1

AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

- **African economies remain resilient amid multiple shocks with average growth projected to stabilize at 4.1 percent in 2023–24, higher than the estimated 3.8 percent in 2022.** Following a strong recovery from the debilitating impact of COVID-19, Africa's growth declined to an estimated 3.8 percent in 2022, from 4.8 percent in 2021. The slowdown in growth had many causes: tightening global financial conditions, supply chain disruptions exacerbated by Russia's invasion of Ukraine,[1] subdued global growth constraining demand for Africa's exports, residual effects of the COVID-19 pandemic, and growing impacts of climate change and extreme weather events. Growth's projected stability in 2023 and 2024 reflects the expected benefits from a slight improvement in global economic conditions—mainly underpinned by China's re-opening and the slower pace of interest rate adjustments following aggressive tight monetary policy. But elevated inflation and persistent fragility in supply chains and climate change impacts will remain on the watchlist as potential constraints to accelerated growth in the continent.

- **The outturn for growth in 2022 and the outlook for the medium- term mask cross-regional variations.** Underpinned by high commodity prices, Central Africa had the highest growth of 5.0 percent in 2022, up from 3.4 percent in 2021, but it is projected to decline slightly to 4.8 percent in 2023–24. West Africa's growth slowed to 3.8 percent in 2022 from 4.4 percent in 2021 but is projected to rise to about 4.1 percent in 2023–24. Similarly, North Africa's average growth is projected to rise to 4.5 percent in 2023–24 after a decline to 4.1 percent in 2022 from 5.1 percent the previous year. East Africa's growth moderated to 4.4 percent in 2022 from 4.7 percent in 2021 but is projected to rise to 5.5 percent in 2023–24. Growth in Southern Africa is expected to slow further to 2.1 percent in 2023–24 after decelerating to 2.7 percent in 2022 from 4.4 percent in 2021, weighed down by subdued growth in South Africa.

- **The dynamics of Africa's macroeconomic fundamentals are still mixed, and considerable challenges remain.** The average fiscal deficit is estimated to have narrowed to 4.0 percent of GDP in 2022, from 4.9 percent in 2021, and is projected to stabilize at 3.9 percent, reflecting relative improvement in revenues, especially in oil-exporting countries. However, the average current account deficit is estimated to have widened to 2.1 percent of GDP in 2022, from 1.7 percent in 2021, and is projected to widen further to 2.3 percent in 2023–24, reflecting net capital outflows and subdued export revenues mainly in other resource-intensive economies. Exchange rate fluctuations continued in most countries, and domestic currencies in African net commodity-exporters lost substantial value against the US dollar due to interest rate hikes in the United States, which bolstered the dollar. Despite the decline, food and energy prices remained high, with average inflation increasing to an estimated 14.2 percent in 2022, from 12.9 percent in 2021. The increase in inflation also reflected strong exchange rate passthrough effects. Inflation is projected to rise to 15.1 percent in 2023, due to prevailing structural weakness on domestic food supply, volatility in energy prices, as well as continued weakening of domestic currencies. But it should fall to 9.5 percent in 2024, benefiting from the current cycle of tightening monetary policy and easing domestic food supply constraints.

Africa's stable economic outlook comes with cautious optimism, given the considerable global uncertainty and geopolitical tensions

- **Public debt is projected to remain high, increasing the vulnerabilities.** Although the median public debt in Africa is estimated to have declined to 65 percent of GDP in 2022 from 68 percent in 2021—thanks to debt relief initiatives in some countries—it will remain above the pre-pandemic 61 percent of GDP. Moreover, this debt-GDP ratio is expected to increase to 66 percent in 2023 and then stabilize at around 65 percent in 2024 due to growing financing needs—associated with rising food and energy import bills, high debt service costs due to interest rate hikes, exchange rate depreciations, and rollover risks.

  In addition, many countries' difficulties in accessing international capital markets, combined with limited revenue mobilization, have led them to issue local currency debt, which increased substantially from 35 percent of GDP on average in 2019 to 42 percent in 2021. Factoring in the cost of subsidies and cash transfers to mitigate food and energy prices, domestic borrowing could have risen further in 2022. Domestic debt restructuring, therefore, should be part of the negotiations for the resolution of public debt crises in countries facing heightened risks.

- **Africa's stable economic outlook comes with cautious optimism, however, given the considerable global uncertainty and geopolitical tensions.** The failure to diffuse Russia's invasion of Ukraine and the pockets of conflict in Africa could unravel growth's projected stability. Continued appreciation of the US dollar could also heighten risks of debt distress and perpetuate debt vulnerabilities, dampening the growth momentum. And general elections scheduled in several African countries in 2023 and 2024 could increase political uncertainty, weaken investor confidence, derail the recovery in investment flows and disrupt economic activity. Other outstanding downside risks include prolonged global tightening of monetary policy and the resulting drag on global growth that could dampen demand for Africa's exports and investment flows.

- **A mix of short term and medium to long-term policies is needed to accelerate and sustain the growth momentum in Africa.** In the short term: A clearly communicated anti-inflation monetary policy, supported by prudent fiscal policy will achieve lower inflation faster at minimum cost to the economy. Macroprudential policies to build capital and liquidity buffers to supplement monetary policy actions will be necessary to address financial stability risks and maintain price stability. Coordinated debt treatment strategy between official and private creditors is key to avoiding debt crisis, given tight global financial conditions and a bunching of debt service payments.

  In the medium to long term: Scaling up domestic revenue mobilization is critical to restore fiscal sustainability and finance inclusive growth and sustainable development. Enacting strategic industrial policies to accelerate economic diversification in Africa would limit the effects of recurrent headwinds and the transmission of global shocks to growth. Boosting regional trade would enhance Africa's resilience to spillovers from global economic growth slowdown and reduce the persistent trade deficit. Reforming the global financial and debt architecture would reduce the cost, time, and legal complications associated with debt restructuring for African countries. Governance reforms should strengthen public financial management to deal with increased debt and tight fiscal space.

GROWTH PERFORMANCE AND OUTLOOK

Africa remains resilient amidst multiple shocks with average growth projected to stabilize at 4.1 percent in 2023–24, higher than the estimated 3.8 percent in 2022

The pace of economic recovery in Africa was dampened by tightening global financial conditions, elevated inflation, and supply chain disruptions stoked by Russia's prolonged invasion of Ukraine and subdued global growth. The effect of these factors was reinforced by growing impact of climate change and extreme weather events. Average growth of real gross domestic product (GDP) was estimated at 3.8 percent in 2022, down from 4.8 percent in 2021 but above the global average of 3.4 percent.

Updated estimates also show that growth in 31 of the continent's 54 countries, including the two biggest economies, Nigeria, and South Africa, weakened in 2022 and three countries—Libya, Sudan, and South Sudan—went into recession and faced prolonged growth decelerations sparked by internal imbalances and COVID-19. Libya also experienced declines in oil production due to blockades of several major ports and oil fields by protests that began in April 2022. In addition to the three countries experiencing a recession, three others recorded rapid growth deceleration: Morocco (6.8 percentage points), Botswana (6.1 percentage points), and Zimbabwe (5.5 percentage points). Morocco's deceleration was attributed to a drought, and Botswana's to declines in both mining and non-mining output and an ebbing base effect. Zimbabwe's growth slowdown was attributed to low agricultural output due to drought and persistent domestic macroeconomic imbalances.

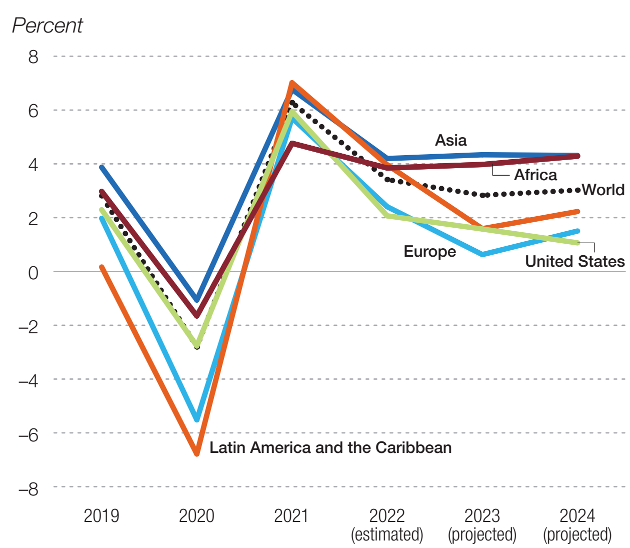
Despite the persistence of shocks, Africa will consolidate its economic recovery, with growth projected to stabilize at 4.1 percent in 2023–24, 0.1 percentage points higher than the earlier projection of 4.0 percent reported in January 2023 edition of *Africa's Macroeconomic Performance and Outlook* (figure 1.1 and appendix table A1.1).[2] Growth in 18 African countries, including 5 of the world's 10 fastest growing economies before the pandemic, is projected to exceed 5 percent in 2023, and the number of countries with growth exceeding 5 percent is expected to rise to 22 in 2024. However, Equatorial Guinea, in recession for most of the past decade due to maturing oil fields and low investment, could remain so even in 2024.

Africa's projected growth for 2023–24 will be stronger than Europe's and the global average but will lag Asia's (4.3 percent), which is likely to benefit from the rebound in China. The April 2023 edition of the International Monetary Fund's *World Economic Outlook* projects global growth to decline from an estimated 3.4 percent in 2022 to 2.8 percent in 2023 (see figure 1.1). The projected weakness in global growth reflects persistence of shocks just highlighted above and is expected to continue to impact investment flows to Africa and demand for its exports. But China's reopening and economic rebound and associated impact on Asia's overall growth could shore up the demand for Africa's commodities. Asia accounts for almost half of the continent's merchandise exports.

The pulse of economic activity gauged by evolution in high frequency leading indicators such as the Purchasing Managers' Index (PMI) also suggests a deceleration in four of Africa's top six economies in 2022 (figure 1.2). The PMI values for Egypt, Kenya, Nigeria, and South Africa, which constitute half of the continent's GDP, have generally trended

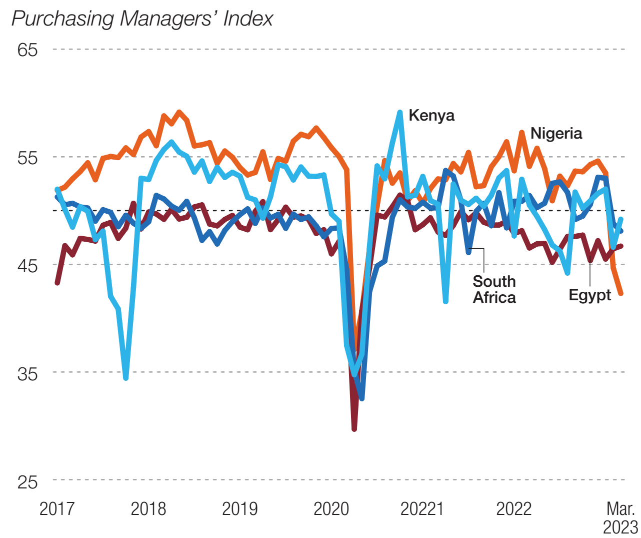
Average growth of real gross domestic product in Africa was estimated at 3.8 percent in 2022, down from 4.8 percent in 2021 but above the global average of 3.4 percent

FIGURE 1.1 Real GDP growth, 2019–24



Source: African Development Bank statistics and IMF 2023.

FIGURE 1.2 **Purchasing Managers' Index in Africa, 2017–March 2023**



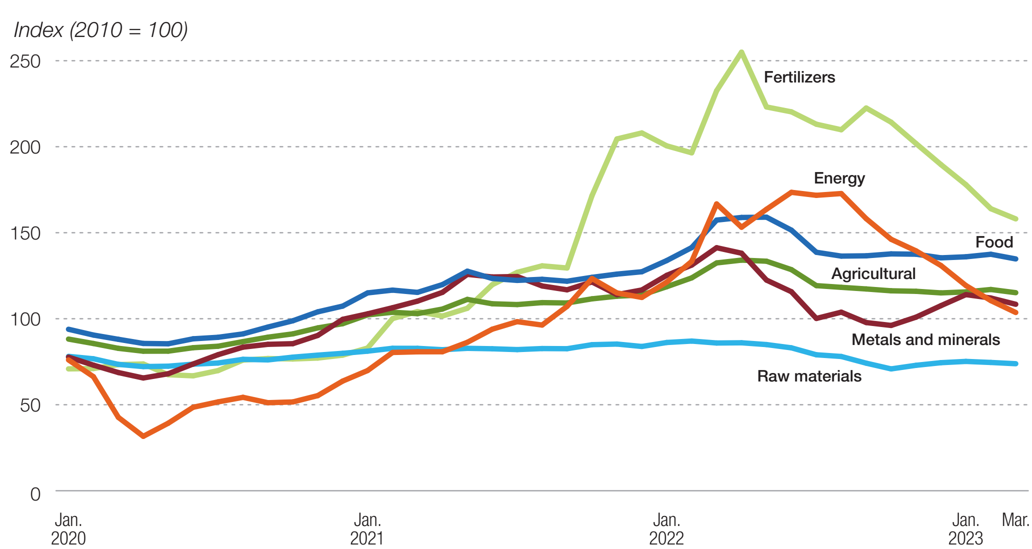
Source: Haver Analytics and IHS Markit.

downward since March 2022, an indication of subdued economic activity. The PMI values reinforce the estimated growth slowdown in Africa in 2022. For instance, between March and December 2022, Egypt's PMI declined by 4.3 percent year-on-year, compared with an increase of 6.4 percent during the same period in 2021. Similarly for Kenya, the year-on-year PMI values also declined by 3.2 percent in 2022, against growth of 5.2 percent in 2021. The annual decline in Nigeria (0.5 percent) was less severe than others, relative to an increase of 9.6 percent in 2021. In South Africa, the growth rate of PMI in the same period declined by 11.3 percentage points to 1.6 percent, from 12.9 percent.

The underwhelming PMI performance partly reflects structural weaknesses, and the interest rate hikes to tame spiraling inflation in these countries. In South Africa, power outages have affected virtually all sectors of the economy, from retail and other services to manufacturing and mining, further exacerbating the effects of the subdued external demand and tight monetary policy. South Africa's economy might barely escape a recession, with growth projected at 0.2 percent in 2023. Nigeria's infrastructure challenges and rising insecurity have hit oil production, with spillover effects to non-oil sectors. Low oil production eroded the positive price effect of high global oil prices, while rising global prices of food and fertilizer fed into already elevated inflation. Growth in Nigeria is projected to remain subdued at about 3.3 percent in 2023–24.

Following Russia's invasion of Ukraine in February 2022, commodity prices rose immediately in March 2022 (figure 1.3) and peaked within a few months. However, prices have since declined to below pre-invasion levels. The decline is largely attributed to weak global demand. At end March

FIGURE 1.3 **Global commodity price indices, January 2020–March 2023**



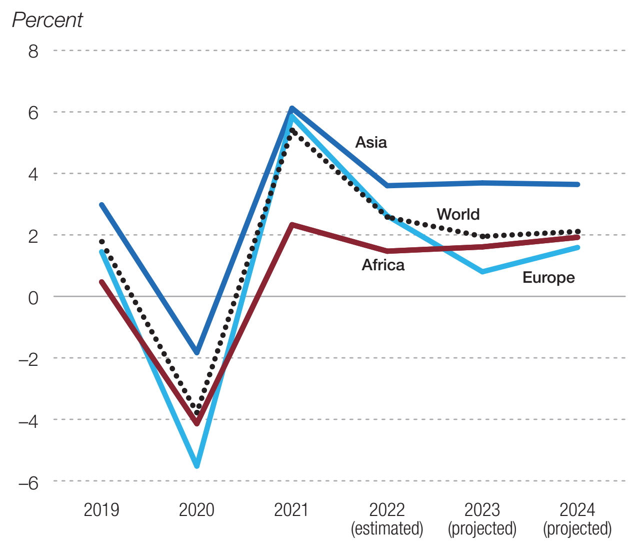
Source: AfDB staff calculations based on the World Bank Commodity database.

2023, the energy price index was 69.9 percentage points lower than its peak in June 2022, while the food price index was 24.3 percentage points lower than its peak in May 2022. The price index for fertilizers followed a similar pattern, declining by 77 percentage points from a peak of 255 in April 2022 to 178 in January 2023. But prices for metals and minerals have since risen from their trough in October 2022, mainly because of renewed demand in Asia and particularly in China, driven by increased construction and manufacturing activity after the country's reopening. Evolution in global commodity prices remains uncertain however, and the current levels could quickly reverse if Russia's invasion of Ukraine were to escalate further or linger for much longer. The early April 2023 surprise decision by OPEC+ to cut oil production by more than one million barrels a day could also stoke a rise in oil prices.

Financial markets in advanced economies remain volatile in response to inflation and central bank actions (figure 1.4). Major equity markets have edged up on expectations of interest rate cuts, as fears of persistent inflation and recession ease and improve the outlook, though with considerable uncertainty. Capital gains from rising equity markets in advanced economies have not translated into corresponding improvements in economic activity, as reflected in the projected slower growth in advanced economies in 2023 and 2024.

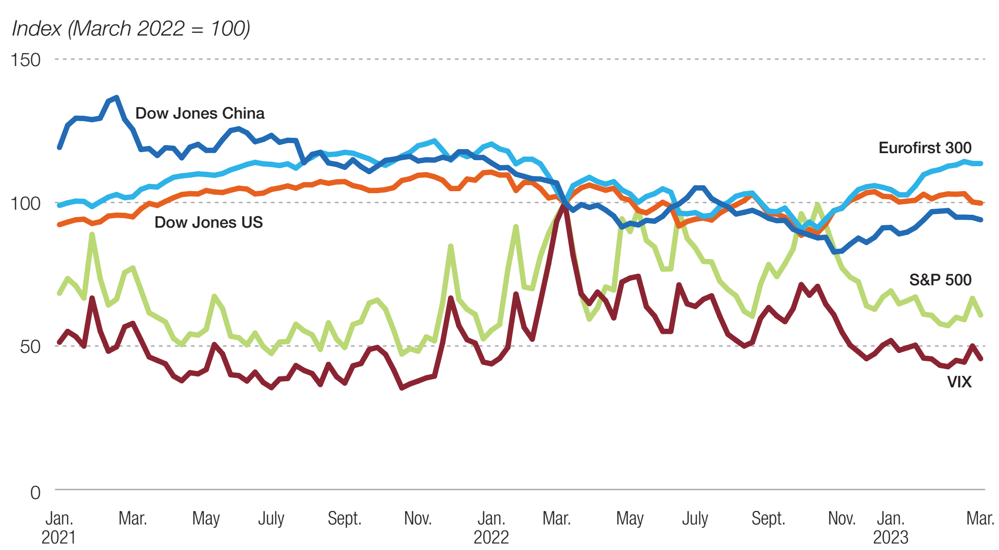
The growth momentum of per capita income in Africa remains sluggish (figure 1.5), and the continent faces a major threat to reversing the increase in poverty over the past three years. In 2022, per capita income grew by 1.5 percent,

FIGURE 1.5 Real GDP per capita growth, 2019–24



Source: African Development Bank statistics, World Economic Outlook Update, April 2023, and United Nations Population Division estimates.

FIGURE 1.4 Leading global capital market indices, January 2020–March 2023



Note: VIX is the Chicago Board Options Exchange's CBOE Volatility Index.
Source: African Development Bank statistics and Haver Analytics.

shedding 0.8 percentage points from the 2.3 percent recorded in 2021. It's expected to recover to about 1.8 percent in 2023–24 but will lag growth in Asia (3.7 percent) and globally (2 percent). Africa's high population growth rate—estimated at 2.4 percent a year—continues to weigh on per capita income growth, particularly in an environment where economic growth has remained subdued for a prolonged period. At the current rate of per capita income growth, Africa's convergence with Asia and other fast-growing regions will remain elusive. Its socioeconomic transformation will thus fall further behind other regions, unless growth is accelerated and sustained at higher rates than those registered in the 1990s and 2000s.

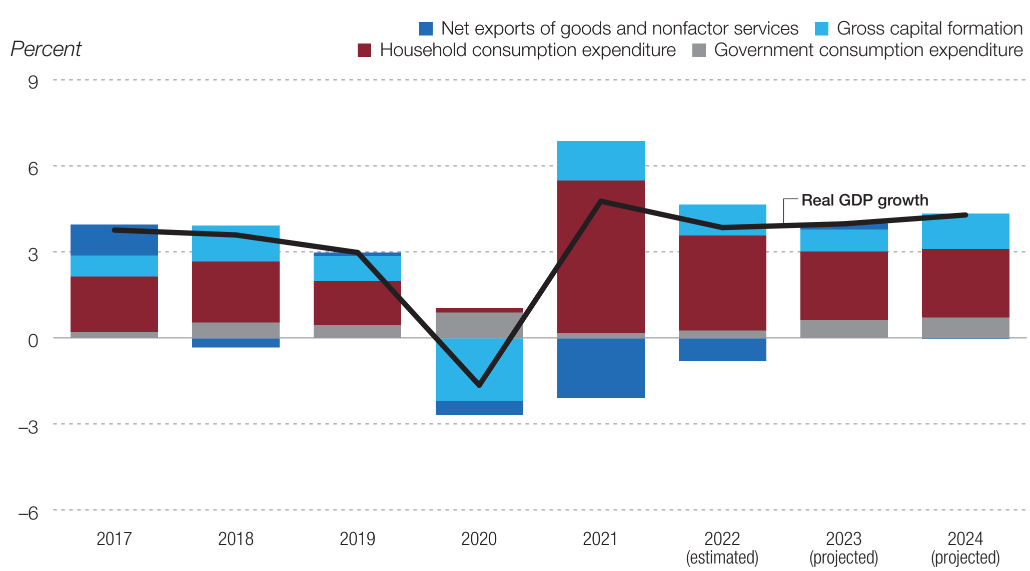
Household consumption spending, historically the key driver of growth on the demand side, weakened in 2022. It contributed 3.3 percentage points, or 86 percent, of the estimated 3.8 percent growth

Sectoral and demand-side decomposition of growth

The slowdown in growth in 2022 partly reflects weakness in private consumption and investment on the demand side and in the industrial sector on the supply side. Household consumption spending, historically the key driver of growth on the demand side, weakened in 2022. It contributed 3.3 percentage points, or 86 percent, of the estimated 3.8 percent growth (figure 1.6). But this was lower than the 5.3 percentage points (equivalent to 112 percent) contribution to growth for that year. Despite the decline, the contribution is an improvement over pre-pandemic levels—50.0 percent in 2019 and average of 58.2 percent in 2014–18. Much of the decline in private spending is due to relatively high commodity prices and tight monetary policy, which eroded household purchasing power. These factors could further push down the contribution of household consumption spending to 2.4 percentage points in 2023–24.

The slack in household consumption spending was offset by a slight improvement in the contribution of net exports to growth while the share of private investment fell. Net exports shed 0.8 percent of growth, lower than the 2.1 percent for 2021. In contrast, the contribution of gross capital formation, although positive, declined to 1.1 percent from 1.4 percent the previous year. The combination of government consumption spending remained flat, at 0.2 percent, for the second consecutive year. This is a pullback from pandemic-induced expansionary fiscal policy, when government consumption spending added nearly 1 percent to growth in 2020. Continued improvement in public revenues bodes well for a recovery in the contribution of government spending to overall growth, projected at 0.6 percent in 2023 and rising further to 0.7 percent in 2024. Investment's contribution to growth may pick up only in 2024, at 1.2 percent, after falling to 0.8 percent in 2023 from 1.1 percent in 2022.

FIGURE 1.6 **Demand-side decomposition of GDP growth, 2017–24**



Source: African Development Bank statistics.

On the supply side, the contribution of services to growth remained flat in 2022—at 2.6 percentage points. This represented about 68.9 percent of the sectors' contribution and was the most dominant driver of growth (figure 1.6). The contribution of the services sector is expected to remain higher than in other sectors, but its share will decline to about 2.3 percentage points in 2023 and 2024, mainly due to continuing tight financial conditions. High interest rates have affected growth in private sector credit, with the net effect reflected in the lower contribution of financial services to services growth.

After rebounding strongly in 2021, the contribution of industry to growth more than halved to 0.5 percentage points in 2022 from 1.2 percentage points. This fall in industry's share was mainly attributed to high energy input prices and the higher cost of other imported raw materials, fueled by exchange rate passthrough effects and supply chain disruptions. Persistent domestic structural weaknesses such as power outages and transport costs added further challenges to industrial activity. Improved supply chains and lower commodity prices could ease some of these challenges, boosting industry's contribution back to an average of 1.2 percentage points in 2023 and 2024. Agriculture's contribution to growth has been flat at 0.6 percentage points for most part of the last six years, and it is expected to remain unchanged in the medium-term.

Growth performance and outlook across regions and countries

Economic performance in Africa exhibits marked cross-regional variations

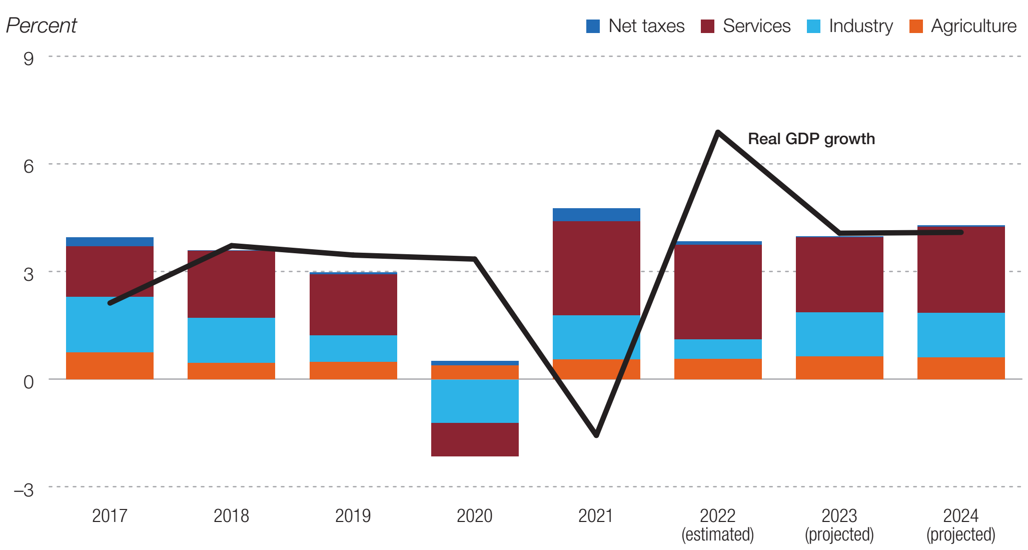
Africa's economic performance exhibits cross-regional variations, largely reflecting differences in the economic structure, commodity dependence, different exogenous shocks, and the domestic policy responses to mitigate the impact of these shocks (figure 1.7).

Central Africa

Growth in Central Africa is estimated to have risen to 5 percent in 2022 from 3.4 percent in 2021, benefiting from high commodity prices. Central Africa mainly comprises net exporters of crude oil, minerals, and other commodities such as timber. Growth is projected to moderate to 4.9 percent in 2023 and stabilize at 4.6 percent in 2024 as global commodity demand picks up and domestic conditions improve, supporting investment, after the weak performance induced by the COVID-19 pandemic. The projected growth in 2023–24 will be underpinned by sustained growth in the Democratic Republic of the Congo

After rebounding strongly in 2021, the contribution of industry to growth more than halved to 0.5 percentage points in 2022 from 1.2 percentage points

FIGURE 1.7 Sectoral decomposition of GDP growth, 2017–24



Source: African Development Bank statistics.

(36 percent of Central Africa's GDP), the region's top performer, with real GDP growth exceeding 6 percent since 2021. That growth has benefited from scaling up investments and exports in the mining sector. Cameroon and Congo will also sustain their growth momentum, at rates averaging above 4 percent in the medium term. In contrast, after a recovery in 2021, Equatorial Guinea faces a prolonged recession extending into 2024, as the country grapples with declining hydrocarbon output from maturing operational oilfields and tightening global financial conditions hindering investments in new oil and gas fields.

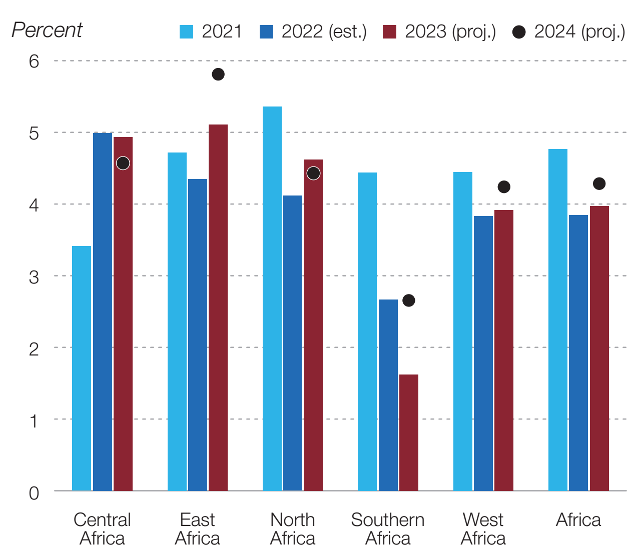
East Africa

East Africa was the only region that escaped a recession during the COVID-19 pandemic, underpinned by its more diversified production structure

East Africa has experienced better economic performance and was the only region that escaped a recession during the pandemic, underpinned by its more diversified production structure. Its growth momentum moderated to 4.4 percent in 2022 from 4.7 percent in 2021 but is projected to rise strongly to 5.1 percent in 2023, firming up to 5.8 percent in 2024. Since most countries in the region are net importers of commodities and bear the brunt of high international prices, especially for energy and food, high commodity prices often translate into slower growth, as in 2022, and this remains a concern for the medium-term outlook. The region is also prone to recurrent climate shocks such as drought, particularly in the Horn of Africa, and pockets of fragility, including internal conflicts. The slowdown in 2022 was attributed mainly to these shocks, exacerbated by disruptions to global supply chains. Tight monetary and fiscal policy to rein in inflation has also constrained domestic consumption, compounded by contractions in agriculture and manufacturing activities, weak growth in credit to the private sector, and the rise in public debt.

Growth in the region is expected to consolidate at above 5 percent in the medium term. High growth will be anchored on Ethiopia, Rwanda, and Uganda (which together account for 41 percent of the region's GDP). Rwanda has consistently grown by 7 percent or more, except in 2020, and is projected to sustain this momentum in 2023 and 2024. Growth in Rwanda will be driven by higher public infrastructure spending and mineral exports, boosted by value addition in minerals through enhanced investment. Uganda and Ethiopia are also projected to grow strongly in 2023 and 2024, exceeding 5 percent on account of developments in the oil sector for Uganda and continued infrastructure spending for Ethiopia. Djibouti, Kenya, and Tanzania are also expected to sustain their recent gains. Sudan's projected higher growth of 2 percent in 2023 and 3.8 percent in 2024 is subject to downside risks, including the political impasse. South Sudan may not return to positive growth until 2024.

FIGURE 1.8 GDP Growth in Africa, by region, 2021–24



Source: African Development Bank statistics.

North Africa

Growth in North Africa is estimated to have declined by 1.3 percentage points to 4.1 percent 2022. It was hit by the sharp contraction in Libya (6 percent of the region's GDP) and the effects of drought in Morocco (13 percent of the region's GDP). Higher growth is projected in 2023–24 at an average of 4.5 percent, supported by strong recovery in these two countries and consolidating the gains in others. For instance, Libya's growth is projected to increase to 8.0 percent in 2024, from the contraction of 12.1 percent in 2022, boosted by better oil production. Similarly, Morocco's growth rate is projected to more than double to 3.5 percent in 2024, from 1.1 percent in 2022, reflecting waning effects of the earlier supply-side shock on the economy.

However, the region remains vulnerable to significant headwinds, including climate shocks and fluidity in Libya's political situation. These factors and persistent social challenges pose significant risks to the region's economic outlook. Yet the region has immense potential to meet its own energy needs and to serve as an alternative source for the European Union's oil and gas needs, given its proximity to Europe and the European Union's shift away from Russia's oil and gas.

Southern Africa

Southern Africa faces significant headwinds to growth, ranging from structural weakness in South Africa, high debt in Zambia and Zimbabwe, and adverse weather conditions, including cyclones in Malawi and Mozambique. Growth is therefore estimated to have remained tepid in 2022, declining to 2.7 percent from 4.4 percent in 2021. South Africa, the region's largest economy (60 percent of the region's GDP) and main trading partner, recorded a 2 percent real GDP growth in 2022, less than half the growth rate in 2021 (4.9 percent), due to subdued global demand, power outages, and devastating floods that affected industrial production in Kwa-Zulu-Natal.[3] A build-up in inflationary pressures also affected household consumption spending, a key driver of growth in South Africa. South Africa's close trade ties with other countries in Southern Africa means that shocks buffeting the country are transmitted to the rest of the region. Countries in the Common Monetary Area[4] and the Southern African Customs Union[5] experience near-symmetrical shocks to those affecting South Africa.

Protracted delays in addressing South Africa's worsening energy crisis, coupled with operational and financial weaknesses in state-owned entities and slow progress in implementing reforms, will keep the country's growth below emerging market peers. Growth in the region will thus remain subdued, with real output projected to decelerate to 1.6 percent in 2023 before rising to 2.7 percent in 2024. Higher growth for the region as a whole is projected in 2024, largely reflecting post-Idai recovery in Mozambique, which is projected to expand by 3.5 percentage points to 8.3 percent. Faster debt resolution in Zambia could also unlock stalled investments and cement macroeconomic stability, providing a boost to the country's growth, which is projected to accelerate to an average of 4.1 percent, above the 2022 estimate of 3.0 percent. Favorable weather conditions after a series of droughts could support growth in Madagascar, projected at 4.2 percent in 2023 and 5 percent the following year.

West Africa

Growth in West Africa is estimated to have slowed to 3.8 percent in 2022 from 4.4 percent in 2021. All countries except Cabo Verde, The Gambia, Guinea, Mali, and Niger, recorded growth decelerations in 2022. The region's smaller economies will thus anchor average regional growth to 3.9 percent in 2023 and 4.2 percent in 2024. Of the nine countries with projected growth rates of 5 percent or higher in 2024, eight are small economies, accounting for 15 percent of the region's GDP and 21.9 percent of the projected growth. This will offset the subdued growth in two of the region's biggest economies, Ghana and Nigeria.

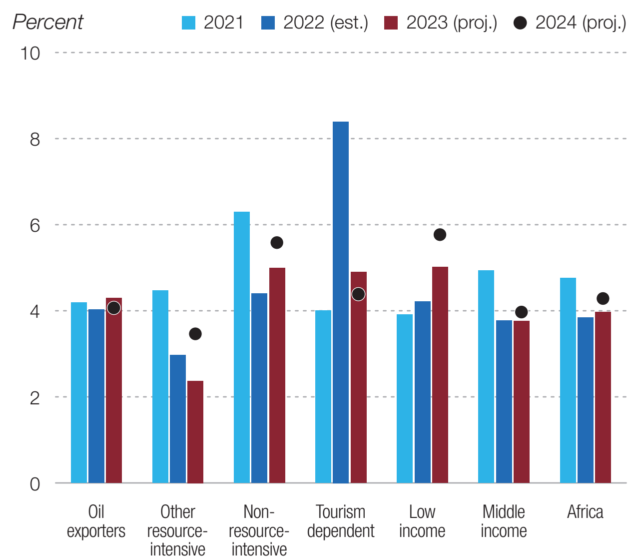
Weighed down by growing macroeconomic imbalances—high inflation, depreciating local currency, and high public debt estimated at 91 percent of GDP—growth in Ghana is projected to decline to an average of 2.4 percent in 2023–24, from 3.3 percent in 2022. Similarly, Nigeria's growth is projected to stabilize at 3.3 percent in 2023–24, unchanged from 2022, reflecting structural weaknesses in the oil sector and deep macroeconomic imbalances—near 20-year high inflation, foreign exchange shortages that drove rapid depreciation of the national currency, and effects of local currency shortages that affected the country in the first quarter of the year. In Côte d'Ivoire, investment in strategic logistics infrastructure, expanded construction projects to meet growing urbanization and infrastructure in preparation to host the 34th edition of the Africa Cup of Nations in January 2024, and planned energy projects to enhance the country's renewable energy sector, are projected to boost growth from an estimated 6.7 percent in 2022 to 7.1 percent in 2023–24.

Growth declined to 2.7 percent in 2022 from 4.4 percent in 2021 in Southern Africa and to 3.8 percent in 2022 from 4.4 percent in 2021 in West Africa

Country groupings

Tourism-dependent economies grew by an estimated 8.4 percent in 2022, sustaining the

FIGURE 1.9 GDP Growth in Africa, by country grouping, 2021–24



Source: African Development Bank statistics.

Tourism-dependent economies grew by an estimated 8.4 percent in 2022, sustaining the momentum from 2021

momentum from 2021 (figure 1.9). Growth was aided by the easing of travel restrictions that released pent-up tourism demand, evidenced by higher than expected rebound in the number of visitors. In 2022, tourist arrivals in Seychelles reached a total of 334,552, 82 percent higher than 2021 and exceeding the government's forecast of 258,000 arrivals.[6] Data from the United Nations World Tourism Organization indicates that international tourist arrivals in 2022 were 140 percent higher than the 19.4 million in 2021.

Tourist arrivals in Africa's major destinations were also boosted by domestic strategies, including the award of long-term temporary residency permits and suspension of visa requirements for high-end tourism markets such as Mauritius and Seychelles. These strategies reflect policy efforts to promote the sector to secure sustainable tourism revenues and employment. The full impact of the resumption of tourism activities and easing of residual minimal restrictions in international travel may, however, be offset by persistently high inflation and the impact of tight financial conditions on discretionary income in key tourist-source markets. On the back of these potential risks, growth is projected to slow to 4.9 percent in 2023, and if adverse global conditions persist, it could slow further to 4.4 percent in 2024.

Average growth for *non-resource-intensive economies* declined to an estimated 4.4 percent in 2022 from 6.3 percent in 2021, weighed down by the effects of heightened inflation on household consumption and subdued global demand for exports. These economies represent about a quarter of Africa's GDP, and most of them are relatively more diversified than their commodity-dependent peers. However, agriculture remains the mainstay for most of them. Cabo Verde, Côte d'Ivoire, Mauritius, Rwanda, and Seychelles posted growth rates above 6.5 percent, and sustaining higher rates in these countries will accelerate medium-term average growth for non-resource-intensive economies to 5 percent in 2023 and 5.6 percent the year after. This expansion reflects the projected recovery in public infrastructure investment across the group and resilience due to diversified structure of the economies.

Oil-exporting countries have gradually recovered from the effects of the pandemic, but the momentum weakened slightly in 2022, with growth estimated at 4 percent, down from 4.2 percent in 2021. This slowdown is largely blamed on a sharp decline in Libya and weaker growth in Nigeria. Africa's oil-exporting countries account for about 51 percent of the continent's GDP, so their growth has a significant influence on Africa's average performance.

Nigeria, Africa's largest economy and top oil producer, accounts for about 30 percent of the output for this group of countries and about 15 percent of Africa's GDP. But it has suffered from a steady decline in oil production, due to aging infrastructure and rising pipeline vandalism. The negative output effect has thus offset any gains from higher prices of crude oil, impeding the sector's contribution to the country's growth.

With Nigeria's medium-term growth projected to remain tepid, much of the group's projected average growth of 4.2 percent in 2023–24 will be driven by strong recovery in Libya (13 percent average for the period) and consolidation in other countries. Efforts to shore up political stability in Libya and spur catalytic investment in oil sector could contribute to growth in Africa's oil exporters. Addressing insecurity and rehabilitating infrastructure as well as anticipated coming on stream of the Dangote oil refinery in Nigeria, could add further impetus to the group's future growth. Africa's oil exporters, with vast reserves, have the opportunity to capture European markets as well as other markets that rely on Russian oil. Considerable risks remain for the long term, however, as the net-zero transition gathers pace.

Falling commodity prices, especially for metals and other minerals, dampened performance in *other resource-intensive economies.* Average growth for the group declined to an estimated 3 percent in 2022 from 4.5 percent in 2021. The key factors for weaker growth include inadequate electricity generation, subdued household consumption spending due to high inflation, weak global demand, and high indebtedness. Growth in Botswana decelerated the most (6.1 percentage points), followed by Zimbabwe (5.5 points), Burkina Faso (3.7 points), South Africa (2.9 points), and Ghana (2 points). With the challenging economic situation in South Africa, average growth for this group is projected to remain subdued at a low of 2.4 percent in 2023, before strengthening to 3.5 percent in 2024, much lower than the continent's average. Growth in other countries for the group—Guinea, Liberia, Mali, Niger, and Tanzania—will be aided by the resumption of full-scale mining.

Risks and upside factors of the growth outlook

The projected stabilization of growth in Africa in 2023 and 2024 is subject to headwinds and tailwinds that could alter the outlook. The balance of risks is, however, tilted to the downside. The risk of geopolitical tensions both regionally and globally persists and this could affect Africa's projected medium-term growth. Globally, Russia's prolonged invasion of Ukraine remains a key source of uncertainty, and any further escalation could exacerbate already strained supply chains and reverse the recent decline in global commodity prices. This could affect growth in Africa's net commodity-importing countries. Within Africa, conflicts in some of Africa's hotspots—such as Burkina Faso, Democratic Republic of Congo, Ethiopia, Mali, and Mozambique and the security situation in Sudan—present challenges for political stability and continue to put undue fiscal strain on these countries due to increased security spending, while disrupting investment flows and tourism activity. The rise in the cost of living due to elevated prices has also sparked social unrest (box 1.1) and could unravel the continent's hard-earned stability. General elections scheduled for 2023 and 2024 in several African countries could disrupt economic activity through increased political risks. The other outstanding downside risks to the growth outlook include the prolonged tightening of global financing conditions, slower than expected global recovery that could dampen demand for Africa's exports, potentially reversing financial flows and elevating risks of debt distress.

The tailwinds to the outlook include a faster than expected rebound in China's growth, which could spill over and accelerate growth in the

Any further escalation of Russia's prolonged invasion of Ukraine could exacerbate already strained supply chains and reverse the recent decline in global commodity prices—which could affect growth in Africa's net commodity-importing countries

BOX 1.1 **Increasing food and energy prices led to heightened social unrest in Africa**

Russia's invasion of Ukraine in February 2022 created significant disruptions to already strained global supply chains, impacting food and energy prices globally and across the continent. Higher food and energy prices have eroded household's purchasing power and increased incidence of poverty. This has fueled social unrest across Africa as people protested against the rising cost of living and insufficient (or lack of) policy responses to protect citizens. More than 400 events of social unrest recorded in Africa in 2022 were directly related to rising food and energy prices. By end of February 2022, there were 45 price-related incidents, close to three times more than in January 2022 (box figure 1.1.1, left panel).

Between March and July 2022, at the peak of Russia's invasion of Ukraine and disruptions to global commodity prices, price-related social unrest was at the highest, hovering at about

(continued)

BOX 1.1 **Increasing food and energy prices led to heightened social unrest in Africa** *(continued)*

1 percent of all recorded social unrest events in Africa (box figure 1.1.1, right panel). Although price-related social unrest temporarily increased in October and November 2022, it has not reached the average levels during the first half of 2022, as global and domestic prices stabilized and policy responses announced by most African governments during the first half of 2022 gained some traction.

Most price-related social unrest was in the form of protests (80 percent), while 17 percent of protests turned into riots with less than 1 percent leading to violence against civilians by security forces. Most protests were peaceful (84 percent) while about 16 percent of them required intervention from police and other security forces. Across the continent, most price-related riots were violent demonstrations (94 percent) leading to the arrests and/or injuries of protesters, and a few triggered mob violence.

BOX FIGURE 1.1.1 **Monthly price-related social unrest in Africa in 2022**

Source: Staff calculations based on The Armed Conflict Location and Event Data Project databases.

With domestic inflation expected to increase in Africa at 15.1 percent in 2023 from 14.2 percent in 2022, it is likely that the frequency of protests, riots, and other forms of social unrest due to rising cost-of-living will increase. Curbing the prevalence of these events will require faster and more effective public policy responses to the rising inflation that has eroded living conditions. Additional social safety nets and other social protection programs will be urgently needed to support vulnerable households, including those affected by policy reforms.

rest of Asia and the global economy. That would increase demand for Africa's exports, boosting growth. More effective monetary policy in tackling inflation in Africa and globally would mean a faster exit from the cycle of aggressive policy tightening and toward more support for the economy and livelihoods. Reducing the pace of US monetary tightening could also halt appreciation of the US dollar, providing a respite for African currencies. Ongoing efforts by the global coalition on climate change to mobilize resources to combat the effects of climate change could lessen physical impacts and create fiscal space to invest in greening Africa's economies.

OTHER MACROECONOMIC DEVELOPMENTS AND OUTLOOK

Exchange rates, inflation, and monetary policy

Tighter global financial conditions have destabilized the foreign exchange markets of most African countries

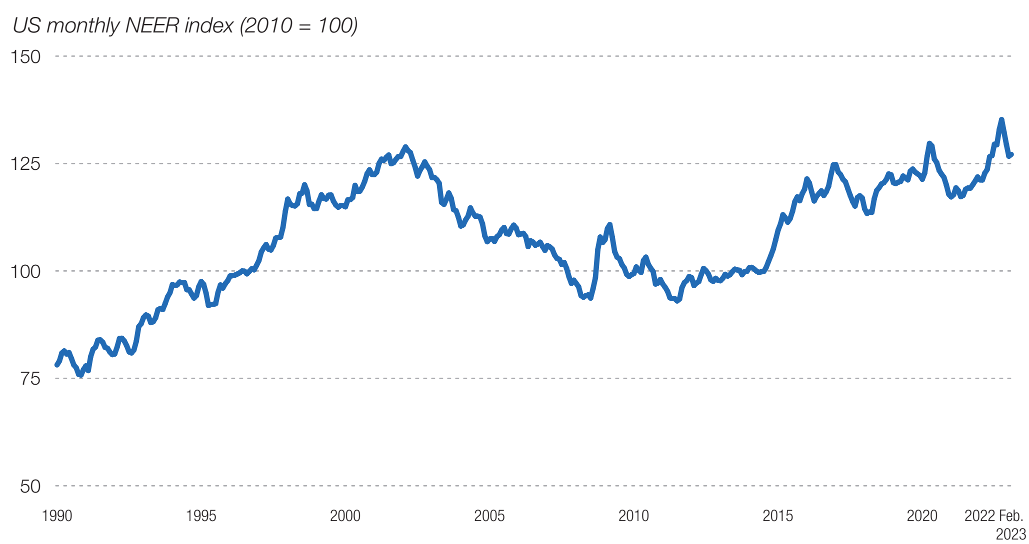
As the US dollar serves a global reserve currency and a prominent international medium of exchange, its appreciation for most of 2022 (figure 1.10) in response to the US Federal Reserve's resolve to keep raising policy rates to rein in persistently high inflation continues to adversely affect economies across the globe. With more than half of Africa's countries dependent on imported cereals and grains, and the continent being a net importer of hydrocarbon fuels for its energy needs, the strengthening of the US dollar is amplifying inflationary stresses from the significant spikes in global food and energy prices following Russia's invasion of Ukraine. The prospects of a prolonged invasion of Ukraine and the recent increase in oil prices point to continuing pressure on African currencies and increasing inflationary pressures, particularly in countries where climate-driven weather disasters have had a negative impact on the growing season.

In light of the strong appreciation of the dollar, exchange rate dynamics in Africa were mixed, with the majority of the continent's currencies depreciating against the US dollar in 2022 (figure 1.11). Beyond the spike in inflationary pressures, the US Federal Reserve's aggressive interest rate hikes in 2022 heightened global uncertainty and contributed to investors exiting assets of emerging market economies, including African currencies, toward safe US treasuries.

All of Africa's leading commodity-exporting countries except Angola, with a 27.1 percent appreciation of its local currency, experienced sustained exchange rate depreciations despite higher international commodity prices in 2022. Depreciation rates varied from 75 percent in South Sudan, whose currency weakened following exchange rate reunification and a further deterioration in its economic and political situation, to 22.5 percent in Egypt, 6.2 percent in Nigeria, and 5.1 percent in Algeria. In Egypt, the authorities' decision to move to a more flexible exchange

In light of the strong appreciation of the dollar, exchange rate dynamics in Africa were mixed, with the majority of the continent's currencies depreciating against it in 2022

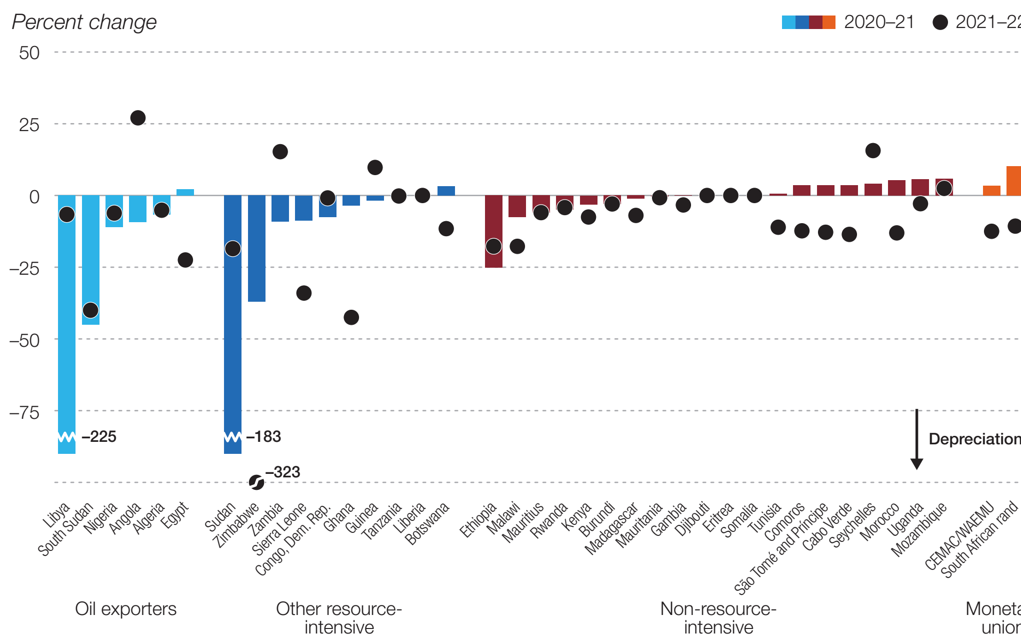
FIGURE 1.10 **Movement in the US dollar nominal effective exchange rate**



Note: The NEER is a measure of the value of a currency against a weighted average of several foreign currencies. An increase in the NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners.

Source: Staff calculations based on IMF International Financial Statistics (IFS) data.

FIGURE 1.11 Exchange rate changes, 2020–21 and 2021–22



Note: CEMAC is the Central African Economic and Monetary Community. WAEMU is the West African Economic and Monetary Union.

Source: African Development Bank statistics.

All of Africa's leading commodity-exporting countries except Angola, with a 27.1 percent appreciation of its local currency, experienced sustained exchange rate depreciations despite higher international commodity prices in 2022

rate regime as part of the reforms under the IMF-supported program led to a sharp decline of the Egyptian pound. In Algeria, after a devaluation, the dinar has started to appreciate in both nominal and real terms. In Nigeria and South Sudan, foreign exchange supply constraints stoked a widening of the premium between the official exchange (commonly referred to as the investor and exporter rate in Nigeria) and the parallel market exchange rate. In Nigeria, the parallel market exchange rate depreciated by nearly a third year-on-year, dwarfing the 6.2 percent depreciation for the official rate. This widened the premium between the two rates by about 70 percent.

Among the currencies of other resource-intensive countries—Zimbabwe's dollar, Ghana's cedi and Sierra Leone's leone—were among Africa's weakest currencies in 2022, respectively depreciating by around 323.4, 42.5, and 34 percent against the US dollar. The rapid fall in value of the Zimbabwean dollar is due mainly to the effects of the economic sanctions imposed by the United States and the European Union and prevailing global economic conditions. In Ghana, the first-order effects of declining investor confidence about the sustainability of the country's debt and conclusion of its debt restructuring strategy led to the sharp depreciation of the cedi. Currency depreciation pressures were significant for Sierra Leone's leone (down 34 percent against the US dollar) and the Sudanese pound (down 18.5 percent). Both countries are experiencing severe macroeconomic imbalances, including constrained revenues and weak investment flows.

The currencies of Botswana, Cabo Verde, Comoros, Ethiopia, Malawi, Morocco, São Tomé and Príncipe, South Africa, Tunisia, and the Monetary Union (CEMAC/WAEMU[7]) depreciated by more than 10 percent against the US dollar, due to global risk aversion and waning investor confidence. Currency weaknesses in some of Africa's major economies—Kenya, Nigeria, and South Africa—are expected to persist in 2023, due largely to tighter global financial conditions and weak external demand. For most of Africa's dollar-denominated debt, currency depreciations pose a significant downside risk for debt management and sustainability in a continent where external debt stock—including bonds, syndicated loans, and bilateral borrowing—surged to $466 billion in

2022. This wave of depreciations could be contained if countries continue to strengthen their monetary policies in the face of tighter financial conditions in advanced countries, though further tightening could exacerbate the already high cost of capital and halt economic recovery.

Although most African currencies lost substantial value against the dollar during 2022, some gained or remained stable. Among the best performing currencies, Angola's kwanza appreciated by more than 27.1 percent year-on-year against the US dollar in 2022, reflecting the combined effects of higher oil revenues, improved credit rating by major rating agencies, and more accommodative monetary policy. The Zambian kwacha was also bolstered following creditors' agreement to restructure the country's external debt, which triggered approval of the International Monetary Fund's three-year $1.3 billion Extended Credit Facility. The resultant investors' favorable outlook for Zambia's macroeconomic situation boosted the kwacha, which appreciated by 15.3 percent year-on-year against the US dollar in 2022. Seychelles' exchange rate appreciated by around 15.6 percent against the US dollar in 2022, mainly due to the resumption of tourist activities and the associated increase in foreign exchange inflows.

The build-up of inflationary pressures in 2022 is expected to ease gradually in the medium term as tight monetary policy interventions gain traction

Global supply chains remain weak (figure 1.12), partly reflecting Russia's persistent invasion of Ukraine, which is keeping global commodity prices and inflation elevated. The standard deviation of the Global Supply Chain Pressure Index averaged 2.10 in 2022, significantly higher than the average of –0.07 in 2019 before the COVID-19 pandemic. Global supply chain pressures remain a major concern for global commodity prices and inflation, even with weak global demand. In Africa, the prevailing global supply chain weaknesses are further amplified by structural bottlenecks in several countries.

The consumer price inflation in Africa rose by an estimated 1.3 percentage points to 14.2 percent in 2022 from 12.9 percent in 2021—a 0.5 percentage point revision from the estimated 13.8 percent in *Africa's Macroeconomic Outlook* 2023 published in January. The strong rise of

In Africa, the prevailing global supply chain weaknesses are further amplified by structural bottlenecks in several countries

FIGURE 1.12 Global Supply Chain Pressures Index

Note: Index scaled by its standard deviation. The Global Supply Chain Pressure Index (GSCPI) is a new measure of supply chain conditions, provided by the Federal Reserve Bank of New York. It is calculated by combining variables from several transportation and manufacturing indices, such as those related to delivery times, prices, and inventories.
Source: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv; staff calculations.

inflation in Africa is due to domestic factors such as drought, expansionary public investment, and, more important, the direct effect of imported inflation, and external factors such as rising oil and food prices, exacerbated by supply chain disruptions. The rise in inflation was broad-based, surpassing central bank target rates for most countries with explicitly defined bands, except in Benin, Congo, Egypt, Eswatini, Liberia and Tanzania. Inflation reached at least double digits in 18 countries, including seven that have explicitly defined inflation targets, with the highest rates in Zimbabwe, Sudan, Ethiopia, and Ghana in that order (figure 1.13). Double-digit inflation persisted in East Africa (28.9 percent), West Africa (17.0 percent), and Southern Africa (12.6 percent) in 2022, and is expected to decline gradually to 17.7 percent, 11.3 percent, and 6.7 percent, respectively in 2024. While inflation in Central Africa and North Africa is low, it almost doubled in 2022 to 6.7 percent and 8.2 percent, from 3.9 percent and 4.6 percent, respectively, in 2021.

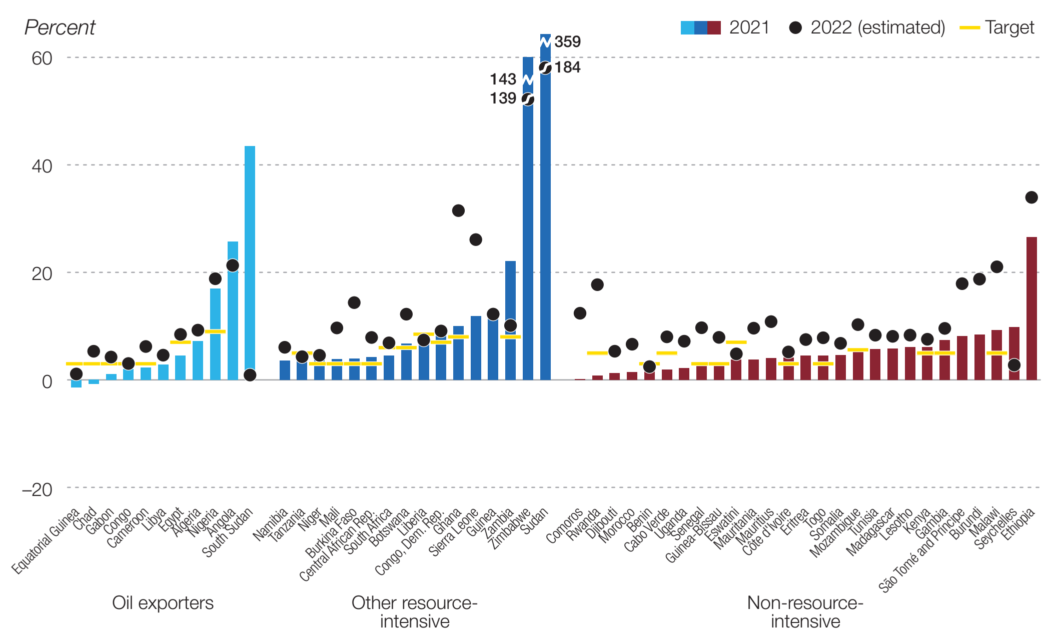
Inflation in Africa is projected to increase further to a record 15.1 percent in 2023 but decline to 9.5 percent in 2024, close to the pre-pandemic levels of 9 percent in 2019 and 9.7 percent in 2014–18. The projected increase in inflation in 2023 is largely attributed to prevailing structural weaknesses in most African countries—including supply chain constraints, output gaps, imported inflation—and an exchange rate passthrough from the stronger US dollar, despite declining international commodity prices. It is expected to increase in 2023 in North Africa (6 percentage points), Central Africa (1 point), and West Africa (0.5 point), and to decline in East Africa (7.1 points) and Southern Africa (2.6 points). The strong increase in North Africa is mainly attributed to developments in Egypt, where currency devaluations, foreign currency shortages, and import shortfalls continue to cause a surge in prices.

Inflation in Africa is projected to increase further to a record 15.1 percent in 2023 but decline to 9.5 percent in 2024, close to the pre-pandemic levels of 9 percent in 2019 and 9.7 percent in 2014–18

A decline in inflation is expected in 2024 in all regions and most countries, reflecting the expected benefits from the current cycle of monetary tightening. Despite the expectations of single-digit inflation in Africa in 2024, double-digit inflation could persist in East Africa (17.7 percent), West Africa (11.3 percent) and a few countries that have a history of high inflation such as South Sudan, Sudan, and Zimbabwe.

Africa's non-inflation targeting countries have a history of higher inflation than their targeting peers (figure 1.14). Moreover, the recent confluence of shocks has caused significant

FIGURE 1.13 Consumer price inflation, 2021 and 2022



Source: African Development Bank statistics.

divergence in inflation rates among inflation targeting and non-targeting countries in the continent. At the peak of the pandemic in 2020–21, inflation in non-inflation targeting countries averaged 24.2 percent, more than triple the average of 7.1 percent rate for the targeters, compared with 10.2 percent and 9.4 percent respectively in the six years (2014–19) preceding COVID-19. Furthermore, while inflation rates in both targeting and non-targeting countries closely tracked each other and showed signs of convergence until 2019, the picture significantly changed during the peak of the pandemic in 2020–21 when disruptions to supply chains caused inflation to spiral out of control. For instance, in 2018–19, the average inflation rate for targeting countries was about 2.6 percentage points below their non-targeting counterparts. In 2020–22, the wedge had widened nearly sixfold to 15.5 percentage points. This suggests that, to a large degree, inflation targeting regimes in Africa have had strong policy levers and credibility to better anchor inflation expectations, even during periods of great economic uncertainty.

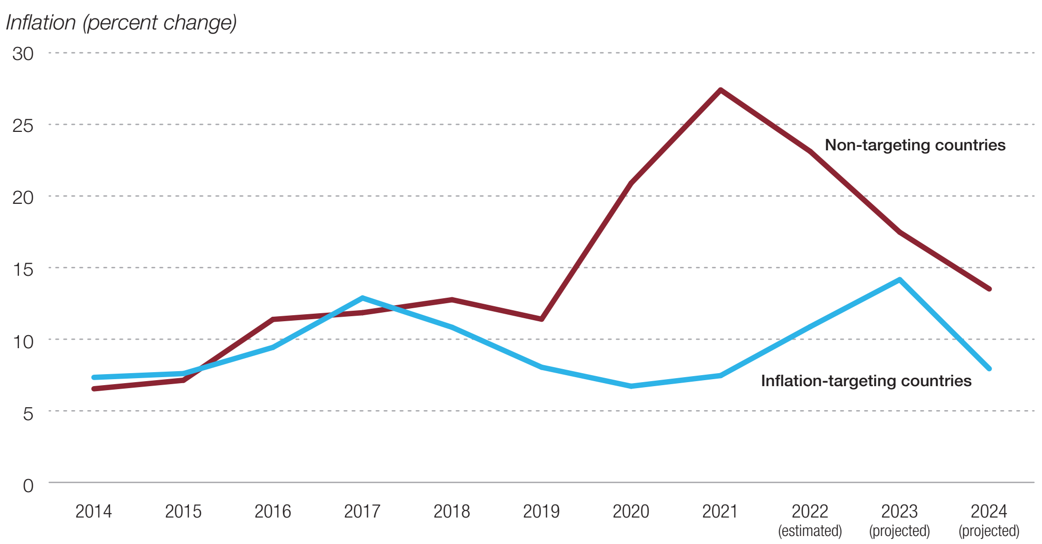
As inflationary pressures remain high in 2023, policymakers in developed countries will continue to prioritize tight monetary policy

Continued interest rate hikes, further tightening global financial conditions, raise the prospect of disruptive capital outflows from developing countries and emerging markets, currency depreciations, and rising servicing costs for foreign currency-denominated debt. Uncertainty about the easing of interest rate hikes persists, with the March 2023 increase by the US Federal Reserve of a quarter percentage point. This raises the risk of global financial instability. Compared with other advanced economies, the US's relatively restrictive monetary policy could contribute to further dollar appreciation and a widening of external imbalances.

Central banks in African countries with higher than targeted inflation have embarked on aggressive contractionary monetary policy, taking a cue from monetary authorities in advanced economies. Benchmark policy rate increases following the US Fed rate hike in March were recorded in Nigeria (+50 basis points), South Africa (+50 basis points), Egypt (+200 basis points), Morocco (+50

Central banks in African countries with higher than targeted inflation have embarked on aggressive contractionary monetary policy, taking a cue from monetary authorities in advanced economies

FIGURE 1.14 **Inflation dynamics in targeting and non-targeting countries**



Note: Inflation targeters in this context, refers to countries with full inflation targeting regime and those with declared target or band for inflation. These are: Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, Eswatini, Gabon, Gambia, Ghana, Guinea-Bissau, Kenya, Liberia, Liberia, Malawi, Mali, Mozambique, Niger, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Togo, Uganda, Zambia.

Source: African Development Bank statistics.

basis points), and Kenya (+25 basis points). These adjustments have pushed the rates to record highs and could limit the scope for large policy rate adjustments should inflation expectations become entrenched. For many of these countries, however, real interest rates remain negative, implying that further adjustments may be possible without causing economic damage.

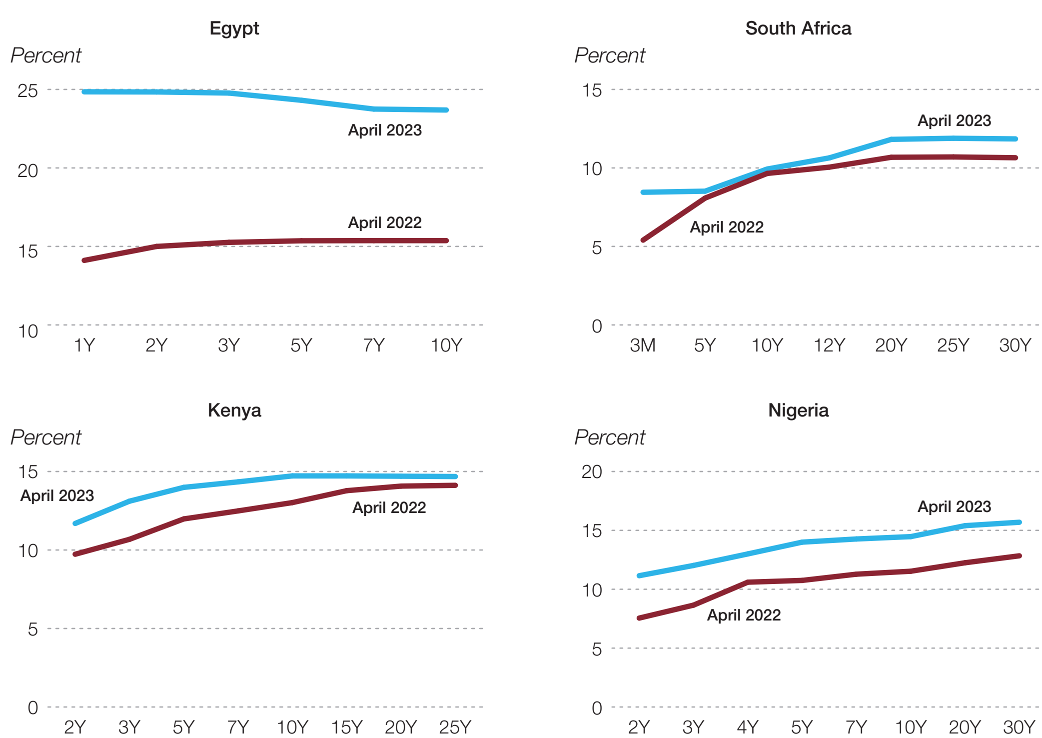
Other countries, including Mauritius and Seychelles, have chosen to keep benchmark rates unchanged as inflationary pressures have moderated. Naturally, the rate and frequency of policy rate adjustments have varied greatly since 2022. Zimbabwe's central bank, for example, cut its key rate in 2023, citing a downward trend in month-on-month inflation, while Angola's central bank cut key rates twice in 2023, similarly citing moderating inflation. However, the mixed outlook and structural nature of the current inflation episodes would dictate country-specific policy responses, depending on strength of the sources of inflation and sociopolitical costs of inaction.

Rising interest rates have resulted in higher borrowing costs for African countries

Rising interest rates have resulted in higher borrowing costs for African countries. Yield curves for large African economies have continued to rise, with sharp rate movements, particularly in Egypt, which issues shorter maturity sovereign bonds (figure 1.15). Since April 2022, 10-year bond yields have risen by nearly 830 basis points. In addition, the 10-year Nigerian bond has risen by nearly 294 basis points. In comparison, the 10-year benchmark bonds in South Africa and Kenya saw modest year-on-year increases of 29 basis points and 170 basis points, respectively. The upward shifts of bond yield curves imply that investors demand a higher return for holding government debt either because they expect inflation to rise, reducing the value of fixed income investments, or the central bank to continue raising the policy rate to combat inflation, which would raise the cost of government financing and reduce the value of existing bonds.

While many African countries' policy options for mitigating tightening financial conditions are limited, those falling behind the curve should consider strengthening safeguards to manage growing uncertainties. Price stability is a prerequisite for long-term economic growth. With inflationary

FIGURE 1.15 Yield curves are shifting upward, 2022 (percent)



Source: AfDB staff calculations based on Investing.com data.

pressures on the rise, African central banks should rethink their monetary policy positions to keep inflationary pressures at bay. To target inflation, policy rates may need to be raised where sufficient slack exists. Central banks should communicate the likely need to keep interest rates higher for a longer period, until inflation is contained. Foreign exchange intervention, where reserves are adequate, may help to stabilize currencies. And macroprudential policy and capital flow management can help improve monetary policy autonomy and price stability, particularly as commodity prices moderate. This frequently is a delicate task, however. Gradual and modest adjustments can prolong price increases while doing little to dampen future inflation expectations. Aggressive rate hikes, on the other hand, may stall the recovery.

While higher inflation and interest rates could test the resilience of financial systems in Africa, the banking sectors are sufficiently capitalized to withstand potential losses and maintain financial stability, although this varies across countries

Financial institutions are crucial in providing access to credit and spurring economic growth. In the aftermath of the global financial crisis, financial institutions have experienced phenomenal growth owing to extended periods of accommodative monetary policies. However, recent developments following the COVID-19 pandemic and Russia's invasion of Ukraine have put additional pressures on governments and the financial sector, reminiscent of the 2008 crisis. Indeed, the tightening of monetary policies, particularly the rise in interest rates to stem inflation, has caused the collapse of two US banks and the takeover of others across the US and Europe. This has led to more than $400 billion in direct support from the US Federal Reserve and the Swiss National Bank.

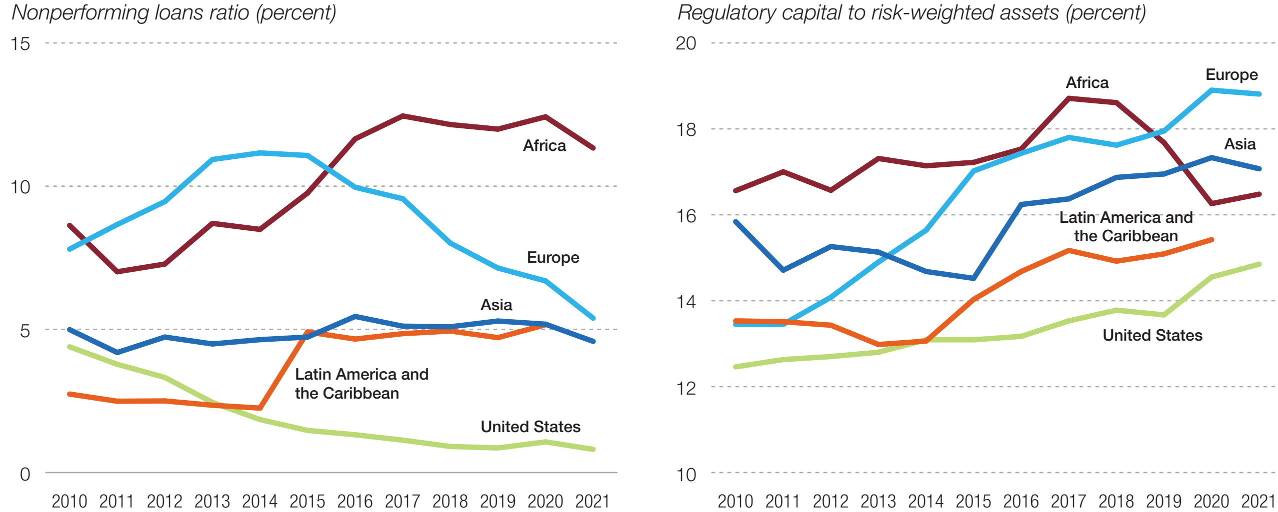
Financial systems in Africa, which mainly revolve around the banking sector (more than 90 percent of financial sector assets) are not immune to these external shocks. While trying to contain inflation, central banks must also ensure that banks are sufficiently capitalized to withstand potential losses and maintain financial stability. High sovereign risk exposures in most African banks are expected to contribute to the deterioration of the sector, given the current environment of increasing interest rates and debt distress levels. Fitch Ratings notes that sovereign debt downgrades could result in more bank rating downgrades in 2023, and potential sovereign defaults are a significant concern for the financial sector, with many African governments facing high and increasing debt servicing burdens.[8] And banks' asset quality risks could become more pronounced given the dampening of household and business activity due to high inflation, rising interest rates, and foreign exchange shortages. This could lead banks to further constrict credit for investment in the real sectors.

Potential sovereign defaults are a significant concern for the financial sector, with many African governments facing high and increasing debt servicing burdens

Historically, non-performing loans (NPLs) have always been a challenge that threatens the viability of banks in emerging markets, especially in Africa. On average, NPLs are increasing in Africa similar to Latin American Countries but in stark contrast to the observed declines in Europe and the US (figure 1.16). Given the tightening of financial conditions globally, the upward trend in NPLs on the continent is worrisome as it occurs against the backdrop of marked decreases in capital adequacy and high concentration of assets.

Even so, the resilience shown by African banks over the past years in additional capital buffers and robust profitability should help mitigate some of the risks just described. For example, the capital adequacy ratio of WAEMU banks increased from 10.5 percent in 2018 to 12.4 percent in June 2021, above the minimum regulatory requirement of 8.25 percent.[9] South African banks' average capital adequacy ratio was 17.9 percent in January 2023, against the regulatory minimum of 10 percent. The regulatory capital to risk-weighted assets ratio shown in figure 1.16 (right panel) for African countries has been consistently above that in the US and LAC, while it has only recently fallen below the ratio for Europe as 2018, illustrating the stricter minimum capital requirements on the continent. For liquidity, African banks also appear to have more liquid assets as a share of total assets over time compared with their counterparts in Asia, Europe, and the US while they have similar liquidity ratios to LAC banks in more recent years. However, within Africa, the evolution of the two ratios is quite heterogeneous, with marked

FIGURE 1.16 Nonperforming loans ratios and regulatory capital to risk-weighted assets

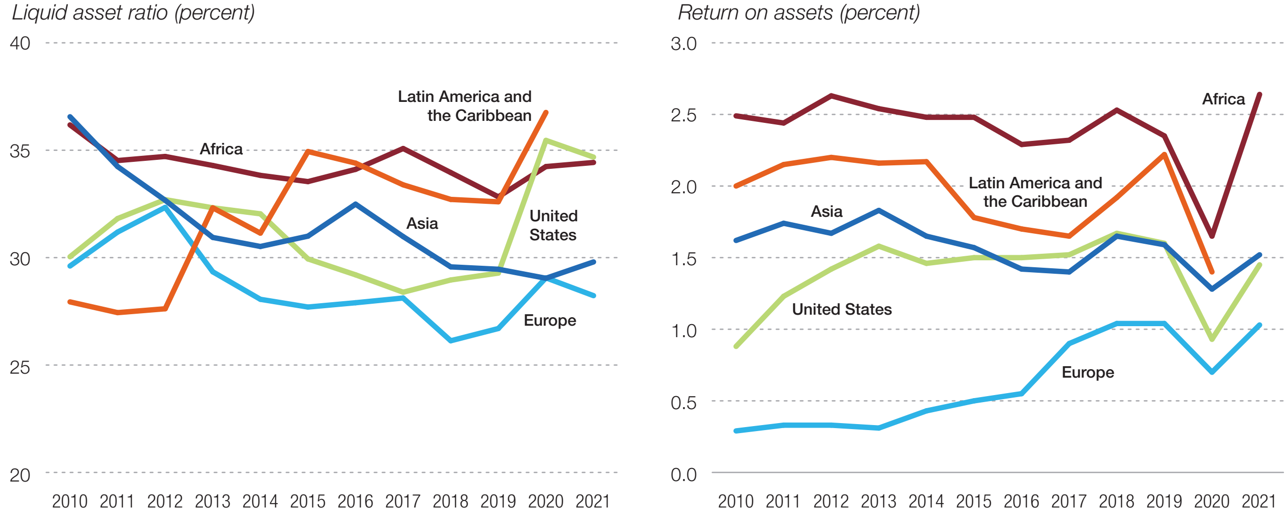


Source: IMF Financial Soundness Indicators and AfDB staff calculations.

declines in countries such as Algeria, Central African Republic, Chad, Madagascar, Seychelles, and Tanzania.

Furthermore, banks in Africa, on average, remained profitable based on return on assets (ROA), with a noticeable dip between 2018 and 2020 partly attributed to COVID-19 related challenges (figure 1.17, left panel). Their ROA has been consistently higher than those in the other regions (Asia, LAC, Europe, and the United States). This is partly driven by the emerging consumer class and phenomenal growth rates in some economies, despite lingering concerns about social and political challenges. The decreases in ROA from 2018 will pressure African banks to innovate to meet the huge unmet demand on the continent while trying to remain financially solvent in the current challenging economic environment. Similarly, data show that banks in Africa held large reserves of liquid assets in the decade leading up to the COVID-19 pandemic, with a liquid asset ratio exceeding 34 percent, surpassing that of Europe

FIGURE 1.17 Liquid asset ratios and returns on assets



Source: IMF Financial Soundness Indicators and AfDB staff calculations.

and the United States. This ratio declined around 2019, falling below that of the United States, but has since resumed an upward trend.

Fiscal positions and domestic resource mobilization

Africa's fiscal balance is improving and could converge toward pre-pandemic levels, but significant challenges remain

The average fiscal deficit is estimated to have narrowed to 4 percent of GDP in 2022, down from 4.9 percent in 2021 and lower (by 0.4 percentage point) than in the 2023 MEO. This is the second consecutive year of improvement, after the sharp deterioration to 6.8 percent of GDP in 2020, due to large fiscal support to alleviate the socioeconomic impacts of the pandemic. With this improvement, Africa's average fiscal deficit is returning to its pre-pandemic level in 2019. The narrowing of the fiscal deficit was broad-based with all groups of countries registering lower deficits, with the largest fiscal gains recorded in oil-exporting countries and tourism-dependent economies (figure 1.18).

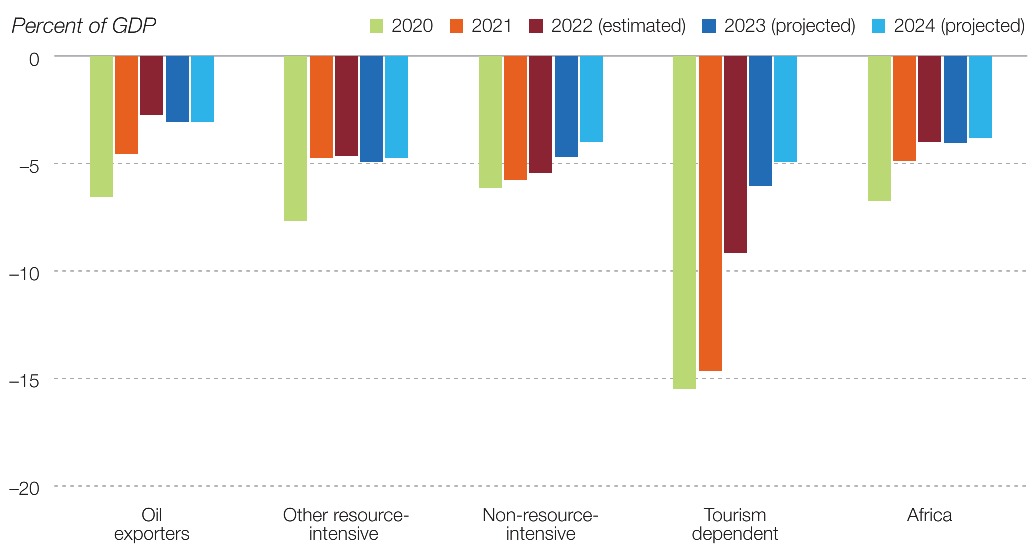
The average fiscal deficit for *oil exporters* declined by nearly 2 percentage points to 2.7 percent of GDP in 2022 from 4.6 percent in 2021, supported by strong revenue performance driven by favorable global energy prices. Figure 1.19 shows that half of these countries posted fiscal surpluses. Congo, Equatorial Guinea, and Libya posted larger surpluses, ranging from 4.8 percent to 13.8 percent, which nearly offset fiscal deficits in countries with higher deficits, such as Nigeria (5 percent). Weak oil production in Nigeria coupled with large expenditures on fuel subsidy, estimated at about 3 percent of GDP, eroded the fiscal benefits from higher international oil prices. The average fiscal deficit of oil-exporting countries is projected to widen marginally to 3.1 in 2023–24, reflecting an improvement in revenues due to the rise in oil prices that offsets to some extent the expected large and persistent deficit in Nigeria, the group's main economy.

Fiscal deficits in *other resource-intensive economies* stabilized around 4.6 percent of GDP in 2022. Countries in this group used revenues from favorable commodity exports to bolster social spending in response to higher energy and food prices, but fiscal consolidation measures targeted to non-essential spending helped stabilize the deficit. The average fiscal deficit for this group is projected to widen slightly and stabilize at 4.8 percent of GDP, 0.2 percentage point above the pre-pandemic level, reflecting continued fiscal support to cope with the impact of high food and energy prices.

Non-resource-intensive countries also recorded a marginal decline in fiscal deficits by 0.3 percentage

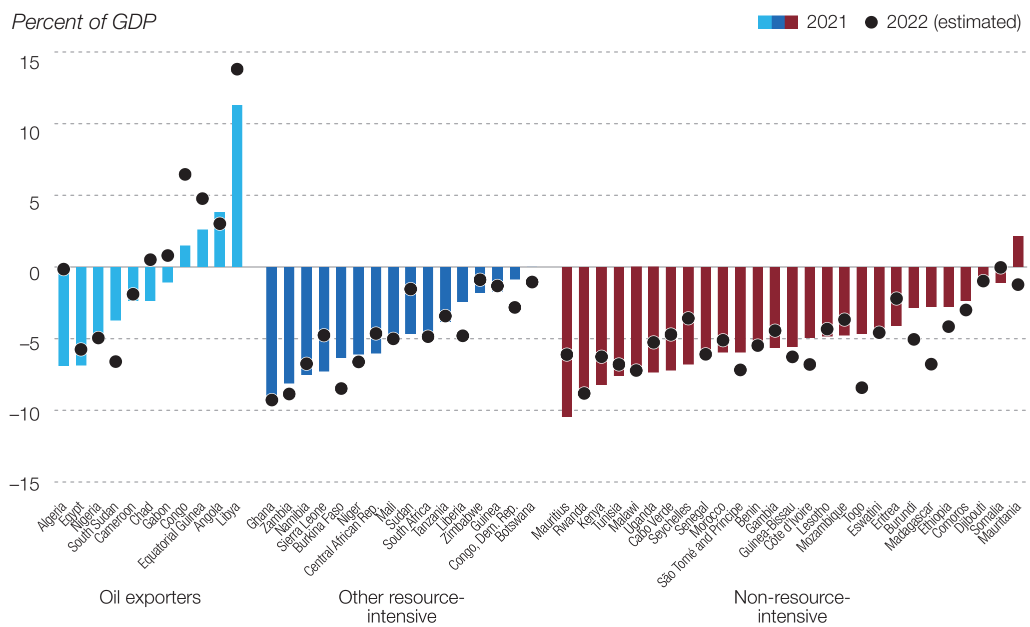
The narrowing of the fiscal deficit was broad-based with all groups of countries registering lower deficits, with the largest fiscal gains recorded in oil-exporting countries and tourism-dependent economies

FIGURE 1.18 **Fiscal balance as a share of GDP by country grouping, 2020–24**



Source: African Development Bank statistics and IMF 2023.

FIGURE 1.19 Fiscal balance as a share of GDP by country, 2021–22



Source: African Development Bank statistics and IMF 2023.

Stronger and faster than expected economic recovery supported fiscal consolidation, culminating in narrowing of the gap between recurrent spending and revenues, with the primary deficit decreasing in tandem to an average of 1.2 percent of GDP in 2021–22, making up about 26 percent of the overall fiscal balance

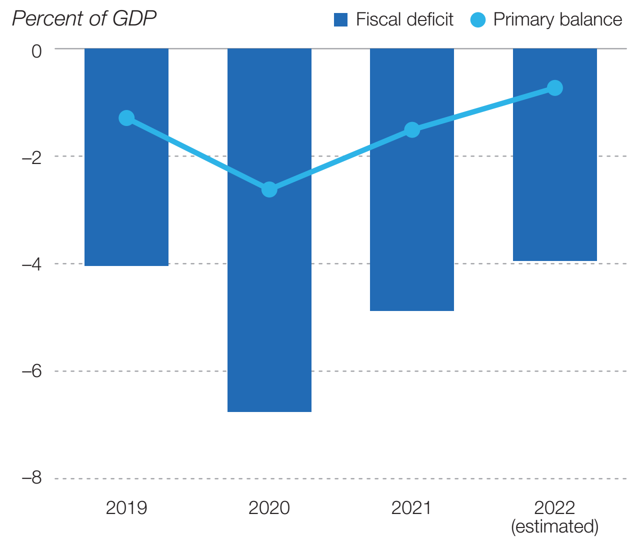
point in 2022. Higher energy and food prices have severely strained government budgets in countries such as Malawi, Rwanda, São Tomé and Príncipe, and Togo with fiscal deficits exceeding 7 percent of GDP. In contrast, other countries including Djibouti, Mauritania, and Somalia managed to maintain fiscal deficits at less than 1.3 percent of GDP despite the challenging economic and financial environment. These countries helped to contain the average deficit for the group at 5.5 percent of GDP in 2022. The average fiscal deficit for non-resource-intensive countries is projected to decline to 4.7 percent of GDP in 2023 and 4 percent in 2024, as the expected decline in food and energy prices will put less pressure on the group's revenues.

Following large fiscal deteriorations in the aftermath of the COVID-19 pandemic, *tourism-dependent economies* rebounded strongly, with the average fiscal deficit for the group narrowing to 9.2 percent of GDP in 2022 from 14.6 percent the previous year. The improved fiscal performance benefited from increased tourism receipts following gradual retrenchment of COVID-19-related government spending. Despite this strong improvement, the average deficit remains large at 1.7 percentage points above the pre-pandemic level in 2019. In the medium term, growing uncertainty about the global economic outlook and weakness in advanced economies increase risks for demand for Africa's tourism. Revenues could thus be depressed, and although the deficit is projected to narrow progressively to 6 percent of GDP in 2023 and 4.9 percent the following year, the prospect for this performance remains remote without fiscal restraint due to rapidly evolving external forces.

Improvement in the overall fiscal balance in Africa was underpinned by narrowing primary deficit. In 2020, above-the-line budgetary support doubled the primary deficit to 2.6 percent of GDP, accounting for nearly 40 percent of the overall deficit against 32 percent in the preceding year. Stronger and faster than expected economic recovery supported fiscal consolidation, culminating in narrowing of the gap between recurrent spending and revenues, with the primary deficit decreasing in tandem to an average of 1.2 percent of GDP in 2021–22, making up about 26 percent of the overall fiscal balance (figure 1.20).

As governments struggle to compensate for the decline in purchasing power among the most vulnerable sections of their populations—due to the triple challenge of high inflation, climate change and legacy impact of COVID-19—improving spending efficiency and tax administration should be the top priority of fiscal consolidation. Countries have varying levels of fiscal space and their consolidation strategies will differ, but the gains from sound and prudent fiscal policy for more efficient spending could be substantial. Contractions in capital expenditure have been the main casualty of fiscal restraint amidst spending pressures to shield populations from elevated energy and food prices (box 1.2). The share of capital expenditure in total general government expenditure dwindled in more than half of African countries (28) in 2020–21, relative to five-year pre-pandemic average (figure 1.21). Among countries with the largest reductions in the ratio of capital outlay to total expenditure in 2020–21 were Equatorial Guinea (36.4 percentage points), Congo (16.1 percentage points), and Guinea (15.6 percentage points). These countries are resource-intensive

FIGURE 1.20 Overall fiscal balance and primary fiscal balance (percent of GDP), 2019–22



Source: African Development Bank statistics.

BOX 1.2 Policy responses from African governments to protecting households and businesses from rising food and energy prices

The surge in international energy and food prices in 2022, amplified by Russia's invasion of Ukraine, triggered a cost-of-living crisis worldwide and pushed 15 million more Africans into extreme poverty, as real household income fell drastically, especially for net buyers.[1] To mitigate the impact of rising commodity prices on households and businesses, most governments across the world swiftly announced a vast array of policy measures, some related to revenue and expenditure, others to below-the-line and non-fiscal measures. A review of policy measures announced by 37 African countries during the first half of 2022 reveals that of 108 policy responses (about 14.4 percent of 750 total policy responses announced worldwide), about 40 percent were revenue-related such as suspension, removal, or reduction of custom duties on food and fuel, suspension or reduction of taxes (VAT/sales, excise, personal income and corporate income) (box figure 1.2.1). Spending measures—price subsidies to food and energy companies; cash, semi-cash, or in-kind transfers; increases in base or minimum wages; and increases in pensions—accounted for 35.2 percent of all new measures. Other policy responses included below-the-line measures (such as price freezes) or export restrictions of selected agricultural products.

While predominant policy announcements in Africa were either tax-related (21.3 percent) or direct subsidies (15.7 percent), advanced economies, especially in Europe, implemented a significant number of cash transfers as well as vouchers and discounts in addition to reductions in consumption taxes such as VAT/sales tax and excises. Such policy differences could stem from the fact that advanced economies have well developed and robust social safety net and social protection programs with transparent social registries and payment systems already facilitating rapid, cost-effective implementation of well-crafted targeting policies. And most new measures announced by advanced economies tended to focus on addressing the impact of higher energy prices (more than 60 percent of all measures) while those in Africa focused mainly on responses to higher food prices (more than 50 percent of all measures), reflecting the high share of food expenditure in households' budgets.

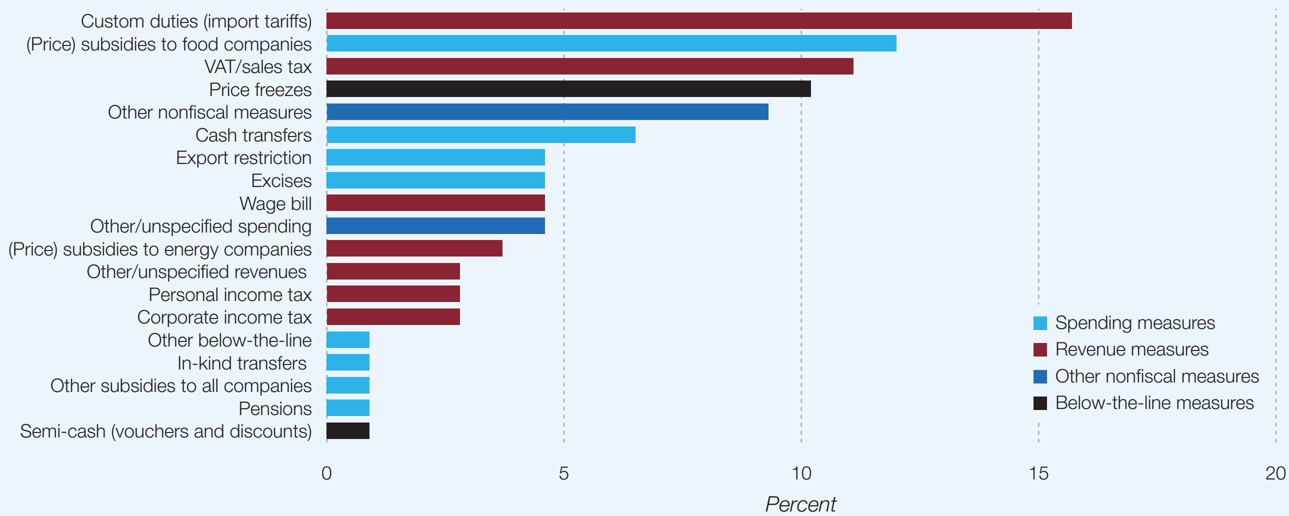
In addition to the fact that food expenditure accounts for a large share of household budget in Africa, the limited focus on energy could be due to the already high energy price subsidies in most African countries. About two-thirds of countries announced policy packages in response to energy prices exceeding 1 percent of GDP, with the largest in Tunisia (5.2 percent),

(continued)

BOX 1.2 **Policy responses from African governments to protecting households and businesses from rising food and energy prices** *(continued)*

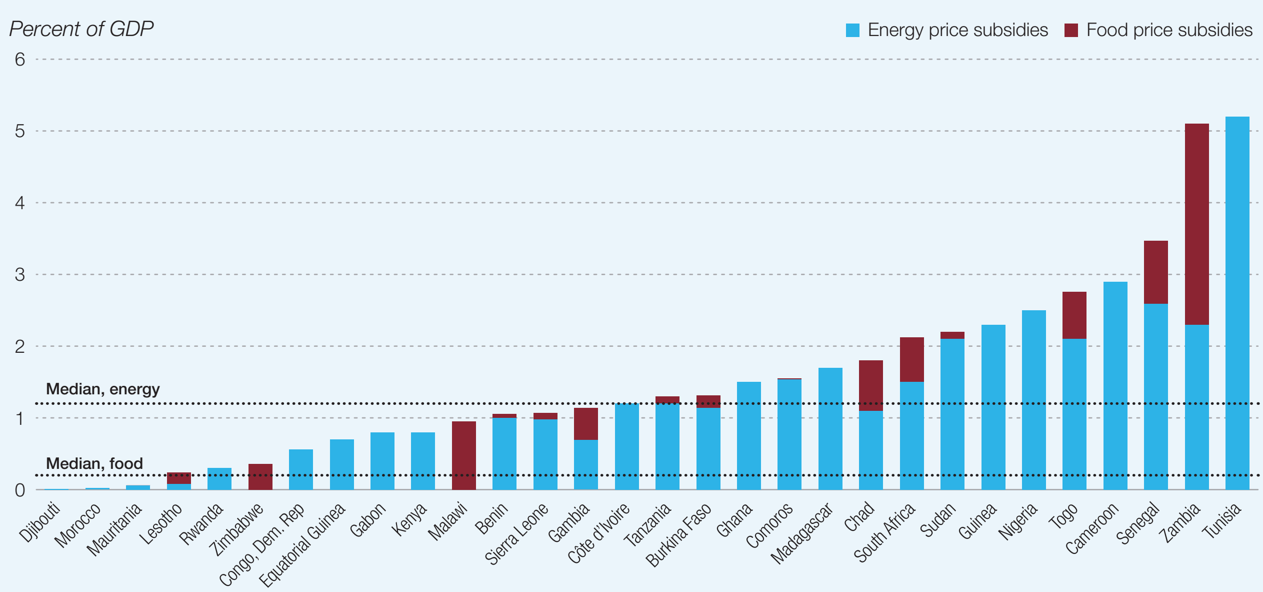
followed by Guinea (4.6 percent), South Africa (3 percent), and Cameroon (2.9 percent) (box figure 1.2.2). However, these newly announced energy-related measures and other spending measures put additional pressure on public budgets of most countries that were already dealing with constrained fiscal space.

BOX FIGURE 1.2.1 **Announced policy responses to rising food and energy prices in Africa, in 2022**



Source: Staff calculations using IMF's Food and Energy Price Action (DEFPA) Database.

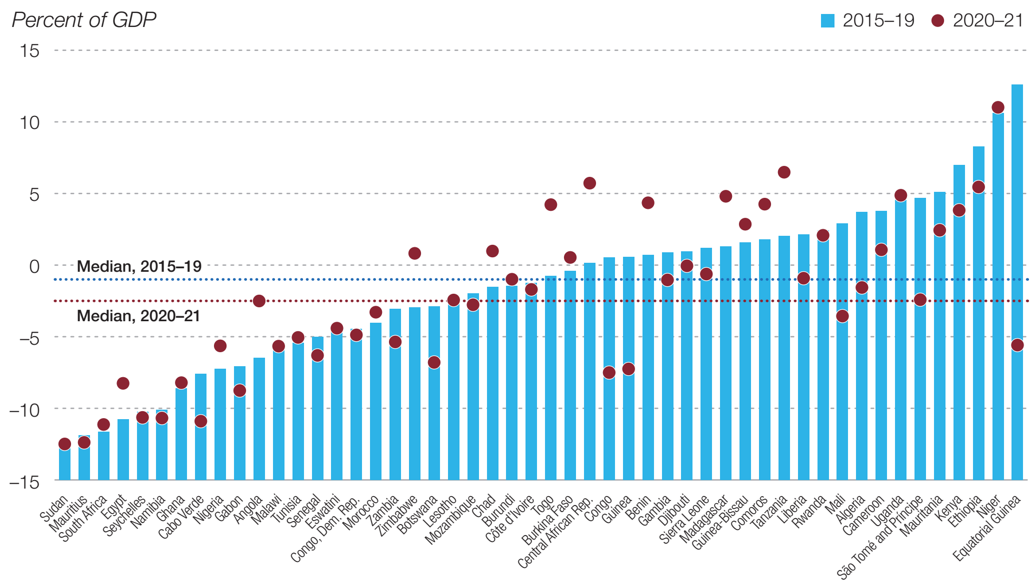
BOX FIGURE 1.2.2 **Size of announced subsidies for food and energy products in Africa, in 2022**



Note: Energy price subsidies include energy subsidies total; diesel; kerosene; electricity, natural gas and petroleum-derived products and gas; gasoline; and liquefied petroleum gas. Food price subsidies include bread, wheat, grains, cereal, and flour; fertilizer; staple foods; food (unconditional cash transfers); sugar, rice, and vegetable oil; maize seed and meat. The median energy and food subsidies are 1.2 and 0.2 percent of GDP, respectively.
Source: Staff calculations using IMF's Food and Energy Price Action (DEFPA) Database.

Note:
1. AfDB 2023.

FIGURE 1.21 Average shares of capital expenditure in total general government expenditure



Source: African Development Bank statistics.

economies with either large fiscal surplus or low deficit in 2022, which should provide them with fiscal room for higher capital spending, underscoring the need to improve spending efficiency and resource allocation.

About 22 countries have managed to preserve development expenditure amid significant fiscal challenges, with the largest percentage point increases in Tanzania, Togo, and Central African Republic, in that order. However, unlike Tanzania which registered a modest fiscal deficit of about 2.9 percent of GDP in 2020–21, the expansion of capital expenditure has been associated with larger fiscal deficits in the other two countries. This highlights the need for a sound and prudent fiscal stance in promoting investment expenditure through some adjustments to discretionary recurrent spending to ensure fiscal sustainability. Postponing investment spending should not be an option, as this would pose threats to sustained and stronger growth and could add to debt vulnerabilities as productive spending with the potential to repay debt slows.

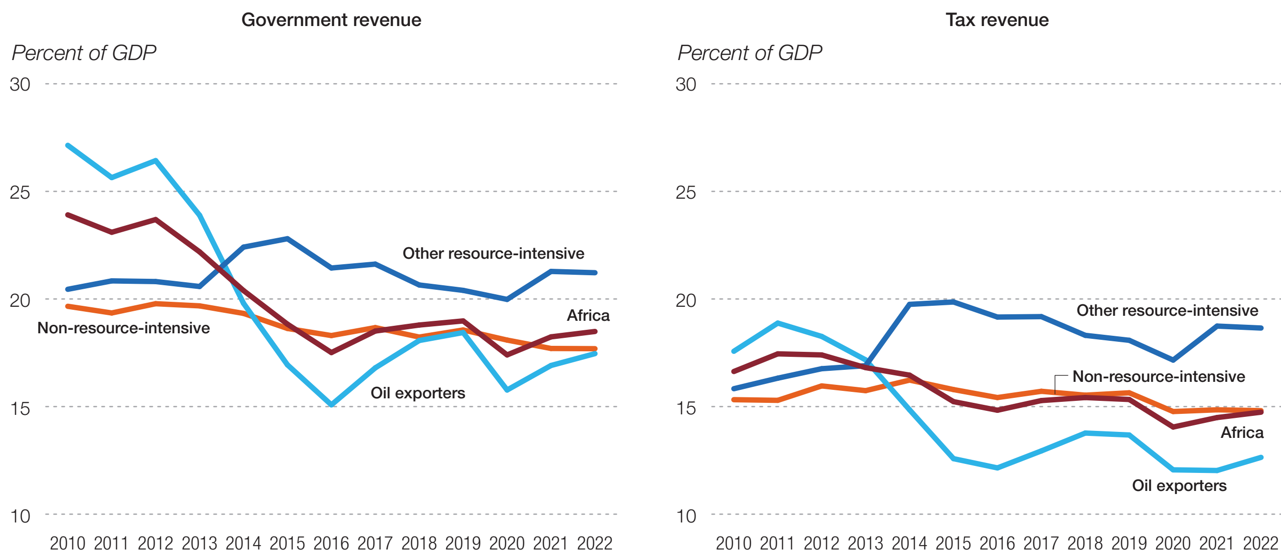
Africa's fiscal deficit is projected to continue to narrow through the medium term as economies sustain post-pandemic fiscal consolidation despite higher interest rates and currency depreciations and the associated increases in debt service payments. The average fiscal deficit to GDP ratio is expected to gradually converge to the pre-pandemic level of 4 percent in 2019, stabilizing at 4.1 percent in 2023 and narrowing to 3.8 percent in 2024. The expected additional fiscal room over the medium term will hinge on strengthening domestic resource mobilization.

As pointed out in the MEO 2023, the continent still exhibits lower revenue-to-GDP ratios than most other world's regions. Average general government revenue as a percentage of GDP, excluding grants, declined in the decade preceding the COVID-19 pandemic. From 2010 to 2019, the ratio declined substantially from 23.9 percent to 19 percent (figure 1.22). Mirroring this trend, the tax revenue-GDP ratio also declined by about 1.3 percentage points, to 15.3 percent of GDP. This figure was well below the average for Asia-Pacific (21 percent), Latin America (22.9 percent), and Organisation for Economic Cooperation and Development members (33.8 percent). The pandemic further reduced the tax revenue ratio to 14.7 percent in 2022, below the 15 percent minimum required for a developing country to adequately finance progress toward the Sustainable Development Goals.

Only resource-intensive countries other than those dependent on oil and tourism recorded higher tax revenue ratio in 2019 of 18.1 percent of GDP. With a tax revenue ratio at 15.6 percent of

Africa's fiscal deficit is projected to continue to narrow through the medium term as economies sustain post-pandemic fiscal consolidation despite higher interest rates and currency depreciations and the associated increases in debt service payments

FIGURE 1.22 Government revenue by economic grouping in Africa, 2010–22



Source: AfDB staff calculations.

Where fiscal deficits are large and exceed sustainable medium-term levels, promoting external rebalancing may necessitate fiscal consolidation to avoid sudden stops and balance-of-payment crises

GDP, non-resource-intensive countries barely met the threshold for the Sustainable Development Goals' development financing target for developing countries, but there is room to expand their performance by improving tax collection capacity. These economies depend largely on direct income taxes, notably corporate income and pay-as-you-earn. Given the inefficiency in tax collection systems, the share of tax revenue in total GDP has fallen progressively.

Across Africa, the COVID-19 pandemic has further exacerbated the already fragile fiscal situation, and general government revenue as a share of GDP fell by 1.6 percentage points, from 19 percent in 2019 to 17.4 percent in 2020. Consolidating economic recovery could bolster average general government revenue above the estimated 18.4 percent of GDP in 2022.

Where fiscal deficits are large and exceed sustainable medium-term levels, promoting external rebalancing may necessitate fiscal consolidation to avoid sudden stops and balance-of-payment crises. Fiscal austerity should be implemented in a way that does not exacerbate the pandemic's long-term consequences, particularly by preserving growth-friendly investments in infrastructure, healthcare, and education. Policies should be maintained to protect vulnerable households from the effects of rising food and oil prices. Making room for gradual but significant growth-friendly fiscal consolidation would aid in current account rebalancing and the accumulation of international reserves to more appropriate levels, particularly in economies with weaker-than-warranted external positions. Countries with structural external imbalances should do more to address competitiveness issues through gradual labor and product market reforms. Even in difficult economic times, policymakers need to find ways to increase investment and economic development while reducing fiscal pressures. Implementing structural reforms that improve business climate and foster competition is one approach. This can not only increase investment, it can also increase tax revenues. Implementing targeted fiscal policies, such as tax incentives for public-private partnerships, could also encourage private investment while minimizing the government's fiscal burden.

As reported in the 2023 MEO, given the low tax base and subdued aid due to fiscal pressures in advanced economies, enforcing compliance and improving tax administration more generally is imperative for mobilizing domestic resources to support economic recovery and engender sustainable, inclusive, and resilient growth for the continent. Improving the efficiency of revenue collection through institutional reforms, such as improved governance and accelerating investments in digitalization and e-governance, will improve transparency and reduce illicit financial flows and build fiscal credibility. These policies, if sequenced and implemented appropriately, could enhance domestic resource mobilization to complement private resources in meeting financing needs for green growth and sustainable development.

Debt dynamics and implications for growth

Public debt is projected to remain high, with lingering vulnerabilities

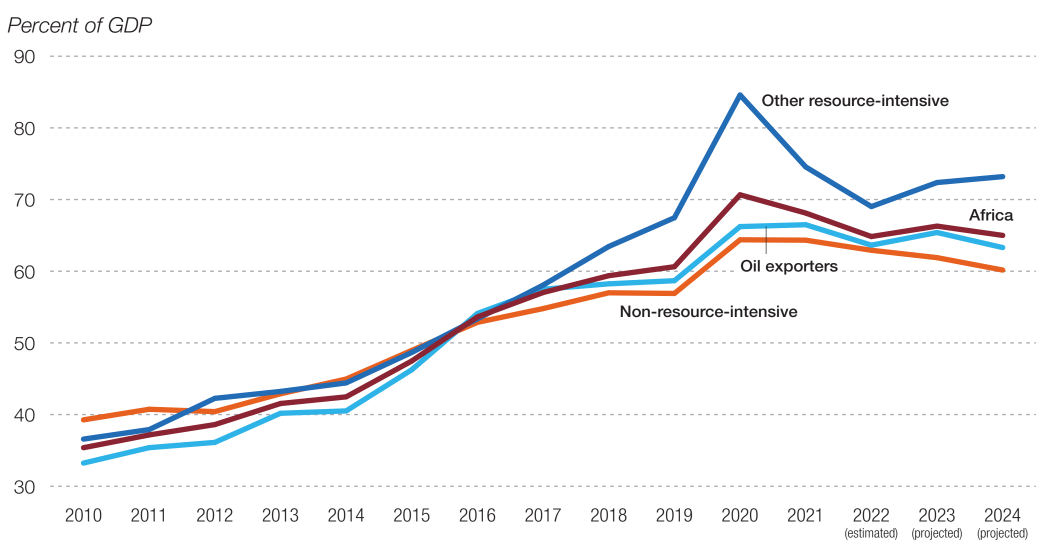
As reported in the 2023 MEO, the median public debt in Africa is estimated to have declined to 65 percent of GDP in 2022 from 68 percent in 2021 thanks to debt relief initiatives that help countries withstand the confluence of global shocks including the COVID-19 pandemic. This ratio remains higher than the pre-pandemic level of 61 percent of GDP, and it is expected to increase further to 66 percent in 2023 and then to stabilize at around 65 percent in 2024 (figure 1.23). The expected increase in debt reflects growing financing needs—associated with rising food and energy import bills, high debt service costs due to interest rate hikes, exchange rate depreciations, and rollover risks.

Public debt-to-GDP ratios are especially high among other resource-intensive (non-oil) economies. For this group of countries, the median public debt-to-GDP ratio declined in 2022 from 74.5 percent of GDP to 69 percent mainly due to a decline of more than 60 percentage points in Sudan's debt, which reached the Heavily Indebted Poor Countries Initiative decision point in 2021 and is expected to receive substantial external debt relief. However, public debt remains above the pre-pandemic level of 67.5 percent of GDP and is expected to increase respectively to 72 percent and 73 percent in 2023 and 2024, mainly due to rising interest costs of debt, depreciation of national currencies and growing financing needs.

For oil-rich countries, debt is set to decline to 64 percent of GDP in 2022 from 66.5 percent in 2021 despite a build-up in Nigeria. Nigeria's public debt has increased steadily due to a weak revenue position coupled with large outlays on fuel subsidies, estimated at about 3 percent of GDP. For other countries in this group, the gain from export earnings boosted by high oil prices have strengthened their currencies and improved their external position. These factors have mitigated the effect of rising interest rates and reduced the debt burden in these countries. Debt is estimated to have declined by double digits in Angola

For oil-rich countries, debt is set to decline to 64 percent of GDP in 2022 from 66.5 percent in 2021 despite a build-up in Nigeria

FIGURE 1.23 **Gross government debt as a share of GDP, 2010–24**



Source: AfDB staff calculations based on the IMF World Economic Outlook database.

(20 percentage points), Equatorial Guinea (15 percentage points), and Congo (9 percentage points). In Angola, an appreciation of the national currency as well as improved receipts from oil exports accounted for the sharp decline in public debt in 2022. All countries in this group, except Gabon and South Sudan are expected to see a decline in their public debt-to-GDP ratios in 2023 and 2024.

Non-resource-rich countries exhibit a similar pattern in the evolution of public debt, which is estimated to have declined to 63 percent of GDP in 2022 from 64 percent the previous year, reflecting stronger economic growth. Projected higher economic growth and efforts to reduce the fiscal deficit through fiscal consolidation and expenditure restraint are expected to bring down the debt ratio to 62 percent of GDP in 2023 and 60 percent of GDP in 2024.

For the key drivers of debt dynamics during 2013–23, the decomposition of debt-creating flows indicates that the projected exchange rate depreciation and high primary deficits will have a greater cumulative impact on external debt dynamics than historical drivers such as real GDP growth

For the key drivers of debt dynamics during 2013–23, the decomposition of debt-creating flows indicates that the projected exchange rate depreciation and high primary deficits will have a greater cumulative impact on external debt dynamics than historical drivers such as real GDP growth (figure 1.24). Similarly, interest expenditures, through increased nominal interest rates, are projected to contribute significantly to higher debt accumulation relative to past values, due to the current normalization of monetary policy across the world, reversing the historically ultra-low interest rate environment.

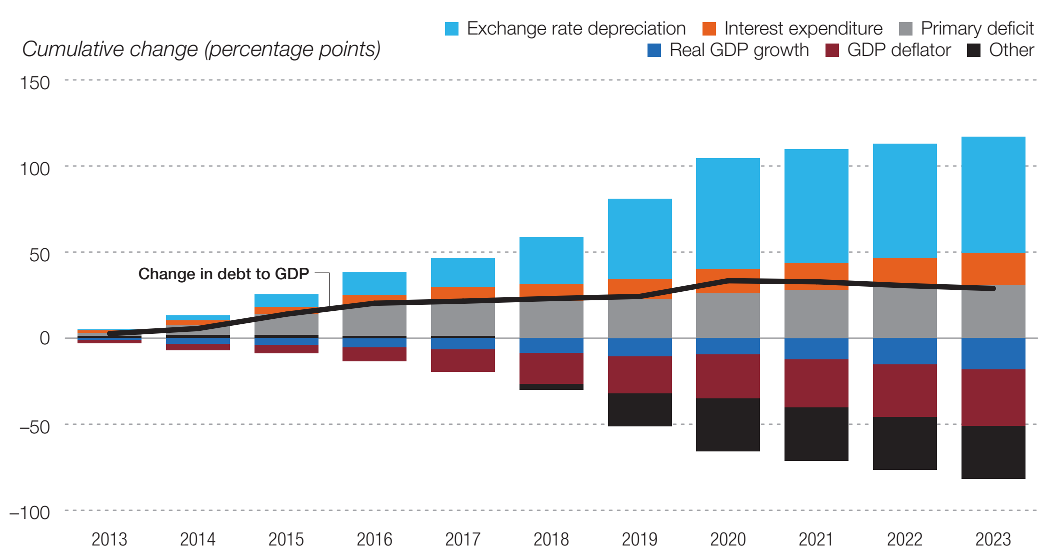
Tighter global financial conditions are weighing on sovereign borrowing costs

Global monetary policy tightening has stoked capital flight and the sell-off of eurobonds, and concomitantly led to weakening of national currencies and increased sovereign bond spreads across market-access countries (figure 1.25). Ghana's sovereign bonds, for example, were already trading distressed prior to Russia's invasion of Ukraine due to the country's domestic fiscal concerns, and spreads have widened by more than 1,500 basis points (bps) since August 2022. Hurt by the increase in wheat prices, Egypt has seen the sovereign spread widen by more than 900 bps since February 2023. Equally Nigeria, which has not fully benefited from higher oil prices due to production constraints, faced spreads of more than 1,000 bps between July and November 2022. In South Africa, the 10-year bond yield spreads have risen less dramatically and remain below 300 bps.

Debt service costs have risen, narrowing the scope for government spending and increasing vulnerabilities

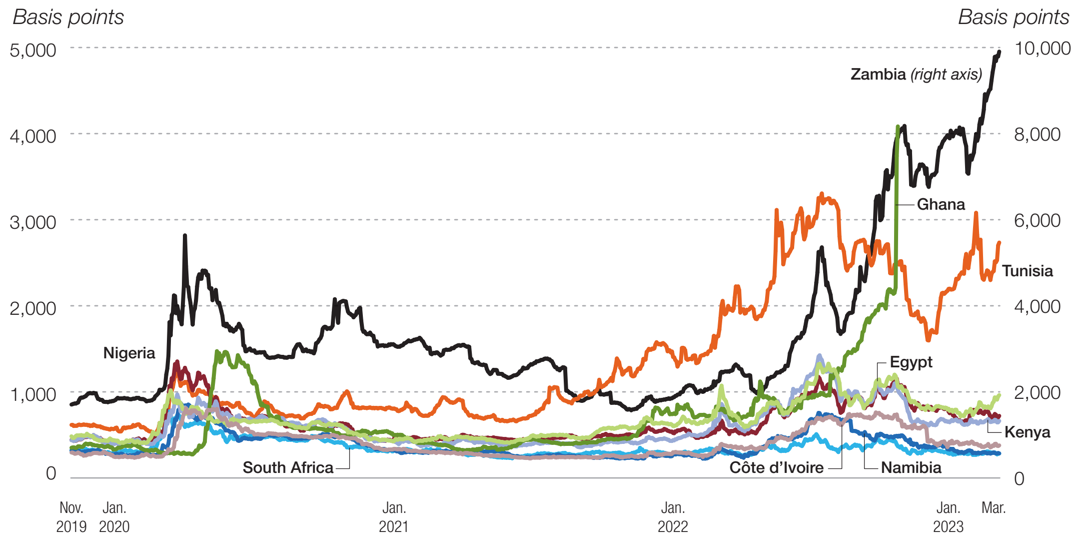
Public finances are becoming overstretched due to rising debt interest costs. External debt interest

FIGURE 1.24 **Drivers of public debt dynamics as a share of GDP, 2013–23**



Source: AfDB staff calculations based on the IMF World Economic Outlook database.

FIGURE 1.25 **10-year sovereign bond spreads in Africa, November 2019–March 2023**

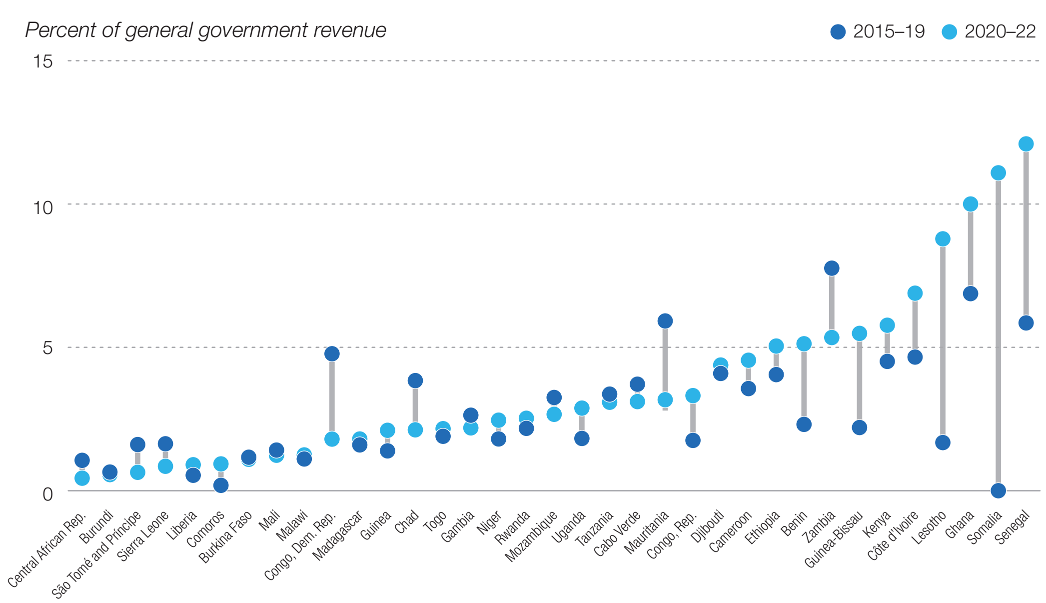


Source: AfDB staff calculations based on Haver Analytics.

payments as a proportion of the government revenues have risen above the pre-pandemic level in many countries (figure 1.26). The median interest payments on external debt for the 35 countries as a percent of government revenue rose from 2.2 percent over 2015–19 to 2.7 percent over 2020–22.[10] This increase indicates that government revenues have not kept pace with the rise in interest payments and highlights the erosion in fiscal space, which constrains governments' capacity to finance domestic recurrent spending and public investment. For all 35 countries,

External debt interest payments as a proportion of the government revenues have risen above the pre-pandemic level in many countries

FIGURE 1.26 **Interest payments on external debt, public and publicly guaranteed**



Note: Countries shown are low-income African countries for which a debt sustainability analysis is available and where data are available for debt service on external debt.

Source: AfDB staff calculations based on World Bank International Debt Statistics database.

interest costs were higher in 2020–22 than in 2015–19, except in Zambia, Mauritania, Chad, and Democratic Republic of Congo. For Zambia, the decline in interest payment as a share of total revenue is due to missed interest payments or defaults during the pandemic.

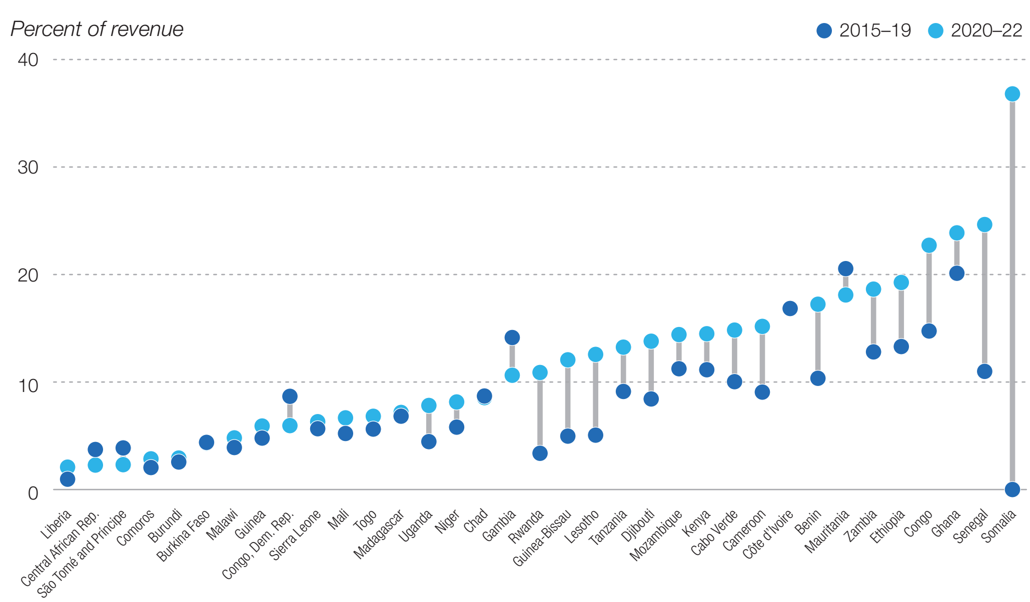
The rise in interest costs has been compounded by rising US dollar-denominated principal payments, resulting in overall high debt service payments. Total external debt service payments as a percentage of government revenues increased between 2015–19 and 2020–22 in many countries (figure 1.27). The median debt service to revenue ratio of the countries was about 6.8 percent in 2015–19, well below the IMF/World Bank debt sustainability threshold of 18 percent. The ratio increased to about 10.9 percent in 2020–22, still below the threshold. Even in the four countries where interest payments declined—Chad, Democratic Republic of Congo, Mauritania, and Zambia—total debt service has risen relative to the pre-pandemic period, underscoring that principal payments were the dominant component of debt service in 2020–22 in these countries.

The rise in interest costs has been compounded by rising US dollar-denominated principal payments, resulting in overall high debt service payments

The 25 African countries in high risk of, or already in, debt distress in February 2023 (considering total indebtedness—external and domestic)[11] have experienced the highest increase in the burden of debt service. The median external debt service payments in 2020–22 for countries with high risk of debt distress accounted for more than 11.3 percent of revenues, up from 8.6 percent in 2015–19 (figure 1.28). The median ratio more than doubled for countries already in debt distress, at 16.5 percent in 2020–22 from 7.6 percent in 2015–19. Further acceleration in external debt service payments could significantly shrink fiscal space in these countries, making it harder for affected economies to recover from multiple crises that have buffeted countries over the past three years.

The insolvency risk could morph into a liquidity crisis due to potential shortages of foreign exchange to service the debt. Moreover, the diversion of resources to debt service payment from critical social and public investment spending could create a vicious cycle of an ailing economy reinforcing pre-existing debt vulnerabilities. This underscores the need for faster and substantial debt relief to help African countries free up

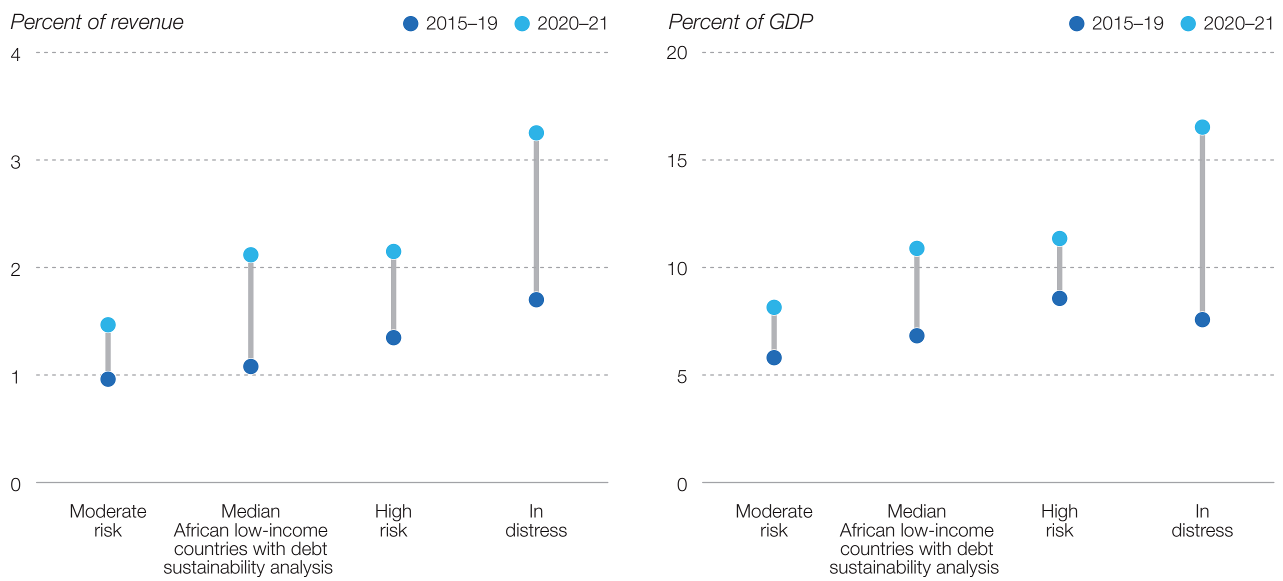
FIGURE 1.27 **Debt service on external debt, public and publicly guaranteed**



Note: Debt service payments are the sum of principal repayments and interest payments in the year specified. Countries shown are low-income African countries for which a debt sustainability analysis is available and where data are available for debt service on external debt.

Source: AfDB staff calculations based on World Bank International Debt Statistics database.

FIGURE 1.28 Debt service on external debt, public and publicly guaranteed, by risk of debt distress



Note: Countries shown are low-income African countries for which a debt sustainability analysis is available and where data are available for debt service on external debt.

Source: AfDB staff calculations based on World Bank International Debt Statistics database.

resources for spending on education, health, and public physical infrastructure.

Debt service payments falling due in 2023–25 could further elevate the risk of distress. A bunching of debt service due in 2023–25 will further increase debt vulnerabilities and aggravate the risks. Total external debt service payments due in 2023 for 16 African countries will increase by about a billion dollars to $22.3 billion from $21.4 billion in 2022 (figure 1.29).[12] Nigeria faces a $500 million debt payment in July 2023, while Rwanda will need to pay $61 million in May. In December, Côte d'Ivoire and Gabon will face payments of $56 million and $37 million respectively, while Cameroon has debt repayments of $50 million annually in 2023–25. If global monetary policy remains tight and depreciations of national currencies against the US dollar persist, countries will face a difficult trade-off between honoring debt repayment and meeting their food and energy import bills, both of which could exert pressure on foreign exchange reserves. Without a comprehensive debt reduction strategy and financial support similar to the SDR allocation, debt vulnerabilities will continue to rise, and countries may face a balance of payment crisis.

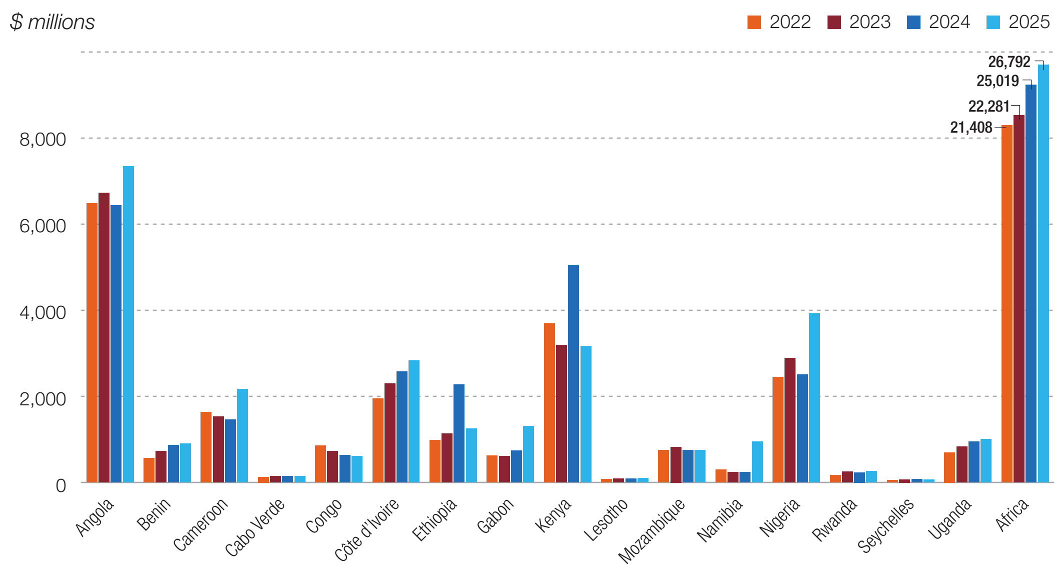
The increasing share of domestic debt in Africa's public debt could exacerbate fiscal and debt risks with implications for financial stability and economic growth

As opportunities for external finance diminish, African countries are increasingly relying on domestic debt to finance fiscal deficits, and this trend is likely to accelerate in the near term.[13] Prior to the COVID-19 pandemic, the share of domestic debt in total public debt was on a downward trend, but since 2020 this trend has been reversed (figure 1.30, left panel). In 2019, external debt accounted for about 65 percent of Africa's total public debt. This share fell to 62 percent in 2020 and at end of 2021 external debt accounted for about 58 percent of total debt. The change in debt composition has shifted toward domestic debt, whose share has increased from 35 percent in 2019 to approximately 42 percent of 2021. This trend reflects growing financing needs, the difficulty by many countries to access international capital markets which, coupled with limited tax revenue mobilization, have prompted them to turn to local currency debt issuances.

The broad picture of the shifting share of public debt toward the domestic market masks

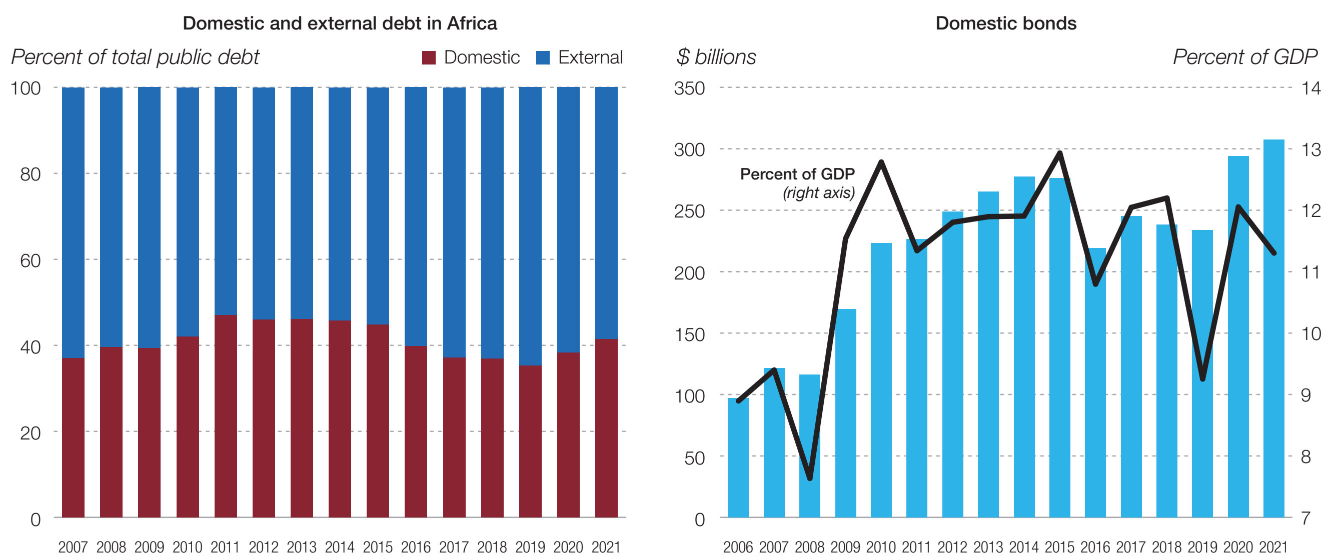
The median external debt service payments in 2020–22 for countries with high risk of debt distress accounted for more than 11.3 percent of revenues, up from 8.6 percent in 2015–19

FIGURE 1.29 African sovereigns, total external debt service due



Source: AfDB staff calculations based on World Bank International Debt Statistics database.

FIGURE 1.30 Domestic and external debt and domestic bond issuances



Source: AfDB staff calculations based on AFMI database and IMF and World Bank database.

significant differences across individual countries and countries' groupings. For frontier market economies with relatively deeper local bond markets, domestic bond issuances have surged since the start of the COVID-19 pandemic in 2020 (figure 1.30, right panel). On average, African countries issued domestic bonds worth $294 billion in 2020 (12.1 percent of GDP) from $234 billion in 2019 (9.3 percent of GDP). This is a one-quarter increase within a year, due to the pandemic-induced financing needs and limited opportunities for external financing from both private and multilateral sources, coupled with domestic banks' shift toward holdings of public sector assets as risks of corporate lending heightened. The average bond issuance in 2021 increased to $307 billion, a smaller increase of 4 percent, reflecting the end of the worst of COVID-19.

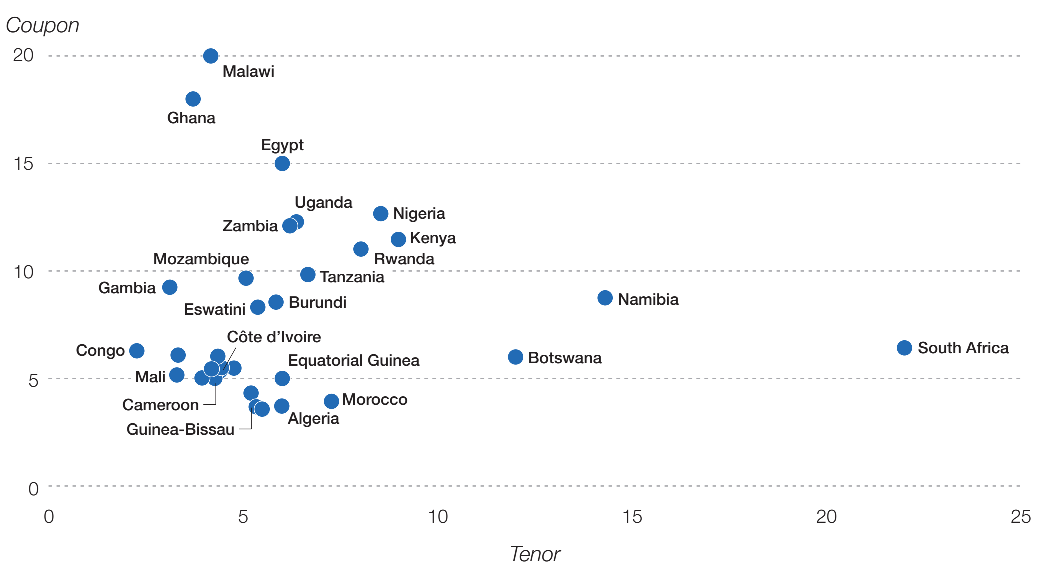
In frontier market economies whose external bonds are currently trading at distressed spread levels, domestic debt represented more than 50 percent of total public debt in 2021. For Africa's heavily indebted non-frontier market economies, domestic debt still constitutes a relatively low proportion of public debt, except in Burundi and São Tomé and Príncipe, where domestic debt accounts for more than 50 percent of total public debt.[14] With government financing still elevated and likely to rise further and as global financial conditions remain tight, domestic bank holdings of sovereign debt will keep rising. This will further crowd out private sector credit and present risks to domestic financial stability.[15] Restructuring of domestic debt should be part of the negotiations for the resolution of public debt crises in countries facing heightened risks, with domestic debt representing a substantial share of public debt. Negotiations should involve all parties, including bilateral lenders, the private sector, domestic lenders, and multilateral financial institutions.

Shorter tenors of domestic bond issuances and relatively high coupon rates in many countries may exacerbate debt vulnerabilities. Domestic sovereign bond markets in many African countries is characterized by shorter tenors and high coupons at issuance. Indeed, sovereign bonds are often considered the most liquid and safest debt instruments which explains their shorter maturity. In addition, central banks rely on sovereign bonds with shorter maturity to conduct monetary policy operations.

The majority of the 40 African countries with data between 2000 and 2022 have tenors between two and seven years and coupon rates between 4 and 12 percent (figure 1.31). Countries such as Ghana and Malawi have coupon rates around 20 percent. On the opposite side, Botswana, Namibia, and South Africa have longer tenors with coupon rates below the Africa average. For instance, the average tenor on local currency bonds in South Africa is 22 years with coupon rates around 6 percent. These countries have relatively more developed and liquid primary domestic bond markets, which allows them to borrow at longer maturities, thereby reducing rollover risk compared to other countries. The secondary market in these countries also allows for additional trading and price formation of local currency debt. Shorter tenors and high coupons in most countries are good for banks. But they are also a cause for concern because they increase rollover risk and borrowing costs and may exacerbate debt vulnerabilities in countries with relatively higher domestic debt, as governments may be tempted to turn to the restructuring of domestic debt.

The majority of the 40 African countries with data between 2000 and 2022 have tenors of domestic bond issuances between two and seven years and coupon rates between 4 and 12 percent

FIGURE 1.31 Average coupon and tenor of government bonds in Africa over 2000–22



Source: AfDB staff calculations based on AFMI database.

Domestic debt restructuring may thus become more frequent in the future. With a bunching of external and domestic loan repayments coming due within the next few years, difficulties in restructuring external debt and delays in implementing the G20's Common Framework, it is likely that debt restructuring will involve discussions on domestic debt restructuring as well and include all stakeholders. The latter may be easier to achieve as debt is issued under domestic law.

For instance, many countries could rollover their domestic debt through debt exchange strategies. Ghana's recent debt restructuring strategy is instructive. In early December 2022, due to delays and difficulties in restructuring its external debt, the government[16] announced a restructuring of local-currency debt—which represented around 50 percent of total debt in 2021—through a voluntary domestic debt exchange program. So far, the negotiations with domestic bondholders have stalled with investors raising concerns that the debt swap will lead to significant financial losses. Ghana's unsuccessful experience to date shows that domestic debt restructuring can also be challenging. To be successful, countries must design their domestic debt restructuring strategies in such a way as to achieve the required debt reduction target while minimizing risks to the domestic financial system and the broader economy.

As economies continue to implement corrective measures to restore external balances, it is projected that external balances will stabilize at around 2.3 percent in 2023– 24, an improvement of more than 1.5 percentage points from the pre-pandemic level of 3.8 percent

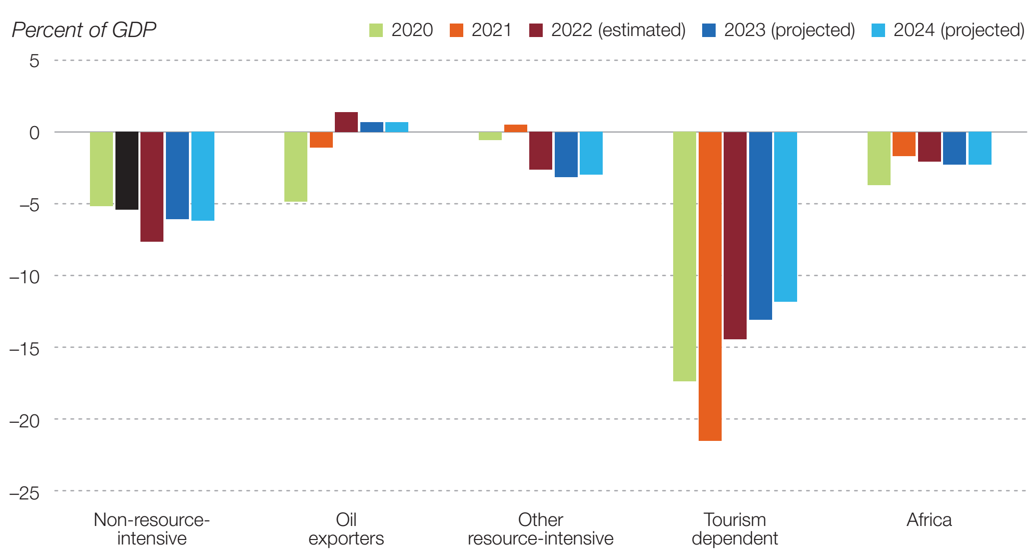
External position and current account balance

Africa's overall external position is estimated to have weakened in 2022 and it is projected to weaken further in the medium term, reflecting the gloomy export sector outlook

The average current account deficit is estimated to have widened to 2.1 percent of GDP in 2022 from 1.7 percent in 2021. As economies continue to implement corrective measures to restore external balances, it is projected that external balances will stabilize at around 2.3 percent in 2023–24, an improvement of more than 1.5 percentage points from the pre-pandemic level of 3.8 percent (figure 1.32).

While external positions are favorable relative to the period preceding the pandemic, a combination of current account deficits and negative international investment positions could create feedback loops, particularly where debt vulnerabilities exist. Persistent current account deficits may result in large outflows of investment income, producing even larger deficits that must be financed. This poses a significant downside risk for countries that have relied on debt financing to deal with the negative effects of the pandemic, such as low-income and non-resource-intensive economies. Lower growth and higher interest rates are

FIGURE 1.32 **Current account balances by type of resources, 2020–24**



Source: African Development Bank statistics.

expected to hasten the deterioration of net international investment positions.

Africa's commodity-exporting economies recorded mixed external positions. While oil exporters benefiting from higher oil prices are estimated to have recorded current account improvement to a surplus of 1.4 percent of GDP in 2022, reversing the deficit of 1.1 percent in the previous year, other resource-intensive countries recorded a deterioration to a deficit to 2.6 percent of GDP from a surplus of 0.5 percent in the same period. This deterioration is mainly due to the subdued demand for non-oil commodities, outweighing the price increase in that year. The current account surplus in oil-exporting countries is projected to decline to 0.7 percent of GDP in 2023–24, reflecting the expected decline of oil prices and subdued global activity. Similarly, the projected subdued global demand could affect demand for non-oil commodities and induce a widening of the current account deficit for this group of countries to 3.1 percent of GDP in 2023–24.

Non-resource-intensive economies have seen their external positions weaken further in 2022 due to higher food and energy import bills and depreciating national currencies. The current account deficit for these economies is estimated to have deteriorated to 7.6 percent in 2022 from 5.4 percent in 2021. If the recent phase of weak national currencies persists, it could increase the import bill and erode countries' external positions, creating ripple effects in the real economy through an increase in imported inflation. The average current account deficit for non-resource-intensive economies is projected to narrow to 6.1 percent of GDP in 2023 and stabilize at 6.2 percent of GDP in 2024.

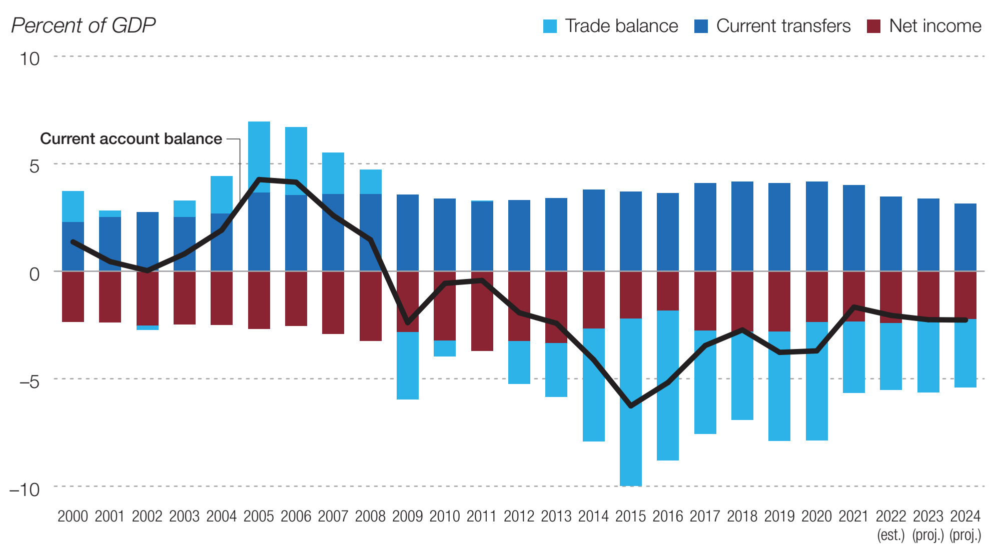
The average current account in tourism-dependent economies remains weak, with a deficit of 14.4 percent of GDP in 2022, though it improved substantially from 21.5 percent in 2021. It is projected to narrow further to 13.1 percent in 2023, and to 11.8 percent in 2024 as tourist arrivals gradually increase. According to the World Tourism Organization, an estimated 700 million tourists traveled internationally between January and September 2022, more than twice (133 percent) the number for the same period in 2021, and a strong recovery of nearly 61 percent of pre-pandemic levels.

Current account deficits in most African countries continue to be driven mainly by trade deficits and net factor payments, while net current transfers including remittances and foreign aid prop them up (figure 1.33).

The continent's average current account deficit which peaked at 6 percent of GDP in 2015 has steadily narrowed and stabilized at slightly above

Current account deficits in most African countries continue to be driven mainly by trade deficits and net factor payments, while net current transfers including remittances and foreign aid prop them up

FIGURE 1.33 **Current account balance decomposition: continental averages over 2000–24**



Source: AfDB statistics.

2 percent since 2020. The contribution of net income outflows has declined over time, particularly in the aftermath of the COVID-19 pandemic as softer global economic conditions weighed on dividends and interest payments to foreign investors. But the deficit in merchandise trade has been growing since 2012, peaking at about 57 percent in 2015 as net commodity exporters suffered trade losses from lower prices.

Aided by commodity prices well above pre-pandemic levels, the contribution of the trade deficit has since declined. But it remains above 35 percent on average and is projected to remain at the same level in the medium term as slower growth in global economy dampens demand and softens export prices. In contrast, net current transfers (workers' remittances, intergovernment official transfers, among others) have been positive and resilient throughout the period, alleviating the impact of the trade deficit and income outflows on the current account. These dynamics are expected to persist at least in the medium term, given the resumption of official development assistance and other transfers.

While these projections indicate a gradual rebalancing of external positions, countries must continue to address persistent deficits proactively rather than reactively. Unfortunately, many African countries have limited policy space for dealing with macroeconomic imbalances in the short term due to a bleak global economic outlook, a persistent supply chain crunch, and tighter global financial conditions.

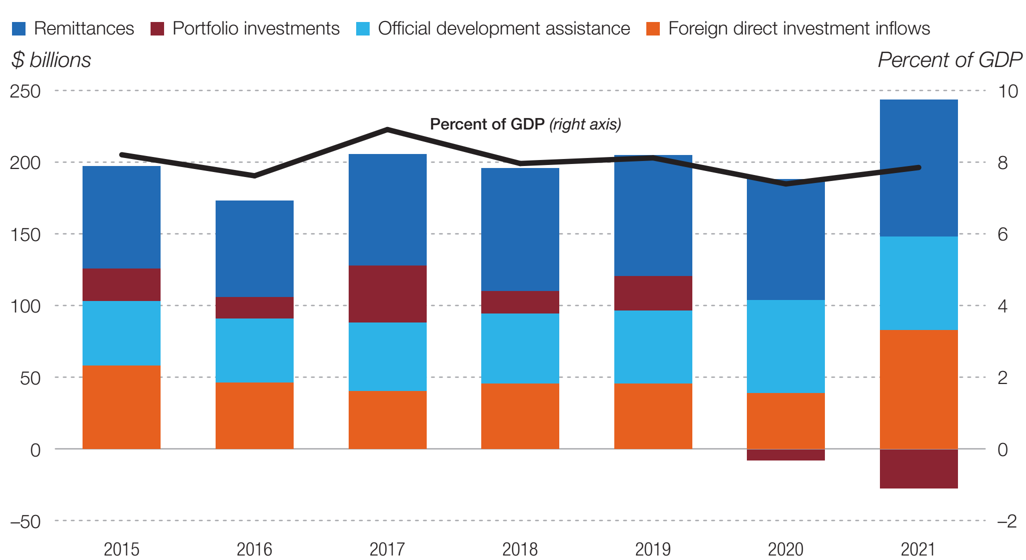
Total external financial inflows to Africa—foreign direct investment, portfolio investments, official development assistance, and remittances—have rebounded by around 20 percent to $216.5 billion in 2021

External financial flows to Africa, implications, and outlook

The rebound in financial flows from the decline in 2020 has proven robust, but several uncertainties remain due to tighter global financial conditions

Total external financial inflows to Africa—foreign direct investment (FDI), portfolio investments, official development assistance (ODA), and remittances—have rebounded by around 20 percent to $216.5 billion in 2021 (figure 1.34). The increase was led by FDI, which more than doubled to $83 billion in 2021 from $39 billion in 2020, when the pandemic weighed heavily on investment. Despite the strong expansion in 2021, FDI flows to Africa accounted for only 5.2 percent of global FDI, up from 4.1 percent in 2020. Although weak, the rising importance of Africa as host of global FDI flows highlights increased investor appetite for investment opportunities in the continent. As pointed out in the MEO 2023, the largest FDI recipient in 2021 was South Africa, with investments worth more than $40.9 billion, nearly

FIGURE 1.34 External financial flows to Africa, 2015–21



Source: African Development Bank statistics and staff calculations assuming constant ODA between 2020 and 2021.

half the total inflows to Africa that year, followed by Egypt and Mozambique, each attracting nearly $5.1 billion in FDI inflows, about 6.2 percent of the total. FDI in Mozambique, which increased by 68 percent in 2021, is largely directed to greenfield projects in the energy sector. Other countries such as Nigeria (5.8 percent of Africa's FDI inflows) and Ethiopia (5.1 percent) also managed to attract important FDI flows despite economic challenges. The bulk of FDI to these countries is increasingly directed to projects in clean energy resources.

The reversal of portfolio investments in 2020 persisted in 2021 with a record $27.5 billion of outflows, after $8.1 billion outflows in 2020. This sustained asset selloff highlights the sensitivity of portfolio investments to changes in the global and domestic financial environment as opposed to FDI which has proven to be more resilient against economic shocks. Recent interest rate hikes by central banks, mainly in advanced economies, and tighter global financial conditions are weighing on capital outflows, with attendant pressures on currencies and interest rates in emerging and developing economies, which are particularly vulnerable to capital flight. The recent bank defaults could further reinforce global financial instability and exacerbate capital outflows from the continent.

Portfolio investment, however, displays significant cross-country heterogeneity in Africa. Countries such as Mauritius and South Africa with more mature equity and debt markets recording the largest outflows in 2021 (figure 1.35). But a few African countries recorded net inflows in 2021. These include Egypt ($18 billion), Nigeria ($5.9 billion, reversing the capital flight in 2020), and Ghana ($2.1 billion, bolstering its portfolio inflows of $1.6 billion in 2020). Capital flight through net portfolio investment outflows is estimated to have continued in 2022 at $28 billion, close to the 2021 level due to rising interest rates associated with contractionary monetary policies in advanced countries.

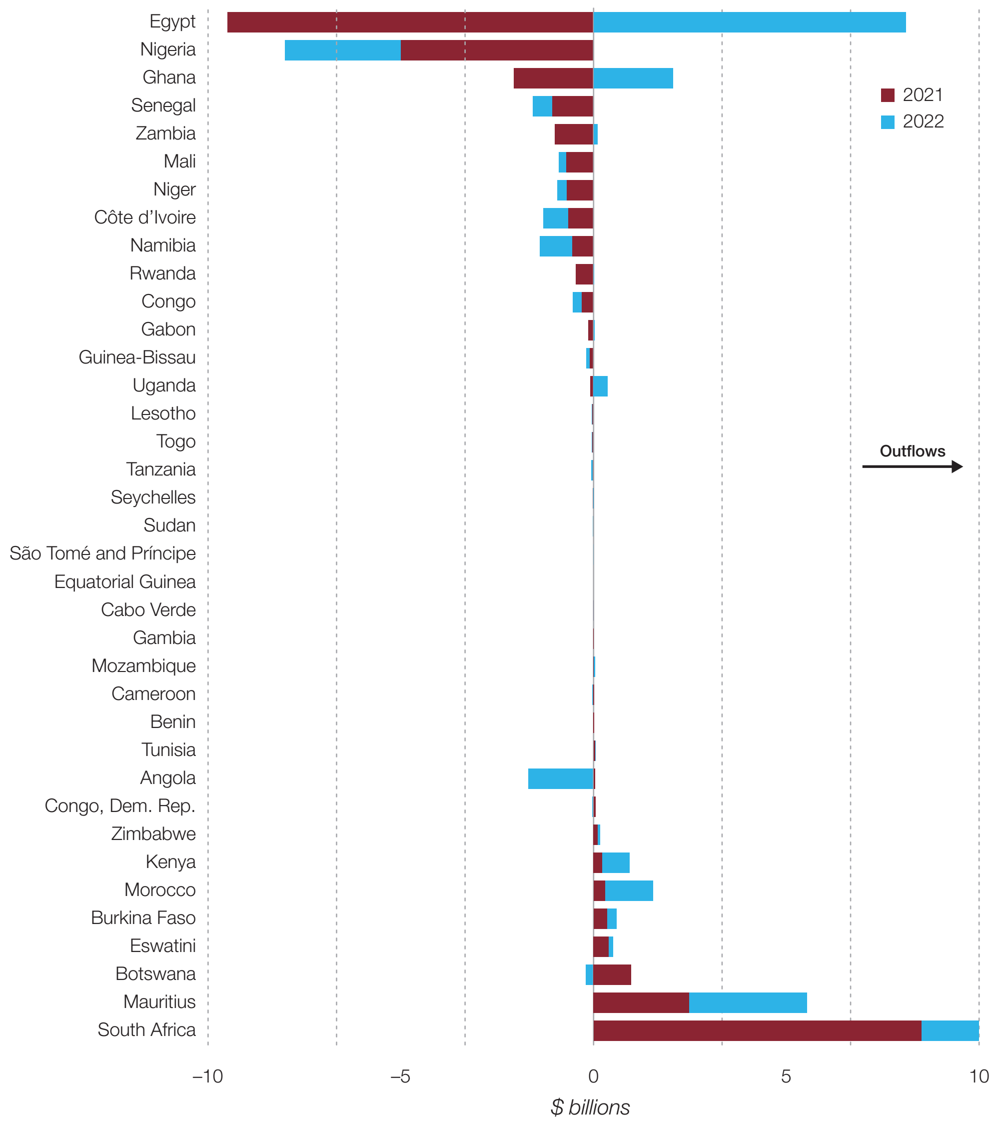
Official development assistance (ODA) to Africa steadied at $65 billion in 2021 after the 28 percent jump in 2020. The surge in ODA since 2020 reflected support from the international community to help African governments tackle the humanitarian and socioeconomic impacts of the pandemic and navigate through the challenging global environment. African countries that experienced the largest increase in ODA in 2021 include Egypt (428 percent), Equatorial Guinea (115 percent), Angola (109 percent), Gabon (82 percent), and Sudan (60 percent). But the bulk of ODA to Africa in 2021 was concentrated in Egypt ($8.2 billion), Ethiopia ($4 billion), Sudan ($3.8 billion), DRC ($3.5 billion), Nigeria ($3.4 billion), and Kenya ($3.1 billion). The top aid-receiving African countries in 2021 accounted for more than half the total ODA flows to the continent. African countries need to leverage this external support to address existing vulnerabilities and build more resilient economies, especially given risks that advanced economies may reallocate resources to reconstruction and humanitarian assistance in Ukraine at the expense of meeting their ODA commitments to Africa.

The reversal of portfolio investments in 2020 persisted in 2021 with a record $27.5 billion of outflows, after $8.1 billion outflows in 2020

In 2022, member countries of the Development Assistance Committee (DAC) provided $204 billion in total ODA to the rest of the world, a 13.6 percent increase from 2021 levels. Contributing to this increase was net ODA to Ukraine of $16.1 billion, equivalent to 7.8 percent of total ODA resources made available in 2022. In comparison, net bilateral ODA flows from DAC countries to Africa declined by 7.4 percent in real terms from $36.6 billion in 2021 to $34 billion, the lowest level since 2010 and the third consecutive decline since 2019.[17] The net ODA flows to Africa are a small fraction of the more than $91 billion in financial commitments, between January 2022 and February 2023, from the Western governments (mainly the G7 and European Union member countries) and non-bilateral donors (including the IMF, World Bank, and the European Bank for Reconstruction) to help sustain economic and financial stability in Ukraine following Russia's invasion.[18]

Remittances rebounded by 13.5 percent to $95.5 billion in 2021 from the modest drop of less than 1 percent to $84.2 billion in 2020. The relative resilience of remittances in 2020 was due in large part to increased personal transfers to Angola, Egypt, Kenya, Morocco, Zambia, and Zimbabwe, which offset the sharp fall in other countries such as Nigeria. The increase in remittances was driven by better-than-expected economic conditions in top African migrant destination countries, including the OECD, and the Gulf countries,

FIGURE 1.35 Portfolio investments, 2021 and 2022



Note: A positive number signifies an outflow of portfolio investment from Africa, and a negative number an inflow of portfolio investment.

Source: AfDB staff calculation.

The increase in external financial flows needs to be sustained in a context of large financing needs for the continent, including for climate action

depreciating exchange rates against the US dollar, and a shift from cash (informal) to digital (formal) transfers. The increase in remittances in 2021 was driven by Egypt ($31.5 billion, or 33 percent), Nigeria ($19.5 billion, or 20 percent), and Morocco ($10.7 billion, or 11 percent). Remittances have become a vital source of foreign financing for many African countries and serve as a private coping mechanism against shocks, reducing people's vulnerability to severe shocks. This highlights the importance of improving conditions for channeling these flows to mitigate the socioeconomic impacts of recent overlapping shocks on African households.

As highlighted in chapter 2, the increase in external financial flows needs to be sustained in a context of large financing needs for the continent, including for climate action estimated at $2.6–$2.8 trillion over 2020–30, or $234.5–$250 billion a year. Even more important is the need for African countries to increase the scope and depth of available financing options. This is critical to allow

Africa to achieve the Sustainable Development Goals and accelerate progress toward greener and more inclusive growth. Against this background, chapter 2 is on private sector financing for climate and green growth in Africa and chapter 3 is on natural capital for climate finance and green growth in Africa.

POLICY OPTIONS

African countries continue to feel the impacts of recent global and domestic shocks that have weakened macroeconomic fundamentals. Amid high inflation, tightening financing conditions, and elevated debt and climate risks, addressing the headwinds affecting Africa will require a mix of short and medium to long-term policies that can achieve faster disinflation while accelerating and sustaining the growth momentum.

Short-term policies

A clearly communicated anti-inflation monetary policy, supported by prudent fiscal policy, will achieve lower inflation faster at minimum cost to the economy

Inflation remains significantly high across Africa, even by historical accounts, and the outlook points to sustained increase this year before falling and returning to single digits next year. Although the risk for global recession has waned and growth in Africa is projected to stabilize at around 4 percent, tackling high inflation would rekindle prospects for faster and sustained growth. But this requires careful consideration of policy options to ensure that inflation expectations do not become entrenched and impose costs on growth.

These policy choices will vary from one country to another, depending on prevailing economic and policy circumstances and the growth outlook. In countries where inflation rates are projected to remain significantly higher than targets or in double digits, raising policy rates and keeping them higher in the short term will help to anchor inflation expectations and drive inflation downwards. But this policy choice must consider the implied costs for growth and other socioeconomic challenges. It is therefore important that countries adopt such policies to have a strong and credible central bank communication strategy that would hasten disinflation and thus lower the cost of aggressive monetary policy. Such a monetary policy stance will have to be coordinated with a tighter fiscal policy that restricts government spending in non-critical areas to achieve faster desirable outcomes on inflation. In countries whose inflation outlook is relatively low and well anchored, and that have spare capacity, appropriate monetary policy responses should be coordinated with fiscal policy to ensure that support for growth remains firmly on course.

Macroprudential policies to supplement monetary policy actions will be necessary to address financial stability risks and maintain price stability

Aggressive anti-inflation monetary policy aimed at realigning current inflation with its medium-term target could test the resilience of the banking sector in Africa. Strains in the financial system could in turn complicate the task of central banks. In this case, macro-prudential policies such as capital and liquidity buffers would be essential to address the risks to financial stability and should help central banks manage the trade-off between the twin objectives of maintaining price stability and financial system stability. This will allow central banks to continue with tight monetary policy to address inflationary pressures. Should financial strains emerge, requiring central banks to align monetary policy with its mandate of preserving financial stability, they should do so swiftly and credibly while clearly communicating a continued commitment to contain inflation as financial stress lessens. This clear communication is necessary for the credibility of monetary policy.

As global financial conditions tighten and financing needs mount, governments are increasingly turning to domestic banks for deficit financing. Increased exposure to domestic financial markets raises the risk of large publicly financed bank balance sheets, creating an adverse bank-sovereign feedback loop that could threaten financial stability should fiscal risks escalate. To avoid transmitting fiscal risks to the banking sector, a comprehensive domestic debt restructuring mechanism involving domestic banks and other domestic debtholders will be necessary to

> Countries need a strong and credible central bank communication strategy that would hasten disinflation and thus lower the cost cost of aggressive monetary policy

achieve the required debt reduction target while minimizing the associated financial stability risks.

Coordinated debt treatment strategy between official and private creditors is key to avoiding a debt crisis, given tight global financial conditions, and a bunching of debt service payments

Countries facing a high risk of debt distress should firmly implement policies, including expenditure-focused fiscal consolidation, aimed at restoring fiscal fitness and debt sustainability. Reforms should however be gradual to cushion poorer households from expenditure cuts. For countries currently in debt distress or whose debt is on tipping point of sustainability, early consideration of debt treatment and engagement with creditors are paramount to restoring debt sustainability. Accompanying policies such as fiscal consolidation focusing on both efficient revenue mobilization and public expenditure will be needed to build market confidence and restore macroeconomic stability. Aligning the new Global Sovereign Debt Roundtable[19] with the G20 Common Framework will help strengthen the collaboration among bilateral and multilateral lenders as well as private creditors, and build credibility for successful debt restructuring.

Scaling up domestic revenue mobilization is critical to restore fiscal sustainability and finance inclusive growth and sustainable development

Medium to long-term policies

Scaling up domestic revenue mobilization is critical to restore fiscal sustainability and finance inclusive growth and sustainable development

Domestic resource mobilization is an imperative for African countries faced with huge financing needs for inclusive and sustainable growth and development. Mobilizing domestic resources requires strong policy commitment to reforms focusing, in the long term, on broadening the tax base, enhancing formalization of informal activities, improving the transparency and efficiency of tax administrations through digitalization and simplified procedures, and curbing illicit financial flows.

Countries should improve enforcement capacity and promote voluntary tax compliance through better use of tax revenues for public welfare—by providing quality public goods and services—and campaigns to increase awareness of the importance of paying taxes. Deepening domestic financial markets is critical to unlocking private sector financing for development. Resource mobilization could also be enhanced by improving institutional governance and enacting policies that can leverage private financing, especially in climate-proof and pandemic-proof greenfield projects—and mobilizing Africa's natural resources.

Enacting strategic industrial policies to accelerate economic diversification in Africa is imperative to limit effects of recurrent headwinds and global shocks

Cross-regional variations in growth show that the most diversified regions have more sustained growth. Although the short-term cost of diversification may seem high for countries heavily dependent on exports of primary commodities, especially oil-producing countries, it remains the most viable option for sustaining higher and inclusive growth in the medium to long term. Furthermore, the shift in economic opportunities toward green growth offers a strong business case for the design of strategic industrial policies to harness Africa's critical minerals across the entire value chain for green development to reduce the carbon footprint and lower the cost of shocks.

Diversifying into growth-enhancing and job-creating sectors can be enhanced through structural reforms including supporting investment in hard and soft infrastructure to boost regional trade and shield against volatility in trade and current accounts. Importantly, developing strategic industrial policies to spur diversification will is critical to correct market failures, drive export orientation, and encourage healthy competition in key sectors. Examples of strategic industrial policies include local content and franchising policies to promote value addition and boost the competitiveness of Africa's commodity exports. Further discussion of these policies is in chapter 3.

Boosting regional trade to enhance Africa's resilience to spillovers from global economic growth slowdown and reduce the persistent trade deficit

Accelerating implementation of the African Continental Free Trade Area (AfCFTA) presents an opportunity to create a borderless Africa. A combined population of 1.4 billion, equivalent to

16.7 percent of the world population and GDP of about $3 trillion, could underpin a competitive continental market to expand intra-African trade to cushion economies from multiple shocks. But this will entail scaling up investment in soft and hard infrastructure, especially regional transport and logistics hubs, and dismantling trade and nontrade barriers that continue to hamper the free flow of goods, services, and persons.

In addition, harmonizing and strengthening cross-border payment systems through technological advances and accelerating efforts toward coordinated macroeconomic stability would facilitate regional integration and trade. Minimizing the effects of disruptions in global supply chains and the emergence of trade re-shoring and friend-shoring requires building more integrated and resilient regional economies.

Reforming the global financial and debt architecture to reduce the cost, time and legal complications associated with debt restructuring for developing countries

The ability of the current global financial and debt architecture to address emerging challenges is being seriously undermined by the growing share of non-concessional debt, mostly from private lenders and non-Paris Club members. This is the main reason for the delays in sovereign debt resolutions under the G20 Common Framework. And this reality can no longer be ignored and calls for urgent reform of the current global financial and debt architecture to avoid high debt resolution costs and limit the likelihood of a re-emerging debt crisis.

Reforming the global financial and debt architecture would help developing countries, especially in Africa, access international resources on affordable terms to finance investment in critical infrastructure and human capital development for the achievement of Sustainable Development Goals. These reforms should include strengthening the capacity of regional multilateral financial institutions to better respond to emerging challenges. Central to this is the need for support to the joint initiative by the African Development Bank and African Union Commission to establish an African Financial Stability Mechanism (AFSM) to help the continent strengthen its debt management and crisis resolution capacity. The AFSM would help African countries pool resources to address idiosyncratic shocks buffeting the continent.

Other reforms could include reviewing the global rating landscape dominated by three rating agencies, which tends to raise financing costs and reduce financial inflows to Africa. The current formula for the allocation of special drawing rights (SDRs), which favors richer countries whose needs for such resources during global crisis is low, also needs to be reviewed with the aim to channel such resources to developing countries that need them the most.

Reforming governance to strengthen public financial management to deal with increased debt and tight fiscal space.

Africa's debt remains elevated, financial inflows have stalled, and the fiscal space has significantly narrowed as countries spend on average almost one-fifth of their annual revenues on debt service. Under such conditions, African governments need to prioritize public expenditure management and ensure value-for-money in their use of the limited resources. This must be accompanied by governance reforms and improved public financial and debt management practices as immediate steps to address the mounting debt vulnerabilities.

The coverage of Africa's debt needs to go beyond general government debt to sub-national governments, state-owned enterprises, public-private partnerships, and domestic arrears accumulation. Improving the transparency and expanding the coverage of debt liabilities would help identify the exact nature of the debt burden and the type of relief required. Last, countries need to build institutional capacity to better manage public finances, block leakages, and improve investment efficiency and project selection.

Reforming the global financial and debt architecture would help developing countries, especially in Africa, access international resources on affordable terms to finance investment in critical infrastructure and human capital development for the achievement of Sustainable Development Goals

ANNEX 1.1 STATISTICAL APPENDIX

TABLE A1.1 Real GDP growth (percent)

	2021	2022 estimated	2023 projected	2024 projected
Central Africa	3.4	5.0	4.9	4.6
Cameroon	3.6	3.4	4.2	4.5
Central African Rep.	1.0	0.5	2.0	2.9
Chad	-1.1	2.4	3.6	3.7
Congo	1.5	3.2	4.2	4.4
Congo, Dem. Rep.	6.2	8.5	8.0	7.2
Equatorial Guinea	–0.9	3.1	–1.4	–6.3
Gabon	1.5	3.0	2.7	2.8
East Africa	4.7	4.4	5.1	5.8
Burundi	3.1	4.0	4.5	4.6
Comoros	2.2	2.9	3.5	4.0
Djibouti	4.8	3.7	5.4	6.5
Eritrea	2.5	2.3	2.6	3.1
Ethiopia	5.6	5.3	5.8	6.2
Kenya	7.5	5.5	5.6	6.0
Rwanda	10.9	8.2	7.6	8.0
Seychelles	7.9	9.5	5.1	4.2
Somalia	2.9	1.7	2.8	3.5
South Sudan	–4.9	–2.9	–0.4	4.6
Sudan	-1.9	-0.7	2.0	3.8
Tanzania	4.9	4.7	5.3	6.3
Uganda	5.6	6.3	6.5	6.7
North Africa	5.4	4.1	4.6	4.4
Algeria	3.4	3.0	3.1	2.4
Egypt	3.3	6.6	4.4	5.1
Libya	28.3	–12.1	17.9	8.0
Mauritania	2.4	5.3	4.3	5.9
Morocco	7.9	1.1	3.3	3.5
Tunisia	4.3	2.4	1.9	2.8
Southern Africa	4.4	2.7	1.6	2.7
Angola	1.1	3.0	3.5	3.9
Botswana	11.9	5.8	4.0	3.9
Lesotho	1.6	2.5	2.1	2.6
Madagascar	5.7	4.2	4.2	5.0
Malawi	2.2	0.8	2.0	3.5
Mauritius	3.4	8.7	5.0	4.2
Mozambique	2.3	3.8	4.8	8.3
Namibia	3.5	4.6	2.6	3.0
São Tomé and Príncipe	1.9	0.9	1.6	1.9
South Africa	4.9	2.0	0.2	1.5
Eswatini	7.9	3.6	3.5	4.9
Zambia	4.6	3.0	4.0	4.2
Zimbabwe	8.5	3.0	3.2	3.2
West Africa	4.4	3.8	3.9	4.2
Benin	7.2	6.0	6.2	6.0
Burkina Faso	6.9	3.2	3.7	3.9
Cabo Verde	7.0	10.5	5.7	6.2
Côte d'Ivoire	7.4	6.7	7.2	7.0
Gambia	4.3	4.4	5.2	5.6
Ghana	5.4	3.3	1.7	3.0
Guinea	4.4	4.8	5.5	5.6
Guinea-Bissau	6.4	3.7	4.6	5.1
Liberia	5.0	4.0	4.3	4.8
Mali	3.1	3.7	5.1	5.3
Niger	1.4	7.2	7.0	11.8
Nigeria	3.6	3.3	3.4	3.2
Senegal	6.5	4.0	5.5	9.8
Sierra Leone	4.1	2.8	3.1	4.8
Togo	6.0	5.5	6.3	6.6
Africa	4.8	3.8	4.0	4.3
Africa (excluding Libya)	*4.3*	*4.1*	*3.7*	*4.2*
Africa (excluding Nigeria)	*5.0*	*4.0*	*4.1*	*4.5*
Memorandum items				
North Africa (including Sudan)	*4.9*	*3.8*	*4.5*	*4.4*
Sub-Saharan Africa	*4.4*	*3.7*	*3.6*	*4.2*
Sub-Saharan Africa (excluding South Africa)	*4.3*	*4.1*	*4.3*	*4.8*
Oil-exporting countries	*4.2*	*4.0*	*4.3*	*4.1*
Oil-importing countries	*–2.4*	*5.3*	*3.7*	*4.1*
Other resource-intensive	*4.5*	*3.0*	*2.4*	*3.5*
Non-resource-intensive	*6.3*	*4.4*	*5.0*	*5.6*
Tourism dependent	*4.0*	*8.4*	*4.9*	*4.4*
Low income	*3.9*	*4.2*	*5.0*	*5.8*
Middle income	*4.9*	*3.8*	*3.8*	*4.0*

Source: African Development Bank statistics.

TABLE A1.2 Country groupings

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

NOTES

1. Agreed wording at the 2022 African Development Bank Group Annual Meetings in Ghana. Algeria, China, Egypt, Eswatini, Namibia, Nigeria, and South Africa, entered a reservation and proposed "Russia–Ukraine Conflict."
2. AfDB 2022.
3. According to Statistic South Africa, Kwa-Zulu-Natal accounted for a fifth of South Africa's manufacturing in 2019.
4. Common Monetary Area—Eswatini, Lesotho, Namibia, and South Africa. The Lesotho and Namibian currencies trade at par with the South African rand and circulate freely in these countries.
5. The SACU, comprising Botswana, Eswatini, Lesotho, Namibia, and South Africa, provides for common external and excise tariffs to this common customs area and the revenue collected in the bloc area is shared among members according to a revenue-sharing formula, as described in the agreement establishing the bloc.
6. Seychelles National Bureau of Statistics 2022.
7. CEMAC refers to the Central African Economic and Monetary Community while WAMU stands for the West African Economic and Monetary Union. The depreciation of the currency of the monetary union CEMAC and WAMU mainly reflects the depreciation of the euro against the US dollars due to the fixed exchange rate between the CFA and euro.
8. Fitch Ratings 2022.
9. IMF 2022a.
10. The 35 countries are low-income African countries (LICs) for which a debt sustainability analysis (DSA) is available and where data on external debt service are available.
11. When considering only external debt, the total number of African countries in high risk of, or already in debt distress as of February 2023 is 22.
12. Zambia and Ghana are excluded from these figures, due to uncertainty over how debt restructuring will affect their service payments. Ghana has debt payments of $149 million due in August 2023 and $333 million in January 2024, but these may be affected by its restructuring currently under discussion.
13. Domestic debt as used here is restricted to the issuance of treasury bills and bonds, and excludes arrears owed to suppliers of goods and services to government. It also excludes guaranteed domestic debt owed by state-owned enterprises and/or contingent liabilities.
14. IDA and IMF 2020; IMF 2022b.
15. Banks hold sovereign debt for several reasons including the fact that sovereign debt is considered as a safe and high-quality asset for them to meet the liquidity requirements, a strong collateral asset for central bank operations, and a benchmark for pricing financial assets.
16. The government seeks to exchange about GHS137.3 billion ($11.45 billion or about 15 percent of 2021 GDP) of existing domestic notes and bonds held by various local investors for a package of 12 new bonds with different payout dates. However, for the restructuring exercise to succeed, a qualifying majority (usually 75 percent) of debt holders must agree to change the contract's key financial terms. This prevents a minority investor group from holding out and preventing the debt restructuring from proceeding. As of January 2023, the subscription to this program was below 50 percent, well below the 75 percent target.
17. OECD 2023.
18. Kiel Institute 2023. Over the same period, total commitments—financial, humanitarian, and military—from Western governments and non-bilateral donors amounted to more than $183 billion. In March 2023, the IMF approved $15.6 billion under a new 48-month arrangement under the Extended Fund Facility (EFF) for Ukraine. This arrangement forms part of a $115 billion overall support package through which the Fund seeks to support fiscal, external, price and financial stability and support economic recovery in Ukraine, while promoting long-term growth in the context of the country's post-war reconstruction. Between February 2022 and April 2023, the World Bank has mobilized more than $23 billion in financial support, with $20 billion disbursed to assist the government of Ukraine's efforts in sustaining public sector administrative and service delivery capacity.
19. https://www.imf.org/en/About/FAQ/gsd-roundtable.

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