected at 3.9 months of imports in 2022 and 4.2 months in 2023. Yet, the outlook remains uncertain—and dependent on the evolution of the health crisis as well as on the adherence of a greater number of the population to vaccination, the continuation of barrier measures, and global supply chain disruptions.

Climate change issues and policy options

Cameroon is 68 on the 2021 GCRI. It is subject to flooding, deforestation, recurrent droughts in the north, and an uncertain duration of rainy seasons. Climate change heavily affects the agricultural sector, and more particularly agro-industry, which accounts for nearly 33% of industry sector output. The urbanization rate, which reached 58% against the average of 41% in Sub-Saharan Africa in 2020, heightens challenges of sustainable urbanization, urban planning, and pollution reduction. The Nationally Determined Contribution, submitted in October 2021, aims to reduce emissions by 35% by 2030. The share of the population with access to electricity is 90% in urban areas against only 20% in rural areas. The proportion of renewable energy in the electricity mix is predicted to reach 25% by 2035, up from 2% in 2019. The population’s water access rate reached nearly 62% in 2020, with a target of 80% in 2025.
Recent macroeconomic and financial developments

With the pandemic and insecurity still present, GDP growth stabilized at 0.3% in 2021, while pre-COVID-19 projections had been for 3.3% growth. The agriculture, hotel, and diamond sectors were the most hit, while the services sector (transport, trade, and finance) remained at around 42% of GDP. The worsening economic situation led to a drop in public revenues even as the health situation required an increase in social protection spending, widening the budget deficit in 2020 and 2021 to 3.5% and 5.7% of GDP. Still, public debt fell slightly from 47% of GDP in 2020 to 46% in 2021.

The security situation and supply chain disruptions pushed inflation to 4.4% in 2021 from 2.3% in 2020. In November 2021, the Bank of Central African States (BEAC) raised its Interest Rate on Tenders from 3.25% to 3.5% and its Marginal Lending Facility Rate from 5% to 5.25% to replenish the region’s foreign exchange reserves. The current account deficit increased to 10.5% of GDP in 2021 from 8.7% in 2020. The financial and banking sector is still embryonic, dominated by a few commercial banks and microfinance institutions based in Bangui. In 2019, unemployment was around 34.5%—36% in urban areas and 30% in rural areas, and 42.5% among women and 28.5% among men. In 2017, the Central African Republic was one of the poorest countries in the world, with an estimated poverty rate of 75%.

Outlook and risks

The Bank projects GDP growth to rebound to 3.8% and 3.9% in 2022 and 2023, reflecting completion of structural projects in transport and energy. Agriculture, mining, and public works are also seen rebounding. Inflation is forecast to increase to 4.3% in 2022 and 3.8% in 2023 due to the Russia–Ukraine conflict. Tax reforms, notably consolidation of public funds alongside control of current expenditure, are projected to reduce the budget deficit to 2.4% in 2022 and to 2% in 2023. The public debt ratio is forecast to continue declining, to 44% of GDP in 2022 and 42.3% in 2023. The current account balance is projected to remain in deficit at 10.9% of GDP in 2022 and 8.4% in 2023, a slight improvement on better terms of trade. A continuing pandemic, combined with falling commodity prices and deteriorating internal security, conjugated with the Russia–Ukraine conflict, could undercut growth, however.

Climate change issues and policy options

The country is 70 on the 2021 GCRI. Environmental risks are land and watershed degradation and loss of biodiversity among ecosystems and species. The country has ratified international agreements to combat global warming, including one with the EU on forest regulation and with the Programme des Nations Unies pour la Gestion du Bassin du Congo. Strategies and policies include the National Forest Monitoring Strategy, the National Strategy to Combat Deforestation and Forest Degradation, and the National Policy on the Environment. The Central African Republic has set targets for 2030 on land degradation neutrality: restore 50% of vegetation cover (that is, 19,384 ha); reduce loss of land productivity by 50% and the biomass rate by 25%; increase the soil’s organic carbon rate by 10%; reduce GHGs by 5%; and restore 20% of mining areas. Although the country has considerable renewable water resources, only 30% of the population has access to clean drinking water—rates range from 36.5% in Bangui to 27% in rural areas.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

In 2021, the economy grew by 0.6% after contracting by 2.2% in 2020, with expansion led by recovery in oil and agriculture. On the demand side, growth came primarily from private consumption, public investment, and exports. The budget balance moved from a surplus of 2.1% in 2020 to a deficit of 1.1% in 2021 due to the net effect of more public expenditure and less tax revenue. Renewed growth has helped to lower public debt from 51.5% of GDP in 2020 to 48.2% in 2021, though the risk of debt distress remains high. With lower food prices, inflation was –0.9% in 2021 after hitting 4.5% in 2020.

In March 2022, the BEAC adopted measures to strengthen CEMAC's foreign exchange reserves (raising its Interest Rate on Tenders and Marginal Lending Facility Rate). The current account deficit narrowed from 8.1% in 2020 to 3.9% in 2021 on good export performance. Foreign exchange reserves averaged 3.4 months of imports in 2021/22. The ratio of NPLOs remained high at 25% in 2021, against 26% in 2020. The poor capitalization of Chad’s banks led to a steep drop in their solvency ratio. In the context of the plan to clear domestic arrears, since April 2020 the government has been paying back direct debt to two banks and has made a commitment to recapitalize the Commercial Bank of Chad to CFAF 4.5 billion. The pandemic has probably exacerbated the poverty rate, which was 42% in 2018, particularly affecting workers in the informal sector in urban and peri-urban areas.

Outlook and risks

With a new IMF program of $570 million concluded in December 2021, prospects are favorable for 2022–23. Real GDP is forecast to average about 2.9% in 2022 and 3.2% in 2023, led by recovery in oil output and in agriculture and livestock farming. Combined with the second debt restructuring with the trading company Glencore, this should create fiscal space for public investment. This environment is projected to lead to a budget surplus of 5.0% of GDP in 2022 and 7.5%. The debt ratio is forecast to remain below 50% of GDP in both years. Inflation is projected to increase to 4.3% in 2022 and 3.1% in 2023. Key rates set by the BEAC in March 2022 are likely to ensure internal and external monetary stability. The current account balance is forecast to improve and result in a surplus of 1.2% of GDP in 2022, due to a greater volume of exports and a higher oil price, but to revert again to deficit of -2.7% in 2023. This outlook remains dependent on the pandemic’s trajectory and the duration of the Russia–Ukraine conflict.

Climate change issues and policy options

Chad is 130 on the 2021 GCRI. The reduction in Lake Chad’s surface area due to climate change has led to lower fisheries production, degradation of land and pastures, lower capacity in agricultural output and availability of forage, and a reduction in livestock and biodiversity. Climate vulnerability leads to considerable human pressure on natural resources and fertile lands, causing community conflict. The agropastoral sector (about 30% of GDP) is where 80% of Chad’s population makes its living. Adaptation is a key concern of the government, which in addition to the National Strategy to Combat Climate Change has adopted a National Environmental Action Plan, a National Action Program to Combat Desertification, and a National Program for Climate Change Adaptation. Further, aware of energy challenges, in August 2018 it adopted a 2018–2030 policy letter and an RE development blueprint. Exemption from duties and taxes on all imports of solar components was granted in 2020.
Recent macroeconomic and financial developments

As other countries, Congo is facing a third year of COVID-19, which is disrupting socioeconomic patterns already badly damaged by five years of recession. Added to the negative effects of the pandemic were floods in the northern part of the country in November 2021. Increased output and prices of oil were not enough to offset the effects of the pandemic and floods. Though smaller than its contraction of 6.2% in 2020, the economy shrunk by 0.2% in 2021. In 2020, unemployment was estimated at 10.3% and the poverty rate at 46.1%, exacerbated by job losses after COVID-19 hit. Central government operations resulted in a budget surplus of 1.4% of GDP, after a deficit of 1.7% in 2020. The debt ratio fell to 84.7% of GDP in 2021 from 101% in 2020.

Inflation was moderate at 2.0% in 2021, within CEMAC’s criterion. Credit to the economy grew by only 1.6% in 2021, reflecting weak demand for credit in a period of uncertainty. NPLs declined to 17%, helping to reduce vulnerabilities in the banking system. In 2021, supported by oil prices, the current account showed a surplus of 15.5% of GDP, after a deficit of 0.2% in 2020. Foreign exchange reserves strengthened from 2 months to 2.7 months of imports from 2020 to 2021.

Outlook and risks

The outlook is favorable but remains fragile in a context marked by the persistence of the COVID-19 pandemic and the global consequences of the Russia–Ukraine conflict. GDP growth is projected at 4.3% in 2022 and 3.2% in 2023, driven by the accelerated vaccination campaign, higher oil production, and dynamics in the agricultural and mining sectors, allowing growth of the nonoil sector (building and public works, wood, mining, and services) to pick up to 3.3%. Oil output is forecast to rise by 1.0% with the resumption of investment by the largest producers, with a forecast average price per barrel of $70. Inflation is projected to rise to 3.4% in 2022 and to 3.1% in 2023. Medium-term fiscal consolidation, combined with strong oil revenues, should lead to budget surpluses of 4.7% and 2.9% of GDP in 2022 and 2023. Public debt is expected to continue declining marginally, to 83.6% of GDP in 2023. The current account should remain in surplus at 16.5% of GDP in 2022 and 7.2% in 2023, driven by the trade balance. Prospects also remain dependent on the implementation of structural reforms launched with the IMF and on the duration of the Russia–Ukraine conflict.

Climate change issues and policy options

Congo is 109 on the 2021 GCRI. It is experiencing an increase in intensity and frequency of extreme events caused by climate change. They are more pronounced in urban areas, where 70% of the population lives and where the ability to be resilient and adapt is still lacking. Indeed, infrastructure (including housing, roads, and drainage and sanitation) is either weak or destroyed. The country is ranked 165 on the Country Index of the Notre Dame Global Adaptation Initiative 2020. The government’s NDC provides for a reduction in national emissions of 48% and 55%, by 2025 and 2035. The country has also started planting 40,000 ha of forest to sequester more than 10 Mt of carbon, thus protecting the Congo Basin peatlands, which serve as an important carbon sink. On the energy transition, the country is improving its energy supply, based on RE including natural gas. To this end, 300 MW of electricity production capacity has been installed in addition to that from four hydropower stations. The drinking water access rate is 66% in urban areas and 47% in rural areas, for a 56% national average.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

After a year of moderate, 1.7% growth in 2020, the economy recorded 5.7% expansion in 2021, on the back of solid mining output and high world prices for export commodities such as copper and cobalt. Growth of nonextractive sectors went from a 1.3% contraction in 2020 to 3.3% growth in 2021, owing to telecommunications, energy, and noncommercial services. The country’s growth is driven by strong exports of raw material (11.5%) and private investment (9.8%). Despite high current spending (salaries were exceeded by 10.9%), the 39.3% increase in tax revenues, reflecting tax audits and penalties, lowered the budget deficit from 2.1% of GDP in 2020 to 1.6% in 2021. Public debt remains moderate at 22.8% of GDP, however.

Inflation was better controlled, falling from 11.4% in 2020 to 9.3% in 2021, with a 7% target, enabling the central bank to lower its prime rate from 18.5% to 8.5% in 2021. The NPL ratio to total gross loans declined from 9.2% to 8.8% between 2020 and August 2021. Foreign exchange reserves increased from $709 million in 2020 to $3.344 billion in 2021, partly due to receipt of 50% of the $1.52 billion SDR allocation, with the remainder being allocated to priority investments. As mining exports increased, the current account deficit fell from 2.2% of GDP in 2020 to 0.5% in 2021. Unemployment, as defined by the ILO, went down from 4.7% in 2012 to 3.0% in 2020. Monetary poverty decreased from 63.4% in 2012 to 56.2% in 2020—a period of solid economic growth.

Outlook and risks

The economic outlook is encouraging despite the Russia–Ukraine conflict, with GDP growth in 2022–23 reaching 6.4%, driven by mining and recovery of nonextractives. Priority investments should continue to support internal demand. Improvements to transport and logistical infrastructure are set to support resumption of nonextractive activities, services, and industries, stimulating export and tax revenue. The 2023 elections are forecast to increase public spending and slightly widen the budget deficit from 1.6% in 2022 to 1.5% in 2023. Public debt is projected to be 22.5% in 2023. Coordination of public finance and monetary reforms should maintain inflation at around 6.9% in 2022–23 and assure exchange rate stability. The current account surplus is projected to reach 0.8% in 2022 and 0.1% in 2023, with foreign exchange reserves at $3.860 billion in 2022 and $4.606 billion in 2023, for 3 months of imports. The decline in commodity prices, global demand for minerals, the Russia–Ukraine conflict, and security issues could undermine the outlook.

Climate change issues and policy options

Democratic Republic of Congo is 51 on the 2021 GCRI. The country has great vulnerability to climate change, characterized by a rise in temperature, long dry seasons, violent rains causing flooding, soil degradation, and agriculture losses. Thus, first, in 2020 the Ministry of the Environment revised the Climate Change Policy, Strategy and Action Plan and developed its National Adaptation Plan (2020–2024) to reinforce resilience. Funding also relies on the production and monetization of carbon credits, knowing that the large tropical peatland is managed according to REDD+ (Reducing Emissions from Deforestation and Forest Degradation) mechanisms. On the energy transition, the government favors modern and sustainable use of “eco-energy” models, enabling a 21% decrease in GHG emissions by 2030. The measures for mitigation concern primarily the agriculture, forestry, land use, energy, and waste management sectors. Specific measures for adaptation affect forest, agriculture, energy, health, water resources, and sewerage systems, as well as coastal zones and waste management. According to the NDC, the cost of both measures will be $48.68 billion, to be financed by resources from the state budget, the carbon market, REDD+ resources, and international climate funds.

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<tr>
<th>Real GDP growth (%)</th>
<th>Real GDP per capita growth (%)</th>
<th>CPI inflation (%)</th>
<th>Budget balance (% of GDP)</th>
<th>Current account (% of GDP)</th>
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<td>15.0</td>
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Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments
In 2021, GDP growth bounced back to 1.4% after a 4.9% contraction in 2020, aided on the supply side by growth in the petroleum sector of 3.3% and the nonpetroleum sector of 1.3%, with positive changes particularly in the tertiary sector, where the following all rose: private education 4.1%, private health 3.4%, business 2.3%, and restaurants and hotels 1.7%. The primary source of recovery on the demand side was public consumption, up 13.6%. The budget deficit continued to narrow in 2021, to 1%, after a 1.7% decline in 2020. The public debt to GDP ratio decreased from 49% in 2020 to 43% in 2021. In 2021, inflation of 2.1% was below the CEMAC criterion of 3%, after 4.8% in 2020 due to monetary and budget policies responding to the economic and health crises. After mining resumed in 2021, the current account deficit narrowed to 3.6% of GDP, from 6.3% in 2020.

The banking sector remains poorly developed and focused on short-term financing of the economy. The banking sector has been weakened by its strong exposure to the building and public works sectors, which are themselves affected by state arrears. Short-term credit accounts for over 80% of total credit, long-term credit just 2.8%. Since 2016, foreign exchange reserves have come to less than 1 month of imports, that is, below the 3 months recommended by the BEAC. Unemployment was 9.2% in 2020, and higher among women and youth, as was job insecurity. The poverty rate, estimated at 67% in 2020, had grown from 43.7% in 2011, largely because of decreased petroleum revenues since 2016.

Outlook and risks
Growth is forecast to continue in 2022 at 5.0%, followed by a contraction of 1.9% in 2023. Inflation should ebb from its high in 2020, settling to 3.7% in 2022 and 3.8% in 2023, due to decreases in imported inflation. The budget balance is expected to be in surplus of 3.8% of GDP in 2022 and 4.4% in 2023, on the assumption that the oil price per barrel will increase from $63.20 in 2021 to $66.20 in 2022, given that 81.4% of tax revenue stems from petroleum income. Improvements in the trade balance should lead to a sharp decrease in the current account deficit by 2023. Authorities are expected to adopt regulations to comply with the anti-corruption law passed in 2021, implementing a system of asset declaration for public officials. Likely bank stabilization measures include the clearance of domestic arrears and recapitalization of big banks. The health crisis may result in widening inequalities and increasing poverty and require targeted measures. Decree No. 43/2020 instituted an emergency budget system in support of SMEs and vulnerable populations.

Climate change issues and policy options
The country has 1,626 million acres of tropical forest, 58% of its area. Because deforestation at an estimated annual rate of 0.9% is one of the primary factors in declining biodiversity, the National Investment Plan REDD+ 2020 proposes a green economy model that aims to protect the forest and contribute to sustainable development. Rising sea levels caused by climate change expose the country to flooding and coastal erosion that threaten infrastructure and vital biodiversity reserves. Equatorial Guinea has crafted plans to ensure national resource management compatible with economic development. The National Plan for Climate Change Adaptation prioritizes resilience of ecosystems and communities, yet to date ineffective enforcement of environmental strategies and plans has forestalled expected results. The country has three power plants with a capacity of 154 Mw, against maximum demand of 91.5 Mw. Still, access to electricity is minimal in rural areas, even falling between 2011 and 2019, from 10.1% to 2.2%, on high prices among other factors. Implementing initiatives in the NDC (CDN-2015) will require about $3.94 billion. The country’s economic crisis may, however, affect its capacity to mobilize climate change resources.
Recent macroeconomic and financial developments

From a contraction of 1.8% in 2020, GDP growth rebounded to 1.7% in 2021, linked to nonoil sector expansion, notably palm oil (120%) and the wood industry (29.8%). Unemployment, estimated at 20.5% in 2020, remains high, particularly for young people, exacerbating poverty, which was estimated at 33.4% in 2017. The budget deficit widened from 2.1% in 2020 to 3.4% because of a rise in health crisis–related capital and current spending. Public debt is estimated at 74.7% of GDP in 2021, down from 77.4% in 2020. In 2021, inflation declined to 1.1% from 1.3% in 2020, owing to control of the price of transport and food products. In March 2022, the BEAC increased its Interest Rate on Tenders from 3.5% to 4% and its Marginal Lending Facility Rate from 5.25% to 5.75%, to replenish regional exchange reserves; from 2020 to 2021, these reserves rose from 3 months to 3.6 months of imports. The current account deficit narrowed from 6% in 2020 to 3.5% in 2021, given a stronger increase in exports (31%) than imports (9%). The performance in the banking sector in 2021 was supported by the supervisory measures implemented by the Central African Banking Commission to mitigate the effects of the health crisis on the quality of assets and bank solvency. A deterioration in the quality of assets is projected for 2022, because at the end of 2021, the Commission removed its supervisory measures.

Outlook and risks

The short-term outlook for economic growth is favorable with projected GDP growth of 3.3% in 2022 and 3.4% in 2023, reflecting a dynamic nonoil sector (agriculture, wood, and mining). With the rise in oil prices and reforms initiated within the framework of the IMF program, the budget balance is forecast to post a surplus of 2.3% of GDP in 2022 and 3.4% in 2023. Public debt is forecast to decline further to 70.1% of GDP by 2023. For 2022 and 2023, the Bank projects inflationary pressures, owing to the Russia–Ukraine conflict, which will affect the price of food and transportation. Inflation is expected to be 2.9% in 2022 and 2.5% in 2023. The prime rates established in March 2022 by the BEAC should guarantee internal and external monetary stability. The balance on the current account is likely to improve, owing to the rising price of exported raw materials (oil, palm oil, gold, and manganese), reaching a surplus of 2.9% of GDP in 2022 and 0.7% in 2023. These outcomes are, however, subject to the execution of ongoing structural reforms as well as the pandemic’s trends and the Russia–Ukraine conflict.

Climate change issues and policy options

Gabon is 130 on the 2021 GCRI. It is exposed to a rising sea level, frequent flooding, and coastal erosion, which affect key sectors such as hydropower, agriculture, fishing, and forests. Authorities have taken steps to protect fauna and flora with the creation of protected areas covering 11% of national territory. The adoption of the Forest Code in 2001 contributed to forestland resilience. Gabon has a relatively developed political, institutional, and legal framework integrated into the national development strategy. The country is revising its NDC with an objective of reducing its carbon emissions by 50% by 2025. Eighty-eight percent of Gabon is covered by forest, which constitutes a carbon pool, absorbing four times more CO₂ than it gives off. The country aims to monetize its carbon credits, estimated at $5 billion in 2021, and is counting on using and monetizing flared gas to reduce its dependence on finished-product imports and move to green energy. Gabon flares about 35 billion cubic feet of gas a year, which represents about 200 MW of electricity. To reach a more ecological level for electricity and transport, it must overcome technology, infrastructure, finance, and regulations challenges.
EAST AFRICA
Recent macroeconomic and financial developments

After a contraction of 1% in 2020, the economy bounced back in 2021 with GDP growth of 2.2%, driven by agriculture and by investment in public infrastructure. The inflation surge of 2020 due to disruptions in global supply chains continued in 2021, with an inflation rate of 8.3%, up from 7.5% in 2020. The budget deficit narrowed to 4.5% of GDP from 7.8% in 2020 owing to an increase in public revenue that exceeded the increase in public expenditure. The deficit was financed by foreign grants and loans, and by domestic borrowing. Public debt grew to 71.9% of GDP in 2021 from 67% in 2020.

The decrease in exports (notably mining and coffee) with increased imports widened both the trade deficit—estimated at 25.7% of GDP in 2021—and the current account deficit—estimated at 15.4% of GDP in 2021, up from 10.5% in 2020. The current account deficit accentuated foreign exchange shortages, leading to a 3% depreciation in the Burundian franc against the US dollar. Reserves were estimated at 3.3 months of imports in late September 2021 against 0.9 months a year earlier. The financial sector was resilient, with NPLs decreasing by 12.6% from September 2020 to September 2021. The SDR 147.6 million ($211.2 million) allocation in August 2021 strengthened foreign reserves and supported public infrastructure financing. Income poverty climbed to 87.1% in 2021 from 85% in 2020.

Outlook and risks

Burundi’s economic outlook is favorable, with projected GDP growth rates of 3.6% in 2022 and 4.6% in 2023 owing to the continuing recovery of agriculture and public investment. Global inflationary pressure intensified by the Russia–Ukraine conflict is expected to increase the inflation rate to 9.3% in 2022. But the rate will decrease in 2023 to 8.3%. The rising value of oil product imports will increase the commercial deficit and aggravate the current account deficit, which will increase from 15.4% of GDP in 2021 to 15.9% in 2022 before narrowing to 14.8% in 2023. This evolution should affect foreign exchange reserves, which will fall in 2022 but increase in 2023, to $430.8 million, covering 3 months of imports. Public debt is projected to fall to 70.2% of GDP in 2022 and 66.5% in 2023, from 71.9% in 2021, on budget consolidation. However, this outlook could be undermined by low rainfall that decreases agricultural yields, by sociopolitical instability, and by new COVID-19 variants. Strengthening security and COVID-19 vaccination rollout should mitigate these risks.

Climate change issues and policy options

Burundi is 57 on the 2021 GCRI but ranked 10 specifically on the number of climate-related fatalities per 100,000 inhabitants. Lake Tanganyika’s flooding from April to July 2021 displaced more than 40,000 people and destroyed crops and homes. The country loses about 4% of GDP every year due to land degradation. It ratified the UNFCCC in 1997 and endorsed the Paris Agreement in 2017. The implementation of its NDC of 2015 allowed for afforesting 20,000 ha in five years and fostered the start of construction of four hydro-power plants. The NDC, revised in 2020, helps Burundi strengthen its commitments to mitigation and adaptation with actions focusing on conserving carbon sinks, adopting climate-resilient seeds and crops, and developing nonmotorized transport infrastructure. Estimated at $3.2 billion, implementing the NDC will be financed by domestic ($430 million) and foreign resources ($2.77 billion, split into $1.32 billion for mitigation and $1.45 billion for adaptation), moving toward reaching SDG 13 on climate action.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Economic activity rebounded in 2021 with GDP growth of 1.9%, up from 0.2% in 2020. On the supply side, it was supported by agriculture, which grew by 3.7% and which benefited from favorable weather conditions. On the demand side, it was driven by external demand—exports grew by 19.5% in 2021 after a crash of 52.4% in 2020. The central bank continued its expansionary monetary policy in 2021 by maintaining the reserve requirement rate, which it had lowered to 10% in March 2020. The rate of NPLs in the banking system remained high, at 20.3% in 2021. Inflation reached 1.4% in 2021, up from 0.9% in 2020, owing to increasing food prices resulting from supply constraints in imported goods.

Transfers from the diaspora increased by 18.3% in the first 9 months of 2021; foreign exchange reserves are estimated at 9 months of imports. The budget deficit widened to 2.3% of GDP, given increased public expenditure (44.8% year on year in June 2021) generated by the economic recovery. The country received $24.3 million under the SDR allocation. Public debt is estimated at 29.8% of GDP in 2021, but the risk of debt distress is high mainly because of the large volume of nonconcessional loans. The current account deficit widened in 2021 to 3.6% of GDP from 2% in 2020 due to the drop in external aid, coupled with the trade deficit increase. The poverty rate is estimated at 39.8% in 2021, little changed from the 40.4% in 2020.

Outlook and risks

The outlook is favorable, with average growth of 2.8% in 2022–23, but remains fragile. It is buttressed by good vaccination coverage against COVID-19, implementation of the Emerging Comoros Plan, and the IMF’s Staff-Monitored Program. Services and agriculture should remain the engines of growth, buoyed by the rise in prices of the main export products, particularly cloves. Inflation is expected to increase, owing to the rising price of food products and oil, due to the Russia–Ukraine conflict. The budget deficit is likely to remain high at 5.1% of GDP in 2022, reflecting the increase in public spending to support economic recovery. The current account deficit is projected to widen further to 8.0% of GDP in 2022 owing to large needs for external resources. In 2022, public debt is projected to rise to 33.1% of GDP and foreign exchange reserves to decline to 8.6 months of imports. Risks to the outlook include new waves of COVID-19 and declines in external funding.

Climate change issues and policy options

Comoros is 97 on the 2021 GCRI. Climate change is seen in increased frequency and intensity of cyclones, a longer dry season, and rising sea levels. The agriculture and biodiversity sectors are the most vulnerable. The average annual cost of climate change was estimated at $23 million in 2014. Comoros ratified the UNFCCC in 1994 and the Paris Agreement in 2017. Its 2015 NDC helped to mainstream climate change adaptation into national policies and strategies. The updated 2020 NDC aimed to strengthen the country’s ambition and resilience for climate change. Comoros forecasts a net reduction in its GHGs of 23% and an increase in its net CO$_2$ absorption sink of 47% by 2030 against the reference scenario. Its energy transition is only in its infancy, despite the country’s potential for RE. Comoros needs €1.3 billion for implementing its NDC, including €902 million for mitigation and €399 million for adaptation.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The economy began to recover in 2021 with GDP growth of 3.9%, up from 1.2% in 2020. This pickup was supported by a revitalized services sector, which generates about three-fourths of GDP, port activities in particular. On the demand side, exports and investment remained the key factors, with an estimated contribution in 2021 of 14.6% and 4.8%. Djibouti is following an expansionary monetary policy to support economic recovery and avoid cash depletion. Credit to the economy grew 24.1% year on year through June 2021 but remains relatively low as a share of GDP. Inflation is estimated at 1.2% in 2021, higher than the 0.3% in 2020, and is attributable to moderate pressure from internal demand. NPLs in the banking system remained stable at 13.3% in 2021.

The budget deficit narrowed slightly, from 2.1% in 2020 to 1.8% of GDP in 2021, due to a 7% decrease in current spending tied to pandemic management and a 2.4% increase in public revenue stemming from the economic recovery. The country received $43.3 million under the IMF allocation, but earmarking has yet to be determined. Exchange reserves are estimated at 3.2 months of imports in 2021. Public debt declined in 2021 to 67.7% of GDP from 73.1% in 2020, though the risk of debt distress remains high. The current account surplus fell in 2021 to 9.5% of GDP from 10.7% in 2020, reflecting slow growth in the surplus on the services balance. The poverty rate declined from 35.9% in 2020 to 34.1% in 2021.

Outlook and risks

The outlook is positive. Average GDP growth over 2022–23 is forecast to reach 4.3% and remain supported by port and investment activities. Inflation is likely to increase, owing to the rising prices of food products and oil due to the Russia–Ukraine conflict, as is the budget deficit, given government subsidies to mitigate higher consumer prices. The current account surplus is projected to continue falling due to the declining surplus in services and the rise in imports. In 2022, public debt is forecast to decline further to 64.5% of GDP, and foreign exchange reserves remain at 3.2 months of imports. Risks to the outlook include, primarily; a possible falloff in external trade because of the crisis in Tigray, which could cause a drastic drop in customs revenues—about 90% of Ethiopia’s foreign trade transits through Djibouti’s ports; and the resurgence of COVID-19. To mitigate these risks, Djibouti strongly supports mediation efforts in the war in Ethiopia and promotes vaccination against COVID-19.

Climate change issues and policy options

Djibouti is 65 on the 2021 GCRI. Recurrent droughts, increasingly acute water stress, flooding, and recent cyclones attest to climate change. It is one of the countries that signed the Kyoto protocol in 1997 and endorsed the Paris Agreement in November 2016. Within the framework of the 2015 NDC, it committed to reduce GHGs by 40% relative to the 2030 reference scenario. In adaptation, Djibouti has implemented numerous national plans and programs to reduce vulnerability to drought, protect itself from rising sea levels, develop access to drinking water, protect biodiversity, and reinforce the resilience of rural populations. The energy sector has been identified as a focal point for reduction, given the country’s potential in RE. The development of solar, wind, and geothermal power continues, so as to meet national needs in electricity, to reduce the price of electricity, and to achieve a 100% green energy mix by 2025. The investment necessary to maintain an emissions level similar to that of 2010 is $5.5 billion. Reaching SDG 13 on climate action is on track, but major challenges remain.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Eritrea’s economy recovered from multiple shocks, notably desert locust invasions and COVID-19, to grow by 2.9% in 2021, a switch from a contraction of 0.6% in 2020. Growth was led by industry and services on the supply side and private consumption and investment on the demand side. The uptick in global demand and prices for metals boosted industry, but services’ contribution to growth in 2021 was lower than pre-COVID levels as hospitality, tourism, transport, and trade were hit by containment measures. Stability of global supply and value chains eased inflation to 4.5% in 2021 from 4.8% in 2020.

The financial sector is small, bank-based, and offers a limited range of financial services. The fiscal deficit narrowed to 4.0% of GDP in 2021 from 4.4% in 2020, reflecting fiscal consolidation and a gradual pickup in public revenues with the economic recovery. The fiscal deficit was financed by a drawdown on government deposits with the central bank. Eritrea’s public debt-to-GDP ratio dropped by 9.1 percentage points to 175.6% in 2021 relative to 2020; the country remains in debt distress. The current account surplus widened to 13.5% of GDP in 2021 from 11.4% in 2020, reflecting the rise in global demand for and prices of metals (metals account for about half of total exports). International reserves were estimated at 4 months of imports in 2020.

Outlook and risks

GDP growth is projected at 4.7% and 3.6% in 2022 and 2023, due to increased international prices for metals. Growth will be led by industry and services, and by private consumption and investment. Fluctuations in commodity prices are a key downside risk to the outlook, which calls for increasing value addition and export diversification. Higher food and oil prices triggered by the Russia–Ukraine conflict are expected to increase inflation to 6.2% in 2022 before it eases to 3.5% in 2023. Fiscal consolidation and enhanced public revenues from metal exports is projected to lower the fiscal deficit to 1% of GDP in 2022 and generate a surplus of 0.1% in 2023, with the current account surplus stabilizing at 13.5% and 13.3% of GDP. The $21.51 million (0.9% of GDP and 2.2% of international reserves) SDR allocation, recorded at the central bank, is expected to boost international reserves.

Climate change issues and policy options

Eritrea is highly susceptible to climate change, including El Niño. In 2008–21, Eritrea experienced five major droughts, which affected over 3.3 million. Reliance on rainfed agriculture absent an integrated climate-smart agriculture policy has increased deforestation, land degradation, and vulnerability of smallholder farmers. Eritrea is ranked 178 out of 181 countries on the 2019 Country Index of the Notre Dame Global Adaptation Initiative and 130 out of 180 on the 2021 GCRI. The climate adaptation and mitigation plans are outlined in the 2021 NDC strategy, which commits to reduce GHG emissions by 12.6% unconditionally and by 38.5% with international support by 2030. The NDC identified agriculture, marine resources, health, water, and land resources as the most vulnerable sectors, and proposes rehabilitation of degraded land; introduction of energy-saving cooking solutions and solar-powered water systems; and promotion of integrated coastal marine management systems. Transition to RE is equally critical given the country’s reliance on fossil-powered thermal plants for electricity. Implementing the NDC will cost about $7 billion, requiring innovative climate financing.
Recent macroeconomic and financial developments

Ethiopia’s economy decelerated to 5.6% growth in 2021 from 6.1% in 2020, due to civil conflict and the effects of COVID-19 on transport and hospitality. Growth was led by industry and services on the supply side and private consumption and investment on the demand side. Inflation increased to 26.7% in 2021 from 20.4% in 2020, much above the central bank’s 8% target, because of domestic credit expansion to revive the economy and COVID-19-induced supply chain disruptions. The fiscal deficit, including grants, declined to 2.6% of GDP in 2021 from 2.8% in 2020 due to expenditure reprioritization and growth in tax revenue. The banking sector is stable but closed to international competition; it accounts for 76% of the financial sector’s total capital (with state-owned banks accounting for 51.8% of banking sector assets), followed by microfinance (15%), and insurance and leasing (9%).

Public and publicly guaranteed debt was estimated at 57.8% of GDP (external debt, 32.8% of GDP) in June 2021. The current account deficit improved slightly from 4.4% of GDP in 2020 to 4.3% in 2021 on account of subdued imports. The current account deficit was financed by FDI and remittances. International reserves remained low at 2.5 months of import cover in 2020, and 2.2 months in 2021. The $408 million SDR allocation (0.4% of GDP), recorded at the central bank, will boost international reserves. Conflict and the COVID-19 pandemic increased the number of people requiring humanitarian support to close to 15.8 million in 2021 from about 8 million in 2020.

Outlook and risks

GDP growth is projected to fall to 4.8% in 2022 but pickup to 5.7% in 2023, driven by industry and by private consumption and investment. A tourism rebound and liberalization of the telecoms sector are expected to boost the growth outlook. Key downside risks to the growth outlook include the civil conflict in northern Ethiopia, COVID-19, and debt vulnerabilities. Higher global food and oil prices due to the Russia–Ukraine conflict are expected to increase inflation to 32.6% in 2022 before it eases to 24.9% in 2023. The fiscal deficit is projected to remain stable at 2.6% in 2022 and 2023 due to implementation of the fiscal consolidation strategy and improvement in tax revenue mobilization. The current account deficit is expected to widen to 4.8% of GDP in 2022 but to narrow to 4.1% in 2023. This reflects the slow recovery in merchandise and service exports and FDI, amidst lower imports of capital inputs.

Climate change issues and policy options

Ethiopia is 72 on the 2021 GCRI. Its climate change vulnerabilities include droughts, flooding, desertification, water scarcity, and increased incidence of pests, affecting the agriculture, energy, and health sectors. The 2016 El Niño–induced drought affected about 10.2 million people, requiring a $1.9 billion humanitarian response. The productive safety net program, adopted in 2005 to reduce vulnerability to climate shocks, covers 8 million–10 million people at an annual cost of $0.44 billion. The 2011 Climate Resilient Green Economy (CRGE) Strategy provides a framework for lowering GHG emissions. In its update to its NDC for 2020–30, Ethiopia set emission targets under three scenarios—business-as-usual, unconditional, and conditional. The last projects emissions to decline by 68.8% to 125.8 MtCO$_2$eq in 2030 from 347.3 MtCO$_2$eq in 2020. Innovative climate financing would be critical for implementing the Strategy. Ethiopia’s NDC financing needs for 2020–30 amount to $316 billion ($275.5 billion for mitigation, $40.5 billion for adaptation); $63.2 billion will come from domestic, and the rest from international climate finance, sources. Ethiopia is on course to meet SDG 13 on climate action.

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

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The Kenyan economy grew by 6.7% in 2021 after 0.3% contraction in 2020. Growth was driven by services on the supply side and by private consumption on the demand side, both benefiting from supportive policies and eased COVID-19 restrictions. Inflation climbed to 6.1% in 2021 from 5.3% in 2020, reflecting increased input costs. The fiscal deficit nudged down to 7.9% of GDP in 2021 from 8% in 2020 due to improved revenue, reversed tax cuts as the economy recovered, and rationalized spending. Public debt surged to 68% of GDP at end-June 2021 from 63% in 2020, driven by the primary deficit. Kenya is assessed as being at high risk of debt distress. The current account deficit widened to 5.2% of GDP in 2021 on the back of an increased trade deficit.

International reserves reached $8.8 billion as at end-November 2021 against $8.1 billion in 2020 (5.4 months of import cover), reflecting the SDR allocation of $737.6 million, about half of which was used to finance the fiscal deficit. The exchange rate depreciated by 3.7% year on year in 2021. The banking sector is profitable, liquid, and well-capitalized; yields on government securities and the NSE-20 index, and market capitalization, increased. The number of people in extreme poverty declined to 16% in 2021 from 17% in 2020, and unemployment fell to 12.3% from 14.3% over the period, attributable to per capita income growth, social safety-net programs, and economic recovery.

Outlook and risks

Growth is projected to decelerate to 5.9% in 2022 and 5.7% in 2023, driven on the demand side by a decline in domestic and external demand caused by lower income and by an increase in food and fuel import costs and on the supply side by tepid economic activity across sectors due to cost-push factors. Inflation is projected to edge up to 7%, close to the upper end of the target band (7.5%), caused by greater energy and food inflation. The fiscal deficit will narrow to 6.5% of GDP in 2022 and to 5.5% in 2023 with the resumption of the IMF-supported fiscal-consolidation and debt management program. The current account deficit is projected to widen further to 6.1% and 5.2% of GDP over the two years, attributable to higher fuel and food import bills. Downside risks could stem from the 2022 general election, a surge in COVID-19 infections (vaccine rollout was at 30% by mid-April 2020), limited access to external resources, and natural factors. Risk mitigation could include organizing election-education events, continuing growth-friendly structural reforms to build resilience to shocks, and addressing COVID-19 vaccine hesitance.

Climate change issues and policy options

Kenya is 25 on the 2021 GCRI. Over 84% of its land is classified as arid and semi-arid and so exposed to extreme natural events—drought, locust invasion, and flood, which have displaced communities, disrupted social services delivery, and induced social tensions. An average drought results in a food deficit of 20–30%, slashes GDP growth by 3–5%, and affects the livelihoods of over 80% of the population. In line with its Vision 2030, Kenya has introduced policies and frameworks to tackle climate change. It updated its NDC to 32% in 2021 and put in place mitigation and adaptation measures to achieve the COP26 emission reduction targets, which are forecast to cost $64.9 billion between 2021 and 2030. They include increasing the share of renewables in the electricity generation mix, increasing tree cover to at least 10% of land area, building a low carbon and efficient transportation system, and increasing the uptake of adaptation technology across all sectors. Kenya is exploring sources of climate finance such as carbon markets, the Green Climate Fund, and the Africa Climate Change Fund. It is on track to meeting the five climate action targets of SDG 13 by 2030.

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Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 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.
Recent macroeconomic and financial developments

After contracting by 3.4% in 2020 due to COVID-19, GDP growth reached 10% in 2021, buoyed by sustained fiscal stimulus, accelerated vaccination rollout (7.9 million people or 61% of the population vaccinated by March 20, 2022), relative easing of COVID-19 restrictions, and recovery in global demand. Growth was driven by expansion in services (12%), industry (13%), and agriculture (6%). GDP per capita recovered from a 5.9% contraction in 2020 to post 7.4% growth in 2021. Inflation declined from 7.7% to 0.8% over the period, owing mainly to low food prices. Monetary policy remained accommodative, and the policy rate was kept at 4.5% from May 2020 (to support economic recovery) until February 2022, when it was raised to 5% (to address expected spikes in inflation).

The financial sector remained stable with a capital-adequacy ratio of 26.3% in 2021. The fiscal deficit remained large at 7.1% in 2021 due to spending on COVID-19. It was financed by proceeds from August 2021’s $620 million Eurobond issue and the SDR allocation of $219 million (1.9% of GDP and 12.8% of its international gross reserves). The current account deficit widened from 12.2% of GDP in 2020 to 13.5% of GDP in 2021 due to higher oil prices and increased imports for intermediate and capital goods. The Rwandan franc was relatively stable in 2021, declining by 2.6% against the dollar. The debt-to-GDP ratio climbed from 71.2% in 2020 to 74.6% in 2021. The risk of debt distress remains moderate.

Outlook and risks

GDP growth is projected at 6.9% and 7.9% in 2022 and 2023. The accelerated vaccination rollout, pickup in external demand, and government support to small and medium enterprises will help to support continued economic recovery. The current account and fiscal deficits are expected to narrow on the back of increased domestic savings from envisaged fiscal consolidation, reforms in commercial agriculture, and services digitization. Downside risks include the possibility of subdued external demand and fears of repeated waves of COVID-19 variants, which could undermine consumer and investor confidence, as well as the Russia–Ukraine conflict, which might cause supply disruptions: Rwanda relies heavily on Russia for wheat and fertilizer, with 64% of its wheat coming from Russia. The country plans to spend additional $50 million in fiscal stimulus in 2022 while seeking alternative sources of wheat and other disrupted supplies.

Climate change issues and policy options

Rwanda is vulnerable to climate change and is ranked 124 out of 182 countries on the 2020 Country Index of the Notre Dame Global Adaptation Initiative. Due to seasonal temperature shifts, the occurrence of extreme weather events has become more frequent, especially in high altitude areas of the North and Western provinces, and droughts in the low-lying Eastern province, causing serious damage to agriculture, infrastructure, health, and livelihoods. If left unaddressed, the total cost of climate change in Rwanda is estimated at an additional 1% of GDP a year by 2030, rising to 4% by 2050. Rwanda has submitted its updated NDC, which outlines the country’s commitment to developing a climate-resilient, low carbon economy, including a 38% reduction of GHG emissions relative to business as usual by 2030, equivalent to up to 4.6 MtCO\textsubscript{2}eq, estimated at $11 billion. To ensure that the country remains coordinated in financing these goals, the Rwanda Green Fund was created, and has since raised $217 million for green investments in RE, climate-smart agriculture, and sustainable urbanization. Rwanda is likely to meet SDG 13 by 2030.

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

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 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

GDP is estimated to have rebounded by 7.9% in 2021 after contracting by 7.7% in 2020 due to the COVID-19 pandemic. On the supply side, growth is driven by tourism and fisheries, which are the major contributors to GDP, foreign exchange, and employment. On the demand side, growth is driven by household consumption and investment. With an accommodative monetary policy by the central bank, inflation in 2021 is estimated to have risen to 9.7% from 1.8% in 2020 owing to supply disruptions. The fiscal deficit is estimated to have narrowed in 2021 to 6.0% of GDP from 18.9% in 2020 as revenue collection improved. The current account deficit narrowed slightly in 2021 to 19.8% from 23.1% in 2020, reflecting the recovery. Fiscal and current account deficits were financed by concessional loans and domestic borrowing.

As tourism revenues declined, the exchange rate depreciated from an average of 13.8 SCR/$ in 2019 to 21.3 in February 2021. External reserves remained strong at 4.5 months of import cover in 2021. Debt is estimated to have declined in 2021 to 81.2% of GDP from 92.2% in 2020. The financial sector is well developed, with eight banks and five nonbank financial institutions. Yet, the banks are highly concentrated, with the three largest holding 80% of banking sector assets, deposits, and loans. Poverty is low overall at 1.1% and most social indicators are strong. With about 15 social welfare programs, the impact of COVID-19 on poverty was not huge, though unemployment increased in 2020 to 4.8% from 2.3% in 2019. The SDR allocation to Seychelles was 21.9 million, more than twice the previous cumulative allocation of 8.3 million and equivalent to about 4% of foreign exchanges reserves.

Outlook and risks

The medium-term outlook remains positive. GDP is projected to grow by 5.0% and 5.9% in 2022 and 2023 as the economy continues rebounding. The fiscal deficit is projected to further narrow to 1.5% in 2023 after slightly widening to 6.8% in 2022 as revenue collection increases. The current account deficit is projected to widen to 26.8% and 22.4% in 2022 and 2023 due to uncertainty in global economic recovery and the situation in Russia, where most of the tourists in 2021 came from. Debt stock is expected to decline to 76% of GDP in 2022 and to below 70% in 2023. Inflation is projected to decline to 6.1% and 1.5% in 2022 and 2023 as supply chains improve. Tourism and fisheries will remain key growth drivers, but opportunities in knowledge-intensive services, including digital finance and ICT (the latter projected to grow by 7% in 2022) will also contribute to economic growth. Uncertainty about the global post-pandemic economic recovery, vaccination rollout, and the Russia–Ukraine conflict and related effects on global supply chains and travel restrictions are downside risks. To reduce vulnerability and uncertainty of growth, Seychelles should continue to diversify economically to reduce its overdependence on tourism.

Climate change issues and policy options

As an oceanic nation, Seychelles is prone to tsunamis, hurricanes, and tidal surges, which can wipe out assets and reduce economic activity. Seychelles is 130 on the 2021 GCRI. Most recently (April 2021) tropical cyclone Jobo passed through the Outer Islands. Seychelles releases 5.38 tons of CO₂ per person annually, which is very high, 95% from electricity generation and transport. Still, the country remains committed to climate change: in 2021, it finalized a climate change strategic plan with targets for adaptation programs in transport, energy, and infrastructure. It introduced the world’s first debt refinancing for ocean conservation, such that one-third of its ocean territory is protected against climate change and unregulated economic exploitation. Its NDC targets include 15% of energy from renewable sources and switching 30% of vehicles from fossil fuels to electricity by 2030. The updated NDC lists mitigation and adaptation projects with a financing cost of about $670 million, split roughly equally. With a continued focused approach and partnership with global partners, Seychelles is likely to meet SDG 13 by 2030.
Recent macroeconomic and financial developments

The economy recovered from recession in 2020 to register estimated GDP growth of 2.0% in 2021, driven by private consumption and livestock exports. Multiple shocks including floods, locust invasions, and COVID-19 curtailed the pace of recovery and increased poverty. Private consumption was boosted by remittances, which increased to an estimated 31.3% of GDP in 2021 from 30.8% in 2020. Private investment remained resilient, despite the slight reduction in FDI to 9.2% of GDP in 2021 from 9.4% in 2020. The currency reform program stalled due to political uncertainty and is holding back monetary policy measures, given widespread dollarization and currency counterfeiting. Inflation increased to an estimated 4.6% in 2021 from 4.3% in 2020 due to reduced food supply.

The banking sector remains stable, with NPLs at less than 3% of total credit. Somalia targets a zero-cash fiscal balance as part of the conditions for reaching the completion point under the Heavily Indebted Poor Countries (HIPC) initiative. The fiscal deficit in 2021 partly reflects the SDR allocation ($203 million or 4.1% of GDP), which helped to fill financing shortfalls created by the decline in public revenues and grants. Somalia is in debt distress, although when it reaches the HIPC completion point by 2023 as expected, that will ensure debt sustainability. The current account deficit widened to 10.8% of GDP in 2021, compared with 10.4% in 2020, owing to the slow recovery in livestock exports, and was financed by aid, remittances, and FDI.

Outlook and risks

The outlook is clouded by insecurity, political uncertainty, COVID-19 (given a 5.5% vaccination rate in December 2021), and climate change. Progress in concluding the national elections will catalyze development assistance and FDI. GDP growth is projected at 3.0% in 2022 and 3.6% in 2023, driven by private consumption and recovery in livestock exports. Inflation is projected to surge to 9.4% in 2022 due to higher food and oil prices because of the Russia–Ukraine conflict and drought. High oil prices will also affect energy supply, considering Somalia’s dependency on fossil fuels for electricity generation. Balanced cash budgets will remain a fiscal policy target over the medium term in line with Somalia’s HIP and program. Undiversified exports are a key source of external vulnerabilities, despite the recovery in livestock exports and other financial inflows. The current account deficit is projected to reach 14.9% of GDP in 2022 and 12.8% in 2023.

Climate change issues and policy options

Somalia is vulnerable to climate change, especially in agriculture, land, and marine areas. An average 6 million Somalis were affected by drought or floods, or both, in 2019–21, slowing GDP growth and exacerbating poverty and income inequality. Somalia is ranked the second most vulnerable country and the least equipped to adapt to climate change on the 2019 Country Index of the Notre Dame Global Adaptation Initiative. Somalia prepared its NDC in 2021 as an update to its intended NDC and National Adaptation Programme of Action of 2015. The NDC proposes investing in RE resources, reversing deforestation and range-land degradation, and beefing up disaster management, among other measures, and targets a 30% reduction in GHG emissions by 2030; the proposed mitigation measures are estimated to cost $6.96 billion. However, implementation of NDC actions is hampered by lack of human as well as financial resources. Access to global climate funds has been constrained by the limited investments in potential beneficiary sectors such as energy, which will make it hard for Somalia to achieve SDG 13 on climate action.
Recent macroeconomic and financial developments

GDP contracted by 6.0% in 2020/21 after growth of 13.2% in 2019/20, owing to floods, locust invasions, and COVID-19. Pandemic containment measures constrained movement and business operating hours and affected the services sector. On the supply side, agriculture was hurt by the floods and locusts. Production in the oil sector, which accounts for over 75% of GDP and 80% of the industry sector’s value added, fell as some oilfields reached maturity. Public and private consumption, which drove growth on the demand side in 2020, were affected by reduced economic activity in 2020/21.

Tighter monetary policy reduced inflation to an estimated 24.0% in 2020/21 from 33.3% in 2019/20. The financial sector has limited competition, although banking NPLs at 12% of total loans in September 2021 were below the statutory requirement of 20%. The fiscal deficit narrowed to 6.7% of GDP in 2020/21 from 9.8% the prior year, reflecting fiscal consolidation, and was financed mainly by oil-backed loans. The risk of public debt distress improved, from “debt distress” to “high risk” in 2021 following debt restructuring in 2020. The current account deficit improved to 15.6% of GDP in 2020/21 before flipping to a surplus of 9.5% in 2022/23 on higher oil export earnings. Disruptions to the peace process, fluctuations in oil prices, lingering COVID-19, and climate change effects are the main downside risks to growth.

Outlook and risks

Growth is projected to rebound to 5.3% and 6.5% in 2021/22 and 2022/23 due to increased oil export receipts. It will be driven by industry and by private consumption and investment. Inflation is projected to fall to 5.3% in 2021/22, reflecting improved food supply, but to increase to 16% in 2022/23 because of drought and higher food prices in the key source markets of Kenya and Uganda following the Russia–Ukraine conflict. Fiscal consolidation, the SDR allocation (about 3.8% of GDP), and increased oil revenues will generate a fiscal surplus of 10.0% of GDP in 2021/22 and 8.9% in 2022/23. The current account deficit is projected to improve to 7.6% of GDP in 2021/22 before flipping to a surplus of 9.5% in 2022/23 on higher oil export earnings. Disruptions to the peace process, fluctuations in oil prices, lingering COVID-19, and climate change issues and policy options

South Sudan is eight on the 2021 GCRI, and is heavily exposed to climate change, notably frequent droughts, floods, and locust invasions. This takes down agricultural productivity and GDP growth. Scarcity of water can aggravate intercommunal conflicts between pastoralists and crop farmers. Climate change–induced natural disasters and intercommunal clashes have triggered internal displacements and socioeconomic deprivation for the most vulnerable. They have also increased incidence of infectious diseases in a weak national health system, with diarrhea and malaria among the top five causes of deaths, according to the Second Nationally Determined Contribution (SNDC) Report of 2021. South Sudan adopted an Environmental Policy (2015–26) and prepared the SNDC Report to inform remedial actions. The SNDC prioritizes a transition to a low-carbon economy, targeting a 158% reduction in GHG emissions by 2030, and recommended forest and land-use policies to guide sustainable exploitation of forests and natural resources; policies and incentives for private investments in RE generation; and regulations to reduce gas flaring. Access to climate finance is limited, however, and so it is critical to raise awareness about carbon financing and associated credit programs. Achieving SDG 13 on climate action will be a challenge.
Recent macroeconomic and financial developments
GDP grew by an estimated 0.5% in 2021, recovering from a negative 3.6% in 2020. Growth was supported by agriculture and mining on the supply side, and private consumption and investment on the demand side. The recovery follows several years of economic contraction stemming from macroeconomic imbalances, structural deficiencies, political instability, and COVID-19. The central bank adopted an accommodative monetary policy in 2021 to boost credit growth and economic activity. Inflation more than doubled from 163.3% in 2020 to 358.9% in 2021, owing to currency depreciation and removal of fuel subsidies. Banks dominate the financial sector, accounting for over 80% of total assets. Fiscal consolidation and improved public revenues, as COVID-19 restrictions were eased, reduced the fiscal deficit to 4.5% of GDP in 2021 from 5.6% in 2020.

Sudan reached “decision point” under the HIPC initiative in 2021, cutting its $56 billion external debt (163% of GDP) by 50%. The current account deficit increased to 10.0% of GDP in 2021 from 8.3% in 2020, with higher imports after the lifting of COVID-19 restrictions, offsetting the pickup in exports arising from improved external demand. The current account deficit was financed by portfolio investments and external borrowing. International reserves remained very low at 0.3 and 0.4 months of imports in 2021 and 2020. Sudan’s SDR allocation was equivalent to $857.7 million (262% of international reserves) in 2021, but it was suspended after the October 2021 military takeover. Poverty increased from 55.4% in 2020 to 55.9% in 2021 and unemployment remains high at 18% in 2020, partly due to COVID-19.

Outlook and risks
GDP is projected to grow by 2.5% in 2022 and 4.5% in 2023, driven by agriculture and mining, and by private consumption and investment. The main downside risks are political instability, COVID-19, and shocks related to the Russia–Ukraine conflict (notably higher food and oil prices). Ongoing efforts to form a civilian government are expected to restore political stability and accelerate macroeconomic and structural reforms. Consequently, inflation is predicted to fall to 246.4% in 2022 and again to 115.7% in 2023. Public spending rationalization is expected to reduce the fiscal deficit to 3.0% of GDP in 2022 and 3.2% in 2023. The fiscal deficit will be financed by domestic and external borrowing, and by part of Sudan’s SDR allocation (which in all is equivalent to 3.4% of GDP). The current account deficit is projected to narrow to 6.4% of GDP in 2022 and to 3.9% in 2023, reflecting ongoing structural reforms.

Climate change issues and policy options
Sudan faces land degradation, temperature increases, frequent droughts and floods, erratic rainfall, and locust invasions, which have lowered agricultural output, slowed GDP growth, and destroyed livelihoods. Drought and floods are taking out 20% of the harvested area each year, and cause deaths of thousands of livestock. Climate risks are aggravated by unsustainable exploitation of natural resources and weak institutional and human capacities. Sudan ranked 174 out of 180 countries on the 2019 Country Index of the Notre Dame Global Adaptation Initiative and 11 on the 2021 GCRI. Sudan is party to UN initiatives on climate change and environmental conservation, and has established national institutions, laws, and regulations. Its transition to low-carbon and climate-resilient development is guided by its 2021 National Adaptation Plan and NDC strategy. The Plan’s interventions, also mainstreamed in the Poverty Reduction Strategy Paper 2021–23, include 20% RE generation by 2030. Sudan requires $12.88 billion to mitigate climate change over 10 years, but spends an average of $23.3 million annually, which calls for larger resource mobilization to bridge the huge financing gap of about $1 billion a year. Sudan is therefore unlikely to achieve SDG 13 on climate action by 2030.
Recent macroeconomic and financial developments

GDP grew at 4.90% in 2021, up from 4.8% in 2020, supported by the global economic recovery. Growth was driven by agriculture and services on the supply side and final consumption and investment on the demand side. Monetary policy remained tight, which stabilized inflation at 3.3% in 2020 and 3.7% in 2021. The Tanzanian shilling remained stable in 2020–21, depreciating by only 0.2% against the US dollar. The ratio of NPLs to gross loans fell to 9.4% in March 2021 from 11.0% in March 2020, but was still above the statutory requirement of 5%. The fiscal deficit increased to 3.4% of GDP in 2021 from 0.8% in 2020 due to weak revenue performance and growing financing needs to address the impacts of COVID-19; it was financed by external and domestic borrowing. The current account deficit widened from 1.5% of GDP in 2020 to 3.1% in 2021, partly due to subdued tourism receipts, and was mainly financed by external commercial debt because other financial inflows, including FDI and grants, declined. International reserves increased to 6.6 months of import cover in 2021 from 5.6 months in 2020 due to increased external official inflows and the SDR allocation of $543 million (0.8% of GDP). Tanzania had previously reduced poverty, but about 1 million people are estimated to have fallen back into poverty in 2020 due to COVID-19.

Outlook and risks

GDP growth is projected at 5.0% and 5.6% in 2022 and 2023, due to improved performance in tourism, the reopening of trade corridors, and accelerated rollout of vaccines. Inflation is projected to increase to 4.4% in 2022 and to 3.8% in 2023 due to higher energy prices because of the Russia–Ukraine conflict. The fiscal deficit is expected to narrow to 2.7% and 2.8% of GDP in the same period due to better revenue performance and will be financed by domestic and external borrowing. The current account deficit is expected to widen to 4.0% of GDP in 2022 due to higher oil prices before narrowing to 2.6% in 2023 as merchandise exports and tourism receipts stabilize, and will be financed mainly by external borrowing. The major downside risks relate to new COVID-19 variants and associated disruptions to economic activity, but should be mitigated by increased public awareness and uptake of vaccines.

Climate change issues and policy options

Agriculture, manufacturing, and energy are among the key sectors most vulnerable to climate change, with drought affecting agriculture and reliable power supply. Tanzania is 67 on the 2021 GCRI. Its latest review of the 2015 NDC estimated the economic costs from climate shocks at about 1% of GDP. The government has developed policies to support climate resilience, including the National Climate Change Strategy 2021–2026, the Zanzibar Climate Change Strategy (2014) and the Environmental Management Act Cap. 191. Tanzania’s NDC has a target of reducing GHG emissions by 10–20% by 2030 through actions including promotion of clean technologies and RE sources. However, rapid population growth and a significant RE financing gap present substantial challenges to achieving the NDC targets. Tanzania estimates that about $60 billion is needed by 2030 for mitigation investments, requiring a scaling-up of mobilized climate finance. The country is on track to achieve SDG 13 on climate action.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 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.
Recent macroeconomic and financial developments

Economic activity was hit by COVID-19 lockdowns in 2020 and 2021. Growth recovered from a contraction of 1.5% in 2020 to 6.0% in 2021, lifted by household consumption and investment. Agriculture was the least affected sector; industry was supported by strong expansion in mining and construction, while manufacturing remained sluggish. Services are returning to pre-COVID-19 trends, driven by public administration and education. Stable prices in 2020 and 2021—with inflation at 2.2% in the latter year—led the central bank to reduce its policy rate from 9% to 6.5% over the two years. Prudent management kept the financial sector stable, with NPLs at 4.8% of gross loans in 2021, that is, under the 5% regulatory threshold.

Public health spending increased for COVID-19 vaccines and recovery loans to keep businesses afloat. However, expenditure reprioritization reduced the fiscal deficit to 7.5% of GDP in 2021 from 9.5% in 2020; it was financed through domestic borrowing. Consequently, public debt increased by 14 percentage points to 49% of GDP in 2021 from 2020, leading to a downgrade of sovereign debt to moderate risk of debt distress. The current account deficit remained high at 9.5% of GDP in 2021 due to loss in tourism revenues and a rising trade deficit. Development funding, remittances, and FDI financed the deficit, while the SDR allocation boosted reserves by 1.3% of GDP.

Outlook and risks

The economic recovery is expected to continue, with GDP projected at 4.6% and 6.2% in 2022 and 2023, driven by services, following the reopening of schools in 2022 and recovery in the hospitality sector. As global value chains stabilize and consumer demand rises, manufacturing growth is projected to accelerate. The pandemic has propelled expansion in mobile money transactions, which is projected to continue. With increased economic activity, domestic revenue is expected to strengthen, underpinning further fiscal consolidation. High imports and a muted recovery in tourism will keep the current account deficit wide. External risks emerging from the Russia–Ukraine conflict include inflationary pressures due to higher food and oil prices and continued supply chain disruptions. Domestic risks relate to pressure to ramp up public infrastructure spending amid weak tax revenues and implementation challenges, while poor rain patterns could undermine agriculture. Uganda has the reserves to counter shocks.

Climate change issues and policy options

Uganda is undergoing more extreme weather events such as flooding, as well as prolonged dry and warmer spells. Climate change impacts are felt mainly in agriculture, water, health, and human settlements. These effects are mirrored in the 2021 GCRI on which Uganda is 31. Absent realistic actions to adapt to climate impacts, Uganda could incur annual economic costs of 2.8–4.5% of GDP in 2010–50. Significant economic losses, including severe damage to existing infrastructure in energy and agriculture, are expected given the increased frequency of climate change shocks and limited adaptation.

The National Climate Change Policy (2015) estimated the cost of adaptation and mitigation measures at about 5% of ODA in 2021–25 (about $644 million total). Yet, the government has hardly tapped into international climate funds, receiving only $94 million in 2000–19 from global environmental and climate change financing sources. It will therefore need to mobilize more external resources as it lacks the domestic financing for adaptation and mitigation measures. Still, Uganda is on track to meet SDG 13 on climate action.
NORTH AFRICA
Recent macroeconomic and financial developments

After the adverse shock of the pandemic and the fall in oil prices in 2020, the Algerian economy started to recover in 2021 with growth of 4.0%, from contraction of 4.9% in 2020. Growth was bolstered by renewed external demand, mainly for oil, and its increased production and rising prices. The pickup in oil revenues partly compensated for the increase in capital expenditure. These developments, combined with the consolidation measures in 2021, led to a budget deficit reduction of 4.8 percentage points. Inflation increased in 2021 to 7.0%, due to lower availability of food. The central bank eased monetary policy by reducing the reserve requirement ratio from 10% to 2% and its policy rate from 3.5% to 3% and loosened the banking sector’s prudential regulations. Much attention is paid to financial stability given banks’ liquidity risks and refinancing needs. Public debt, which is essentially domestic, has increased sharply in the past few years, to the equivalent of 59.2% of GDP in 2021.

The current account deficit improved by 5.1 percentage points of GDP in 2021, reflecting the increase in volume and price of oil exports, good results for other exports (iron and steel), and import-compression measures. The increase in exports and the IMF’s payment of $2.67 billion in 2021, as part of the SDR allocation, slowed the decline in reserves (11.1 months of imports in late 2021 against 12.5 months in late 2020). Unemployment was estimated at 11% in 2021, with higher rates among the young (26.4%) and women (19.5%).

Outlook and risks

Growth is expected to slow in 2022 to 3.7% and in 2023 to 2.6%, due to limited oil output. However, the budget and current account balances show an upward trend in the short term (~0.9% and 0.2% of GDP in 2022). The clear improvements in both public finance and the current account balance are due to the short-term positive impact of the Russia–Ukraine conflict on Algerian exports of hydrocarbons. Nevertheless, this strong dependence on oil prices underlines the need for economic diversification, especially toward petrochemicals, gas and agricultural products that have high export potential. Inflation is expected to increase in 2022, given the upward trend in global prices and a monetary policy that is likely to remain expansionary. The main risks are a worsening health crisis and deteriorating terms of trade.

Climate change issues and policy options

Algeria is 125 on the 2021 GCRI. It faces soil erosion, desertification, water shortages, and drought cycles, exacerbated by climate change. The country has integrated environmental viability into the 2020–24 Economic Recovery Plan and aims to reduce its GHGs by 7% by 2030. It is looking to stem desertification by extending a forest belt of more than 1.7 million ha and to preserve water resources by introducing prospective measures. Algeria ranks 10th among global natural gas producers, with 2.2% of global output. Its export potential is tremendous, with new gas projects in the southwest added to those in the gas-producing region of Illizi in the southeast, but has been hampered by increased domestic demand and insufficient investment. After hitting a peak of 65 billion cubic meters (m3) in 2005, export volumes were 40 billion m3 in 2020. To reduce the country’s dependence on natural gas, which accounts for more than 93% of total electricity output, the RE and energy efficiency program was revised in 2020. The Ministry of Energy Transition and Renewable Energy has been entrusted with establishing a capacity of 15,000 MW from renewable sources by 2035. Urgent measures will have to be taken if SDG 13 on climate action is to be reached.
Recent macroeconomic and financial developments

Economic growth decelerated from 3.6% in FY2019/20 to 3.3% in FY2020/21. Growth was driven by sound performance in construction, communications, and agriculture on the supply side, and by private and public consumption and public investment (much on social protection and services projects) on the demand side. However, tourism and manufacturing remained hindered by COVID-19 measures. Inflation stayed below the central bank’s target of 7% in FY2021/22, providing scope for monetary policy to support the recovery. The fiscal deficit narrowed to 6.7% of GDP in FY2020/21 from 7% the previous year, due to a decline in interest payments, leading to a primary surplus of 0.9% of GDP. Public debt increased to 92% of GDP in FY2020/21 from 87.9% the previous year, reflecting the fiscal response to the crisis. Egypt has received the third-highest SDR allocation in Africa, of $2.8 billion, which was added to its foreign reserves. They came to $41 billion (equivalent to 6 months of imports) by end-FY2020/21. The current account deficit is expected to remain around 4.5–4.7% of GDP in FY2021/22 and in FY2022/23 with the expected high energy and food commodities prices. Egypt should mobilize the necessary resources to protect vulnerable populations’ purchasing power and improve targeting of social protection programs. Further, Egypt should accelerate reforms to catalyze private development.

Climate change issues and policy options

As a water-stressed and arid country, Egypt is highly vulnerable to climate change. It is 120 on the 2021 GCRI, but over the past few years has reduced its per capita CO₂ emissions. Its most sensitive sectors are water and agriculture. Improving water resources management is critical because agriculture is a key sector, providing livelihoods for 55% of the population, employing 23.3% of the labor force, and representing 22% of imports of goods in 2019. Energy, transport, waste, and industry are also at the core of the government’s mitigation actions and commitment in its national strategy on Green Economy launched in 2016. The government is committed to increasing the share of RE to 42% by 2035. Submitted in 2017, Egypt’s NDC is conditional on receiving international funding of $73 billion for 2020–30, and though does not include quantified targets or specific plans for emission reductions, is supported by the National Climate Strategy 2050, launched in November 2021. Egypt should take advantage of its scheduled hosting of COP27 in 2022 to mobilize climate-resilience resources.

Outlook and risks

Because Egypt has shown resilience to the crisis since 2020, its economic outlook is favorable with the government’s commitment to implement the second phase of structural reforms, announced in May 2021. Growth is expected to rebound to 5.7% in FY2021/22 and 5.1% in FY2022/23. International food prices are expected to increase in 2022 resulting in 7.1% inflation in FY2021/22 and 7.3% in FY2022/23, fueled by the Russia–Ukraine conflict. The fiscal deficit is projected to decline to 6% of GDP in FY2021/22 and in FY2022/23, driven by the authorities’ commitment to return to the pre-crisis primary surplus of 2% of GDP. The current account deficit is expected to remain around 4.5–4.7% of GDP in FY2021/22 and in FY2022/23 with the expected high energy and food commodities prices.
Libya

Recent macroeconomic and financial developments
Libya’s economic recovery is gathering momentum, boosted by a large increase in hydrocarbon output in 2021. On the demand side, investment and household consumption drove growth. The economy is estimated to have grown by a huge 177.3% in 2021, after a withering contraction of 59.7% in 2020 when the country experienced multiple shocks, including political instability, a decrease in oil prices, and the rapid spread of COVID-19. The recovery in 2021 reflected the low-base effect but also progress toward political stability and the reopening of major oilfields. Inflation increased to 3.7% in 2021 from 2.8% in 2020, with rises in food prices, mainly imported. In December 2021, an initiative was launched to reconcile the monetary policy of the central bank with its Eastern branch.

In early 2021, the Libyan dinar was significantly devalued to harmonize the official and parallel market rates but prolonged conflict still affects the banking system’s operating environment. The fiscal balance recorded a surplus of 13.8% of GDP in 2021, mainly due to the increase in hydrocarbon-related fiscal revenues, after a yawning deficit of 54.5% in 2020. Similarly on the current account, the resumption of oil exports generated a surplus of 21.6% in 2021 against a deficit of 20.7% in 2020. Domestic debt has increased greatly in recent years, reaching 155% of GDP in 2020. Libya received $2.1 billion of the SDR allocation, recorded at the central bank as reserve assets. The country continues to struggle with poverty and food insecurity. According to the 2021 Libyan population Multi-Sector Needs Assessment, 53% of households could not cover their basic expenses.

Outlook and risks
The outlook for economic growth remains positive. The economy is projected to grow by 3.5% in 2022 and 4.4% in 2023, depending on political stabilization, security improvements, and persistence of oil production. Inflation is projected to stay elevated at 3.7% in 2022 before falling a little to 2.4% in 2023, driven by international food prices. The fiscal balance is expected to record a surplus of 25.8% of GDP in 2022 and 17.3% in 2023 due to higher revenues from oil output. The current account surplus is projected to climb to 27.9% of GDP in 2022 on increased oil exports, before edging down to 19.1% in 2023. Downside risks include political instability, an oil blockade, social instability (more than 1.3 million need humanitarian aid), and the spread of a new COVID-19 variant. The authorities should mobilize domestic resources to support economic diversification and a clear reconstruction strategy in public infrastructure.

Climate change issues and policy options
Climate change and water scarcity threaten Libya’s economic development and sustainability. Libya is 80 on the 2021 GCRI. The country is 95% desert and only 2% of national territory receives enough rainfall for agriculture. Agricultural productivity is hindered by harsh climatic conditions, poor soil quality, and limited renewable water resources. The country also faces other extreme weather events such as droughts, floods, sandstorms, and dust storms. The Wadi Kaam Dam entirely dried up in 2021 because of a warming climate and vandalism of major supply systems, reducing farm activities. In October 2021, flash floods and valleys runoff caused severe damages to properties and the displacement of families. International agencies, with the Libyan authorities, quickly provided aid to these families.

In 2021, Libya ratified the Paris Agreement; the country is preparing to develop its NDC. The energy-related plans and commitments are governed under the Strategic Plan for Renewable Energies, 2018–30, which targets 22% of electricity generation derived from renewables by 2030.

Libya has the necessary financial resources for climate adoption but needs to strengthen the capacity of its institutions to respond to climate change challenges. Political instability has hindered progress toward achieving SDG 13.
Recent macroeconomic and financial developments

Mauritania’s GDP growth rate was estimated at 3.9% in 2021, after a 1.8% contraction in 2020, due to the lifting of emergency COVID-19 measures, assistance of international donors, and increased global demand. Agriculture, fishing, and services registered good performance. Inflation increased to 3.8% in 2021 after a rise in import prices, especially food products. Banks have shown resilience, but NPLs remained high, representing 26% of total loans in 2020. The budget balance registered a deficit of 0.4% of GDP in 2021 compared with a surplus of 2.3% in 2020. The authorities reprioritized current and nonessential investment spending to return to a primary fiscal surplus. The current account deficit remained stable at 7.6% of GDP despite an increase in iron and copper exports after improving global economic conditions and good international commodity prices.

Foreign exchange reserves amounted to $2.3 billion at end-2021. External debt decreased to 48.2% of GDP in 2021, and debt services represented 7% of total exports in 2021 against 9.6% in 2020, due to the Debt Service Suspension Initiative, which allowed Mauritania to suspend $200 million on its debt service payments. According to the survey on Household Living Conditions in 2019–20, 28.2% of Mauritanians lived below the poverty line. Unemployment reached 12.2% and underemployment affected 41.9% of the population, with high rates for women (58.2%) and youth (53.1%). The country received an SDR allocation equivalent to $175 million, which was used to finance the 2021 budget.

Outlook and risks

Economic growth in the short term is projected to reach 4.8%. Tailwinds include rising commodity prices and global demand as well as improved private investor confidence after debt restructuring agreements with Kuwait in August 2021 and Saudi Arabia in April 2022. Downside risks include high volatile commodity markets, debt distress, new waves of COVID-19 infections, and security threats in the Sahel region.

Inflation is forecast at above the 4% threshold in the short term due to the sharp rise in global food prices following the Russia–Ukraine conflict. The fiscal balance is projected to be in deficit in 2022 and 2023 after increased expenditures to support economic recovery and the social sector. A decline in the current account deficit is expected in 2023 after the start of gas exports. External debt is expected to reach 52.7% of GDP in 2022. Debt distress remains a risk. Enhancing domestic resource mobilization and opting for concessional financing for productive investments in infrastructure with long maturities on reasonable borrowing terms will be important for long-term debt sustainability.

Climate change issues and policy options

Mauritania is one of the most vulnerable countries to climate change, which accentuates the continuing trend of degradation of agricultural, forest, and pastoral ecosystems. The most apparent effect is desertification with its impact on food security and rural populations’ livelihoods. Mauritania launched an ambitious national strategy to diversify its energy mix based on the optimal exploitation of its enormous RE potential. The NDC, which represents an 11% reduction in GHG emissions by 2030 for a cost of $34.3 billion, is in line with the Strategy for Accelerated Growth and Shared Prosperity 2016–30. Mauritania aims to reduce its extreme vulnerability by focusing on protecting and conserving ecosystems and developing agriculture and food security. According to the United Nations Development Programme, financing needs for these adaptation measures are about $10.6 billion. Climate finance comes from international institutions involved in building climate resilience in Mauritania and from environmental funds such as the Adaptation Fund, the GCF, and the Global Environment Facility.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

After Morocco’s first recession in 20 years, GDP grew at 7.2% in 2021 aided by the low-base effect, export performance, and an exceptional 2020/21 agricultural season. Consumption and investment rebounded in 2021. Inflation was moderate, at 1.2%, allowing monetary policy to remain accommodative. Nonperforming loans deteriorated in 2020 among households (representing 18.2% of loans) and corporates (12.3%). Fiscal expenditures increased in 2021 with the extension of the medical program. The budget deficit, which had doubled in 2020, narrowed slightly to 6.4% of GDP in 2021. To cover financing needs in 2020, authorities used the IMF precautionary and liquidity line ($3 billion) and issued Eurobonds—€1 billion in September 2020 and $3 billion in December that year. In 2021, they relied mainly on the domestic market.

Public debt rose to 76.4% of GDP in 2020 and 76.9% in 2021, including state-owned enterprise debt, which was equivalent to 13.8% of GDP in 2019.

In 2020, the current account deficit was low due to a decline in imports, strong remittances, and grants. In 2021, it is estimated to widen to 3% of GDP, reflecting a stronger rebound for imports than exports. Reserve assets represented more than 7 months of imports at end-2021, or three times the volume of short-term debt maturing in the year, partly due to the $1.2 billion SDR allocation that Morocco used to supplement foreign exchange reserves. Despite the policy actions to mitigate the crisis, small and medium enterprises were hit hard, and unemployment increased from 9.2% in 2019 to 11.8% at end-2021.

Outlook and risks

In 2022, despite the recovery of exports and a partial return of tourists, economic growth is projected at 1.8%, below the 2015–19 average, due to rising commodity prices and delayed rainfalls hampering the 2021/22 agricultural season. Yet, this outlook remains subject to risks due to new COVID-19 variants and the closing of borders, hampering trade and tourism. In 2022, inflation is set to exceed 4% as import prices are on the rise, also affecting the energy bill and the current account deficit. In accordance with the New Model of Development aiming to increase human capital by 2035, social indicators should improve because, by 2025, the country aims to generalize social protection, compensation for job loss, health insurance, and family allowance. The budget deficit is projected at 6.3% of GDP in 2022. Authorities should push the ongoing reforms of state-owned companies to free some fiscal space. Moreover, policies aiming to further develop the private sector through developing small and medium enterprises would enhance growth and its inclusiveness.

Climate change issues and policy options

The effects of climate change are increasing in Morocco, which the IPCC has identified as a highly vulnerable country. The economy depends on sectors—agriculture, fisheries, and tourism—that are highly sensitive to climate change. Morocco is a water-scarce country with agriculture consuming around 80% of its water resources, as most land is in arid and semi-arid areas. The 2020–30 Green Generation strategy aims to increase agricultural resilience to climate change. In 2019, Morocco published its National Climate Plan 2030 confirming its commitment to the Paris Agreement. The Climate Action Tracker indicates that Morocco has achieved its conditional mitigation targets because of its expanded RE capacity. The energy sector still depends on imported hydrocarbons, albeit at a decreasing rate since the country started investing in renewables in 2000. Per the state-owned power utility company, in 2021, thermal production accounted for about 62% of electricity production, and RE 37.2% of the energy mix with the aim of 52% by 2030. Morocco, eight on the 2022 Climate Change Performance Index, is the only non-European country in the top 20.
Recent macroeconomic and financial developments

After the sharp 8.7% contraction in 2020, GDP growth is estimated at 3.4% in 2021 driven, on the supply side, by resumption of manufacturing exports and tourism; on the demand side, by private investment, which increased by 24.5% in 2021 after its contraction of 26.8% in 2020. The recovery, attributable to the base effect, could have been stronger without 2021’s political instability. Inflation was slightly higher that year, at 5.7%, due to higher prices of oil and food, and of some administered products and services, including tobacco and transport. The banking sector is facing a structural liquidity deficit. The budget deficit is estimated at 8.1% of GDP in 2021. Despite higher revenue of 13%, the wage bill, fuel subsidies, and debt servicing are a growing part of the government budget. The current account deficit increased to 7.1% of GDP in 2021 on food and energy imports. Foreign exchange reserves amounted to TND 21.5 billion (4.3 months of imports) at end-2021.

The SDR allocation of $740 million—15% of 2021’s financing requirements—was all earmarked for financing the budget. Public debt, estimated at 91% of GDP in 2021, is over two-thirds foreign. Tunisia’s sovereign debt rating was downgraded by several agencies in 2021. The country is now facing restricted access to international financial markets and has difficulty in mobilizing foreign resources from donors due to the absence of a program with the IMF. Unemployment reached 18.4% in the third quarter of 2021, with a greater rate among women (24.1%) and higher-education graduates (30.1%), and in interior regions.

Outlook and risks

GDP growth is projected at 2.5% in 2022 and 3.2% in 2023. Inflation is forecast to be higher in 2022 owing to the Russia–Ukraine conflict, which has caused a surge in oil and food prices in global markets, and then come down in 2023 based on prudent monetary policy and easing of external inflationary tensions. Projections also show a deterioration of the fiscal deficit and current account deficit in 2022, before an improvement in 2023. However, this outlook could worsen owing to the high risk of debt distress, which could have a negative impact on capital inflows and access to external financing. Further, political instability and slow reforms are leading to donor reluctance to support the country financially. The recovery might also be slowed by social tensions caused by rising prices in a difficult economic context for households, by a restrictive fiscal policy penalizing public investments further, by loss of confidence among private investors, or by new COVID-19 variants. Restoration of sustainable public finances, careful debt management, and availability of staple foodstuffs at affordable prices will be necessary to mitigate risks.

Climate change issues and policy options

Tunisia is 130 on the 2021 GCRI. The impact of climate change depletes water resources, and causes loss of biodiversity, coastal degradation, and desertification. Agriculture, which is heavily dependent on erratic rainfall, is particularly vulnerable to water stress. More than 3,000 ha of urban coastal areas are under threat of flooding from rising sea levels.

Still, the country is making progress in reaching SDG 13 on climate action. To initiate its energy transition, it launched the Tunisian Solar Plan, which by 2030 aims to reduce carbon intensity by 41% relative to 2010 and attain a 30% share of RE in the energy mix—although implementation has been delayed. A Water 2050 study is being conducted and has proposed measures for adapting to water shortages. Yet, mobilizing resources for climate funds has been weak because of a lack both of task-specific personnel in ministries and of responsible agencies. Current projects in the National Agency for Energy Management aim to give the country instruments based on market mechanisms to combat climate change, such as a carbon tax, carbon tariffs, and credit lines. The cement and energy sectors would be particularly appropriate for testing these instruments.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
SOUTHERN AFRICA
Recent macroeconomic and financial developments

Angola’s economy grew by 0.7% in 2021 after contracting by 5.4% in 2020. Per capita income contracted by 2.6% in 2021 due to slower GDP growth and high population growth, estimated at 3%. The modest GDP growth was spurred by a sharp increase in the oil price to an annual average of $65.69/barrel, above the $39/barrel used in the national budget. Oil accounts for 95% of Angola’s exports, but the sector experienced challenges during the COVID-19 pandemic as the price dropped to $42.40/barrel. The recovery in its price and revenues returned the fiscal balance to a surplus of 2.7% of GDP in 2021 from a deficit of 3.8% in 2020. Higher oil exports took the current account surplus to 11.4% of GDP in 2021 from 1.5% in 2020, while the debt-to-GDP ratio declined to 95.9% from 135% over the same period. Revenues also benefited from fiscal reforms, including implementation of value-added tax and excise tax. Inflation remained high at 25.7% in 2021, driven by supply-side factors. Higher oil exports helped to sustain international reserves at 8.1 months of imports in 2021.

The IMF’s 2021 Special Drawing Rights (SDR) allocation to Angola was equivalent to $1.0 billion, half strengthening international reserves and half going to the treasury. Banking sector nonperforming loans (NPLs) stood at 20% of gross loans in October 2021, and the capital-adequacy ratio was at 23.1%, above the regulatory threshold of 10%. The pandemic led to accelerated efforts to implement the cash-transfer program, but high unemployment of 34% has overshadowed efforts to curb poverty, which in 2019 stood at 40.6% of the population and is likely to have increased during the pandemic.

Outlook and risks

The recovery in the crude oil price from about $55/barrel in January 2021 to more than $125 a barrel in March 2022 as a result of tensions between Russia and Ukraine has shored up revenues and improved medium-term growth prospects. GDP is projected to grow by 2.9% in 2022, and inflation to drop slightly to 23.2% in 2022, following a 15% appreciation of the exchange rate against the dollar in 2021 and implementation of tight monetary policy. However, the Russia–Ukraine conflict has put pressure on food commodity prices and inflation. The major risk to the outlook is oil-price volatility; to mitigate that risk, the 2022 National Budget assumes a conservative price of $59.00/barrel. If the oil price remains stable, a budget surplus of at least 1.6% of GDP is expected, with the debt-to-GDP ratio falling further to 78.9% and the current account staying in positive territory, at 15.5% of GDP in 2022. Exchange rate volatility could trigger a buildup in inflationary pressures if the current uptick in the oil price recedes, presenting further risks to the recovery.

Climate change issues and policy options

Angola was 23 out of 180 countries on the Germanwatch 2019 Climate Risk Index, though since that was compiled, droughts have become more frequent and severe. In 2021, the worst drought in 40 years affected agriculture, mainly in the southern provinces. Due to a poor harvest and inflationary pressure, over 1.58 million people were projected to experience high levels of acute food insecurity in March 2022, according to the Integrated Food Security Phase Classification. Angola developed the National Climate Change Strategy (2018–2030) that establishes a vision for tackling climate change, and has enhanced its initiatives for the Paris Agreement commitments. In its intended Nationally Determined Contribution (NDC), Angola committed to reduce its greenhouse gas (GHG) emissions by 24% through 2025 and established a Climate and Environmental Observatory to monitor them. A 2019 IMF study on the Long-Term Macroeconomic Effects of Climate Change indicates that global warming under the unmitigated emission scenario in Angola could lead to a 0.71% loss in GDP per capita by 2030. Angola also continues to invest in renewable energy (RE), especially in the electricity sector, given the prominence of its hydropower plants, which produce over 60% of its supply. Still, it has potential for incipient private investment in green energy to grow, particularly in photovoltaic off-grid projects for rural communities.
**Recent macroeconomic and financial developments**

GDP expanded by 12.5% in 2021 as COVID-19 restrictions eased, from a contraction of 8.7% in 2020. Mining output rose with the global diamond market recovery. Non-mining output also expanded, particularly from public administration and defense, construction, and wholesale and retail. Aggregate demand rose in 2021 as the adverse COVID-19 impact on net exports waned, and the public expenditure increase prompted by the pandemic preserved consumption. Per capita GDP growth followed the GDP trend. The fiscal deficit, financed through borrowing and a reserves drawdown, widened to 6.2% of GDP in FY2020/21, with increased pandemic-related net expenditure. Public debt, at 18.6% of GDP in FY2020/21, remains sustainable. The Bank of Botswana’s monetary policy stance was accommodative, with its policy rate at 3.75% in 2021. Average annual inflation in 2021 rose above the upper end of the central bank’s range of 3–6%, reflecting higher fuel prices, value-added tax, and domestic demand. Botswana’s financial sector is well capitalized. The capital-adequacy ratio averaged 19.8% in 2020, and 18.5% in August 2021, above the 12.5% prudential requirement. The NPL ratio fell to 3.7% in August 2021, from 4.5% in August 2020. The current account deficit, largely financed by offshore pension fund investments, narrowed to 1.9% of GDP in 2021, from 10.6% in 2020, as diamond prices and Southern African Customs Union (SACU) revenues rebounded. International reserves stood at $4.6 billion at end-November 2021 (10 months of import cover). Botswana received SDR 189 million in the IMF allocation (about $268.4 million; 1.6% of GDP), which is likely to be used to rebuild reserves or for budget support. Botswana has a relatively low poverty headcount ratio of 16.1% (2019) and high unemployment of 26.0% (quarter to December 2021).

**Outlook and risks**

GDP growth is projected to moderate at 4.2% in 2022, supported by the continued pickup in economic activity and diamond prices, a successful COVID-19 vaccine rollout, and full implementation of the Government’s Economic Recovery and Transformation Plan (ERTP). Headwinds include weaker diamond demand if the global economic recovery loses momentum, COVID-19 variants, persistent drought, and effects of South Africa’s weak economic growth on Botswana’s exports and SACU revenues. With the economy operating below full capacity up to the medium term, inflation is projected to revert to within the central bank’s range in 2023. The fiscal deficit may narrow, as domestic revenues rise with the ERTP growth stimulus. The current account may register a surplus in 2023, with the revival of the diamond and tourism industries. Unemployment may widen post-lockdown but could be mitigated by well-targeted social programs.

**Climate change issues and policy options**

Botswana is 117 on the 2021 Global Climate Risk Index (GCRI), out of 180 countries. According to the 2019 IMF assessment of the long-term macroeconomic effects of climate change, Botswana could lose 0.13–0.30% of per capita income in 2030–50 if the 2015 Paris Agreement on limiting global warming is not met. According to the 2021 SDG Index, Botswana has achieved 61.9% of the 17 SDGs, and is ranked 115 out of 165 countries. However, the country has stagnated on SDG 13 on climate action. Partly to overcome these challenges, the 2020–2040 Integrated Resource Plan for electricity generation covers RE technologies in solar and wind, and Botswana’s 2020 National Adaptation Plan roadmap prioritizes the NDC target of a 15% reduction in GHGs by 2030 (costing an estimated $18.4 billion). The 2021 National Climate Change Response Policy focuses on climate change governance, technological change, and related investment. Botswana has strengthened climate finance resource mobilization through mechanisms such as the 2021 Green Climate Fund (GCF) program on RE, clean technology, and natural capital.

**Source:** Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 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

The economy expanded by 3.0% in 2021 after a 3.1% contraction in 2017, on growth in services (1.9%) and in the secondary sector (7.2%). COVID-19 caused a decline in per capita income of 3.9% in 2017 but rebounded by 0.2% in 2021. Services were boosted by an increase in aggregate demand, particularly consumption spending, while the secondary sector was lifted by a strong rebound in construction. As a response to COVID-19, the Central Bank established a facility offering loans against corporate debt as collateral at 0%. Inflation was 5.8% in 2021, up from 5.3% in 2017, reflecting supply chain disruptions.

Financed by domestic and foreign borrowing, the fiscal deficit widened to 5.8% of GDP in 2021, from 3.6% in 2017, reflecting a fall in SACU revenues. The current account deficit narrowed from 7.9% of GDP in 2017 to 2.8% in 2021, reflecting a decline in imports, and it was financed with capital transfers from South Africa. Public debt was estimated at 50% of GDP in 2021, up from 48% in 2020. NPLs increased from 3.3% in 2020 to 4.2% in 2021, largely because of COVID-19. Poverty increased from 49.7% in 2019 to 50% in 2021, reflecting disruptions in supply chains. Unemployment increased from 23.6% in 2018 to 33% in 2021.

The SDR allocation was 65 million ($95.18 million, M 1.4 billion, or 4.8% of GDP). It has helped the kingdom address its fiscal and liquidity crisis while containing the COVID-19 crisis. Official reserves increased by some $18.96 million (M 287 million) in 2020 to $843.17 million (M 1.28 billion) through September 17, 2021.

Outlook and risks

The economy is expected to grow at 2.5% in 2022 and 2.8% in 2023, on the back of services and construction. Inflation is projected at 7.6% in 2022 and 5.9% in 2023 owing to an increase in food price inflation. The fiscal deficit will narrow to 4.6% and 3.7% of GDP in 2022 and 2023, due to a forecast rebound in SACU revenues. The current account is projected to improve from a deficit of 6.8% of GDP in 2022 to 5.4% in 2023 on reduced imports. The projection for total debt is 50.2% and 50.8% in 2022 and 2023.

Construction of the Lesotho Lowlands Water Development Project Phase II will lift the economy a little in a fragile fiscal context. The government has taken some consolidation measures on both the expenditure and revenue sides.

Climate change issues and policy options

Lesotho is 61 on the 2021 GCRI. Frequent droughts have rendered some 500,000 people food insecure and forced down household purchasing power by 37% in 2019. Water shortages and crop failures have left one-fifth of the population requiring emergency food assistance.

The government enacted the National Environment Act in 2001 and introduced the National Adaptation Program of Action in 2007 to reduce GHG emissions by 10% through 2030. The estimated cost of implementing the NDC mitigation measures is about $5.37 billion. The government has received financing from the GCF, and from ADB for the Lowlands Project Phase II. The Institute of Natural Resources has undertaken a USAID-funded project to enhance the capacities of local communities to adapt to climate change impacts.
Recent macroeconomic and financial developments

The pandemic plunged Madagascar into a deep recession in 2020: contracting by 7.1% in aggregate, economic output was particularly hard hit in mining (down 56.8%), the hotel industry (down 55.8%), and textiles and clothing (down 15.7%), which are the primary engines of growth. After health crisis management efforts and economic stimulus measures, growth rebounded to 3.3% in 2021, sustained by public and private investment that reached 19.9% of GDP in 2021, up from 13.8% in 2020. Foreign trade also bolstered the recovery, notably in mining. However, the pandemic weighed on the budget deficit, which continued to widen to 5.4% from 4.0% in 2020. The current account deficit also increased slightly, to 5.5% of GDP from 5.1% in 2020. The current account deficit also increased slightly, to 5.5% of GDP from 5.1% in 2020, partly reflecting rising prices of petroleum products. Inflation, which had fallen by half since 2018, climbed to 5.9% in 2021. Business closures and job losses caused young people and women especially to lose their livelihoods. The real increase in per capita GDP of almost 10 percentage points in 2020–21 will likely have had a limited effect on poverty, estimated at nearly 77.4% of the population in 2020. Madagascar received $332 million SDR allocation in September 2021, with which it will target infrastructure in transport, energy, and water.

Outlook and risks

Forecasts project continued GDP growth of 5.0% in 2022 and 5.4% in 2023. On the demand side, it will be sustained by public and private infrastructure investment in transport and energy, as well as the resumption of mineral ore and vanilla exports. The extractive and manufacturing industries, as well as public buildings and public works, will remain the primary engines of growth. Major threats to the economy include new waves of COVID-19, climate shocks (particularly drought and cyclones), and the high cost of primary materials linked to the pressure exerted on prices by the Russia–Ukraine conflict. The impact of COVID-19 is expected to continue burdening public finances: the budget deficit is forecast to remain high at 5.1% of GDP in 2022 and 4.9% in 2023. With the high price of essential products in the international market, the current account deficit is also expected to remain high at 5.9% of GDP in 2022, before falling to 4.9% in 2023. Using a policy of inflation targeting, the central bank began increasing some official bank rates from August 2021, but inflationary pressures are expected to continue, with inflation of 8.7% in 2022 and 6.1% in 2023.

Climate change issues and policy options

Madagascar is very vulnerable to climate change—especially drought, flooding, and cyclones. It is 29 on the 2021 GCRI. During the first quarter of 2022, it recorded storms and cyclones that caused nearly 200 deaths and affected 960,000 people. These extreme events have a major impact on infrastructure: losses and damages are estimated at 20% of GDP on average a year—a heavy drain on the economy, particularly in agriculture, which accounted for 24% of GDP and employed 64% of the active population in 2020. The country is also very dependent on fossil fuels yet has large hydropower potential that remains largely underutilized—884 GWh exploited out of a potential 180,000 GWh. Above all, the country lacks sustainable infrastructure to manage and adapt to climate risks, which would require estimated funding of $42 billion over 2017–30. To accelerate the energy transition, public officials should focus on developing low-carbon energy projects and on mobilizing climate funding. They should also fast-track policies addressing water management, the circular economy in agricultural value chains, and green industry technologies, notably industrial waste reclamation.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
**Recent macroeconomic and financial developments**

GDP growth increased to 3.9% in 2021 amid the third wave of COVID-19, from 0.9% in 2020. Growth in 2021 was driven by agriculture (6.3%), wholesale (2%), accommodation (1.3%), financial services (4.8%), and transport services (3.1%). Manufacturing (0.6%), mining (1.1%), electricity (1.1%), and construction (1.1%) all saw contractions. Implementation of the COVID-19 Socio-economic Recovery Plan 2021–2023 is underway. Monetary policy remained relatively easy with the key policy rate at 12% during the year to November 2021. Inflation was 9.3% in 2021, up from 8.8% in 2020 on account of higher fuel prices but lower food inflation. The Malawian kwacha averaged 747 against the dollar in 2020 but depreciated to MWK 821.5 at end-October 2021.

The banking sector remains profitable and well capitalized with core capital and total capital ratios of 17.2% and 20.7% in December 2021, and growth in credit to the private sector doubling to 30.1% in 2021 from 11.7% in 2020. The current account deficit widened from 12.2% to 13.1% of GDP in 2020 and 2021 due to falling exports. Official reserves stood at 1.4 months of imports in December 2021, underpinned by tobacco exports and the SDR allocation of $133 million, which is expected to increase gross reserves to 1.5 months of imports in 2022. The remaining SDR was used for budget support targeting COVID-19 and recurrent expenditure. The fiscal situation remains challenging as revenues dropped to 16.4% of GDP in FY2020/21, from 21.1% the previous year and are projected at 12.4% of GDP the following year. The fiscal deficit stabilized at 7.4% in 2021 from 9% of GDP in 2020, financed by debt and grants.

**Outlook and risks**

Economic growth is projected at 2.8% in 2022 and 4.0% in 2023. Prospects for improvement are anchored on stronger agriculture growth; COVID-19 containment and a successful vaccination program; and a recovery in tourism, exports, FDI, and public investment. Monetary policy is expected to remain accommodative. The current account deficit is projected to improve from 13.9% of GDP in 2022 to 9.3% of GDP in 2023, on the back of exports. Downside risks relate to persistence of COVID-19, weather shocks, rising public debt, and a worsening fiscal deficit. The public debt-to-GDP ratio will widen from 59.2% in 2021 to 64.3% in 2022, moving to crowd out the private sector. Inflation will remain relatively high at 11% in 2022 due to oil price increases before falling somewhat to 9.2% in 2023. Gross official reserves will improve to 1.5 months of imports in 2022 and 2023. Malawi is diversifying its exports towards minerals to mitigate the external sector shocks.

**Climate change issues and policy options**

Malawi is five on the 2021 GCRI. Its frequent cyclical weather-related shocks, including droughts, cyclones, and floods, have fed into persistent high public debt. After its 2016 drought, and 2019 floods caused by cyclones Idai and Kenneth, in 2022 cyclone Ana hit the country. The IMF estimates that Malawi could lose 0.29–0.62% of GDP per capita by 2030 and 2050. The 2020 National Adaptation Plan guides climate investment initiatives. The government has prioritized for adaptation action in agriculture, water resources, health, infrastructure, land-use planning, transport, disaster risk management, forestry, wildlife, and energy. Yet, on climate finance, this remains inadequate, while implementation of adaptation measures in the 2021 updated NDC is estimated at around $4.5 billion through 2040. According to the Voluntary National Review Report 2020, Malawi is unlikely to meet global targets on SDG 13 on climate action.
Recent macroeconomic and financial developments

GDP growth has recovered from 2020, reaching 4% in 2021, below the initial growth forecast of 7.5%. This mixed performance is the consequence of both the partial lockdown after COVID-19 resumed in March–June 2021, which jeopardized the nascent economic recovery, and the low vaccination rate in the second quarter of 2021 (18.9%), which delayed the reopening of borders to foreign tourists. Despite this subdued growth, the public account deficit narrowed to 9% of GDP in 2021 from 15.7% of GDP in 2020, reflecting rising tax revenue and a gradual reduction of public expenditure supporting the economy. The public debt-to-GDP ratio escalated to 89% in 2021 from 73.4% in 2020 because of the large public deficit accumulated since 2019. The current account continued widening to 13.6% of GDP from 9.2% in 2020, driven by a massive external trade deficit and meager tourism revenues. International reserves increased to $7.3 billion, representing 18.2 months of imports in 2021 against 17 months in 2020. The financial sector has proven resilient, with the NPL ratio improving to 5.3% in 2021 from 6.1% in 2020. Inflation remained high at 4%, fueled by higher import prices, especially of oil and food, and an accommodative monetary policy. Average unemployment reached 10.5% in 2021, up from 6.4% in 2019. Poverty remained contained thanks to significant social safety nets.

Outlook and risks

The recovery of the Mauritian economy is forecast to continue in 2022–23, with an average GDP growth expected at 5.9%. Continued improvement in the world economy combined with a high COVID-19 vaccination rate in Mauritius should support a tourism sector revitalized by the reopening of borders in October 2021 and should trigger significant effects on the rest of the real economy. The budget and the current account balance are set to benefit from this positive climate and decrease to 4.1% by 2023. Public debt is projected to fall to 87.1% in 2022 and to 82.4% in 2023. After a rise to 8.9% in 2022 due to inflation is seen decreasing to 4.9% in 2023 on the back of restrictive monetary policy and stabilization of world prices, though this outlook could be challenged by a worsening pandemic due to new variants and the consequences of the Russia–Ukraine conflict on commodity markets (oil, coal, and wheat).

Climate change issues and policy options

Mauritius is highly vulnerable to climate change, including extreme weather episodes (cyclones, tropical storms, and floods). According to the Global Facility for Disaster Risk Reduction, the country suffers annually over $110 million in combined direct losses from floods and tropical cyclones and $26 million in emergency costs, for an overall 1.24% of GDP in 2020. Tropical cyclones account for 80% of these losses, and 75% concern the residential and commercial sectors.

The country contributes only to 0.01% of global GHG emissions, but its carbon footprint has drastically increased from 789,354 tCO₂eq in 1975 to 4,663,585 tCO₂eq in 2020, with 75% of the footprint coming from power and transport. As part of its intended NDC commitments, Mauritius plans to reduce its GHG emissions by 30% by 2030 and has developed a green agenda focused on modernizing the national electricity grid through expanding into renewable energy using innovative technology piloted by the Mauritius Renewable Energy Agency. Mitigation and adaptation measures will cost about $4.5 billion by 2030.
Mozambique

Recent macroeconomic and financial developments
Mozambique’s economy is gradually recovering from the impact of COVID-19 and the Cabo Delgado conflict, which displaced 780,000 people and caused 3,800 deaths. GDP grew by 2.2% in 2021 from a 1.2% contraction in 2020, aided on the supply side by recovery in agriculture and mining, and on the demand side by exports and government expenditure. A higher population growth rate led to 0.8% smaller GDP per capita growth in 2021, and an estimated 600,000 people fell below the poverty line in 2021. Inflation nearly doubled to 5.7% in 2021 from 3.1% in 2020 due to higher food and fuel prices, prompted the central bank to raise the policy rate by 300 basis points in January 2021.

The fiscal deficit narrowed to 6.0% of GDP in 2021 from 7.0% in 2020, aided by increased revenues as activity improved. However, public debt is estimated to have risen to 130% of GDP in 2021 from 122% in 2020, fueled by spending on security and humanitarian needs related to the conflict. The current account deficit narrowed to 20.8% in 2021 of GDP from 25.8% in 2020, aided by an upswing in commodity exports, largely financed by FDI. International reserves remained at 7 months of imports in 2021; the $306 million SDR allocation will expand them by 9%. The banking sector’s NPL ratio declined to 9.9% in 2021 from 12.6% in June 2020.

Outlook and risks
GDP growth is projected to surpass pre-pandemic levels by 3.7% in 2022 and 4.5% in 2023, partly reflecting mineral projects. Inflation will peak at 8.3% in 2022 due to the disruptive effects of the Russia–Ukraine conflict before falling to 6.5% in 2023. The fiscal deficit is projected to widen to 5.5% of GDP in 2022 and 5.6% of GDP in 2023 owing to public sector wage increases. The current account deficit is projected to widen to 15.5% and 18.9% in 2022 and 2023 due to related imports from liquefied natural gas (LNG) investments. GDP per capita is projected to grow by 0.8% and 1.6% in 2022 and 2023, reducing poverty to 60.3%, below pre-COVID-19 levels. The pandemic, climate change, and the conflict in the north are major risks as 2022 continues unfolding. The government is seeking a $470 million IMF program to help mitigate financing vulnerabilities from those risks. Economic boosts include completion of LNG projects and the peace settlement with the RENAMO military arm of the opposition, helping unlock agriculture and tourism.

Climate change issues and policy options
The 2021 GCRI classified Mozambique as the country most affected by climate change—for instance, cyclones Idai and Kenneth caused damage in 2019 worth $3.2 billion. As grants only covered 47% of financing needs, Mozambique issued $118 million in sovereign bonds, worsening its fragile debt situation. Cyclones also hit economic activity, food security, and rural livelihoods.

The NDC targets lower emissions of 99 MtCO₂eq between 2020 and 2030. Mozambique is also fast-tracking funding mobilization while implementing the National Climate Change Adaptation and Mitigation Strategy 2013–2025, while aiming to expand energy access and the matrix focusing on renewable energy and natural gas, but a large financing gap remains. The estimated cost of NDC implementation is $53 billion for 2020–30, far above the $3.7 billion mobilized in 2011–20. Mozambique is on track to achieve SDG 13 on climate action by 2030 but faces impediments.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The economy underwent a major contraction of 7.9% in 2020, due to the shock of COVID-19, with declining activity mainly in tourism, retail and wholesale trade, financial services, investment, health, and education on the supply side, and in private final consumption expenditure and investment partly offset by higher net exports on the demand side. Subsequently, there was a sharp decline in GDP per capita and rise in unemployment and poverty. The economy reopened in 2021, concurrently with the rollout of the national COVID-19 vaccine program, resulting in a modest recovery in most industries and subdued GDP growth estimated at 2.4% in 2021.

The central bank kept the policy rate at a record low of 3.75% to support the domestic economy amid subdued inflationary pressures. Although the quality of banking assets deteriorated, the ratio of NPLs to gross loans remained well within the bank’s threshold. The fiscal deficit averaged 8.1% of GDP in FY2020/21, driven by COVID-19–related spending and lower revenues, taking public debt to 57.8% of GDP. The fiscal deficit was financed by local bond issuance and by development partner financing. The current account balance switched from a 1.8% of GDP deficit in 2019 to a 2.8% of GDP surplus in 2020—mainly on the merchandise trade surplus—back to a deficit of 1.3% of GDP in 2021, funded by foreign capital. International reserves increased to 6.3 months of imports in 2021 from 4.3 months in 2020. Namibia was allocated $300 million (2.9% of GDP and 10.0% of gross international reserves) in SDRs. Portions may be used for the Economic Stimulus and Recovery Program, social protection and services provision, and vaccinations. The allocation would allow the country to build its reserves.

Outlook and risks

The economy is projected to grow by 3.0% and 3.5% in 2022 and 2023 on the assumption of recovery in most domestic sectors and of a rebound in regional and global economic demand. Monetary policy is expected to remain accommodative in 2022, in support of the domestic economy, and the financial services sector is seen picking up, with reserves rising to 7 months of import cover. The economy faces many risks, such as a prolonged pandemic and slow vaccine uptake. Any global economic shocks would weigh on exports and FDI and contribute to widening the current account deficit by a projected 4.1% in 2022. The fiscal deficit is projected at 7.3% in 2022 and public debt expected to remain elevated, at above 70% of GDP. The current account deficit is projected to widen to 2.9% of GDP in 2022 but could be wider if global economic shocks that weigh on exports and FDI materialize. Other risk factors include high unemployment, income disparities, and environmental hazards that may be mitigated by the Economic Stimulus and Recovery Program and reforms in the public and private sectors. Inflation will remain moderate at around 4.3% in 2023.

Climate change issues and policy options

Namibia is highly vulnerable to climate change and is 113 on the 2021 GCRI. It is prone to severe droughts, which have expected pressure on GDP of 1–2 percentage points, and which hurt the livelihoods of low-income households and rural communities dependent on climate-sensitive sectors. The drought of 2019 caused agricultural output to drop by 5.0% and made water scarcity worse. Namibia has developed policies and strategies to foster climate change resilience and adaptation, and promote low carbon and green growth, as in the Climate Change Strategy and Action Plan (2013–20) and NDC (updated 2021). It has identified RE projects, including the first green hydrogen project in Africa, estimated to cost $9.6 billion (89% of GDP). Funding for these projects is to be sourced from bilateral and multilateral partners, as well as through social and green bonds in the country’s domestic markets. The extent of successful implementation will determine whether Namibia meets SDG 13 on climate action by 2030.
Recent macroeconomic and financial developments

GDP grew by 3.1% in 2020, supported by high aid inflows during the pandemic (the weight in the total budget increased by 23.5% in 2020) and accommodative monetary policies in early 2020. Economic growth slowed to 2.2% in 2021 as aid inflows declined and monetary policy measures were reversed at end-2020 to contain excess liquidity. Inflation was largely unchanged at 9.5% in 2021 and 9.4% in 2020, pressured mainly by food products. The government increased the supply of health and social infrastructure and services to contain COVID-19’s spread. Palm and coconut oil supply rose five- and twofold, from 2019 to 2020 in response to international demand.

The pegged exchange rate system with the euro has helped maintain a stable exchange rate (24.5 dobras per euro). The fiscal balance stood at 0.9% of GDP in 2021 after a long period of deficits, averaging 4.0% in the past four years. The surplus reflects lower government spending, financed mainly by concessional loans and grants. The current account deficit, which edged down marginally to 10.1% of GDP in 2021 from 11.6% in 2020 due to a 7.6% import decline and a 6% export increase, is primarily financed by international credit. Gross international reserves declined slightly from $91.8 million in 2020 to $88.5 million in 2021 as aid inflows shrunk.

Public debt declined to 87.9% of GDP in 2021 from 99.9% in 2019, because of the government’s commitment to borrow concessionally for the most part. Of the allocation of around SDR 12.2 million ($19.6 million) in 2020, half was used for investment projects and the other half for international reserves; the latter rose by 29.7% in 2020. The ratio of NPLs to gross loans declined to 30.2% in September 2021 from 34.2% in the corresponding period in 2020. Banks also returned to profitability with the return on asset ratio of 1% in September 2021.

Outlook and risks

The economy is projected to grow by 1.5% and 3.2% in 2022 and 2023, supported by global demand in commodities, improved trade and tourism, which will benefit from easing of COVID-19 pandemic restrictions. The fiscal balance is projected to remain positive, at 1.1% in 2022 and 0.6% in 2023. Export and tourism earnings will eventually help narrow the current account deficit from 12.4% in 2022 to 9.0% in 2023, while international reserves are forecast to rise slightly to $70.3 million and $72 million over the same period, induced by inflows of private capital and FDI, narrowing the debt-to-GDP ratio to 67.5% of GDP in 2022 and 66.1% in 2023, from 68.8% in 2021. Current macroeconomic reforms will drive growth. The Russia–Ukraine conflict will negatively affect global economic growth, with a huge impact on commodity prices. São Tomé and Príncipe depends heavily on fossil fuel for power generation, and this will greatly distress prices in the country, provoking an increase in the cost of living. COVID-19, poor infrastructure, and climate change might also put a drag on economic recovery, though the government is committed to reforms and is working closely with development partners to ensure continued investment in infrastructure, climate change, and power.

Climate change issues and policy options

Vulnerable to climate change, the country has recorded increasing temperatures, decreasing rainfall, longer dry seasons, decreasing river levels, floods, a rising sea level, and increasing coastal erosion. These impacts greatly affect energy, agriculture, fisheries, forestry, and livestock. In 2021, the government updated its 2015 NDC. One goal is to increase RE generation from 26 MW to 49 MW, for a 27% CO₂ emissions reduction by 2030 at an estimated cost of $150 million. With the Bank, the government is conducting a gap assessment on climate change financing, including capacity building, to enhance the country’s capacity on climate financing mobilization. Various activities are concurring to meet the SDG 13 targets by 2030, including a blue economy strategy and related laws.
South Africa

Recent macroeconomic and financial developments

South Africa’s GDP contracted by 6.4% in 2020 because of the COVID-19 pandemic, which disrupted trade and travel. The economy grew by an estimated 4.9% in 2021, driven by recovery in finance on the supply side and fixed investment on the demand side. Headline inflation picked up to 4.5% in 2021 from 3.3% in 2020, on the back of higher food and transport prices, and the policy rate was therefore increased, to 3.75% in November 2021 from 3.5% in 2020. The budget deficit reached a record 10% of GDP in 2020 due to additional expenditure to mitigate the impact of COVID-19. The fiscal deficit was estimated to have declined to 5.8% of GDP in 2021, reflecting higher revenue and rationalized expenditure. The current account surplus was estimated at 3.8% of GDP in 2021 from 2% in 2020 attributable to improved export performance and higher commodity prices.

External reserves increased from $54.5 billion in July 2021 to $58.4 billion in August 2021 (about 5 months of import cover) boosted by the SDR allocation. South Africa’s total public debt was estimated to have declined marginally to 70% of GDP in 2021 from 71% of GDP in 2020 given the fiscal consolidation. The financial sector is stable with banks holding adequate capital—15.8% in March 2020 and 18.07% in January 2022, compared with 18.04% in December 2021—well above the 10.5% minimum regulatory requirement. Poverty remains high, however, affecting 55.5% of the population in 2015, with unemployment at 35% in September 2021.

Outlook and risks

The economy is projected to grow by 1.9% and 1.4% in 2022 and 2023, lifted by growth in trade, tourism, mining, and manufacturing. Inflation is projected to rise to 5.8% in 2022, due to rising oil prices and likely increases in food prices resulting from the Russia–Ukraine conflict, but to decrease to 4.6% in 2023. The fiscal deficit is also projected to increase to 6.2% of GDP in 2022 before falling to 5.1% of GDP in 2023 due to the consolidation measures, including higher tax revenues and a reduced wage bill. The current account deficit is projected to be 1.4% of GDP in 2022 and to swing to a surplus of 0.1% in 2023 due to the recovery in import demand and expected fall in commodity prices. Downside risks include the uncertainty linked to the COVID-19 pandemic, electricity supply constraints, and weak governance in state-owned enterprises and associated contingent liabilities.

Climate change issues and policy options

South Africa is 12th highest emitter of GHGs in the world and the biggest in Africa. It is also facing significant impacts from climate change. For example, heavy rains caused flooding leading to loss of lives and damage to property and infrastructure in parts of the country in late 2021. The government has adopted climate legislation to support mitigation and adaptation in enhancing its commitment to the Paris Agreement. South Africa has developed a National Climate Change Adaptation Strategy, aligned with the National Development Plan 2030, while on mitigation, through a Carbon Act 2019, the government has introduced a carbon tax of 120 rand per ton of CO₂ equivalent targeting the carbon-intensive sector. The country is also implementing the Just Energy Transition Strategy, for cleaner energy. It updated its NDC in 2021 to include a Low Carbon Emission Development Strategy for the energy, mining, industrial, agriculture, and waste sectors to curb the national carbon footprint to an upper limit of 350–420 MtCO₂eq by 2030. The financing needs for the updated NDC is estimated at $55 billion–$59 billion over 2020–30.

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Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 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.
Recent macroeconomic and financial developments

Eswatini’s growth rebounded by 6.1% in 2021, from a 1.9% contraction in 2020, propelled by agriculture (on good weather) and industry (resurgent demand). Growth in services remained constrained by COVID-19–related restrictions. Aggregate demand is dominated by consumption (85% of GDP), followed at some distance by investment (12.3%) and net exports (2.7%). Monetary policy was accommodative, and the discount rate was maintained at 3.75% throughout 2021. Inflation averaged 3.8% in 2020 and 2021 as price increases of key drivers, such as food and transport, were marginal. The fiscal deficit widened to an estimated 6.4% of GDP in 2021, as government revenue remained tight against elevated spending needs, while public debt increased slightly to 40.6% of GDP (16.4% external) in December 2021, from 39% in December 2020.

The current account surplus fell to about 0.8% of GDP in 2021 from 6.7% in 2020 as secondary income flows, mainly SACU receipts, declined. International reserves climbed to 3.6 months of import cover in 2021, from 3.2 months in 2020, buoyed by the SDR allocation ($107 million), held as reserves by the central bank. The local currency, pegged at par to the rand, stabilized in early 2022 after a sharp depreciation toward end-2021. NPLs increased as businesses affected by the civil unrest in 2021 struggled to service their loans but declined to 6.5% of total loans by end-2021. Poverty looms large, at 58.9% of the population. Unemployment hit 33.3% in 2021, sharply up from 23.1% in 2020, due to COVID-19.

Outlook and risks

Slower growth of 2.4% is projected in 2022, in all sectors, though is forecast to pick up a little in 2023 as COVID-19 effects wane with increased vaccination. The fiscal deficit is forecast to decline but remain elevated at 4.1% of GDP in 2022, largely reflecting the expected downturn in SACU revenues, but narrow further to 1.3% in 2023, with continued fiscal consolidation. Inflation is projected to nudge up to 4.5% in 2022, on adjustments in administered prices, higher oil prices, and a weaker currency, but subside again to 4.0% in 2023. In 2022, a current account deficit is projected at 0.4% of GDP owing to likely constraints on the secondary income account. Headwinds include volatile SACU receipts, new virus mutations, slow vaccination, and domestic and global political tensions. Major tailwinds include continued fiscal consolidation, vaccination rollout, structural reforms, and national political dialogue.

Climate change issues and policy options

Ranked 130 on the 2021 GCRI, Eswatini is vulnerable to climate shocks, particularly droughts. The 2015/16 El Niño drought caused agricultural output to contract by 8.4%, underscoring the expansion of water harvesting and irrigation infrastructure. Other sectors at risk include water, biodiversity, ecosystems, and human health. The country also experiences natural hazards including epidemic diseases, floods, and forest fires. The government is strongly committed to meet SDG 13 on climate action by 2030, but progress so far is moderate. Eswatini has written a National Drought Mitigation and Adaptation Plan 2016–2022, unveiled a National Climate Change Policy in 2016, and drafted a Climate Change Bill (2016), which seeks to promote climate resilience and inclusive low-carbon green growth, access to climate finance, and capacity building. It submitted its first NDC to the UNFCCC in 2015 and submitted its updated NDC in October 2021, with targets to reduce economy-wide GHG emissions by 5% between 2021 and 2030, at an estimated cost of at least $950 million.
Recent macroeconomic and financial developments

GDP contracted by 3.0% in 2020 due to COVID-19 but showed a muted recovery of 4.0% in 2021. GDP per capita growth was 6.0% and 1.1% in these two years, reflecting pandemic control measures that shut down economic activities such as tourism and hospitality, and supply chain disruptions in key sectors. The impact on GDP per capita was amplified in 2021. General consumption was also dampened. Inflation rose from 15.7% in 2020 to 22.1% in 2021, driven by food inflation and a lower kwacha. The policy rate was lowered from 10.25% in May 2019 to 8.0% in August 2020 and to 9.0% in November 2021, to moderate inflation and support growth. The kwacha depreciated by some 50% against the dollar in 2020 before appreciating by 21% from the last quarter of 2021.

The fiscal deficit narrowed from 13.2% in 2020 to 8.4% in 2021 despite a surge in COVID-19-related spending and revenue shortfalls. The current account surplus was 12.0% and 18.3% in 2020 and 2021, buoyed by high global copper price. The financial performance and condition of the banking sector at end-December 2020 and end-June 2021 remained satisfactory given adequate capital, satisfactory earnings, and liquidity. Although the NPL ratio was high at 11.6% at end-2020, it improved to 9.1% as at end-June 2021. International reserves were at 2.4 months of import cover at end-2020 and 5.5 months at end-2021, reflecting the SDR allocation of $1.33 billion.

Outlook and risks

The economy is projected to grow only by 3.2% and 3.8% in 2022 and 2023, because of weak recovery in mining, tourism, and manufacturing. Inflation is projected to decelerate to 17.5% and 13.2% in 2022 and 2023, but still above the upper bound of the central bank’s 6–8% target range. Monetary policy will prioritize inflation and livelihoods. Risks to inflation include the government’s removal of fuel and electricity subsidies in December 2021 resulting in increases in fuel pump prices and electricity tariffs. The current account outlook remains positive at 16.4% and 16.9% of GDP in 2022 and 2023. The NPL ratio is expected to fall in 2022 and 2023, and the Bank of Zambia will shore up bank liquidity through its Medium-Term Refinancing Facility. On the plus side are expected growth in ICT given current and expected expansion of mobile payment services and investment in ICT infrastructure. Electricity generation began at Kafue Gorge Lower and Lusiwasi Upper Hydropower Stations in July 2021. Current tax reforms in mining will increase investment.

Climate change issues and policy options

Zambia has experienced perennial climate shocks and is 59 on the 2021 GCRI. A prolonged drought in 2018 and 2019 contributed to cutting GDP growth from 4.0% to 1.4% over the two years. Projections for the climate change impact on economic growth is a $13.8 billion GDP loss, while funding needs are conservatively estimated at $15 billion between 2010 and 2030. A higher estimate is $35 billion, comprising domestic, bilateral, and multilateral sources. Current financing options are bilateral and multilateral sources, alongside limited mitigation financing from the Clean Development Mechanism, Global Climate Fund, Global Environmental Facility, and climate insurance programs in agriculture. Zambia has integrated climate change issues in its policies, programs, and strategies as outlined in its Vision 2030. The government recently created a Ministry of Green Economy and Environment and began mitigation and adaptation policies targeting the country’s renewable energy potential, agriculture, and the mainstreaming of climate change in all economic sectors. Zambia expects to achieve SDG 13 on climate action by 2030.
Zimbabwe

Recent macroeconomic and financial developments
Zimbabwe’s economic growth accelerated to an estimated 6.3% in 2021 from a 5.3% contraction in 2020, supported by a bumper harvest, expanding agriculture by 36.2% in 2021, up from 4.2% growth in 2020. Per capita GDP likewise grew, by 4.9% in 2021 from a contraction of 6.7% in 2020. A mix of improved revenue mobilization and expenditure restraint contributed to a positive fiscal balance of 0.6% of GDP in 2021. Inflation slumped to 98.5% in 2021 from 557.3% 2020, reflecting a fall in food price inflation aided by improved food supply. The official exchange rate was Z$108/US$ in December 2021 and was overvalued as reflected in a 67% disparity with the parallel rate of Z$180/US$.

Zimbabwe is classified as being in debt distress with total debt of $13.7 billion, of which $13.2 billion is external. The current account balance remained positive on account of reduced food imports. Financial sector performance was satisfactory in 2021, with NPLs at 3.5% against a benchmark of 5%, while the capital-adequacy ratio was 32%, above the 12% requirement, in June 2021. In August 2021, Zimbabwe received its SDR allocation of 655.6 million ($960 million, 4% of GDP), half of which the government has prioritized for COVID-19 vaccination rollout, agriculture, mining, and infrastructure development; the balance is to build reserves. However, the poverty rate remained high, at 44.0%, in 2021.

Outlook and risks
Growth is projected to average 3.5% in 2022 and 3.2% in 2023, driven by continued favorable agricultural performance and improved macroeconomic stability. In the same period, inflation could drop to 85% and 43% on the back of stability in food prices and exchange rate stability. The fiscal deficit is forecast to narrow to 0.2% of GDP given continued fiscal discipline. The current account balance will remain positive largely because of reduced food imports as domestic production improves, as well as increased export earnings stemming from improved commodity prices. COVID-19 continues to present risks, and emergence of new variants could affect economic activity; the debt overhang and climate change are further risks. In 2021, Zimbabwe developed the Arrears Clearance, Debt Relief and Restructuring Strategy to guide engagement with donors and creditors for clearing its debt and unlocking development financing.

Climate change issues and policy options
Zimbabwe is two on the 2021 GCRI. Climate change has increased the frequency of extreme weather events such as droughts, floods, storms, and heat waves. Cyclone Idai in 2019 caused direct damage of an estimated $622 million to infrastructure, properties, crops, and livestock. Through its National Development Strategy 2021–2025, the government prioritizes mainstreaming climate change and related financing in national programs; strengthening early-warning systems; promoting climate-smart innovation and technology transfer; and strengthening capacity building and awareness on climate change adaptation and mitigation. Zimbabwe requires domestic and international support to push through with mitigation and adaptation measures: mitigation measures alone will cost an estimated $4.83 billion. Finance channeled through the National Climate Change Fund and Climate Finance Facility (under development) should crowd in the private sector through blended finance and results-based approaches for de-risking markets, scaling up impact investments, and increasing participation in climate actions. Zimbabwe is on course to meet SDG 13 on climate action.
Recent macroeconomic and financial developments

Benin’s growth improved in 2021 to 7.0% from 3.8% in 2020. On the supply side, growth resulted from the good performance, on the one hand, of the primary sector (up 3.9% after 2% growth in 2020), benefiting from the positive effects of the reforms that helped to increase yields and improve governance of the agriculture sector; and, on the other, of the tertiary sector, which grew 7.2% in 2021, up from 4.9% expansion in 2020, due to an increase in port traffic, the opening of Nigeria’s borders, and better governance of Cotonou Port. On the demand side, growth stemmed from the 17% increase in investment, with a continued counter-cyclical fiscal policy. Inflation dropped to 1.7% in 2021 owing to improved food supply.

The budget deficit worsened, however, in 2021, to 6.1% of GDP, financed in part by the allocation of 118.6 million in SDR for Benin; the remainder of the amount is to finance the 2022 budget deficit. Public debt was 47.2% of GDP in 2021 against 46.1% in 2020, but the risk of debt distress remains moderate. The current account deficit is estimated to have doubled in 2021, reaching 3.7% of GDP, due to a 64.5% decrease in public transfers; foreign exchange reserves covered 5.9 months of imports in 2021. The solidity of the financial system was strengthened with a fall in the rate of outstanding loans to 14.8% in September 2021, against 17% in September 2020. The poverty rate was estimated at 38.5% in 2019 and unemployment 2.4%, with a high level of underemployment (72.9%).

Outlook and risks

Growth is expected to reach 6.1% in 2022 and 6.4% in 2023. These forecasts rely on reforms in agriculture sector governance, and improvements in public financial management and the business climate. The food supply increase should allow inflation to continue to decrease to roughly 2.8% by 2023. The budget deficit is projected to narrow to 4.3% of GDP in 2022 and 3.7% in 2023, but these are still wider than the WAEMU criterion of 3% of GDP. After rising to 48.9% of GDP in 2022, public debt is projected to decrease to 46.3% in 2023, helped by robust growth and better debt structuring during this period. The current account deficit is expected to widen to 5.4% of GDP in 2022 before narrowing to 4.6% in 2023, in the latter year due to a narrowing trade balance. Foreign exchange reserves are forecast to increase to 6 months of import cover on average in 2022–23. The main risks are the resurgence of the health crisis, fluctuations in cotton and oil prices, the impacts of the Russia–Ukraine conflict, adverse weather, and deteriorating security in northern areas.

Climate change issues and policy options

Benin is vulnerable to climate change, which is seen in drought, deforestation, soil degradation, and flooding. The Bank’s 2021 Country Policy and Institutional Assessment puts Benin’s Environmental Policies and Regulations score at 4 in 2021. The socioeconomic effects of climate change could, by 2030 and 2050, decrease corn yields by 21.6% and 28.8%, and cotton’s by 0.9% and 6.3%. GHGs were estimated at 17.3 MtCO₂eq, or 1.5 tCO₂eq per capita, in 2018. Benin adopted a National Climate Change Management Policy 2020–2030 and prepared its NDC for 2030. It has implemented a National Renewable Energy Policy 2020–2030. A 25 MW PV solar plant, expandable to 50 MW, should become operational in April 2022 and produce 35 GWh of electricity, reducing the country’s CO₂ emissions by 23,000 tons over 25 years. Finally, Benin has created the National Fund for the Environment and Climate, for FCFA 1.2 billion.
Burkina Faso

Recent macroeconomic and financial developments

Despite a difficult security situation, economic growth recovered to 6.7% in 2021 from 1.9% in 2020. On the supply side, it was bolstered by the secondary sector (up 8.2% in 2021 from 5.8% expansion in 2020), especially manufacturing and mining, and by the tertiary sector (up 12.7% in 2021 against a contraction of 2.7% in 2020), largely on improved accommodation–restaurant activities and commerce. The primary sector contracted by 6.4% in 2021, after 6.5% growth in 2020, due to poor rainfall and crop areas reduced by the security situation. On the demand side, growth was driven by final consumption and net exports. Inflation was 3.9% in 2021, reflecting increased food prices.

NPLs accounted for 7.8% of all loans in 2020. The budget deficit widened to 5.6% of GDP in 2021, reflecting increased expenditure (25.3% of GDP in 2021 against 24.3% in 2020), especially for payroll and capital expenditure, while tax revenues (13.5% of GDP in 2020 and 15.5% in 2021) remain low. With a public debt ratio of 51.4% of GDP in 2021, Burkina Faso faces moderate risk of debt distress. The current account balance should remain in surplus, owing to the rising value of gold and cotton exports. These forecasts are exposed to major risks, particularly delayed reestablishment of the constitutional order, a pronounced worsening in security, inflationary pressure, a drop in gold and cotton prices, slowing of global economic growth owing to the Russia–Ukraine conflict, and a COVID-19 resurgence.

Climate change issues and policy options

Burkina Faso is 130 on the 2021 GCRI and remains very vulnerable to climate variations. Socioeconomic costs stem from the loss of crops, decreases in agricultural yields and water resources, and land degradation. The government implemented its 2015–2020 National Climate Change Adaptation Plan and 2015–2020 NDC. The amount of sequestered carbon increased from 1.52 million tons (Mt) in 2018 to 3.9 Mt in 2020, and 149,295 ha of degraded land was rehabilitated from 2016 to 2020. The country initiated an energy transition with the development of solar power plants as part of its Desert-to-Power initiative.

Climate funding remains low, however. Financial needs for the 2021–2025 NDC amount to $4.12 billion, and only 39% of this has been acquired. The country is on track to achieve SDG 13 on climate action by 2030 as it has already accomplished about 90% of that goal. More widely, medium-term options involve increasing the amount of sequestered carbon to 10 Mt in 2023, monitoring and assessing the reduction of GHGs, increasing the share of RE to 50% of the energy mix by 2025, and mobilizing green climate funds.
**Recent macroeconomic and financial developments**

Cabo Verde’s economic growth was estimated at 7.1% in 2021, after a 14.8% contraction in 2020, for a 6% gain in per capita income, yet is insufficient to offset the 16% loss in 2020. On the supply side, growth was supported by transport and construction, amid weak tourism activity. Public expenditure increased by 11.7% in 2021, bolstering growth on the demand side. Inflation rose to 1.8% in 2021 from 0.6% in 2020, driven by high energy prices, rising domestic demand, accommodative monetary policy, and a COVID-19 credit line of €400 million, which boosted liquidity. The overall fiscal deficit declined from 9% of GDP in 2020 to 8.6% in 2021, owing to tax and administration reforms and COVID-19-related expenditure restraint. Concessional loans, domestic borrowing, and use of the $32.2 million SDR allocation covered the fiscal deficit. Public debt increased from 155% of GDP in 2020 to 156.7% in 2021, driven by high interest payments on domestic debt, and the risk of debt distress remains high. Despite narrowing from 15.9% of GDP in 2020 to 13.1% in 2021, the current account deficit prompted a drawdown in reserves from 7.2 months of imports in 2020 to 6.7 months in 2021. Foreign direct investment (FDI), portfolio inflows, and remittances financed the current account deficit. Liquidity and capital ratios in the banking system are adequate, but exposure to NPLs remained high. The pandemic reversed progress in social conditions and raised poverty from 26% in 2019 to 31.6% in 2020, and unemployment from 11.3% to 14.5% in the same period.

**Outlook and risks**

The outlook remains uncertain due to the COVID-19 pandemic, prolonged drought, and the Russia–Ukraine conflict because Cabo Verde imports an estimated 11% of its oil and 8.6% of its cereals from Russia. Growth is projected to remain below pre-COVID-19 levels, at 5.1% in 2022 and 5.7% in 2023, driven by services and renewable energy. Public investment and credit growth are projected to help reduce poverty and unemployment to 29.1% and 12.4% in 2022. Inflation will reach 5.2% in 2022, affected by rising fuel and food prices due to the Russia–Ukraine conflict, before normalizing at 2.5% in 2023 as global supply chains improve. The fiscal deficit is projected to narrow from 6.4% of GDP in 2022 to 4.6% in 2023 on fiscal consolidation. The current account deficit is projected at 10.1% of GDP in 2022 and 7.5% in 2023, supported by tourism and remittances, while foreign reserves will stabilize at 5 months of imports. The NPL ratio is projected to be above 12.5% in 2022 and 2023, contained somewhat by loan resolution and provision for loan losses.

**Climate change issues and policy options**

Cabo Verde is 130 on the 2021 GCRI. Erratic rainfall leads to $2 million losses of income in agricultural crops annually. Losses from volcanic eruption of 2014–15 in Fogo Island reached $30.5 million (1.7% of GDP). In September 2020, floods affected 150,000 people and damaged houses, land, and crops. Overall, Cabo Verde could lose between 0.1% and 0.27% of per capita GDP by 2030 and 2050 if the Paris Agreement is not met. The government is addressing climate change and building resilience through investments in blue economy, reforestation, and restoration of environmental ecosystems. Government is also promoting a just energy transition through renewable energy investments, notably a 10 Mw wind farm in Santiago in 2022, and an additional 150 Mw of photovoltaic energy by 2030, increasing the renewable energy share from 18.4% in 2020 to 30% in 2025 and to 50% by 2030. The country is on track to meet SDG 13 on climate action, but climate financing needs are huge ($2 billion). Adoption of blue bonds and debt swaps for environmental protection, domestic resource mobilization, and coherent tax policies are recommended to scale up climate finance.
Côte d’Ivoire

Recent macroeconomic and financial developments

After a slowdown in 2020 associated with COVID-19, the economy is once again strengthening with 6% GDP growth in 2021, led on the supply side by agricultural exports, extractive and manufacturing industries, buildings and public works, transport, and commerce and on the demand side by investment and consumption. Inflation climbed from 2.4% in 2020 to 4.2% in 2021, caused by increases in prices of food products, owing to an insufficient local production. Credit to the economy recorded a 12.5% rise from 2020 to 2021, stimulated by measures to support the banking system.

The budget deficit is estimated at 5.0% of GDP in 2021, down from 5.6% in 2020, linked to an improved mobilization of tax and nontax revenues. It is financed by project and program loans, the regional financial market, and other foreign currency financing. The $925.6 million received from the SDR allocation was used to finance the budget deficit. Public debt, which shows a moderate risk of debt distress, is expected to have climbed to 51.4% of GDP in 2021, arising from the increase in COVID-19-related spending. The current account deficit is expected to have widened from 3.2% in 2020 to 3.8% of GDP in 2023, due to lower services and primary sector revenues. The COVID-19 pandemic exacerbated poverty in 2021, with 20.2% of the population living on less than $1.90 per day, up from 18.3% in 2020, according to the United Nations Sustainable Development Goals Report 2021.

Outlook and risks

The outlook for 2022–23 could be negatively impacted by the Russia–Ukraine conflict. However, it will benefit from investments and reforms in the Côte d’Ivoire 2030 Strategic Plan and the National Development Plan 2021–2025 (NDP), and from a more stable socio-political environment. Accordingly, growth should slow to 6.0% in 2022 before rebounding to 6.7% in 2023, driven essentially by agriculture, industrial activity, buildings and public works, transport, commerce, telecommunications, as well as investment and consumption. Inflation should increase to 5.4% in 2022, owing to inflationary tension generated by the Russia–Ukraine conflict, and will then be contained at 2.3% in 2023. The budget deficit should be progressively contained at 4.7% of GDP in 2022, then at 3.8% of GDP in 2023, with stronger tax reforms. The deficit on the current account is forecast to degrade to 4.8% of GDP in 2022 and to 4.4% in 2023, owing to the deterioration of terms of exchange. Public debt is projected to be maintained at an average of 51.6% of GDP over 2022–23. However, the prolongation of the Russia–Ukraine conflict, a new outbreak of the pandemic, a decline in agricultural commodity prices, and weak resource mobilization could jeopardize this outlook.

Climate change issues and policy options

Côte d’Ivoire is 130 on the 2021 GCRI. More than two-thirds of its coastline is affected by coastal erosion. Its economy is dependent on climate-sensitive sectors—agriculture, livestock, aquaculture, and energy. In July 2018, the World Bank evaluated the losses to GDP associated with climate change at between $681 million and $1.4 billion in constant 2017 $ between now and 2040. To counter the threat, the government is conducting several programs. During COP26, it committed to reduce its GHGs by 30.4% between then and 2030 (versus an initial target of 28.2% in 2015). The financing of the updated NDC, at a cost of about $22 billion, requires resources from climate funds and the private sector, because the government allocates only an average of $400 billion a year to environmental protection. To reinforce resilience and accompany the energy transition, the NDP 2021–2025 aims to increase contributions to RE in the energy mix from 39.5% to 42% between 2019 and 2025, accelerate development of the low-carbon strategy, and reduce damages and losses linked to natural disasters.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

After a contraction of 0.2% in 2020 due to COVID-19, economic growth rebounded to 5.5% in 2021, on the supply side, supported by construction, trade, and tourism. On the demand side, household consumption and public investment reinforced growth. Monetary policy remained accommodative during 2020 and 2021. Inflation increased to 7.5% in 2021 from 5.9% in 2020 due to high energy prices and freight charges. The fiscal deficit increased to 4.0% of GDP in 2021 from 2.2% in 2020, reflecting higher health sector spending and subsidies to households and public enterprises to mitigate the COVID-19 shock. Public debt declined from 85.0% of GDP in 2020 to 82.9% in 2021, yet the risk of debt distress remains high.

With a fall in exports and rise in imports, the current account deficit widened from 3.3% of GDP in 2020 to 9.3% in 2021, mainly financed by FDI and capital transfers, which also helped stabilize the dalasi. Gross official reserves increased from $352.1 million in 2020 to $496.5 million in 2021, boosted by the $85 million SDR allocation, which was used in part to finance pandemic-related spending. The financial sector remained liquid, profitable, and well capitalized, though the shock from COVID-19 weakened asset quality. The ratio of NPLs to gross loans deteriorated to 5.6% by mid-2021 from 4.5% in June 2020. The poverty rate, measured by the World Bank’s $3.20-a-day 2011 PPP line, stayed high at 35.5% in 2020 and 35.1% in 2021, due to COVID-19.

Outlook and risks

The outlook remains challenging and dependent on the global economic recovery through the tourism and trade channels. Growth is projected at 4.8% in 2022 and 5.8% in 2023, on the back of agriculture, transport, energy, tourism, finance, and the digital economy. Inflation is projected at 8.0% in 2022, driven by higher energy and food prices due to the Russia–Ukraine conflict, but it could fall to 7.5% in 2023 as global supply chains normalize. The fiscal deficit is projected to increase to 4.6% of GDP in 2022, due to higher subsidies and debt service, and then to narrow to 3.1% in 2023, owing to improved tax administration and rationalized spending. The current account deficit is forecast to widen to 14.7% of GDP in 2022, driven by infrastructure-related imports and a rising oil and food import bill due to the Russia–Ukraine conflict, then moderate to 11.8% in 2023 as reexports pick up. Downside risks could stem from new COVID-19 variants, low vaccine rollout, climate disasters, and debt vulnerabilities. Rationalizing subsidies on state-owned enterprises, strengthening health sector, and frontloading growth-friendly structural reforms could mitigate growth risks.

Climate change issues and policy options

The country is 41 on the 2021 GCRI. Investments in climate adaptation and mitigation are vital. Windstorms in 2021 affected nearly 17,000 people in 100 communities, destroyed social infrastructure, and left 100 people injured and 10 dead. The Gambia lags on green energy, with it constituting less than 2% of total energy production. However, the $86 million, 56 MW project by the Organization for the Development of the Gambia River—a solar project targeting 1,100 schools and hospitals, constructing a 20 MW photovoltaic plant, and a 150 MW solar park—will accelerate progress to the 40% green energy target and contribute to 2021’s updated NDC target of 49.7%, both by 2030. The Gambia is on track to meet SDG 13 on climate action. Although $66 million has been mobilized, a further $1.35 billion will be required to achieve the climate targets—$420.6 million for adaptation and $925.74 million for mitigation. To leverage private finance, the government should introduce feed-in tariffs, carbon trading, clean energy subsidies, and risk management instruments to mitigate risk in low-emission and climate-resilient investments.
Recent macroeconomic and financial developments

GDP growth is estimated at 5.0% in 2021, up from 0.4% in 2020, supported by increased household consumption and commodity exports on the demand side and a rebound in services on the supply side. Inflation slowed from 9.9% in 2020 to 10.0% in 2021 given low food inflation, which was 47.7% of total inflation. The fiscal deficit is expected to narrow from 15.2% of GDP in 2020 to 12.1% in 2021 due to increased revenue collection. The country remains at high risk of debt distress with a debt-to-GDP ratio of 77.5% in September 2021, against 76.1% in December 2020.

The current account deficit is estimated to have narrowed to 2.1% of GDP in 2021 from 3.1% of GDP in 2020, given the merchandise trade surplus. Foreign exchange reserves increased from $8.6 billion in December 2020 to $9.7 billion in December 2021 (4 months of imports). The Ghana cedi depreciated further against the dollar in 2021, by 4.1% after 3.9% in 2020, both years due to foreign exchange demand–supply mismatches. The banking sector remained strong in 2021 with a capital-adequacy ratio of 20.8% at end-June 2021, nearly double the regulatory minimum of 11.5%. Poverty declined from 12% in 2020 to 11% in 2021, given GDP per capita growth of 2.3%, from a contraction of 1.7% in 2020. However, unemployment increased by 2.3 percentage points to 13.4% in 2015–21. The country has committed the SDR allocation of $1 billion to finance the 2022 budget deficit.

Outlook and risks

The outlook remains positive, with projected GDP growth of 5.3% and 5.1% in 2022 and 2023 supported by the Ghana COVID-19 Alleviation and Revitalization of Enterprises Support Program. Potential inflationary pressure exists due to increased energy and food prices associated with the impact of the Russia–Ukraine. Inflation is projected to surge to 15% in 2022 before falling to 9.1% in 2023. The Bank of Ghana is expected to adopt a tight monetary policy stance. The fiscal deficit is projected to narrow further to 12.8% of GDP in 2022 and to 10.3% in 2023, spurred by revenue-enhancing reforms. The current account deficit is projected to narrow to 1.6% of GDP in 2022 and 3.3% in 2023, on increased exports.

Climate change issues and policy options

Climate change—stemming from erratic rainfall, rising temperatures, drought, floods, a rising sea level, and tidal waves—presents significant threats to agriculture and energy, as well as climate-induced migration. Agriculture and energy (given its large dependence on hydropower) both depend heavily on rainfall and are thus highly susceptible to fluctuating rainfall. Drought-like conditions in the Northern Savannah Ecological Zone have prompted migration to the south. Ghana is 42 on the 2021 GCRI. At COP26, Ghana launched its updated NDC. It is a member of the Vulnerable Twenty Group of Ministers of Finance committed to supporting carbon pricing and the Coalition of Finance Ministers for Climate Action to facilitate engagement in accelerating resilience to climate change. The government requires $9.3 billion to finance updating the NDCs in 2021–30. Recognizing limited fiscal space, the government is exploring more results-based climate financing options, including carbon markets, climate impact bonds and leveraged private participation. Ghana is making progress in achieving SDG 13 on climate action by 2030.
**Recent macroeconomic and financial developments**

Since 2020, the economy has demonstrated resilience to COVID-19. GDP growth was estimated at 4.3% in 2021, slower than 2020’s 6.4%, despite new bauxite mines and gold-mining activities stimulated by favorable prices and private consumption. Inflation was 12.5% in 2021 due to increases in freight and fuel costs, and in imported inflation on consumer goods. Public finances improved with a budget deficit of 2.3% of GDP in 2021 against 2.9% in 2020, stemming from an increase in tax revenue derived from the effect of digitizing the financial system. Fiscal performance also benefited from budget consolidation and rationalization of operational and investment expenditures during the last trimester of 2021. Public debt stabilized at 43.3% of GDP in 2021 (43.4% in 2020), but Guinea is still at moderate risk of debt distress.

The current account deficit saw a huge narrowing in 2021 to 4% of GDP from 13.7% in 2020, due to a substantial reduction in the trade deficit. The current account deficit is funded by mining FDI. Foreign exchange reserves covered 2.4 months of imports in 2021, a slight increase from 2.2 months in 2020. The banking sector is stable, and NPLs are decreasing. The poverty rate dropped from 55.2% in 2012 to 43.7% in 2019, while unemployment described a bell curve from 3.8% in 2012 to 5.2% in 2014 and to 4.8% in 2018.

**Outlook and risks**

GDP growth is forecast to reach 4.9% in 2022 and 5.7% in 2023, stimulated by mining projects, energy availability, and infrastructure investments. Inflation should remain above 10%, peaking at 12.6% in 2022 before falling to 12.5% in 2023, as supply chain disruptions subside. The upturn in COVID-19 cases in 2022 may lower household activity and incomes in the informal sector, causing a rise in poverty and unemployment. The budget deficit is expected to widen to 3.9% of GDP in 2022 and 4.0% in 2023, attributable to additional costs associated with the upcoming elections. The current account deficit is expected to grow to 11.1% of GDP in 2022 before declining to 9.8% in 2023, when debt service payments resume after payment freezes by the G20, the Paris Club, and the IMF in response to COVID-19. This deficit is expected to be financed by mining FDI as well as loans and grants. The SDR allocation worth about $290 million should promote a slight increase in foreign exchange reserves, to 2.5 months of imports in 2022–23 versus 2.4 months in 2021.

**Climate change issues and policy options**

Guinea has poor climate adaptation and resilience capacities and is 115 on the 2021 GCRI. Agropastoral and fishing activities, which employ 66% of the active population, are vulnerable to climate variations. Despite its large water resources, it is subject to spatial and temporal variability in annual rainfall, now fewer than 6 to 9 months in the regions of Upper, Middle, and Lower Guinea compared with 9 to 10 months in Forested Guinea. In 2016, the government approved an NDC and is implementing projects with support from partners and climate funds. Revising the NDC to comply with the Paris Agreement will help translate Guinea’s ambitions into low-carbon climate-resilient development policies. The cost to fund the NDC by 2030 is estimated at $33 billion, $23 billion from Guinea’s own resources, with funding of $10 billion needed. Slow implementation of climate change reforms has delayed the likely achievement of SDG 13 on climate action. Guinea should build its capacity for climate adaptation and resilience by integrating environmental priorities into its strategic and budget planning.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Growth is estimated to have reached 3.8% in 2021, a recovery from a negative 1.4% in 2020, reflecting trade resumption and increased cashew nut production. The agriculture-based economy suffered from lockdowns and closure of borders in 2020, recovering in 2021. On the supply side, the primary sector accounted for 48% of GDP in 2021, contributing to growth. On the demand side, investment was the main contributor to growth, increasing 6.4% from 2020. Inflation is estimated to have picked up to 3.3% in 2021 from 1.5% in 2020, driven by higher pandemic-related food and fuel prices. The fiscal deficit is estimated to have narrowed to 5.6% of GDP in 2021 from 9.8% in 2020 on the back of higher tax revenue from the cashew trade and rationalized expenditure. The budget deficit was financed by grants and loans from international financial institutions and regional commercial banks. The current account deficit was estimated to have reached 3.3% of GDP in 2021, up from 2.6% in 2020. Although the debt-to-GDP ratio improved to 78.4% in 2021 from 79.3% in 2020, the IMF downgraded the risk of external debt distress from moderate in 2018 to high in 2021.

Poverty was estimated at 65% in 2020/21 and unemployment stood at 11.5%, but this figure masks huge informality. Some estimates put youth unemployment at 50% of the labor force. All five banks are foreign owned and relatively sound. The NPL ratio decreased to 6.3% in 2021 from 10.3% in 2020, when the capital to risk-weighted asset ratio decreased to 21.4% from 25.6%; both were within regulatory thresholds. As part of the SDR allocation, Guinea-Bissau received SDR 22.7 million ($31.8 million).

Outlook and risks

GDP growth in 2022 and 2023 is projected at 3.7% and 4.5%, driven by trade resumption. Inflation is expected to soar to 4.1% in 2022 and to decrease to 3.2% in 2023, reflecting rising oil and food prices as a consequence of the Russia–Ukraine conflict. The budget deficit is projected to narrow to 4.2% and 4.1% of GDP in 2022 and 2023 due to improved fiscal management. The country has improved debt sustainability, fiscal space for priority spending, and governance. The current account deficit is projected to be 5.2% of GDP in 2022 and 4.1% in 2023, attributed to higher import prices. Headwinds include risks from higher-than-expected oil prices and adverse weather. Political stability is crucial to attract investment and stimulate private engagement, but political tensions are still creating uncertainties, threatening reforms.

Climate change issues and policy options

Guinea-Bissau is 130 on the 2021 GCRI—ranked first as more exposed to extreme events—but data issues may muddy the picture. The climate change impact is widespread, and resources are being fast depleted, with fires destroying more than 120 ha of forest every year. Despite an overall decrease in rainfall, rain events are growing increasingly intense, often paired with strong winds, causing huge agricultural losses. In 2020, severe floods hit the rice-producing region in the south. The government has started to adopt climate-resilient measures, such as introducing drought-resistant crop varieties, diversifying agricultural production, and financing projects to adapt the energy transition to cleaner alternatives. The NDC identifies two primary sources of GHG emissions—change in the use of land and forests, and the energy sector—and aims to reduce GHG emissions by 30% by 2030. At the current pace of wood decline and given energy needs, emissions are expected to surge to 150,000 Gg of CO2 equivalent by 2050, from roughly 10,000 Gg today. The main mitigation measures will target reforestation and electric power generation. Financing needs are estimated at $694 million for 2021–30. Political and institutional instability has shifted the country off track to achieve the SDGs, while the lack of statistical resources makes it hard to follow progress specifically on SDG 13 on climate action.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Liberia

Recent macroeconomic and financial developments

The Liberian economy recovered in 2021 from COVID-19. GDP is estimated to have recovered to grow by 3.3% from a decline of 3.0% in 2020, largely driven by growth in mining and construction on the supply side and public spending on the demand side, as the economy reopened. Inflation eased from 17% in 2020 to 8.0% in 2021 on a steady decline in food prices. The fiscal deficit is estimated to have narrowed to 3.3% of GDP in 2021 from 3.6% in 2020 due to increased revenue collection. As of October 2021, public debt had increased to 54.7% of GDP from 47.9% in 2020, reflecting increased borrowing. The current account deficit widened to 17.4% of GDP in 2021 from 16.1% in 2020 due to a widening trade deficit, as imports increased.

International reserves stood at $716 million in December 2021 (4.4 months of import cover), mainly because of the SDR 247.7 million allocation (48% of gross reserves) used to strengthen the international reserves position and help finance the vaccination program and public investment. The exchange rate appreciated 9.8% year on year from LRD162.34/$ in December 2020 to LRD146.27/$ in December 2021. The financial sector remained sound with a capital-adequacy ratio of 32.9% in June 2021 compared with 35.1% in June 2020, although the NPL ratio remained high at 22.5%. Extreme poverty also remained high, at 43.0% in 2021, marking just a 1.0% decline from 2020. Unemployment was estimated at 3.3% in 2020.

Outlook and risks

The outlook is positive, with risks tilted to the downside due to the Russia–Ukraine conflict. Growth is projected at 3.5% in 2022 and 4.3% in 2023, driven by expansion in mining, services, manufacturing, and agriculture. Inflation is projected to surge to 9.8% in 2022 and 8.1% in 2023, driven by food and energy inflation. The fiscal deficit is forecast to widen to 5.5% in 2022 and to 3.5% in 2023 due to lower grants and higher subsidies. The current account deficit is forecast to widen to 20.8% of GDP in 2022 and to 17.5% in 2023 due to a higher import bill, as fuel and food constitute about 50% of total imports. Downside risks include a prolonged pandemic and slow vaccine rollout; a prolonged Russia–Ukraine conflict; deterioration of the terms of trade on the main exports, especially gold and rubber; and non-adherence to prudent macroeconomic policies.

Climate change issues and policy options

Liberia is 101 on the 2021 GCRI. It is faced with high climate change risks including cyclones, floods, and a rising sea level because of its location in a tropical rain forest climate belt. Projections on climate change point to average annual rainfall 3.0% greater by 2050, annual temperatures 2.6°C higher by the 2060s, and a rising sea level of 0.56 meters by 2100. These impacts would lead to massive biodiversity loss, widening inequalities, and rising food insecurity and hunger. The country’s Pro-poor Agenda for Prosperity and Development (2018–23) has integrated green growth, environmental adaptation, and climate change. The 2017 National Policy and Response Strategy on Climate Change guides implementation of mitigation actions. Liberia’s GHG emissions were estimated at 3.5 Mt in 2014. In 2021, the country submitted a revised NDC report demonstrating its commitment to tackling climate change challenges. An estimated $490 million would be needed to finance the country’s mitigation and adaptation activities and actions in 2021–30. The GCF in 2021 approved $10 million for climate information systems to enhance population and infrastructure resilience to climate change. Liberia is on track to meeting SDG 13 on climate action.
Recent macroeconomic and financial developments

With no economic sanctions in 2021 after the coup d’état in May that year, Mali saw an economic recovery with growth of 3.2% after a contraction of 1.2% in 2020, caused by COVID-19 and a previous coup d’état in August 2020. On the supply side, expansion in 2021 was based on agriculture (growing by 2.4%) and services (5.3%). On the demand side, private (up 5.2%) and public (up 4.0%) investment, with household consumption (up 3.0%) enabled this outcome. The continuing rise in prices (4.1% in 2021 versus 0.5% in 2020) can be attributed to high food product prices, propelled by surging fuel and transport costs and a 10.5% drop in national grain production. The Central Bank of West African States (BCEAO) has maintained an accommodating stance on monetary policy.

The banking system NPL ratio was 4.8% in September 2021. The budget deficit improved to 4.7% of GDP in 2021. The financing gap (11.2% of GDP in 2021) is covered mainly by domestic financing—77.6% of total financing. Public debt, however, is still buoyed primarily by foreign debt, which was 30.6% of GDP versus 21.4% for domestic debt. Although public debt increased to 52.0% of GDP in 2021 from 47.3% in 2020, the risk of debt distress remains moderate. The current account deficit widened to 4.5% of GDP in 2021 from 2.3% in 2020 owing to high domestic demand and declining terms of trade. The recovery in economic activity in 2021 translated into a slight drop in the poverty rate—44.2%, versus 44.9% in 2020. Unemployment was 7.4% in 2021.

Outlook and risks

GDP growth is expected to fall to 2.1% in 2022 due to the effects of the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) sanctions in association with the impact of Russia–Ukraine conflict, which would reduce services and interior demand by 4.2% (3.4% versus 4.5% in 2021). However, growth should bounce back to 5.4% in 2023, sustained by recoveries in cotton output (25.5%), in cereals (5.5%) and in gold (5.6%), combined with favorable global prices. A strong pickup in the industrial sector (6.1% versus 2.3% in 2022) and services (5.5%) and increased domestic demand of 5.5% will also support strong economic performance in 2023. Inflation is expected to strongly rise to 7.8% in 2022 due to the embargo and the Russia–Ukraine conflict but should fall to 3.1% in 2023, alongside an increase in cereal production, a fall in petroleum-product prices, a drop in the taxable base of 50% on imported foodstuffs, and the setting of maximum price limits. Budget consolidation will allow for a decline in the deficit to 4.4% of GDP in 2022 and 3.5% in 2023, driven by tax reforms and spending rationalization. Public debt is expected to slightly grow to 52.9% of GDP in 2022 and 53.0% in 2023. From 2023, domestic debt is expected to surpass foreign debt, raising concerns about sustainability and a potential crowding-out effect on business access to credit. The embargo imposed on the country, political instability, worsening security, the Russia–Ukraine conflict, and pandemic surges are major risks to the outlook.

Climate change issues and policy options

Mali is the country eighth most susceptible to climate risks. The rainfall shortage brought about a 10.5% drop in grain production in 2021. Drought caused the loss of 225,000 acres of crops, affecting 3 million Malians. Given these and earlier events, Mali has established climate resilience as one of its focuses in its Strategic Framework for Economic Recovery and Sustainable Development (2019–2023) and prepared its NDC committing to reduce GHGs by 2030—31% in energy, 29% in agriculture, and 21% in land and forest use changes. Public policy options should first be focused on strengthening climate resilience via optimal water management and hydro-agricultural development. Second, Mali should modify its public investment program to prioritize RE to transition to green energy growth by 2030 in compliance with the Desert to Power initiative of the African Development Bank. Mali is endowed with one of the largest potential solar sources in the world: electricity supply was underpinned by an energy mix of 61.5% thermal power stations and 38.5% RE in 2020. Finally, Mali should increase its funding for environmental protection, which was just 1.9% of the budget in 2021.

Recent macroeconomic and financial developments

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The banking system NPL ratio was 4.8% in September 2021. The budget deficit improved to 4.7% of GDP in 2021. The financing gap (11.2% of GDP in 2021) is covered mainly by domestic financing—77.6% of total financing. Public debt, however, is still buoyed primarily by foreign debt, which was 30.6% of GDP versus 21.4% for domestic debt. Although public debt increased to 52.0% of GDP in 2021 from 47.3% in 2020, the risk of debt distress remains moderate. The current account deficit widened to 4.5% of GDP in 2021 from 2.3% in 2020 owing to high domestic demand and declining terms of trade. The recovery in economic activity in 2021 translated into a slight drop in the poverty rate—44.2%, versus 44.9% in 2020. Unemployment was 7.4% in 2021.

Outlook and risks

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Climate change issues and policy options

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Recent macroeconomic and financial developments

Economic growth in Niger was weaker in 2021 than in 2020, owing mainly to lower agricultural production due to poor rainfall. Economic growth in 2021 was led by secondary and tertiary sectors as well as by the modest rise in household consumption and investment. Inflationary pressures were reduced, inflation fell from 4.4% in 2020 to 3.19% in 2021, but the inflation rate remains higher than the WAEMU’s 3% standard. The budget deficit stabilized at 5.2% in 2021, with public revenues and expenditures having evolved in nearly the same proportions. Some 85% of the budget deficit was financed by external resources, primarily grants.

Public debt grew to 50.9% of GDP in 2021 from 43.6% in 2020 but remains below the ECOWAS threshold of 70% of GDP, with a moderate risk of debt distress according to the 2021 IMF debt sustainability analysis. The SDR 26 million allocation in 2021 amounted to $179 million and was used to clear payment arrears and to finance the 2021 agricultural campaign. The chronic current account deficit slightly deteriorated to 13.6% of GDP in 2021 from 13.1% in 2020, while foreign exchange reserves increased to cover 6.1 months of imports, from 5.5 months in 2020. The financial sector, which is neither well developed nor diversified, remains stable despite NPLs to total loans rising to 13.9% in 2021 from 12.6% in 2020. The poverty rate rose to about 42% in 2020, after it had fallen from 45.4% in 2014 to 40.8% in 2019. Access to employment remains problematic—a cause of inequality—with an official unemployment rate of about 16% of the active population.

Outlook and risks

Economic growth is projected to accelerate in 2022 and 2023 to 6.5% and 7.2%, led by agriculture and supported by the new “3N” agricultural initiative—Les Nigériens nourrissent les Nigériens—continued public investment in infrastructure, and increased FDI in the extractive sector. Growth in oil, which has been negative in the last two years, should reach 20.6% and 86.2% in 2022 and 2023. Macroeconomic recovery efforts should be pursued, specifically through a new expanded facility program agreed with the IMF in December 2021. But for 2022 and 2023, this will not enable Niger to respect the debt distress standard in regard to the WAEMU’s primary convergence criteria, notably public debt of about 60% of GDP. The chronic current account deficit should begin to fall by 2023 with the start of crude oil exports. However, these good economic prospects remain subject to substantial risks arising from the security situation, international conditions (in particular the impacts of the Russia–Ukraine conflict), and climate change. Niger should increase its mobilization of financial resources to mitigate these risks.

Climate change issues and policy options

Faced with an austere natural environment, Niger is extremely vulnerable to climate change (including flooding, drought, sand and/or dust storms, extreme temperatures, high winds, locust attacks, and bush fires). Because the economy depends heavily on the agropastoral sector and the country is landlocked, climate change can often cause up to an annual 3% loss of GDP growth. Niger has recently strengthened its institutional and strategic framework for fighting environmental degradation and the effects of climate change, specifically by adopting the new NDC relative to the Paris Agreement and, in 2019, transforming the National Environmental Assessment Office into a directorate-general. In 2021, steps taken improved the country scores for SDG 13 on climate change and the Bank’s Country Policy and Institutional Assessment on Environmental Policies and Regulation. National priorities for mitigating GHG emissions also reflect Niger’s dependence on biomass and the government’s commitment to overcoming it, which means, for example, highlighting conservation, substituting and saving on energy from wood, and promoting solar/thermal hybridization in the energy sector.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

Nigeria’s economy grew by 3.6% in 2021 from a 1.8% contraction in 2020, underpinned on the supply side by 4.4% expansion in the non-oil sector against 8.3% contraction in the oil sector; non-oil growth was driven by agriculture (2.1%) and services (5.6%). On the demand side, public and private consumption were contributors to GDP growth. Per capita income grew by 1.0% in 2021. The fiscal deficit narrowed to 4.8% of GDP in 2021 from 5.4% in 2020, due to a modest uptick in revenues, and was financed by borrowing. Public debt stood at $95.8 billion in 2021, or about 22.5% of GDP.

Annual average inflation stood at 17.0% in 2021 against 13.2% the previous year and above the central bank’s 6–9% target. Inflation was fueled by food price rises at the start of the year and exchange rate pass-through. The central bank kept the policy rate unchanged at 11.5% in 2021 to support economic recovery. The current account deficit narrowed to 2.9% of GDP in 2021 from 4% the preceding year, supported by recovery in oil receipts. Improved oil exports and disbursement of the SDR allocation of $3.4 billion (0.8% of GDP), pending decision on its use, helped to boost gross reserves to $40.1 billion in 2021. The ratio of NPLs to gross loans was 4.9% in December 2021 (regulatory requirement 5%), while the capital-adequacy ratio was 14.5% (regulatory benchmark 10%). Poverty and unemployment remained high, broadly unchanged from 40% and 33.3%, respectively, in 2020.

Outlook and risks

Growth will decelerate, averaging 3.2% during 2022–23, due to persistent low oil production and rising insecurity. Inflation is projected to remain elevated at 16.9% in 2022 and to stay above pre-pandemic levels in 2023, fueled mainly by rising food, diesel, and gas prices and persistent supply disruptions amplified by the Russia–Ukraine conflict. Capital inflows are projected to recover, while oil exports are projected to increase slightly. The benefit of a forecast positive oil price shock on exports may, however, be partly offset by a weak output effect due to lower oil production, stoked by infrastructure deficiencies and rising insecurity. The projected marginal current account surplus of 0.1% of GDP in 2022 could turn into deficit of 0.2% in 2023. Improved revenue collection will help narrow the fiscal deficit to an average of 4.5% of GDP. Public debt targeted to reach 40% of GDP by 2024 on fresh borrowing. The headwinds to the outlook may be exacerbated by rising insecurity and policy uncertainty underpinned by reversal of initially planned removal of subsidies on premium motor spirit a year before the 2023 elections.

Climate change issues and policy options

Climate change’s impact is seen in crop yields declining by 7% in the short term (2006–35) and by 25% in the long term (by 2050). Projected increases in annual maximum temperature of 3–4°C between 2050 and 2070 could further undermine agricultural productivity and cause greater water stress. Already, shortages of water and grazing land are generating communal conflicts. Nigeria is 73 on the 2021 GCRI.

Transition to low carbon highlights the plight facing Nigeria’s oil sector and energy infrastructure. Oil and gas account for more than 85% of exports and about half of revenues. Eliminating fossil fuels will act as a drag on the transition to higher income but provides a chance for inclusive and green development. The revised NDC 2021–30 and National Adaptation Plan 2021 set emission targets for 2030 at 453 MtCO$_2$ eq, around half the level forecast in 2015. This is a 2.6% annual increase, with total financing estimated at $177 billion. The Climate Change Act (2021), aligned with the Medium-term National Development Plan, provides the legal framework. Investing in clean energy, smart agriculture, and climate-proofing technology are vital for the economic transformation’s resilience and export-led diversification. Nigeria’s policy efforts bode well for meeting SDG 13 on climate action by 2030, but risks abound.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

In 2021, the economy began its recovery, in part due to the Adjusted and Accelerated Priority Action Plan, with 6.1% growth against 1.3% in 2020. It was led by the resumption of the extractive sector, construction, and commercial activity connected to strong demand, as well as transport services. Agriculture slowed to 4.6% growth in 2021, after a soaring rise of 23.4% in 2020. On the demand side, growth was sustained by final consumption and resumption of investment. Inflation settled at 2.1% in 2021. The NPL ratio fell from 13.3% in December 2020 to 12.9% in June 2021. Despite expenditure related to the recovery, the fiscal deficit narrowed in 2021 owing to increased tax revenue—a higher 17.6% of GDP in 2021 than 16.7% in 2020. The fiscal deficit of 5.9% of GDP in 2021 was financed by an accumulation of debt drawn down on project/program loans and government securities. Thus, public debt increased to 73% of GDP in 2021 from 68.8% in 2020, though the risk of debt distress remains moderate.

Improved global demand helped to nudge down the current account deficit, to 10.4% of GDP in 2021 from 10.9% in 2020; it remains wide because of imports related to oil investments. With the pandemic, the rate of poverty at the $1.90-a-day threshold rose from 35.9% in 2019 to 36.9% in 2021. The 2020 unemployment rate was 16.7%, affecting women (26.3%) more than men (9.3%). The SDR allocation of $460.5 million was used to strengthen the health system, support households, and stabilize prices of basic staple foodstuffs.

Outlook and risks

With the effects of the Russia–Ukraine conflict, the recovery is forecast to decelerate in 2022 to 4.6% and accelerate in 2023 to 8.2%, the latter due to public and private investments and oil and gas exploitation that year. The rising prices of oil and food products will cause inflation to increase to 3.2% in 2022 then to fall to 2.2% in 2023. Despite expected improved domestic revenue mobilization, the budgetary measures to curb the ongoing crisis would maintain fiscal deficit at the high level of 5.5% of GDP in 2022 before an expected decrease to 4.7% in 2023. With the increase in import invoicing for oil and food products, the current account deficit is forecast to widen in 2022 to 13.2% of GDP, then to ebb in 2023, to 10.7% of GDP, with the start of hydrocarbon exports and the reduction of imports linked to hydrocarbon investments. However, prolongation of the effects of the Russia–Ukraine conflict, deteriorated terms of trade, or delayed oil output could further undermine recovery and lead to a fall in demand and a rise in vulnerabilities linked to public debt.

Climate change issues and policy options

Senegal is 70 on the 2021 GCRI and remains highly vulnerable to climate change. Agriculture, fishing, and tourism are the sectors most affected. Because of lower rainfall and higher temperatures, the risks of drought could increase by 20–40% in the long term. Moreover, with exploitation of hydrocarbons, emissions will likely rise sharply. Annually, the country emits about 30.8 Mt of CO₂, with about 49% from the energy sector. Carbon projects have enabled the sequestration of 305,768 tons of CO₂ in 2020 compared with 252,000 tons in 2019. The Emerging Senegal Plan (2014–2035) has identified priorities to promote green growth.

The Green Climate Fund mobilized $153.4 million for Senegal in 2020 to support flood prevention, promotion of RE, sustainable management of land, and ecosystem resilience. Medium-term strategic choices deal with raising RE to 30% of the country’s total energy capacity; reducing GHGs through adaptation and mitigation; and strengthening environmental governance frameworks. Prospects for reaching SDG 13 on climate action remain difficult despite government efforts because the implementation rate is expected to be low (13.6% in 2023) under the recovery plan.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Sierra Leone

Recent macroeconomic and financial developments

The economy is estimated to have grown by 3.2% in 2021 after a contraction of 2% in 2020. Growth was driven on the demand side by higher exports from mining and agribusiness, and on the supply side by resumption of iron ore production alongside recovery in other key sectors. From 2020 to 2021, inflation is estimated to have declined to 11% from 13.4% (due mainly to improved production and trade), the fiscal deficit to have widened to 7.1% of GDP from 5.6% (due to the impact of the Russia–Ukraine conflict), public debt to have edged up to 75% of GDP from 74%; and the current account deficit to have narrowed to 13.9% of GDP from 16.7% (due to higher demand for commodities). The current account deficit is financed mainly by the financial account, notably FDI.

Gross foreign reserves increased to $695.0 million as at end-June 2021 from $653.8 million a year earlier (4.6 months of imports), reflecting disbursement of balance-of-payments support and the SDR allocation of $283 million (6.5% of GDP); of the latter, the majority will be used to boost reserves, $39 million will be spent on poverty-related areas, and $9 million on payment arrears. The exchange rate remained relatively stable.

Sierra Leone’s financial sector is underdeveloped but generally sound with a capital-adequacy ratio of 41.8% against a regulatory minimum of 15%. The country has high levels of poverty (56.8% in 2018), of income inequality, and of youth unemployment (70%) attributable to slow growth and lack of economic diversification.

Outlook and risks

Growth is projected to accelerate to 4% in 2022—driven by mining and the recovery of agriculture, manufacturing, construction, and tourism—and then to marginally improve to 4.2% in 2023. Inflation is projected to increase to 16.8% in 2022 due to the Russia–Ukraine conflict but to decline to 14.3% in 2023. The fiscal deficit is projected to narrow to 4.4% of GDP in 2022 and to 4% in 2023, due to higher tax revenue supported by improved economic activity and expenditure rationalization. The current account deficit is projected to widen to 16.6% of GDP in 2022 due to the Russia–Ukraine conflict but to decline to 13.6% in 2023, as the resumption of iron ore production boosts export revenues. Downside risks include the Russia–Ukraine conflict, an unexpected surge in COVID-19 cases, a more than forecast rise in international fuel and food prices and freight costs, and a fall in iron ore prices. The government aims to boost vaccination outreach, as well as accelerate reforms to diversify and transform the economy to withstand recurring external shocks.

Climate change issues and policy options

Sierra Leone is highly vulnerable to climate change, particularly extreme events including high temperatures, inconsistent weather patterns, recurrent storms, floods, mudslides, and a rising sea level. It was 86 on the 2019 Climate Risk Index. Sierra Leone has adopted a National Climate Change Policy, while its Medium-Term National Development Plan 2019–23 underscores the need for aligning environmental, climate, and economic development plans to mitigate the causes of global warming and help citizens adapt. Sierra Leone’s NDC underscores that climate change mitigation is particularly crucial, as the country is ranked one of the least able to adapt to climate change. The NDC envisions achieving a reduction in the country’s GHG emissions by 10% in 2030 from 74,655 Gg of CO₂ equivalent in 2020. The NDC’s financing needs are estimated at $2.76 billion for 2020–30, to be mobilized from public and private sources and international support under the Global Environment Facility and GCF, technology transfer, and technical assistance. Sierra Leone is likely to meet SDG 13 by 2030.

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.
Recent macroeconomic and financial developments

The economy made a good recovery in 2021, with GDP growth estimated at 4.8% and up from 1.8% in 2020, driven primarily by extractive industries and manufacturing on the supply side, and by private consumption and investment on the demand side. Higher tax revenues of 0.7% led to a drop of 1 percentage point in the budget deficit, despite 0.4% greater expenditure, though it remains far worse than the pre-COVID-19 surplus and requires heavy financing. Public debt grew to 61% of GDP in 2021 from 58.6% in 2020. Inflation rose from 1.8% to 2.6% between 2020 and 2021, primarily because of rising food prices due to pandemic-related supply constraints. The quality of the bank loan portfolio improved with a slight fall in overdue credit from 6.0% to 5.6% between 2019 and 2020.

The SDR 140.7 million allocation came to about $200.3 million, which could help to revitalize the economy. The current account deficit is estimated higher in 2021, at 2.6% of GDP, than in 2020 (1.4%), due to the trade deficit, which widened to 9.7% from 8.6%. Gross international reserves mutualized in ECOWAS averaged 5.25 months of imports in 2020–21. The national poverty rate was estimated at 45.5% in the 2018–2019 Household Survey.

Outlook and risks

For 2022, the outlook for the economy seemed favorable. However, Russia’s invasion of Ukraine could slow the recovery Togo initiated in 2021 (6% versus 1.8% in 2020), with GDP growth expected at 5.8% versus an initial forecast of 6.2% at the beginning of February 2022. Inflation should be at 4.6% versus an initial estimate of 2.4%. Togo could be affected because of its trade relationships with both Russia and Ukraine. About 40% of Togo’s wheat imports in 2020 were from Russia, which suggests a strong probability of a negative effect on the cereal’s availability and price. The country could also be affected by the conflict’s negative effects on partner countries, such as those in the Euro zone and Asia. In addition, there is the COVID-19 health crisis, and new variants in particular. Realizing the above risks would make it necessary to amplify stimulus measures such as the NOVISSI Program in order to alleviate the burden of soaring prices on households already hard hit by the effects of the health crisis.

Climate change issues and policy options

The effect of climate change on Togo is conspicuous in agriculture, contributing to the sector’s share of GDP contracting from 37.3% in 2008 to 24.7% in 2021. Temperatures could rise by 2.15–2.75°C in 2100 from 2020 (RCP 6.0), but could be lower, at 1.53–1.96°C, in 2100 if GHGs were contained. In 2021, the outlook for achieving SDG 13 on climate action was favorable, linked to control of CO₂ emissions. In 2021, Togo strengthened its institutional mechanism by adopting the REDD+ strategy, and the Coastal Law. Further, the Blitta 50 MW solar power plant is set to help take national access to electricity to 60% in 2022, from 45% in 2018.

According to 2021’s revised NDC, the financial resources required to achieve the GHG emissions reduction goals are about $5.5 billion, 78% of which is for conditional measures. The country intends to mobilize public and private domestic funds and foreign support to finance planned actions.

![Graphs of Real GDP growth, Real GDP per capita growth, CPI inflation, Budget balance, and Current account]

Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.