COUNTRY NOTES

CENTRAL AFRICA

Cameroon

Recent macroeconomic and financial developments

Real GDP growth slipped to 3.4% in 2022 from 3.6% in 2021 due mostly to continued investment and higher nonoil activity. Inflation rose to 6.2% in 2022 from 2.3% in 2021, above the Central African Economic and Monetary Community (CEMAC) target of 3%. The increase can be attributed largely to higher import costs. Control of persistent inflation pressures in the CEMAC area led to tighter monetary policy by the Bank of Central African States. The tender interest rate was raised twice, from 3.5% to 4.0% in March 2022 and to 4.5% in September 2022.

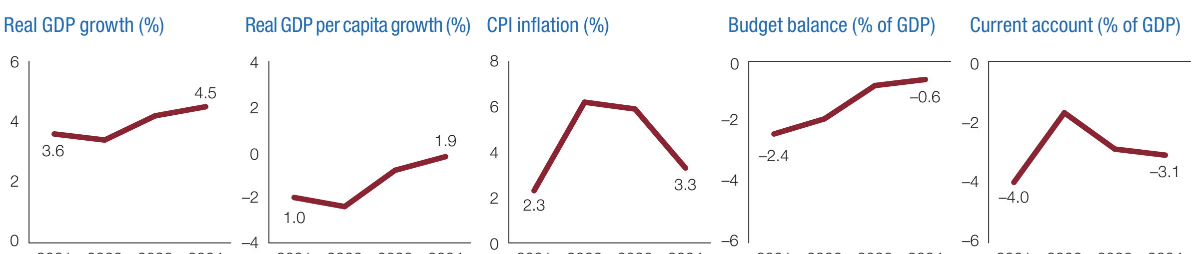
The budget deficit narrowed from 2.4% of GDP in 2021 to 1.9% in 2022. The current account deficit narrowed to 1.7% of GDP from 4.0% in 2021. The risk of overindebtedness is high. The banking and financial system is weakening due primarily to the nonperforming loans ratio (nearly 15%), as well as strong exposure to the outstanding debts of public enterprises, estimated at 478 billion Central African CFA francs in 2021. Poverty was estimated at 37.5% in 2014, down slightly from 39.9% in 2007.

Outlook and risks

Real GDP is projected to grow 4.2% in 2023 and 4.5% in 2024 thanks to the gradual improvement in the international economic context and higher national gas production and global commodity prices. Inflation is projected to decline gradually, to 5.9% in 2023 and 3.3% in 2024, thanks to continued tightening of monetary policy by the Bank of Central African States. The budget deficit is projected to further narrow to 0.8% of GDP in 2023 and 0.6% in 2024, though the current account deficit is projected to widen to 2.9% of GDP in 2023 and 3.1% in 2024. Public debt is projected to reach 45.8% of GDP in 2023. Possible headwinds include the effects of geopolitical tensions—notably Russia's invasion of Ukraine, which has increased uncertainty around supply chains, most notably in the energy sector.

Climate change issues and policy options

The private sector's contribution to green growth finance is vital. An estimated $57.6 billion in climate finance is needed to achieve the objectives set for 2030. But over 2015–20, Cameroon mobilized only $162.4 million a year as part of its commitments under the Paris Agreement. Of the $380 million committed to climate finance, only 3% is from the private sector. The sector's participation is thus one of the main challenges to implementing climate actions through climate finance instruments, such as green bonds and green climate funds. Cameroon could take advantage of its substantial natural capital to finance green growth. Reducing illicit trade and flows linked to the exploitation of natural resources as well as improved management could lead to higher revenue to finance green growth.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Central African Republic

Recent macroeconomic and financial developments

Real GDP grew 0.5% in 2022, down from 1% in 2021 and 2020, due to the prolonged shortage of oil products and the effects of Russia's invasion of Ukraine. Inflation rose to 7.9% in 2022 from 4.3% in 2021, driven by higher oil and food prices. Monetary policy was accommodative in 2022, with a 4.5% prime rate, facilitating a 29.7% increase in domestic credit. External assets contracted 102% from 2021 to 2022, which correlated with a drop in external financing and a rise in import costs.

The primary budget deficit narrowed to 4.6% of GDP in 2022 from 6% in 2021 on a markedly weak tax base and undiversified revenue. The current account deficit widened to 13.8% of GDP in 2022 from 10.8% in 2021 on undiversified and low exports. Public debt was an estimated 49.0% of GDP in 2022, up from 47.8% in 2021 and 44.1% in 2020. Risk of both external and overall debt distress remains high. The financial position is exemplified by higher bank balance sheets (up 14.7% in 2022) and lower outstanding receivables due to the resumption of economic activity after the COVID-19 pandemic. The Central African Republic ranked 188th of 191 countries on the Human Development Index in 2021. Almost 80% of the population are vulnerable to chronic poverty, 68.8% of them live below the national poverty line (€1.10 a day), and 10.1% are vulnerable to poverty in case of a shock.

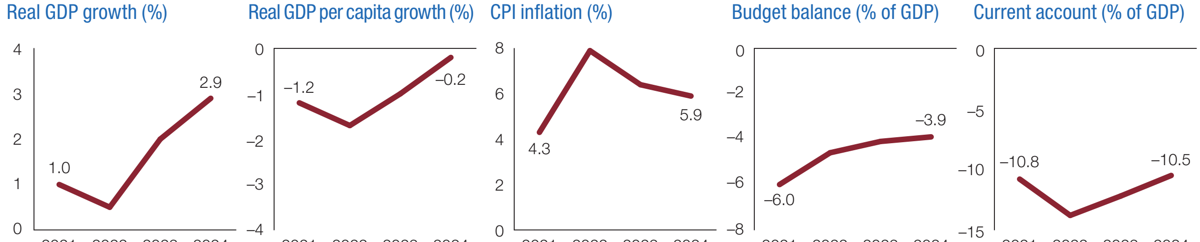
Outlook and risks

Real GDP is projected to grow 2.0% in 2023 and 2.9% in 2024 due mainly to encouraging prospects in the primary sector (which is projected to grow 4.1% in 2023 and 5.3% in 2024) and the tertiary sector (which is projected to grow 3.2% in 2023 and 3.9% in 2024). The engines of this growth are expected to be export agriculture, extractives, manufacturing and food industries, trade, and telecommunications. Inflation is projected to remain high, at 6.4% in 2023, driven by rising oil prices and rigidity in food prices. The primary budget deficit is projected to narrow to 4.1% of GDP in 2023 and 3.9% in 2024, driven by budget savings from lower government subsidies and substantially higher nontax revenue, especially public service revenue. The current account deficit is projected to narrow to 12.2% of GDP in 2023 and 10.5% in 2024 due to revitalized logging and better governance in extractives. Prospects depend strongly on security in the country and in the corridor with Cameroon, public budget financing, and fuel supplies.

Climate change issues and policy options

The Central African Republic benefits from rich and diverse natural capital (arable land, crude oil, natural gas, diamonds, gold, and the like), with exceptional forest density of more than 87 million cubic meters of exploitable mixed species. However, average need over 2020–30 for mitigation, adaptation, and loss and damage is $393.8 million a year. The private sector should be encouraged to become an alternative to the public sector in order to boost green finance. Between 2010 and 2020, despite a small carbon footprint, the country mobilized only $715 million, or 10% of the resources mobilized by Central African Economic and Monetary Community countries and 50% of the resources mobilized by Chad. Between 2019 and 2020, an average of $101 million was mobilized, 97% of it from public sources and only 3% from private ones. These results are due to a sluggish and embryonic private sector, specifically the banking sector (with four commercial banks), as well as the lack of suitable and advantageous instruments (green bonds, carbon credit pledges, lines of credit and guarantees with secondary banks, targeted refinancing lines with the Central Bank, and so on). Supported by an incentivizing regulatory framework, such instruments would allow companies to invest in agricultural and forest projects, legal extractives, the renewable energy sector, and the like.

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



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Chad

Recent macroeconomic and financial developments

Real GDP grew 2.4% in 2022, up from 1.1% growth in 2021 and a 2.2% contraction in 2020, due mainly to the resumption of oil production driven by higher global prices and Russia's invasion of Ukraine. On the demand side, growth was driven mainly by exports and, to a lesser extent, household consumption. Inflation rose to 5.3% in 2022 after deflation of 0.8% in 2021 due to global inflation, particularly for food prices (including 18.4% for cereals at the end of December 2022). The budget balance turned to a surplus of 0.5% of GDP in 2022 from a deficit of 2.4% in 2021 thanks to substantial oil revenue.

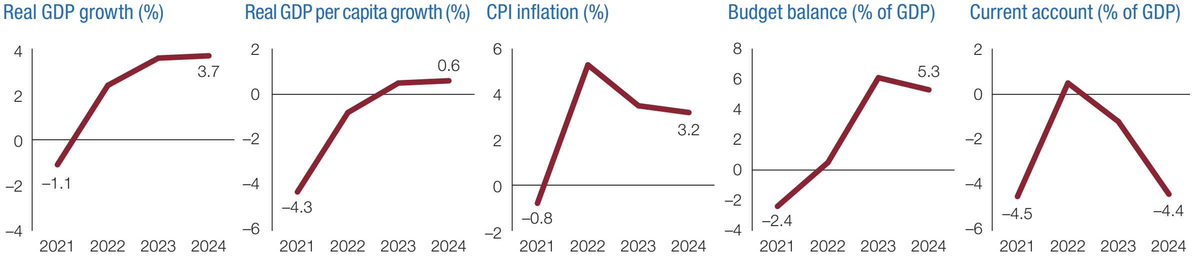
Public debt was 55.9% of GDP in 2021, with external debt of 25.5% of GDP and internal debt of 30.4%, resulting in high risk of debt distress. Chad was among the first countries to benefit from the Debt Service Suspension Initiative, which shifted the composition of external public debt considerably toward commercial debt. The current account balance turned to a surplus of 0.5% of GDP in 2022 from a deficit of 4.5% in 2021. Global inflation also led to deteriorating living standards for poor households, aggravated by the 2022 floods, which affected more than 340,000 people.

Outlook and risks

Real GDP is projected to grow 3.6% in 2023 and 3.7% in 2024, fueled by strong momentum in the oil sector. Since 2020, the budgetary position has been stable, with a deficit of less than 3% of GDP. The fiscal surplus is projected to widen to 6.1% of GDP in 2023 and 5.3% in 2024. Following the second round of debt renegotiations in 2022, the country is expected to return to moderate risk of debt distress by 2024. Inflation is projected to decline to 3.5% in 2023 and 3.2% in 2024, close to the Economic Community of Central African States target of 3%. The current account is projected to return to a deficit, of 1.2% of GDP in 2023 and 4.4% in 2024, due to increased imports of high-cost food products. In January 2023, the International Monetary Fund approved the first and second reviews of the extended credit facility approved in December 2021, worth $570 million. Possible headwinds include deteriorating living conditions among poor households due to global inflation and high exposure to the impacts of climate change, oil price volatility, and political and security shocks.

Climate change issues and policy options

Climate change is a major problem for a country such as Chad, which is highly exposed to the resulting adverse effects. The estimated financing needed to adequately respond to climate change is $16.4 billion over 2020–30, or $1.5 billion a year. Chad has set up a Special Fund for the Environment, but private climate finance remains very low despite substantial potential. Beyond corporate social responsibility, the extractive sector, the economy's main driver, has huge potential for green financing. Extractive companies could contribute to financing green infrastructure to offset the huge shortfall in electricity supply. Strengthening governance in the extractive sector could increase public revenue to fund the green economy. Chad has substantial natural resources and thus a large stock of environmental capital, including oil and gas deposits, minerals, and solar and wind energy potential, as well as Lake Chad, which constitutes an important regional ecosystem for the survival of the neighboring population.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Congo

Recent macroeconomic and financial developments

Real GDP grew 3.2% in 2022, up from 1.5% in 2021, thanks to strong performance in both the oil and nonoil sectors, which grew 45.3% and 3.4%, respectively. The main sources of nonoil growth were agriculture (with 4.9% growth) and lumber (with 6.5% growth), the clearing of domestic arrears, and public investment spending. In response to risks linked to low foreign exchange reserves and concerns raised by inflationary pressures, the Bank of Central African States raised the benchmark rate to 4% in 2022, following a 25 basis point increase to 3.5% in 2021. Overall inflation was 3% in 2022, with food inflation, at 6.3%, due to rising food prices and the effects of Russia's invasion of Ukraine. Credit to the economy rose 6.2% in 2022, up from 1.6% in 2021, buoyed by the economic recovery and household and business consumption. The nonperforming loans ratio fell, reducing banking system vulnerability.

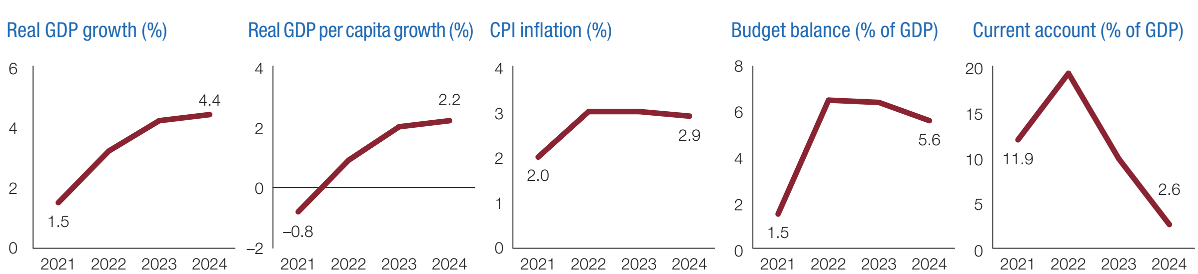
The budget surplus reached 6.5% of GDP in 2022, up from 1.5% in 2021, driven by higher oil revenue and greater mobilization of nonoil revenue due to tax administration reforms. Debt fell to 109.7% of GDP from 114.4% in 2021. Higher export revenue and a strong exchange rate against the US dollar led to an external current account surplus of 19.2% of GDP, up from 11.9% in 2021. Foreign exchange reserves were 2.6 months of import cover in 2022, up from 1.5 months in 2021.

Outlook and risks

Real GDP is projected to grow 4.2% in 2023 and 4.4% in 2024, driven by consumption, investment, and exports on the demand side and by growth in the oil and nonoil sectors (projected at 3.8% and 4.2% a year, respectively) on the supply side. Inflation is projected to be 3% in 2023 and 2.9% in 2024, linked to increased economic activity and the effects of Russia's invasion of Ukraine on the price of imported commodities. The budget surplus is projected to slip to 6.4% of GDP in 2023 and 5.6% in 2024, and the current account surplus is projected to narrow to 9.8% of GDP in 2023 and 2.6% in 2024. Rising domestic demand and a 5% increase in the pump price of oil products, coupled with adverse weather conditions exacerbated by climate change, could affect the availability of agricultural products or lead to food insecurity and additional inflationary pressures.

Climate change issues and policy options

Estimated climate finance need is $13.0 billion over 2020–30, or $1.2 billion a year. If Congo receives the same $62.4 million a year that it received over 2010–20, it will face a deficit of $1.1 billion a year. With no sovereign fund, no pension fund, and no investment capital to contribute to this deficit, Congo has started to mobilize private investment. The government signed partnership agreements with Total Nature Based Solutions (for a 150 billion CFA franc investment in 40,000 hectares of forests for carbon sinks) and with Renco Green Sarlu (for a 53 billion CFA franc investment in a 30 million ton carbon garden). The country's bogs and 23.5 million hectares of forest form a stock of natural capital capable of supporting climate finance. Alongside a green bond market, Congo could mobilize substantial private finance by selling carbon offsets to private companies. To increase private finance, legislation is needed on the carbon market and tax incentives promoting climate change adaptation and mitigation. National capacities and technical skills on innovative climate finance also need to be strengthened.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Democratic Republic of Congo

Recent macroeconomic and financial developments

Real GDP grew 8.5% in 2022, up from 6.2% in 2021, thanks to momentum in the extractive sector (which grew 20.8%) and recovery in the nonextractive sector (which grew 3.2%), driven by services despite a deteriorating security situation in the east of the country. Economic growth was driven on the demand side by robust exports (which grew 23.8%) and investment (which grew 18.6%), despite a global energy crisis. Inflation reached 9.1% in 2022 due to high food and imported energy prices. The budget deficit widened to 2.8% of GDP in 2022 from 0.9% in 2021 due to exceptional spending (security, elections) and despite the exceptional increase in revenue and aid, which rose to 17.2% of GDP from 13.7% in 2021.

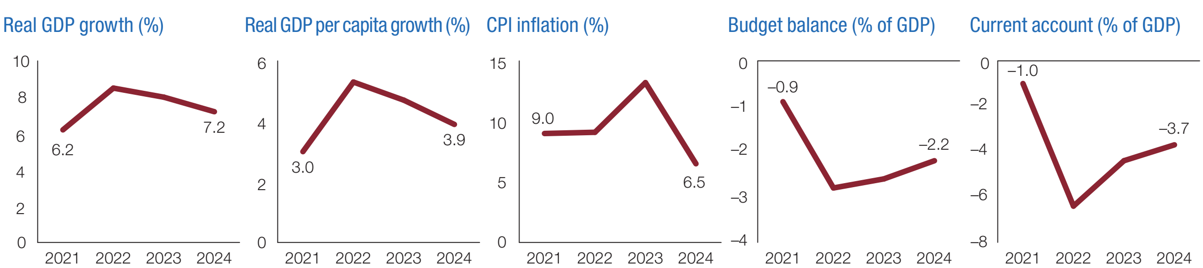
The risk of overindebtedness remains moderate despite a 1 percentage point increase in public debt from 2021 to 2022, to 24.7% of GDP. To mobilize local savings and finance the economy, the African Development Bank is supporting the country in developing financial markets and local currency bonds. The Central Bank of the Congo is also supporting this initiative, which is compatible with its monetary policy goals. Despite the increase in the prime rate from 7.5% in January 2022 to 8.25% in November 2022, credit to the private sector more than doubled from 17.8% in 2021 to 39.6% in 2022 due to economic dynamism. International reserves rose 54%, to 1.7 months of import cover, in 2022, due to increased mining exports. But the current account deficit widened from 1% of GDP in 2021 to 6.4% in 2022. Income poverty was estimated at 56.2% in 2020.

Outlook and risks

Real GDP is projected to grow 8% in 2023 and 7.2% in 2024, driven by the extractive sector, which is expected to grow at least 12% between 2023 and 2024. Priority investment by the agricultural transformation program could boost growth even further. Inflation is projected to rise to 13.2% in 2023 before falling to 6.5% in 2024, below the central bank's 7% target. To fight inflation, the bank is expected to adopt a restrictive monetary policy in 2023. The budget deficit is projected to narrow to 2.6% of GDP in 2023 and 2.2% in 2024, with average debt stabilizing at 24.1% of GDP between 2023 and 2024. The current account deficit is projected to narrow to 4% of GDP on average between 2023 and 2024. The extractive sector has the potential to boost climate finance, and foreign exchange reserves could reach $6.4 billion (1.9 months of import cover) on average over 2023–24. Possible headwinds include uncertainties linked to Russia's invasion of Ukraine, a drop in raw materials prices, high imported inflation, and insecurity in the east of the country.

Climate change issues and policy options

The private sector accounted for only 1.9% of the $424 million in climate finance between 2019 and 2020. Overall finance has been earmarked for infrastructure (24%) and agriculture (13%) and has benefited adaptation (66%), mitigation (25%), and various other goals (9%). The National Adaptation to Climate Change Plan (2022–2026) calls for developing public–private partnerships to mobilize private finance. The experience of the World Wide Fund for Nature in the Democratic Republic of Congo with the carbon market is imperfect and has yielded $1.3 million to the North Kivu province. The estimated cost of adaptation and mitigation through 2030 is $48.7 billion, but government revenue was only $11.7 billion in 2022. The estimated finance needed to sustain green growth for 2021–30 totals $66.0 billion, or $7 billion a year, leaving a climate finance deficit of $6.2 billion a year. The mining sector, which dominates the economy (accounting for 98.9% of exports), could finance this deficit. Good governance is a priority for exploiting natural capital (wood, copper, cobalt, oil, gas, water resources, and the like) to fulfill ecological, economic, social, and cultural goals. Natural capital per capita fell more than 5% between 1995 and 2018. Meanwhile, the African Development Bank has mobilized a $2 million multinational, climate finance project.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Equatorial Guinea

Recent macroeconomic and financial developments

Real GDP grew 3.1% in 2022, after contracting 0.9% in 2021, driven by the strength of the nonoil sector. Growth was also boosted by household demand. The budget surplus widened to 4.8% of GDP in 2022 from 2.6% in 2021. Public debt dropped from 42.8% of GDP in 2021 to 27.1% in 2022. Inflation was an estimated 5% in 2022, after 1.3% deflation in 2021, due to higher food prices resulting from Russia's invasion of Ukraine. The Bank of Central African States raised the marginal lending rate from 5.25% to 5.75% in March 2022 and the compulsory reserve ratio to 7% on demand liabilities and 4.5% on term liabilities.

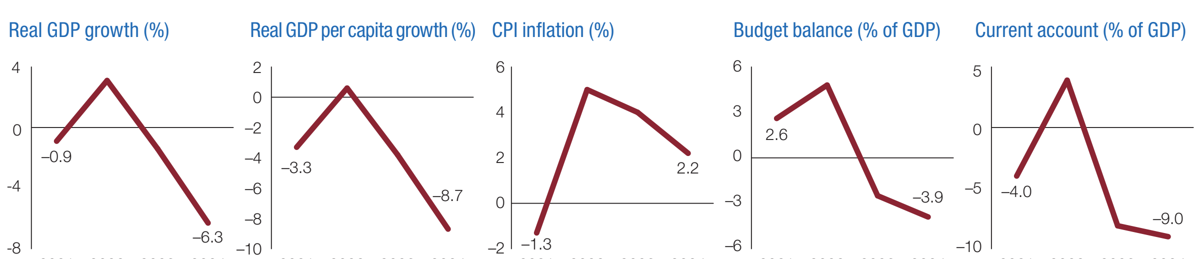
Economic recovery widened the current account surplus to 3.9% of GDP in 2022 from a deficit of 4.0% in 2021. International reserves rose from 2.7 months of import cover in 2021 to 3.5 months in 2022, above the target of 3 months. Higher prices for consumer goods and transportation reduced household purchasing power and accentuated urban poverty, which reached 67% of the population during the COVID-19 pandemic, leading to an overall poverty rate of 67% in 2022.

Outlook and risks

Real GDP is projected to decline 1.4% in 2023 and 6.3% in 2024 due to aging oil wells and the effects of Russia's invasion of Ukraine. The budget deficit is projected to narrow to 2.5% of GDP in 2023 and 3.9% in 2024. The current account deficit is projected to continue to widen, to 8.1% of GDP in 2023 and 9.0% in 2024. To reduce the social impact of higher food and energy prices, the government is negotiating with foreign suppliers of basic foodstuffs to facilitate imports, including through transportation subsidies. Inflation is thus projected to fall to 4.0% in 2023 and 2.2% in 2024 due to government measures to mitigate the effects of rising food prices. But the prospect of lower oil prices combined with aging oil wells is a risk for planned social programs.

Climate change issues and policy options

Estimated climate finance need over 2020–30 is $6.7 billion, or $620 million a year. Estimated finance mobilized in 2020 was $41 million—$3 million (8%) from the private sector and $37 million (92%) from the public sector. Private finance comes exclusively from institutional investors, and public finance comes principally from multilateral development finance institutions ($32 million, or 78%), multilateral climate funds ($4 million, or 9%), and the government ($2 million, or 4%). Forestry and other land use and fishing account for $32 million (80%), and multisector activities account for $8 million (20%). The country has considerable natural capital, including the Congo Basin, a major source of carbon credits and climate resilience. It is also rich in bays, rivers, and mangroves; has a well developed river system; and maintains a maritime environment that favors productivity in economically valuable fisheries resources that could contribute to climate finance and green growth. However, the government needs to put in place a regulatory environment and policies that incentivize this type of financing.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Gabon

Recent macroeconomic and financial developments

Real GDP grew 3.0% in 2022, up from 1.5% in 2021, due to the healthy state of the oil sector (which grew 7.1%) and the nonoil sector (which grew 2.3%). Growth in the oil sector was driven by the 45.3% rise in oil price associated with the 6.1% increase in oil production in 2022, and growth in the nonoil sector was driven by agriculture (which grew 4.9%), forestry (which grew 6.5%), and transportation (which grew 4.2%). The Bank of Central African States tightened monetary policy in 2022 by raising key rates several times to respond to inflationary pressures and boost foreign reserves. Inflation rose to 4.2% in 2022 from 1.1% in 2021 due to higher food prices and the effects of Russia's invasion of Ukraine. The fiscal balance turned to a surplus of 0.8% in 2022 from a deficit of 1.1% in 2021 due to higher oil revenue (up 51.8%). Debt fell to 52.6% of GDP in 2022 from 66.0% in 2021 thanks to lower financing needs. Reserves, which are used to finance the debt, dropped from 3.0 months of import cover in 2021 to 2.64 in 2022. The current account deficit was 1.2% in 2022 thanks to 45.7% growth in exports of goods and services.

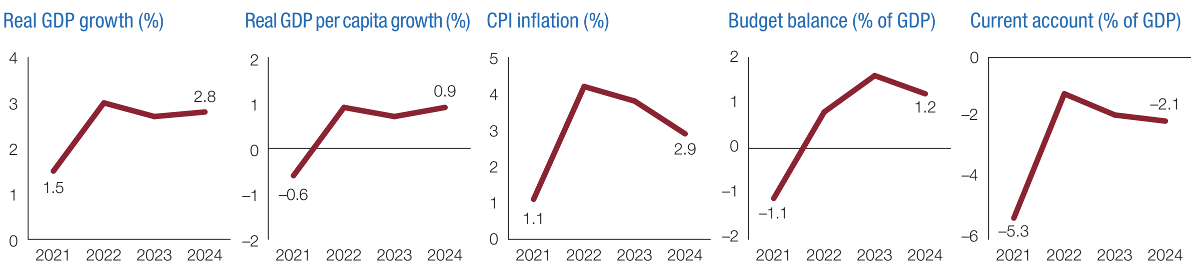
Despite natural resources wealth and high GDP per capita ($8,017 in 2021), social indicators remain poor, with poverty estimated at 33.4% and unemployment estimated at 28.8% in 2021.

Outlook and risks

Real GDP is projected to grow 2.7% in 2023 and 2.8% in 2024 due to high demand for export products (oil, manganese, wood, palm oil) and continued economic reforms. The budget balance is projected to remain in surplus, at 1.6% in 2023 and 1.2% in 2024. The current account balance is likely to narrow to 1.9% of GDP in 2023 before widening slightly to 2.1% in 2024. Inflation is projected to rise to 3.8% in 2023, still above the 3% target due to effects of Russia's invasion of Ukraine, before dropping to 2.9% in 2024. Possible headwinds include the continuing COVID-19 pandemic, effects of Russia's invasion of Ukraine, and political instability linked to presidential elections in August 2023.

Climate change issues and policy options

Green finance remains limited despite the country's substantial natural capital, which consists of forests, arable land, minerals, oil, waterways, and the like. About 88% of the country is covered by forest, a massive carbon sink, which according to the REDD+ initiative allowed the country to absorb 187 million tons of carbon dioxide between 2010 and 2018. In July 2022, the country committed to being carbon-neutral by 2050. The estimated finance needed to adequately respond to climate change for 2020–30 is $658 million a year, while an average of $83 million a year was received in 2010–20. All these funds came from the public sector: 57% from the government, 37% from multilateral partners, and 5% from climate funds. The two national financial institutions accredited by the Green Climate Fund to mobilize green finance are the Caisse des Dépôts et Consignations and the Fonds Gabonais d'Investissements Stratégiques. The private sector has only limited involvement in financing climate objectives due to low financial returns on associated projects. The government could encourage private investment in sustainable climate projects through tax incentives, innovative financing mechanisms, and favorable regulation.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

EAST AFRICA

Burundi

Recent macroeconomic and financial developments

Real GDP grew an estimated 4.0%, up from 3.1% in 2021, led by public investment. The effects of Russia's invasion of Ukraine worsened the budget deficit, which widened to 5.1% of GDP in 2022 from 2.9% in 2021. The deficit was financed by external grants and loans as well as domestic loans and arrears. Public debt fell slightly in 2022, to 66.4% of GDP from 66.6% in 2021, but the risk of overindebtedness remains high.

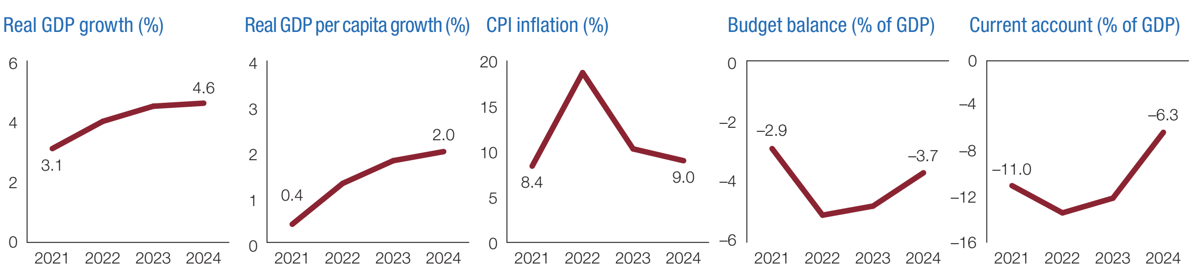
The higher cost for imports of oil products, fertilizer, and food products, exacerbated by Russia's invasion of Ukraine, worsened both inflation and the trade deficit. Inflation more than doubled from 8.4% in 2021 to 18.7% in 2022. The trade deficit rose from 28.0% of GDP in 2021 to 28.7% in 2022, and the current account deficit rose from 11.0% of GDP in 2021 to 13.4% in 2022. The widening foreign deficit exacerbated the currency shortage, leading to a 2.9% depreciation of the Burundi franc against the US dollar between late August 2021 and August 2022. Reserves were estimated at 1.7 months of import cover in late August 2022, down from 3.1 months a year earlier. The poverty rate declined from 64.6% in 2014 to 62.8% in 2020.

Outlook and risks

Real GDP is projected to grow 4.5% in 2023 and 4.6% in 2024 thanks to public investment in transportation and energy. Measures aimed at boosting agricultural production and stabilizing the exchange rate are expected to reduce inflation, which is projected to drop to 10.3% in 2023 and 9.0% in 2024. Intensified mining, international economic and financial aid, and migrants' remittances may help narrow the current account deficit, projected to be 12.1% of GDP in 2023 and 6.3% in 2024. Public debt is projected to grow to 67.6% of GDP in 2023 before falling to 65.5% in 2024 thanks to budget consolidation, exchange rate unification, and higher mining exports. Possible headwinds include sociopolitical instability and disruptions in access to fertilizer, which could reduce agricultural returns and lead to inflationary pressures. Boosting security and partner support to develop the agricultural sector could mitigate these risks.

Climate change issues and policy options

If Burundi receives the same $186 million a year in climate finance that it received during 2016–20, the resulting climate finance deficit for 2020–30 will grow from $178.4 million a year to $215.0 million. This would severely limit capacity to strengthen climate resilience and promote green growth. Despite this considerable need, the country has yet to mobilize substantial climate finance from the private sector due to the discouraging business climate. Burundi could capitalize on its rich natural capital—504,116 hectares, or 17.5% of its territory, including 8.7% of forest ecosystems and 9.5% of aquatic and semiaquatic ecosystems—to contribute to climate finance and green growth. This could include debt-for-environment swaps, which could provide a double dividend of environmental protection and improved public debt sustainability. Due to its low carbon footprint, Burundi could also cash in on reforestation by participating in the carbon market, which could mobilize private finance to support green growth. The country's natural attractiveness is an opportunity to mobilize private investment in tourism (whose revenue accounted for 4.3% of GDP in 2019) by developing and exploiting tourism sites through private operators.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Comoros

Recent macroeconomic and financial developments

Real GDP grew an estimated 2.9% in 2022, up from 2.2% in 2021, despite the surge in global prices following Russia's invasion of Ukraine. On the supply side, agriculture held up better, benefiting from the high prices of major export commodities. On the demand side, growth was driven by household final consumption spending, sustained by fund transfers from the diaspora. Inflation rose to 12.4% in 2022 from 0.1% in 2021 on the spike in energy and food prices. The central bank implemented a restrictive monetary policy in 2022, raising the minimum reserve requirement from 10% to 15% and conducting several liquidity-absorbing operations.

The budget deficit widened to 3.0% of GDP in 2022 due to rising public spending caused by higher prices and government subsidies on rice and flour. Debt was an estimated 32.7% of GDP in 2022, but the risk of overindebtedness is high due to limited repayment capacity for nonconcessional loans. Foreign exchange reserves were an estimated 9.5 months of import cover in 2022, down from 10.4 months in 2021. The current account balance turned to an estimated deficit of 3.2% of GDP in 2022 from a surplus of 0.4% in 2021 due to a structurally high trade deficit and lower foreign aid. The nonperforming loans ratio fell from 16.8% in 2021 to 13.9% in 2022. The poverty rate was an estimated 39.8% in 2022, up slightly from 39.7% in 2021.

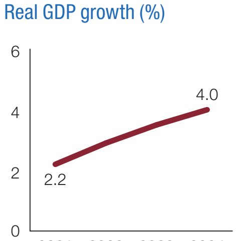
Outlook and risks

The medium-term economic outlook is favorable, though fragile, with GDP projected to grow 3.5% in 2023 and 4.0% in 2024, supported by implementation of both the Plan Comores Émergent and the four-year arrangement under the IMF Extended Credit Facility for around $43 million, expected to be approved in 2023. The engines of growth are expected to be services and agriculture on the supply side and household final consumption expenditure on the demand side. Inflation is projected to decline due to downward trending global prices. The budget deficit is projected to remain high due to increased public spending linked to continued government subsidies for certain products and support for the economic recovery, specifically public investment. The current account deficit is projected to widen to 4.5% of GDP in 2023 due to an anticipated drop in the trade deficit following economic recovery and reduced external aid. Public debt is projected to rise moderately, and foreign exchange reserves are projected to remain high. Possible headwinds are escalation of Russia's invasion of Ukraine, reduced aid and external financing, and sociopolitical turmoil.

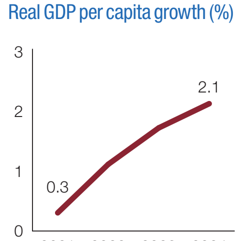
Climate change issues and policy options

Climate finance depends on development partners. Having experienced a series of external shocks, Comoros must commit to green growth funded with private support to achieve sustainable development, economic growth, and climate action. The country has great potential for green growth, specifically its unique biodiversity and renewable energy potential. Since 2020, private international developers have started to invest in mini solar power stations, following the liberalization of electricity production and a commitment from the National Electricity Distribution Company to buy electricity produced from imported fossil fuels. Transfers from the diaspora—almost $232 million in 2021, equivalent to 16.5% of GDP—could also be used to finance low-carbon flagship infrastructure projects. This would require improving climate data, strengthening the public–private cooperation framework, and developing innovative climate finance instruments. The estimated value of natural capital—primarily forests, coastal ecosystems, and agricultural land—was $1.3 billion in 2018. Properly exploiting this natural capital could support climate finance and sustainable green growth.

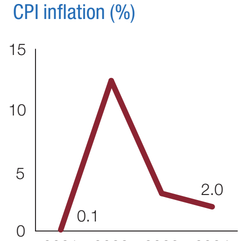
Real GDP growth (%)



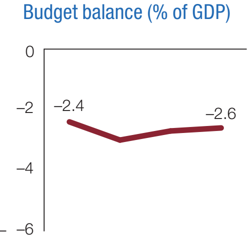
Real GDP per capita growth (%)



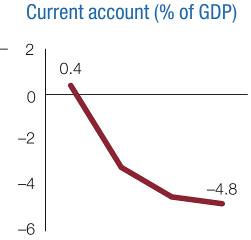
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Djibouti

Recent macroeconomic and financial developments

Real GDP growth fell to 3.7% in 2022 from 4.8% in 2021 due to reduced port traffic attributable to the Tigray war and lower public investment. In 2022, the socio-economic impacts of the COVID-19 pandemic eased, and inflation rose to 5.3% from 1.2% in 2021 due mainly to higher food prices. Expansionist monetary policy aims to support economic activity and counteract the impact of numerous external shocks. The budget deficit narrowed to 1.0% of GDP in 2022 from 1.3% in 2021 due to reduced aid and higher tax revenue. The deficit was financed largely by accumulated external arrears, bank loans, and external borrowing. The current account surplus narrowed from 28.0% of GDP in 2021 to 25.1% in 2022 due to exports falling more than imports and transfers dropping with no counterparts.

Risk of external overindebtedness is high. Public debt fell from 74.1% of GDP in 2021 to 71.6% in 2022. Foreign exchange reserves were an estimated 3 months of import cover in 2022. Although the banking sector remains stable and liquid, performance was mixed in 2022, with deposit withdrawals and a resumption in bank financing. The nonperforming loans ratio fell to 5.5% in September 2022 from 16.2% at the end of 2019 due to the strict consolidation policy on outstanding receivables. The poverty rate fell from 16.9% in 2021 to 16.5% in 2022 due to government measures to mitigate multiple shocks.

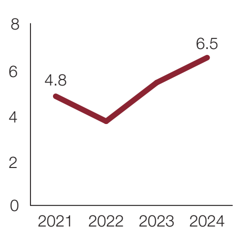
Outlook and risks

With peace returning to Ethiopia, Djibouti's medium-term economic outlook is favorable. GDP is projected to grow 5.4% in 2023 and 6.5% in 2024. Inflation is projected to drop to 3% on average over 2023–24 as the price of essential goods remains high. The budget deficit is projected to widen to 2.1% of GDP between 2023 and 2024 due to current spending and higher investment. The current account surplus is projected to continue to narrow in 2023–24 due mainly to lower exports and stagnation in revenue from foreign military bases. Public debt is projected to increase to 73% of GDP over 2023–24 thanks to foreign loans used to finance infrastructure projects. Foreign exchange reserves are projected to remain at approximately 3 months of import cover over 2023–24. Possible headwinds include a return of instability in Ethiopia, difficulties in repaying external debt, a prolongment of Russia's invasion of Ukraine, the recurrent impact of climate change, and a resurgence of COVID-19.

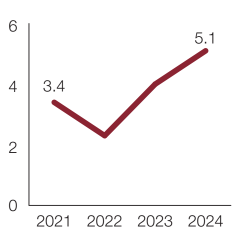
Climate change issues and policy options

Djibouti is particularly vulnerable to climate change, which threatens food security and water resources. Despite the country's negligible contribution to global greenhouse gas emissions, the government has committed to reducing emissions 40% by 2030. This voluntary commitment requires major investment in mitigation and adaptation. In 2015, climate finance need totaled $5.5 billion, some of which has been mobilized. Climate finance requires an additional 2.2% of GDP, and green economy 8.4%. Energy, water, transportation, industry, and waste management are priority areas for green economy opportunities. Private finance for climate change and a green economy remains undeveloped and low. Despite limited natural resources, the potential for developing renewable energies, ecotourism, fishing, and salt is strong. Strengthening the legal, regulatory, and incentive framework and planning capacities could mobilize further private financial resources. The international community's contribution remains decisive in meeting the country's finance needs for climate change and a green economy.

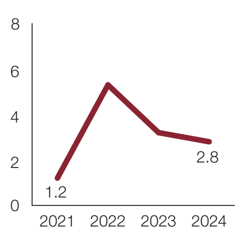
Real GDP growth (%)



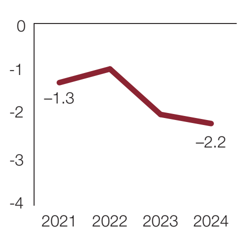
Real GDP per capita growth (%)



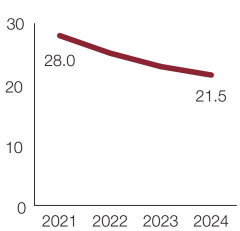
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Eritrea

Recent macroeconomic and financial developments

Real GDP growth slowed to an estimated 2.3% in 2022 from 2.5% in 2021 due partly to the impact of Russia's invasion of Ukraine on energy, fertilizer, and food prices. Russia and Ukraine account for nearly 100% of Eritrea's wheat imports, and oil constitutes 71% of the country's energy consumption. Other factors include the effects of COVID-19 on value chains, climate shocks, and the conflict in northern Ethiopia. Growth in 2022 was led by industry and services on the supply side and by private consumption and investment on the demand side.

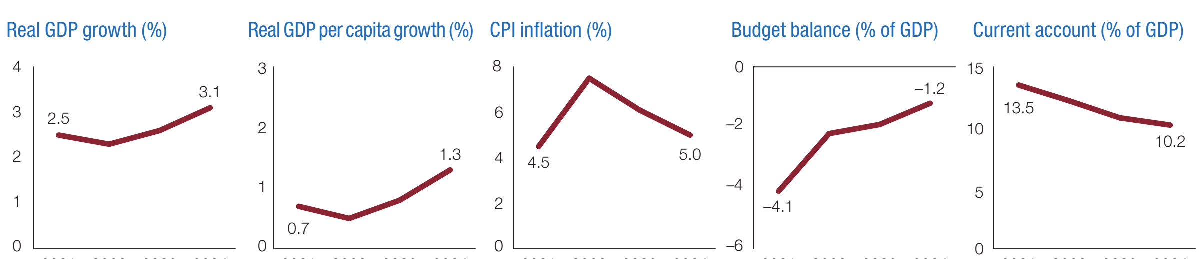
The recovery in public revenue due to higher international prices for metals (copper, gold, and ores constitute 50% of exports) and fiscal consolidation narrowed the fiscal deficit to 2.2% of GDP in 2022 from 4.1% in 2021. The fiscal deficit was financed by drawdowns of government deposits with the central bank. Despite a drop in the public debt–to-GDP ratio to 164.7% in 2022 from 176.3% in 2021, reflecting debt servicing, Eritrea remains in debt distress. The current account surplus narrowed to 12.2% of GDP in 2022 from 13.5% in 2021, reflecting the uptick in imports due to higher international prices for energy and food. International reserves were estimated at 4 months of import cover in 2022. Inflation rose to 7.5% in 2022 from 4.5% in 2021 on account of higher energy and food prices. The financial sector remains bank-based with limited products. The nakfa is fixed at 15 per US dollar in the official market.

Outlook and risks

Real GDP is projected to grow 2.6% in 2023 and 3.1% in 2024 due to higher international prices for metals, led by industry and services on the supply side and private consumption and investment on the demand side, reflecting the uptick in public and private consumption consistent with the reopening of economic activities. The fiscal deficit is projected to narrow to 1.9% of GDP in 2023 and 1.2% in 2024 on account of fiscal consolidation. The current account surplus is projected to drop to 10.8% of GDP in 2023 and 10.2% in 2024 due to fluctuations in international commodity prices. Headwinds include climate change and the effects of Russia's invasion of Ukraine and the conflict in northern Ethiopia on supply chains. Poverty is expected to remain high as the share of the working poor, those who earn $3.10 (in purchasing power parity terms) a day, in total employment was an estimated 75.2% in 2019.

Climate change issues and policy options

Eritrea is among the most climate-vulnerable countries globally, with the least readiness. The estimated average climate finance gap for Eritrea over 2020–30 is $1.202 billion a year, greatly limiting the country's ability to build climate resilience. During 2009–19, the country responded to climate change hazards through several projects, financed largely through grants and loans from bilateral and multilateral partners. Most climate finance was allocated to adaptation programs, notably interventions to restore degraded land and capacity building. The private sector remains small, with low capacity and access to finance. Limited awareness and the absence of catalytic risk-sharing instruments are among the key bottlenecks to private finance for climate and green growth. Consequently, there is a need to develop national platforms for exchanging knowledge and information related to climate change adaptation and mitigation. Eritrea has substantial endowments of copper, silver, zinc, gold, and potash, which accounted for about 10% of GDP and 50% of exports during 2010–19. Strong potential also exists for wind and solar energy. In this context, implementing economic and financial governance reforms to boost competitiveness and enhance the enabling environment for private finance of climate and green growth is equally important.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Eritrea's fiscal year, which runs from July 1 to June 30.

Ethiopia

Recent macroeconomic and financial developments

Real GDP growth fell to 5.3% in 2022 from 5.6% in 2021 but remained above East Africa's average (4.7% in 2021 and 4.4% in 2022). Supply-side drivers of growth were industry and services, and demand-side drivers were private consumption and investment. Inflation rose to 34% in 2022 from 26.6% in 2021. Both growth and inflation were adversely impacted by internal conflict, drought, and the effects of Russia's invasion of Ukraine on commodity prices. The fiscal deficit widened to 4.2% of GDP in 2022 from 2.8% in 2021 due to higher defense spending and weak revenue performance. The banking sector, dominated by state-owned banks, is stable, although the nonperforming loans ratio was 5.4% in 2021, above the required 5.0% due to conflict-induced project stalling.

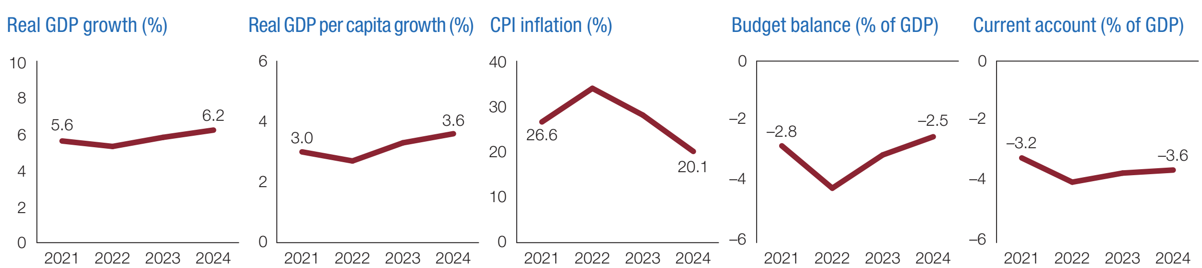
The current account deficit deteriorated to 4.0% of GDP in 2022 from 3.2% in 2021 due to higher prices for commodity imports. International reserves declined to about 1 month of import cover in 2022 from 2.2 months in 2021. Public and publicly guaranteed debt declined to 50.1% of GDP (with external debt at 23.6% of GDP) in 2022 from 51.0% in 2021. Ethiopia benefited from the G20 Debt Service Suspension Initiative in 2020–21. However, Ethiopia's application for the G20 Common Framework for debt restructuring in 2021 saw Fitch and S&P downgrade its sovereign rating from B to CCC. Income per capita grew 2.7% in 2022, but internal conflict and drought increased humanitarian support requirements from 15.8 million people in 2021 to 20 million in 2022.

Outlook and risks

GDP is projected to grow 5.8% in 2023 and 6.2% in 2024, driven by industry, private consumption, and investment. The peace dividend, rebounding tourism, and prospect of liberalizing more sectors are expected to boost the growth outlook. Inflation is projected to decline to 28.1% in 2023 and 20.1% in 2024, following the peace dividend. The fiscal deficit is projected to grow to 3.1% in 2023 and 2.5% in 2024 due to the expected increase in government revenue driven by domestic resource mobilization improvements, implementation of the fiscal consolidation strategy, and resumption of donor inflows. The current account deficit is expected to narrow to 3.7% of GDP during 2023–24 as merchandise and service exports and foreign direct investment rise and imports of capital inputs continue to decline. Headwinds include interethnic conflicts in different parts of the country, drought, debt vulnerabilities, and the impact of Russia's invasion of Ukraine.

Climate change issues and policy options

Over $316 billion is required to finance Ethiopia's adaptation (87% of the total) and mitigation (13%) targets for 2021–30. However, only $63.2 billion of financing is expected to be mobilized from domestic sources, with the rest from international sources. The average financing gap for 2021–30 is about $33.1 billion a year, hampering Ethiopia's ability to build climate resilience. Limited financing, low technical capacity, and the use of poor technologies restrain the operationalization of climate and green growth strategies. Economic reforms and the establishment of money and capital markets will help increase the scope for financing green growth. Tax relief and other incentives are needed to encourage private companies to invest more in climate and green growth as part of their strategic goals and corporate social responsibility. Ethiopia launched its Natural Capital Accounting Initiative to build a robust information system for natural capital to underpin national priorities and strategies. Natural capital accounts for about 40% of wealth, with natural resource rents amounting to about 5% of GDP. Raising awareness of and mainstreaming climate and green growth policies in public and private investment, especially in the natural resource sectors, are important to exploit the natural capital potential.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Kenya

Recent macroeconomic and financial developments

Real GDP growth slowed to 5.5% in 2022 from 7.5% in 2021, attributable to the drought, increased commodity prices, and tight global financial conditions. Growth was driven on the supply side by services and on the demand side by household consumption. Inflation rose to 7.6% from 6.1% in 2021, driven by food and energy inflation. Inflation was moderated by subsidies and raising the policy rate to 8.25% from 7% in 2021. The fiscal deficit narrowed to 6.3% of GDP from 8.2% in 2021 due to improved revenue collection and adherence to the International Monetary Fund–supported fiscal consolation path. Public debt rose to 70% of GDP from 68% in 2021, driven by higher interest payments and exchange rate depreciation.

The current account deficit widened to 6.0% of GDP in 2022 from 5.5% in 2021, driven by the lower trade deficit. It was financed by drawing down foreign exchange reserves, which fell to $7.42 billion (4.2 months of import cover) at end-2022 from $9.5 billion (5.8 months) at end-2021. The Kenyan shilling depreciated to 123.3 per US dollar at end-2022 from 110.2 at end-2021. The capital adequacy ratio of 18.9% and liquidity ratio of 55% were higher than the respective targets of 14.5% and 20%. The nonperforming loans ratio remained high, at 14%. Credit risk concentration is high in manufacturing, energy and water, and agriculture. High extreme poverty (18%), unemployment (12.3%), and income inequality (Gini coefficient of 0.408)—manifestations of slow structural change—remain challenges.

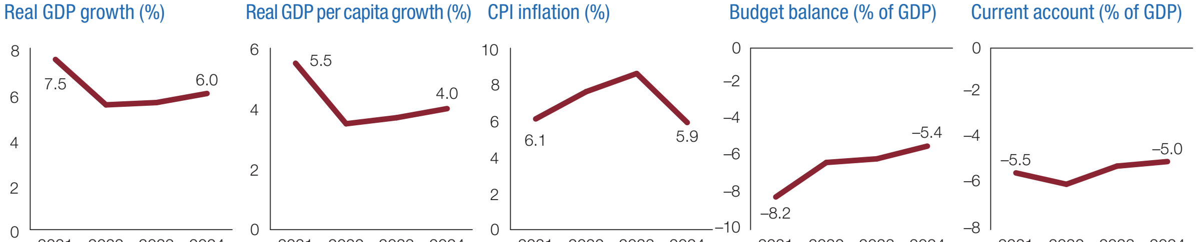
Outlook and risks

GDP is projected to grow 5.6% in 2023 and 6.0% in 2024, driven by services and household consumption. Inflation is projected to rise to 8.6% in 2023 and 5.9% in 2024, driven by food and energy inflation. Monetary policy is expected to remain tight. The fiscal deficit is expected to narrow to 6.1% of GDP in 2023 and 5.4% in 2024, in line with the fiscal consolidation path. The current account deficit is projected to narrow to 5.2% of GDP in 2023 and 5.0% in 2024, attributable to a recovery in global demand. The outlook is subject to considerable risks, including the effects of a prolongment of Russia's invasion of Ukraine on commodity prices, tight global financing, drought, and slow global economic recovery. Possible risk mitigation measures include diversifying exports and market destinations, enhancing domestic resource mobilization, deepening financial sector reforms, and accelerating structural reforms.

Climate change issues and policy options

Kenya's Green Growth Index stagnated in the 48%–51% range during 2010–21, about halfway to its green growth target. This implies that if Kenya were supported by green growth policies, it could promote economic growth while reducing vulnerability to climate change. Kenya's national and sectoral green growth strategies and policies are aligned with its Nationally Determined Contribution (NDC). In 2019/20, NDC financing need totaled $8.6 billion. Inflows from public and private sources amounted to $1.9 billion, 21% of which was from the private sector. Kenya has the potential to scale up private climate finance through innovative financing approaches, such as green bonds, debt-for-nature swaps, blended financing, and climate markets. Renewable natural capital rose slightly, whereas nonrenewable natural capital rose 110% between 1995 and 2018. This suggests the potential to leverage private climate finance with natural resources. Notable initiatives enhancing natural capital include continuing oil exploration, increasing tree cover from 8.8% in 2022 to 30% by 2032, transitioning to 100% clean cooking by 2028, restoring 10.6 million hectares of degraded landscapes by 2032, and increasing land under irrigation from 500,000 acres in 2021 to 1.4 million acres by 2030. About 21%–30% of national territory is under forest cover.

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



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Kenya's fiscal year, which runs from July 1 to June 30.

Rwanda

Recent macroeconomic and financial developments

GDP growth reached 10.9% in 2021 before declining to 8.2% in 2022 due to climate shocks on domestic food production; high energy, food, and fertilizer prices; and weak external demand on exports. Inflation rose from 0.8% in 2021 to 17.7% in 2022, reflecting higher costs for imported goods and low domestic food production. The policy rate was raised 50 basis points, from 6.5% in November 2022 to 7% in February 2023, to reduce increasing inflation. The government introduced fertilizer and public transport subsidies to prevent a spiral in the cost of living.

The fiscal deficit was an estimated 8.8% of GDP in 2022, up from 8.5% in 2021, attributed to domestic revenue mobilization that extra tax revenue equivalent to 0.2% of GDP, while public debt remained at moderate risk. The current account deficit was an estimated 12.6% of GDP in 2022, up from 10.7% in 2021, because of a high import bill. The capital adequacy ratio at the end of September 2022 was 22.3%, far above the prudential limit of 15%, while the average return on assets was 3.0% and the average return on equity was 5.1%. The nonperforming loans ratio fell to 4.1% in September 2022 from 5.1% in September 2021. The extreme poverty rate declined from 47% in 2019 to 45% in 2021, and unemployment worsened to 17.9% in 2020 from 15% in 2019, with youth unemployment up to 22.4% from 18.2% during the same period.

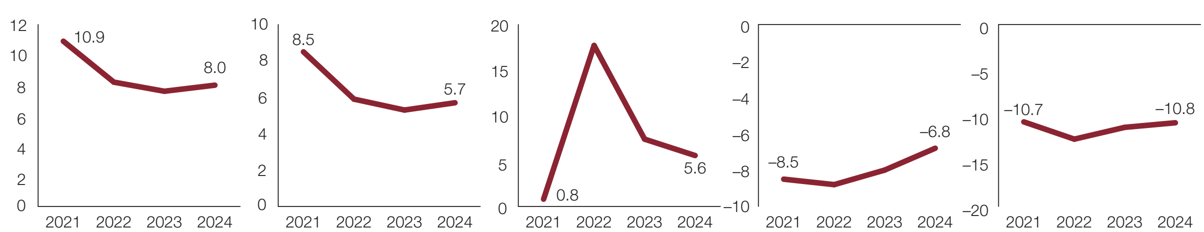
Outlook and risks

Real GDP growth is projected to reach 7.6% in 2023 and 8.0% in 2024 on account of continued slow recovery in domestic agricultural production and recovery in exports and conference tourism. Inflation is projected to fall to 7.4% in 2023 and 5.6% in 2024 on account of a drop in imported inflation. The fiscal deficit is projected to decline to 8.0% of GDP in 2023 and 6.8% in 2024 due to continued fiscal consolidation and higher domestic revenue. Debt is projected to remain at moderate risk. The current account deficit is projected narrow to 11.3% in 2023 and 10.8% in 2024 on account of a temporary reduction in capital imports, recovery in conference tourism, and strong remittances from the diaspora. Overall moderate economic performance is attributed to elevated risks from a prolongment of Russia's invasion of Ukraine and political tensions in the Great Lakes region.

Climate change issues and policy options

Rwanda has articulated a bold vision to become carbon-neutral by 2050, with ambitious climate adaptation and mitigation interventions, at a cost of $11 billion by 2030. But the country faces challenges mobilizing private financing due to high upfront capital needs for key projects, financing costs from banks, and collateral requirements. To address these challenges, it launched the Rwanda Green Investment Fund at the 2022 United Nations Climate Change Conference. Capitalized with $104 million, the fund has been financing project preparation and providing concessional credit facility loans and guarantees to support small and medium enterprise investment in green projects. The fund aims to mobilize climate finance at speed and scale to finance a pipeline of innovative projects in clean energy, smart mobility, sustainable cities, climate-smart agriculture, increased forest cover, and waste and the circular economy. These investments are expected to crowd in at least $364 million, create at least 372,000 jobs, and eliminate 1 million tons of carbon dioxide emissions by 2030. The country's stock of natural capital, economic value, and potential to support climate finance and the transition to green and sustainable growth have not been adequately estimated.

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



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Rwanda's fiscal year, which runs from July 1 to June 30.

Seychelles

Recent macroeconomic and financial developments

GDP growth rebounded to 7.9% in 2021 and 9.5% in 2022, exceeding the East Africa averages of 4.7% and 4.4%. Growth was driven by tourism and fisheries on the supply side and by household consumption and investment on the demand side. A successful vaccination program helped reduce the COVID-19 pandemic's impact on the economy. Overreliance on imports exposed the economy to external shocks. Monetary policy remained accommodative, and inflation declined to 2.8% in 2022 from 9.8% in 2021 as supply disruptions eased but remained higher than before the pandemic. The Seychellois rupee appreciated 33% in 2022, to 14.4 per US dollar, on higher tourism. The fiscal deficit narrowed to 3.6% in 2022 from 6.8% in 2021 as revenue collection improved. The current account deficit also narrowed, to 7.0% of GDP in 2022 from 10.8% in 2021, on buoyant tourism performance. Both deficits were financed by concessional loans and domestic borrowing. Reserves remained strong at around 4 months of import cover in 2021/22. Debt declined to 75.0% of GDP in 2022 from 89.5% in 2020 amid rebounding GDP and an effective debt management strategy. The financial sector is well developed, though highly concentrated, with the three largest firms holding 80% of assets, deposits, and loans. The nonperforming loans ratio remained low, at less than 6% in 2021 and 2022.

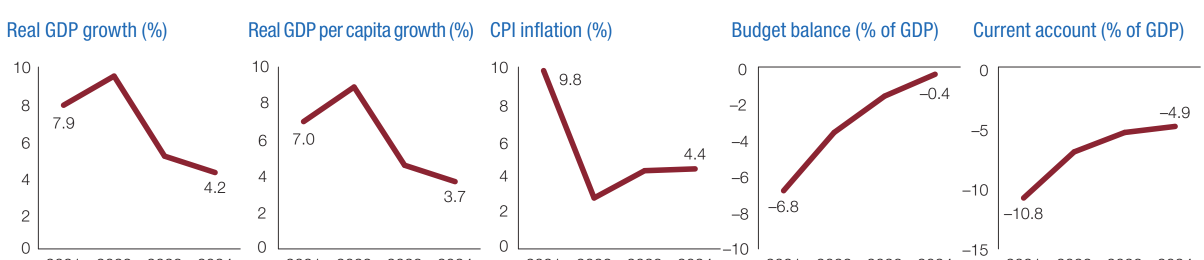
With 15 social welfare programs, the COVID-19 pandemic's impact on poverty was low, though unemployment increased to 4.8% in 2020 from 2.3% in 2019. Income inequality is also low, with a Gini coefficient of 0.28 in 2017/18.

Outlook and risks

GDP growth is projected to slow to 5.1% in 2023 and 4.2% in 2024 amid global supply chain disruptions due to Russia's invasion of Ukraine. Tourism and fisheries remain key growth drivers, but opportunities in knowledge-intensive services (notably digital finance) are untapped. Monetary policy is projected to remain accommodative, and inflation is projected to rise to 4.3% in 2023 and 4.4% in 2024 on slower growth and higher import prices. The fiscal deficit is projected to decline to 1.6% of GDP in 2023 and 0.4% in 2024, driven by recovery in tourism and increased revenue, while the current account deficit is projected to narrow to 5.4% in 2023 and 4.9% in 2024 amid buoyant tourism. Debt is projected to fall below 70% in 2023 due to continued GDP growth and effective debt management. Uncertainty about the global economic recovery and supply chains remain major risks. Economic diversification and climate adaptation are crucial to build resilience.

Climate change issues and policy options

The government's climate change policy and strategies prioritize transitioning to a low-carbon economy through reforms in energy, refrigeration and air conditioning, transport, and waste. For 2020–30, Seychelles needs an estimated $61.3 million a year and faces an average financing gap of $14.4 million a year. The government has had several financing arrangements for climate resilience. It raised $15 million through a blue bond backed by the World Bank and introduced the world's first debt refinancing for ocean conservation, protecting a third of its ocean territory against climate change. The government spends more than 4% of its budget on the environment and climate change, and to complement this, it introduced the sustainable environment levy for visitors as of April 2023. While Seychelles aims to address the bulk of its climate resilience through concessionary financing, the private sector can complement these efforts given the country's clear strategies and climate resilience commitments; a public–private partnership law that can facilitate investment in green energy and eco-friendly transport; and the country's well developed and capitalized financial sector, capable of facilitating investment in eco-friendly energy and transport. Seychelles should capitalize on its globally recognized brand of natural beauty.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Somalia

Recent macroeconomic and financial developments

Real GDP growth dropped to 1.7% in 2022 from 2.9% in 2021 due to drought, insecurity, and food and fuel inflation triggered by Russia's invasion of Ukraine. Private consumption was boosted by remittances, which remained stable at 27.3% of GDP in 2021 and 2022, and private investment remained buoyant despite foreign direct investment (FDI) falling to 7.8% of GDP in 2022 from 8.0% in 2021.

Monetary policy is held back by widespread dollarization, but reforms are under way to establish a framework for monetary and exchange rate policy. Inflation increased to 6.8% in 2022 from 4.6% in 2021 due to high energy and food import prices. The banking sector remains stable. While the nonperforming loans ratio rose from 1% in 2021 to 5% in June 2022, the capital adequacy and liquidity ratios remain sufficient. Somalia achieved a balanced budget in 2022, consistent with its completion point commitments under the Heavily Indebted Poor Countries Initiative (HIPC), compared with a deficit of 1.1% of GDP in 2021, which was financed by the 2021 Special Drawing Rights allocation ($203 million, or 4.1% of GDP). Somalia remains in debt distress but is expected to reach its HIPC completion point by the end of 2023, reducing the risk of debt distress to moderate. The current account deficit widened to 17.1% of GDP in 2022 from 10.8% in 2021, driven by the growth of food imports and the suspension of budget support by some development partners prior to the May 2022 elections. The current account deficit was financed by aid, remittances, and FDI.

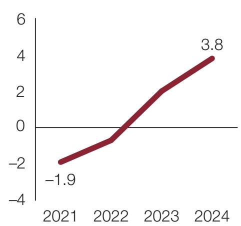
Outlook and risks

GDP growth is projected to be 2.8% in 2023 and 3.5% in 2024, driven by private consumption and external demand. Inflation is projected to be 4.2% in 2023 and 4.0% in 2024 as supply chains stabilize. The fiscal deficit is projected to reach 0.3% of GDP in 2023 and 1.9% in 2024, calling for stronger public revenue mobilization. The current account deficit is projected to remain high, at 15.8% of GDP in 2023 and 14.1% in 2024, reflecting the high import bill due to elevated energy and food prices. Headwinds include vulnerability to climate change (notably poor rainfall leading to persistent droughts), insecurity, slippages in reaching the completion point of the HIPC Initiative by the end of 2023, and weaker remittance inflows. A prolongment of Russia's invasion of Ukraine could further aggravate global energy and food prices, causing additional headwinds given Somalia's heavy reliance on imported food and oil for energy generation.

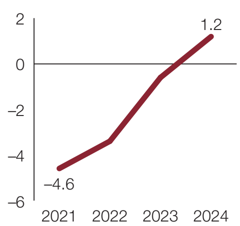
Climate change issues and policy options

Somalia is highly susceptible to climate change, including droughts, floods, cyclones, and storm dust. Drought in 2022 caused crop and livestock failure, food insecurity, water scarcity, and loss of livelihoods, reducing real GDP growth from 2021, and displaced about 7.8 million people. If Somalia receives the same $280 million a year in climate finance that it received over 2016–20, the resulting average financing gap would be $4.42 billion a year during 2020–30, greatly limiting the country's ability to build climate resilience. Somalia's 2021 Nationally Determined Contribution was $55.5 billion and identified options for private support to mitigation and adaptation, notably in energy and transport infrastructure, water, waste, food supply, forestry, and disaster risk response. Somalia has yet to fully harness its natural capital, including land, forests, coastline water and marine resources for fishing, minerals, and hydrocarbons. Enhancing institutional capacity will enable Somalia to harness its 2020 petroleum legislation and the National Blue Economy Strategy (2023–2027) to accelerate the mobilization of private finance and investment. Capacity building for relevant ministries in preparing bankable adaptation projects to crowd-in private investment and finance is equally important.

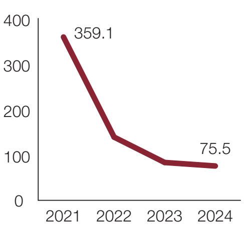
Real GDP growth (%)



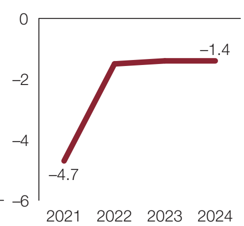
Real GDP per capita growth (%)



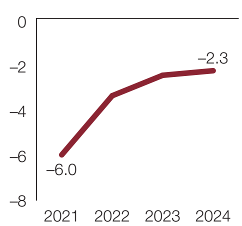
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

South Sudan

Recent macroeconomic and financial developments

Real GDP contracted an estimated 2.9% in 2021/22, after contracting 4.9% in 2020/21, driven by the oil sector. Oil production declined to 156,000 barrels a day in 2021/22 from 169,000 in 2020/21 after several oilfields were damaged by floods. The sector was the leading contributor on the supply side (–0.6 percentage point) to the real GDP contraction in 2021/22. Agriculture, which contributed –0.1 percentage point, was affected by floods and drought. On the demand side, the contraction was driven by net exports (–1.3 percentage points).

Tight monetary policy and reduced monetization of the fiscal deficit reduced inflation to an estimated 0.9% in 2021/22 from 43.5% in 2020/21. High lending rates (averaging 12% in 2022) remain a challenge for capital investment. The fiscal deficit widened to 6.6% of GDP in 2021/22 from 3.7% in 2020/21, owing to higher public spending. The fiscal deficit was financed by domestic and external borrowing. Overall and external public debt remains sustainable but with a high risk of debt distress. The current account deficit narrowed to 1.4% of GDP in 2021/22 from 4.9% in 2020/21 due to reduced financial transfers to Sudan under the Transitional Financial Arrangement for oil transit fees. The Special Drawing Rights allocation (3.8% of GDP) boosted international reserves. Poverty remains high, with an estimated 7.7 million people requiring emergency food assistance in 2022.

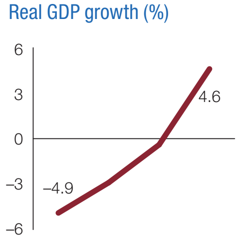
Outlook and risks

GDP is projected to contract 0.4% 2022/23 and recover to 4.6% growth in 2023/24, driven by increased domestic oil production and higher global oil prices. The oil sector is projected to drive growth on the supply side, and private consumption and investment are projected to do so on the demand side. Headwinds include disruptions to the peace process and climate change. Inflation is projected to increase to 16.5% in 2022/23 and 10.9% in 2023/24, reflecting higher food prices. The fiscal deficit is projected narrow to a surplus of 3.0% of GDP in 2022/23 and 6.8% in 2023/24 due to fiscal consolidation and higher global oil prices, though lower tax revenue mobilization could hold back poverty-reducing and growth-enhancing public spending. The current account balance is projected to narrow to a surplus of 7.0% of GDP in 2022/23 and 6.6% in 2023/24, reflecting higher oil export revenue.

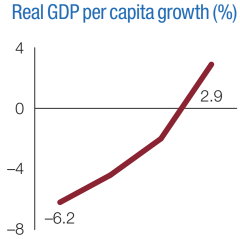
Climate change issues and policy options

The financing gap to achieve South Sudan's climate and green growth ambitions is an estimated $9.94 billion a year over 2020–30. Climate adaptation and mitigation needs are substantial in agriculture, livestock, and disaster risk management, among others. Data on private financing for climate and green growth are not readily available. However, the private sector faces several bottlenecks, including inadequate infrastructure, skills gaps, capacity shortages to develop bankable climate finance proposals, limited access to capital, and high lending rates. These hold back the sector's contribution to economic transformation, including financing climate and green growth. Consequently, developing policy and regulatory frameworks for green financing to crowd-in private investment and finance remains critical. South Sudan is endowed with considerable natural resources, including oil, minerals, forests, water, land, and biodiversity, which if well harnessed could lead to economic transformation and diversification away from oil and other extractive resources. Development partners, including the Bank, need to support South Sudan in designing suitable instruments for mobilizing finance for conflict or postconflict regions, such as security-indexed financing. Furthermore, the government could establish a natural capital accounting framework to support investment in green projects and programs.

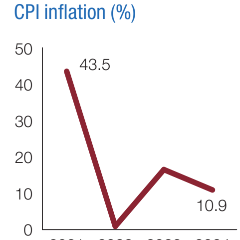
Real GDP growth (%)



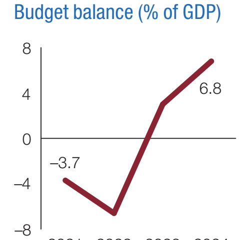
Real GDP per capita growth (%)



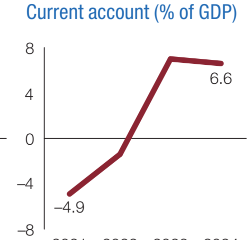
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Sudan's fiscal year, which runs from July 1 to June 30.

Sudan

Recent macroeconomic and financial developments

GDP grew 0.7% in 2022 after contracting 1.9% in 2021 on account of political instabilities and spillover effects of Russia's invasion of Ukraine. Growth in 2022 was driven by agriculture and mining on the supply side and by private consumption on the demand side. The central bank adopted reserve money targeting, reducing money supply growth to 48% in 2022 compared with 153% in 2021. Inflation eased from 359.1% in 2021 to 139% in 2022 due largely to unifying the exchange rate and reducing monetization of the fiscal deficit. Banks dominate the financial sector, accounting for over 80% of assets. Fiscal consolidation and improvement in public revenue reduced the fiscal deficit to 1.5% of GDP in 2022 from 4.7% in 2021.

Sudan's $56 billion external debt (163% of GDP) in 2020 was expected to fall 50% by 2022 after the country achieved its decision point under the Heavily Indebted Poor Countries Initiative (HIPC) in June 2021. However, progress toward its HIPC completion point stalled due to the military takeover in October 2021. The current account deficit narrowed to 3.4% of GDP in 2022 due to higher exports following the normalization of operations at Port Sudan. The current account deficit was financed by portfolio investment and remittances. International reserves increased to 2.7 months of import cover in 2022 from 2.3 in 2021. The poverty rate rose from 64.6% in 2021 to 66.1% in 2022, and unemployment remained high, at 20.6% in 2022, due partly to reduced economic activity, owing to political instability.

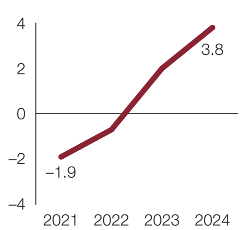
Outlook and risks

GDP is projected to grow 2.0% in 2023 and 3.8% in 2024 on account of reduced political instability following the Framework Agreement signed between the military and civilians. Growth is projected to be driven by agriculture and mining on the supply side and private consumption and investment on the demand side. Headwinds include political instability, tighter global financial markets, and the effects of Russia's invasion of Ukraine. However, ongoing efforts to implement the Framework Agreement are expected to restore political stability and accelerate the rollout of structural reforms. Consequently, inflation is projected to moderate to 83.2% in 2023 and 75.5% in 2024. Sustained rationalization of public spending is projected to reduce the fiscal deficit to 1.4% of GDP in 2023 and 2024. The fiscal deficit will be financed by domestic and external borrowing. The current account deficit is projected to narrow to 2.5% of GDP in 2023 and 2.3% in 2024 as exports stabilize.

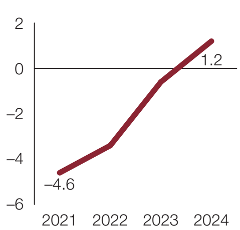
Climate change issues and policy options

Sudan faces land degradation, temperature increases, frequent droughts and floods, erratic rainfall, and locust invasions, which have reduced agricultural output, slowed GDP growth, and destroyed livelihoods. If Sudan receives the same $160 million a year in climate finance that it received over 2016–20, the average financing gap would be $2.39 billion a year during 2020–30, limiting its ability to build climate resilience. Sudan is unlikely to mobilize this huge financing from public sources; this calls for active engagement of the private sector, which spends $50 million a year on climate-related activities. Sudan has strong natural capital, with huge natural resource endowments, including arable land, livestock, and minerals. Hindered by financing deficiencies, Sudan has yet to harness these resources for economic transformation, as less than 40% of GDP is generated from natural capital. Private engagement in climate finance is held back by lack of government incentives, high risks, and low returns on investments in nature-based solutions. Consequently, enabling policy frameworks to facilitate the establishment of natural capital-based markets to crowd-in private investment and finance are critical. Such policies include carbon taxation, clean technology subsidies, and bank loans linked to net-zero emissions.

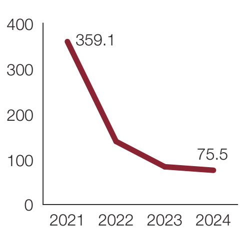
Real GDP growth (%)



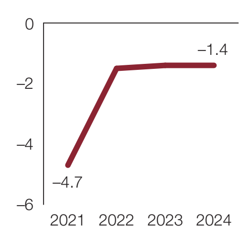
Real GDP per capita growth (%)



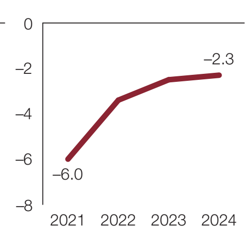
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Tanzania

Recent macroeconomic and financial developments

Real GDP growth slowed to 4.7% in 2022 from 4.9% in 2021 due in part to the impact of Russia's invasion of Ukraine, notably on food and energy prices. Growth was driven by services and agriculture on the supply side and by investment and consumption on the demand side. The accommodative monetary policy was tapered in June 2022 to contain inflationary pressures while supporting the growth recovery. But rising food and fuel prices pushed inflation to 4.3% in 2022 from 3.7% in 2021. Exchange rates remained stable, supported by high gold exports and tourism receipts.

The fiscal deficit narrowed to an estimated 3.4% of GDP in 2022 from 3.8% in 2021, in line with the pickup in revenue performance, and was financed by external and domestic borrowing. Public debt remains sustainable and stabilized at 40.4% of GDP in 2021 and 40.9% in 2022. The current account deficit widened to 5.7% of GDP in 2022 from 3.4% in 2021, driven by the uptick in the import bill due in part to higher oil prices, and was financed mainly by external commercial debt as other financial flows including foreign direct investment and grants declined. International reserves dropped to 4.7 months of import cover in December 2022 from 6.6 months in December 2021, reflecting the tighter external financing environment. The poverty rate increased from 26.1% in 2019 to 27.7% in 2020 due to the economic slowdown induced by the COVID-19 pandemic, while inequality, measured by the Gini coefficient, increased from 0.42 in 2015 to 0.44 in 2021.

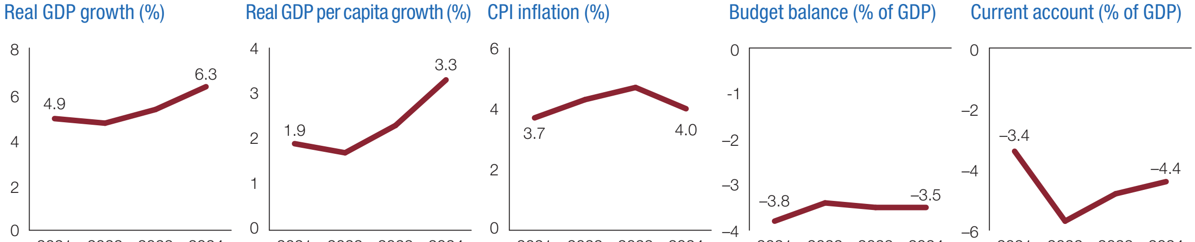
Outlook and risks

Real GDP growth is projected to rise to 5.3% in 2023 and 6.3% in 2024, driven by the sustained recovery in tourism and gradual stability in supply and value chains. Inflation is projected to increase to 4.7% in 2023 due to higher food and energy prices before moderating to 4.0% in 2024 due to better agricultural performance. The fiscal deficit is projected to widen to 3.5% of GDP in 2023 and 2024 due to higher spending on infrastructure, financed by domestic and external borrowing. The current account deficit is projected to narrow to 4.8% of GDP in 2023 and 4.4% in 2024 due to higher merchandise exports and tourism receipts and is projected to be financed mainly by external borrowing. Headwinds include the lingering possibility of new COVID-19 variants and the effects of Russia's invasion of Ukraine, which could aggravate food and oil prices.

Climate change issues and policy options

The financing gap for Tanzania to respond adequately to climate change over 2020–30 is an estimated $3.4 billion a year. Potential exists for private financing to bridge this gap, including through carbon taxes and green-listed equity. However, many private investors are less attracted to climate mitigation investments due to perceived low returns and poor incentives. Of the $5.5 billion in climate finance received over 2010–20, $3.0 billion (approximately 54%) came from the private sector, but uncertainty about incentive policies is a major risk to the sustainability of this trend. In addition, Tanzania has vast natural capital that can complement public and private financing of climate change and green growth. Hydropower, with a potential of 7 gigawatts, accounts for only 561 megawatts of installed capacity. Geothermal potential is estimated at 5 gigawatts; solar photovoltaics potential, with average sunshine of more than 9 hours per day, is estimated at 34 gigawatts; and on-shore wind potential, with windspeeds of 0.9–9.9 meters per second across the country, is estimated at 8 gigawatts. Tanzania has about 57 trillion cubic feet of discovered natural gas reserves, with 8.3 trillion cubic feet earmarked for generating 7.09 gigawatts of electricity. By 2022, 100 million cubic feet had been harnessed for 527 megawatts of electricity.

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



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Tanzania's fiscal year, which runs from July 1 to June 30.

Uganda

Recent macroeconomic and financial developments

Real GDP grew an estimated 6.3% in 2022, more than the 5.6% in 2021, despite higher commodity prices, tighter financial conditions fueled by Russia's invasion of Ukraine, and continued global supply chain disruptions. Agriculture, notably food crops, performed well, supported by good rains, while growth in industry weakened as output in construction waned. Services also performed well as trade and repairs and the health subsector demonstrated strong growth. During 2022, the Uganda shilling depreciated 3.8% against the US dollar. Inflation was 7.2%, driven by a 14.9% increase in food prices and a 12.7% increase in energy prices. Higher food and energy prices pressed households, especially subsistence farmers and urban dwellers. To curb inflation, the Bank of Uganda raised the policy rate four times in 2022, from 6.5% to 10%. The financial sector remains well capitalized, with a capital adequacy ratio of 21.7% in 2022.

Higher public investment in roads, interest costs, and other nonwage spending stoked fiscal deficits until 2020. Since then, the government has slowed the pace of investment, reducing the deficit to 7.4% of GDP in 2021 and an estimated 5.3% in 2022. The deficit was financed through public borrowing, rising to 50.3% of GDP in June 2022. Risk of public debt distress is moderate, and public debt remains sustainable. The current account deficit remains elevated, at 8.6% of GDP, attributed to rising imports and lower tourism receipts after the COVID-19 pandemic, which were exacerbated by a short Ebola outbreak in 2022.

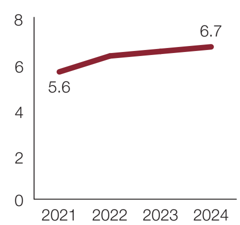
Outlook and risks

GDP is projected to grow 6.5% in 2023 and 6.7% in 2024, assuming any global growth slowdown will be short lived. This expansion is projected to be supported by stronger growth in East Africa, while the Chinese economy has eased lockdowns, reducing global supply chain disruptions, supporting higher growth. Following the final agreements in 2022, the oil sector is ramping up investments, underpinning growth beyond the medium term. Although inflation is expected to slow, it is projected to remain above the central bank's medium-term target of 5%. The fiscal position is projected to improve, reflecting consolidation efforts. External risks are tilted toward the downside, notably a prolongment of Russia's invasion of Ukraine and continued supply chain disruptions, while pockets of regional insecurity continue to pressure security-related spending. Domestic risks relate to unexpected increases in public spending on infrastructure amid weak tax revenue.

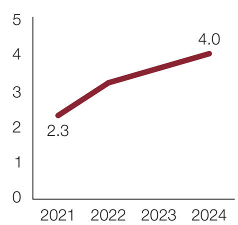
Climate change issues and policy options

Uganda's estimated climate finance needs are \$17–\$28 billion during 2020–30, with an average financing gap of \$1.3–\$2.2 billion a year. The government will need to mobilize private investment to close this gap. The private sector is financing projects in agriculture, forestry, and renewable energy, but more is required. To achieve the Nationally Determined Contribution targets, investment of \$880 million–\$2.3 billion is needed in renewable energy. Uganda can tap into its natural capital to finance climate change and green growth while emphasizing sustainability. The country already faces overexploitation of renewable natural capital, especially forest land, which has shrunk to 9% from 25% in 1990. Sustainable exploitation and replenishment of forests must take center stage. Uganda has large deposits of nonrenewable natural capital: oil and gas, iron ores, and "green" metals that can be sustainably exploited. The country is expected to produce 230,000 barrels of crude oil a day from 2025, generating substantial revenue. These resources could be channeled into green technologies. Green metals and iron-ore deposits could be developed using technologies for greening manufacturing and construction to provide the basis for transforming to a green economy. To attract the right investors, stronger accountability and transparency will be required.

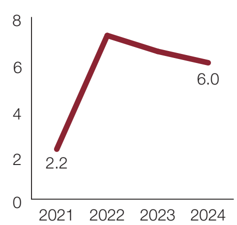
Real GDP growth (%)



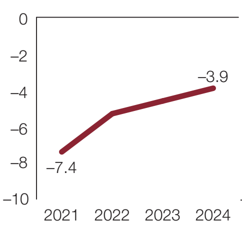
Real GDP per capita growth (%)



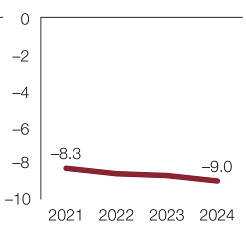
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Uganda's fiscal year, which runs from July 1 to June 30.

NORTH AFRICA

Algeria

Recent macroeconomic and financial developments

Real GDP growth climbed to 3.0% in 2022 from 3.4% in 2021, stimulated by the rebound in oil prices in 2022. Monetary authorities implemented a refinancing plan to grant new loans to the government and the rest of the economy. Inflation continued to rise, to 9.3% in 2022 from 7.2% in 2021, due to global inflation. The budget deficit fell from 6.9% of GDP in 2021 to 0.2% in 2022, while budgetary revenue rose, especially revenue related to the oil sector. The current account swung to a surplus of 7.8% of GDP in 2022 from a deficit of 2.8% in 2021 thanks to higher volume and value of oil exports as well as import compression measures. In 2022, foreign exchange reserves reached 18 months of import cover, up from 11.1 months in 2021. Public debt, primarily domestic, dropped to 52.4% of GDP from 62.1% in 2021, encouraged by the smaller budget deficit and nominal GDP growth. Financial system modernization showed progress in 2022, with a denser network of insurance companies (170 additional agencies) and improved financial inclusion, notably the deployment of Islamic finance products.

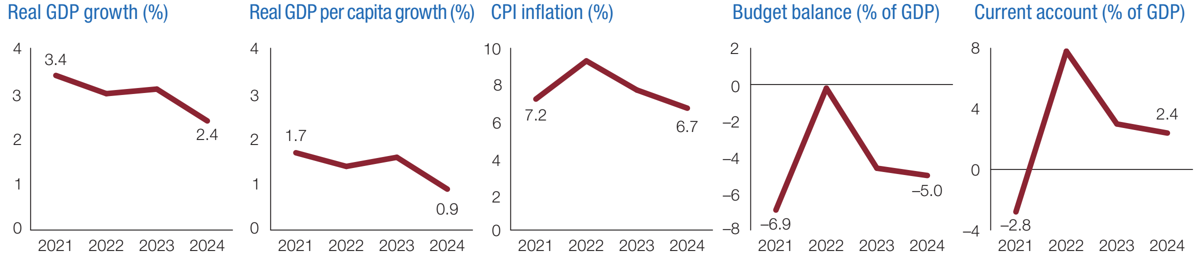
Algeria's Human Development Index rank improved, to 91st of 191 countries. The multidimensional poverty rate declined to 1.4% in 2019 from 2.1% in 2013 despite high unemployment (14.5% in 2021 and 14.9% in 2022). In 2021, the government launched an unemployment benefit of 15,000 Algerian dinar (approximately $110) a month.

Outlook and risks

Real GDP growth is projected to reach 3.1% in 2023 before dropping to 2.1% in 2024. While crude oil prices are expected to remain high, capacity to expand production could be limited in the short term. As a result, growth may decline due to the lack of an explicit economic diversification policy and constraints on the capacity to expand natural gas production in the short term. Inflation is projected to decline to 7.7% in 2023 and 6.7% in 2024. Constraints on global grain supplies could maintain pressure on food prices, and due to the monetary financing of the budget deficit, monetary policy is expected to remain expansionist. The budget deficit is projected to widen to 4.6% of GDP in 2023 and 5.0% in 2024 due to lower tax revenue and higher budgetary spending pressured by social spending. The external current account is projected to achieve a surplus of 3.0% of GDP in 2023 and 2.4% in 2024, both below the 2022 surplus. The economy's strong dependence on the oil sector poses a risk for the medium-term economic outlook.

Climate change issues and policy options

An estimated $22 billion is needed over 2020–30, $2.3 billion a year, to adequately respond to climate change. But the share of private finance in the energy transition and green growth remains low. The private sector is hampered by difficult access to long-term resources and a business climate inconducive to mobilizing foreign direct investment. But initiatives are being undertaken as part of the National Climate Plan, including implementing the National Fund for Energy Management and Renewable Energies and Cogeneration, which is expected to encourage private investment through compensation schemes, given the additional cost of generating electricity from renewable energy resources and cogeneration systems. These initiatives are all the more necessary given Algeria's large stock of natural capital, which includes an abundant supply of renewable energy (solar, wind, geothermic), fossil energy (oil and gas), and mineral resources (iron, helium, uranium). Nevertheless, due to the shortage of freshwater resources, the threat of drought, and the possible depletion of its fossil energy resources (oil and gas) in the medium term, Algeria scored 37.1 out of 100 on the 2021 Natural Capital Index.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Egypt

Recent macroeconomic and financial developments

In 2021/22, real GDP growth increased to an estimated 6.6%, driven by gas extractives, communications, agriculture, and construction. But manufacturing performed below its potential. On the demand side, growth was driven by household consumption and investment. The fiscal deficit fell from 6.9% of GDP in 2020/21 to an estimated 5.8% in 2021/22, with a primary surplus of 1.2% of GDP. Total spending increased but was compensated by a 15% rise in value added tax revenue and a 40% jump in receipts from property taxes over the previous fiscal year. Public debt fell modestly, from 92.0% of GDP in 2020/21 to an estimated 89.6% in 2021/22, because of a lower budget deficit.

Inflation increased from 4.5% in 2020/21 to 8.5% in 2021/22, led mostly by rising international food and energy prices and the depreciation of the Egyptian pound against the US dollar by 16% in May 2022. The current account deficit narrowed to 3.5% of GDP in 2021/22 from 4.4% in 2020/21 thanks to tourism revenue rising to $10.7 billion from $4.9 billion. The banking system remained profitable and well capitalized, and the nonperforming loans ratio was limited to 3.2% in June 2022. Subsidies and social protection programs have reduced the impact of high food and energy prices on vulnerable households. The poverty rate was 29.7% in 2020. Unemployment remained stable at 7.2% in June 2022.

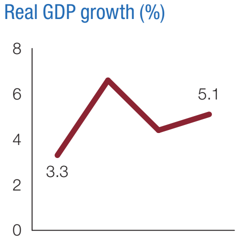
Outlook and risks

The outlook remains clouded by uncertainty related to the global economic context. Growth is projected to slow to 4.4% in 2022/23. The fiscal deficit is projected to widen slightly, to 6.0% of GDP in 2022/23, and inflation to increase to 20.0%, as a result of high food and nonfood prices and the devaluation of the Egyptian pound against the US dollar. The current account deficit is expected to remain at 3.5% of GDP in 2022/23 and improve to 2.4% in 2023/24 thanks to higher tourism revenue and oil exports. In December 2022, the International Monetary Fund Executive Board approved an Extended Fund Facility Arrangement of $3 billion for Egypt, which aims to maintain economic and financial stability and enhance comprehensive structural reforms. Moreover, the government announced the privatization of $40 billion worth of state-owned enterprises over 2023–27 to give the private sector more room to grow. Need for large external financing remains an important risk.

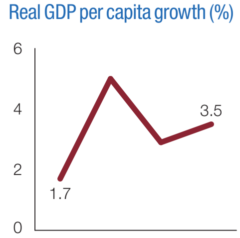
Climate change issues and policy options

The financing needed for Egypt to adequately respond to climate change is an estimated $19.75 billion a year. If Egypt receives the same $1.25 billion a year in climate finance that it received over 2010–20, the resulting financing gap will be $18 billion a year over 2020–30. The private sector is involved in several projects financed by the Green Climate Fund, the Clean Technology Fund, and multilateral financial institutions, accounting for about 13% of climate finance in 2019–20. However, the private sector is facing some challenges to scaling up its participation in addressing climate change, including lack of technical knowledge, limited access to funds, unclear laws and regulations, and a weak case for adaptation. Key long-term strategic opportunities for the private sector include creating a carbon market, issuing green bonds, establishing 15 new green cities, and implementing the Integrated Sustainable Energy Strategy, which steps up renewable energy in the electricity mix to 42% by 2035. Also, minerals are in large quantities but are yet to be exploited to their full potential. As of 2021, Egypt ranks 28th in proven oil reserves and 18th in proven gas reserves. Egypt's natural capital could be a source of climate actions and green growth financing, with important involvement of the private sector.

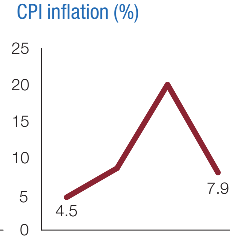
Real GDP growth (%)



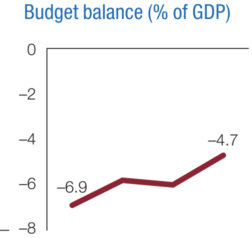
Real GDP per capita growth (%)



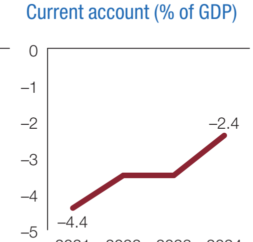
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data in the figure correspond to Egypt's fiscal year, which runs from July 1 to June 30.

Libya

Recent macroeconomic and financial developments

In 2022, real GDP contracted sharply, by 12.1%, after growing 28.3% in 2021. The recession was driven by rising conflict and lower performance of hydrocarbon, services, and, to a lesser extent, manufacturing. Inflation increased to 4.6% in 2022 from 2.8% in 2021, following the rise in prices of food and essential goods. As of January 2023, no agreement had been reached on unifying the Central Bank of Libya with its Eastern branch, affecting the country's monetary policy and banking system. The fiscal surplus rose to 13.8% of GDP in 2022 from 11.3% in 2021, due mainly to higher oil revenue. In 2022, spending also increased, driven mainly by higher spending on salaries and an extraordinary budget outlay for the National Oil Corporation to fund operations and investments.

The current account surplus remained in 2022 but dropped nearly 5 percentage points from 2021, reflecting volatility in oil exports. Public debt is domestic and estimated at $33 billion in 2021, or 83% of GDP. Political turmoil has affected the banking system's operating environment and performance, while the liquidity crisis persists. Domestic credit to the private sector represented 16.6% of GDP in 2020. In 2022, 2% of the population was multidimensionally poor, and 11.4% was vulnerable to becoming multidimensionally poor. About 800,000 people in need require humanitarian assistance. The unemployment rate reached 19.6% in 2022, and acute food insecurity continues to escalate.

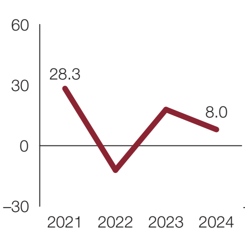
Outlook and risks

Real GDP is projected to grow 17.9% in 2023, reflecting a base effect, and 8.0% in 2024, buoyed by hydrocarbon sector recovery and high oil prices. Inflation is projected to remain under control, at 4.5% in 2023 and 4.6% in 2024. The fiscal balance is projected to post a surplus of 18.8%–22.1% of GDP in the short term due to high oil revenue. Continuing oil sector recovery is projected to boost exports more than imports—which may boost the current account surplus, projected to reach 24.5% of GDP in 2023—and to result in a large accumulation of foreign reserves. Headwinds include increased political instability and conflicts, leading to an oil blockade and additional humanitarian needs. On the global side, tighter financial conditions could further slow global economic growth, reducing oil demand.

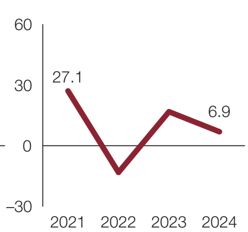
Climate change issues and policy options

Libya has elaborated neither a national climate change strategy nor a National Determined Contribution. The potential of the domestic private sector to close the climate finance gap remains very low, following prolonged conflict and macroeconomic uncertainty. Although international private financing could be an alternative, it depends heavily on stabilizing the political situation. Over 2010–20, Libya received $328.2 million in climate finance, mainly from the Global Environment Facility and the Green Climate Fund. In 2019–20, 94% of climate finance in the country, or $44 million, was from the private sector. Attracting private climate finance requires appropriate regulatory policies and investment incentives. Libya is well endowed with hydrocarbon resources, holding 3% of the world's proven crude oil reserves at the end of 2021, the largest endowment in Africa (39% of the continent's total) and the ninth largest globally. In 2021, Libya was the third largest producer of crude oil in Africa, after Nigeria and Algeria. Only 25% of Libya's territory has been explored for hydrocarbons. The country also holds important untapped mineral resources such as iron ore, limestone, magnesium salts, potassium salts, gold, and uranium, in addition to phosphate and silica deposits.

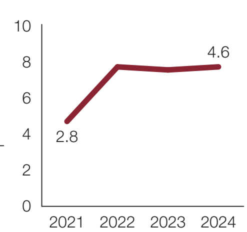
Real GDP growth (%)



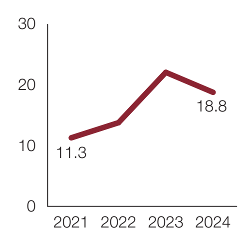
Real GDP per capita growth (%)



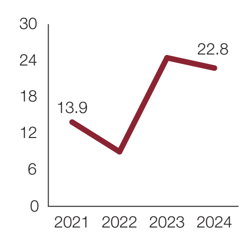
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Mauritania

Recent macroeconomic and financial developments

Real GDP growth rose to 5.3% in 2022 from 2.4% in 2021, underpinned mainly by higher extractive and agricultural production and trade. The major drivers of growth on the demand side remain household consumption and investment. Inflation rose to 9.6% in 2022 from 3.8% in 2021 due to higher global prices for imported foodstuffs and petroleum products. The Central Bank of Mauritania pursued a restrictive monetary policy in 2022 by raising its key rate 300 basis points to 8%. The banking sector increased financing to the private sector 16.4% from 2021.

Higher current spending (17.0% of GDP in 2022, up from 12.0% in 2021), particularly subsidies for energy and food products, led to a budget deficit (1.2% of GDP in 2022, following a 2.2% surplus in 2021) for the first time since 2018. Tax revenue remains insufficient at 12.5% of GDP in 2022, up from 10.8% in 2021. Debt restructuring agreements with Kuwait and Saudi Arabia reduced debt to 48.4% of GDP in 2022 from 57.9% in 2018. The current account deficit widened to 13.7% of GDP in 2022 from 7.9% in 2021 due to higher prices for food imports and petroleum products. The COVID-19 pandemic had a negative impact on the social wellbeing of the population, particularly on unemployment (11.5% in 2021, up from 10.4% in 2019) and multidimensional poverty (56.9%).

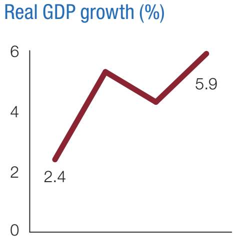
Outlook and risks

Real GDP is projected to grow 4.3% in 2023 and 5.9% in 2024, supported by the primary and extractive sectors and the expected benefits of gas development. Inflation is projected to rise to 10.4% in 2023 before dropping to 6.5% in 2024 with the central bank's restrictive monetary policy. The budget balance will remain in deficit (1.9% of GDP in 2023 and 1.6% in 2024), consistent with higher current and investment spending. Debt is projected to stabilize at 49% of GDP in the short term, ensuring that risk of debt distress remains moderate. The current account deficit is projected to narrow to 11.1% of GDP in 2023 and 8.5% in 2024 thanks to anticipated gas exports. Possible headwinds include security tensions in the Sahel, high prices for imported food and energy products, price volatility for exported raw materials (mainly iron), and recurrent droughts and floods, which impact food security. In addition, the efficiency of public spending and debt management needs to improve.

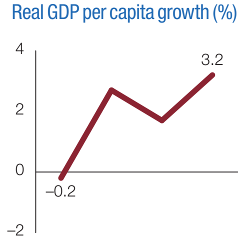
Climate change issues and policy options

The estimated finance needed to reduce greenhouse gas emissions 11% by 2030 is $4.8 billion a year over 2021–30, 72.1% of which is earmarked for mitigation. But the country lacks a dedicated climate finance mechanism. The private and banking sectors have almost no presence in climate finance. Most of the $1.0 billion received over 2010–20 came from international partners. Obstacles to private sector participation include the lack of knowledge of climate change risks and opportunities, the high cost of investment related to climate change adaptation, and the limited availability of private resources devoted to green investment. Essential actions include adopting green financial instruments such as green bond issues to increase resource mobilization, establishing a special green fund dedicated to the private sector, adopting tax incentives to encourage green private investment, and involving the private sector in strategies for climate change adaptation. Mauritania has substantial natural capital (gas, green hydrogen, iron, fishery resources, and agricultural land) valued at $24.3 billion in 2018, whose sustainable development could support climate finance and green growth. In addition, phase 1 of the Grand-Tortue/Ahmeyim gas project should provide additional room for budgetary adjustments of at least 0.5% of GDP in 2024.

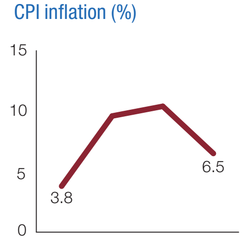
Real GDP growth (%)



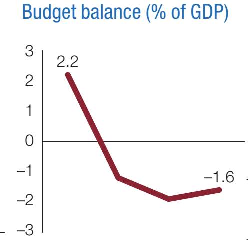
Real GDP per capita growth (%)



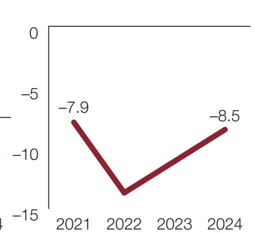
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Morocco

Recent macroeconomic and financial developments

Real GDP grew 1.1% in 2022, down from the buoyant recovery of 2021 (7.9%). Agricultural value added fell 15% from 2021 due to the worst drought of the past 40 years. Manufacturing, tourism, and transport performed well. The drought and inflation weighed negatively on household consumption, while foreign direct investment was up 31.5% and public investment 20.6%. Inflation rose sharply, to 6.6% in 2022 from 1.4% in 2021, driven by food inflation of 11% and higher commodity prices. Since 2022, the central bank has raised its key interest rate by 1.5 basis point, to 3%. Measures to mitigate inflationary pressures pushed fiscal spending up in 2022, but the fiscal deficit eased to 5.1% of GDP from 5.9% in 2021, on strong fiscal revenues.

Rising commodity prices impacted the current account deficit, which widened to 4.6% of GDP in 2022 from 2.3% in 2021. Credit to the private sector increased in 2022, to 67% of total credit. However small and medium enterprises, which account for 74% of employment, received only 12% of bank loans. Foreign exchange reserves reached 6 months of import cover at end-2022. In 2022, the shares of people living in poverty (4.9%) and vulnerable to living in poverty (12.7%) returned to their 2014 rates due to inflation and the impact of the drought on agricultural revenue.

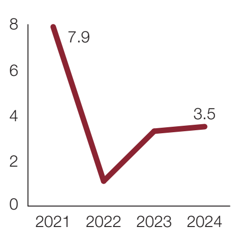
Outlook and risks

GDP growth is projected to rise to 3.3% in 2023–24, driven by a recovery in agriculture. Nonagricultural GDP growth is projected to remain modest, at 2.7%, because of the anticipated worldwide economic slowdown. Inflation is projected to ease to 5.4% in 2023 thanks to higher agricultural output. However, the central bank could raise its key interest rate further. The fiscal deficit is projected to fall, albeit slowly, given ongoing social security reforms. The current account deficit is projected to decline to 4.4% due to expected lower energy prices in 2023. Limited rainfall could impact agricultural output as well as the fill rate of dams. Moreover, a stronger than anticipated slowdown in the European Union could hamper exports, while a dramatic rebound of food and nonfood commodity prices would imply inflationary pressures and a deteriorating fiscal stance.

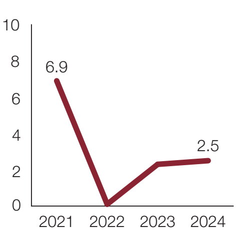
Climate change issues and policy options

The cumulative financing needed to adequately respond to climate change is an estimated $93.91 billion over 2020–30. Adaptation costs are an estimated $40 billion, mitigation costs $38.8 billion, and damage costs $15.1 billion. Private investment has been substantial, at 17% of climate finance in 2019–20, mainly in adaptation projects such as renewable energy. Most climate change adaptation projects have been backed by public funds, as private investment in adaptation faces hurdles such as cost estimates, expected returns, and risks as well as the current narrow classification of adaptation actions. To unleash the potential for private operators in projects such as seawater desalination as well as climate-smart agriculture and insurance, the country could adopt a broader green national classification and a public de-risking system. Moreover, private financing could further anchor green growth using natural capital. The Mediterranean and Atlantic coasts make Morocco one of the largest fish producers in Africa. To entrench the sustainability of the fisheries sector, the country has developed an environmental and economic accounting system, and its Blue Strategy aims to develop coastal clusters. Morocco also benefits from the largest forest cover in North Africa.

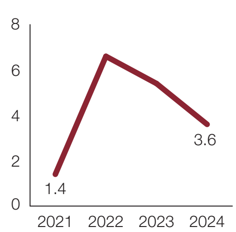
Real GDP growth (%)



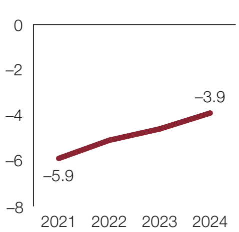
Real GDP per capita growth (%)



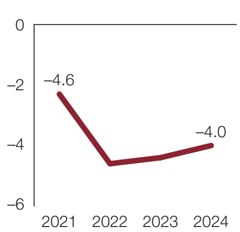
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Tunisia

Recent macroeconomic and financial developments

Real GDP grew an estimated 2.4% in 2022, driven by industry and services, down from 4.3% in 2021 due to a catching-up effect. Inflation rose from 5.7% in 2021 to 8.3% in 2022 due to Russia's invasion of Ukraine, which led to higher oil and food prices. The budget deficit narrowed from 7.6% of GDP in 2021 to 6.8% in 2022, with the wage bill, subsidies, and debt servicing accounting for roughly two-thirds of government spending. The current account deficit widened from 6.0% of GDP in 2021 to 8.5% in 2022 as food and energy import prices rose. In November 2022, foreign exchange reserves covered 3.2 months of imports, down from 4.2 months in November 2021. Tunisia faces downgrading of its sovereign rating in addition to difficulty mobilizing resources from multilateral donors. Public debt, over two-thirds of which is external, was an estimated 90% of GDP in 2022. The government's recourse to domestic debt is putting pressure on bank liquidity. And the quality of major banks' portfolios deteriorated due to high inflation, rising interest rates, and weak economic growth.

Unemployment was 15.3% in the third quarter of 2022, with higher rates among women (20.5%), young people age 15–24 (37.2%), university graduates, and residents of the interior of the country. The poverty rate, 15.3% overall, was higher in rural areas (26%) than in small and medium municipalities (15%) and much lower in large urban centers (6.3%).

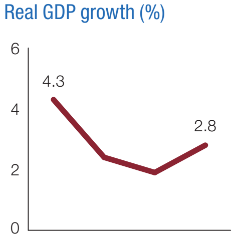
Outlook and risks

Real GDP is projected to grow 1.9% in 2023 and 2.8% in 2024, driven by manufacturing and services. Inflation is projected to rise to 9.2% in 2023 before falling to 6.8% in 2024, assuming prudent monetary policy and easing external inflationary pressure. The fiscal and current account deficits are projected to narrow as a result of the National Reform Program launched in 2022 to strengthen private investment, consolidate public finances, and improve the performance of public enterprises. But this outlook could worsen due to the high risk of debt distress, which could limit access to external financing. Possible headwinds include social tensions triggered by rising prices in a difficult economic context for households, a restrictive fiscal policy that penalizes public investment, and worsening political uncertainties. To stabilize its macroeconomic framework, Tunisia should adopt a medium-term sovereign debt reduction strategy, implement a plan to restructure public enterprises and reduce their external debt underwritten by the government, and conclude a preliminary agreement with the International Monetary Fund to restore fiscal sustainability backed by a 48-month loan of $1.9 billion to send a positive signal to private investors and donors and unlock concessional financing from other development partners.

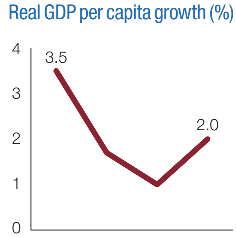
Climate change issues and policy options

Estimated climate finance need over 2020–30 is $24.4 billion, with adaptation costs estimated at $4.2 billion, mitigation costs at $14.4 billion, and losses and damages at $5.0 billion. There is a promising range of options for engaging the private sector: capital markets (green bonds and the carbon market), outcome-based financing that can be used as a catalyst for mixed (public-private) financing instruments, Islamic financing, and expatriate-friendly financial products designed to turn remittances into green investment. But private sector participation in climate finance has barely gotten off the ground. Barriers include a lack of transparency surrounding the profitability of green projects, difficulties evaluating and pricing risks, investment horizons that can be extremely long, and challenges in quantifying profits. New regulatory frameworks and government incentives will be key to channeling private finance into green growth. Tunisia's 1,300 kilometer coastline supports over two-thirds of the country's 12 million inhabitants. Natural capital has enormous potential for various forms of green energy, from solar and wind power to ecotourism and organic farming. The country also has large and, for the most part, underexploited phosphate and hydrocarbon deposits.

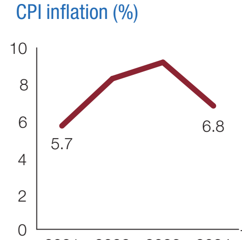
Real GDP growth (%)



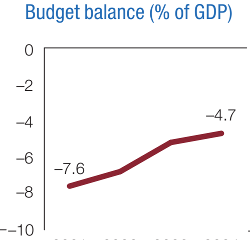
Real GDP per capita growth (%)



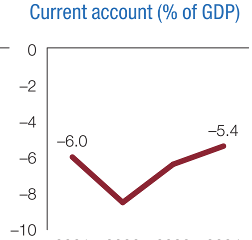
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

SOUTHERN AFRICA

Angola

Recent macroeconomic and financial developments

Real GDP growth reached 3.0% in 2022, up from 1.1% in 2021. Income per capita growth remained negative (0.2%) in 2022 due to high population growth (3%). GDP growth was spurred by sustained high oil prices in 2022 because of Russia's invasion of Ukraine; the average price per barrel for Angola's crude was $100.65, above the conservative $59.00 that the 2022 national budget was based on, generating estimated additional revenue of $17.18 billion. High oil revenue further widened the fiscal surplus to 3.0% of GDP in 2022 from 1.9% in 2021. However, moderated oil exports took the current account surplus down to 8.9% of GDP in 2022 from 11.2% in 2021, while the debt-to-GDP ratio declined further, to 56.1% from 82.9% over the same period.

Global inflation pressure from Russia's invasion of Ukraine[1] was eased by improved terms of trade. The increased export revenue and agricultural production reduced food inflation and overall inflation from 25.8% in 2021 to an estimated 21.3% in 2022. The banking sector also improved, with more positive economic performance and lower private sector debt in 2022. Nevertheless, unemployment remains high, at 30%, and the country continues to face challenges in curbing the poverty rate (40.6% in 2019).

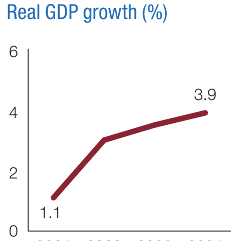
Outlook and risks

The price of crude oil, influenced by Russia's invasion of Ukraine and post-COVID-19 economic recovery, is likely to remain above the $75.00 per barrel assumed in the 2023 national budget, improving medium-term growth prospects. GDP is projected to grow 3.5% in 2023, leading to low projected GDP per capita growth of 0.2% given high population growth. Inflation is expected to drop further, to 13.2% in 2023 and 9.6% in 2024, as the availability of export revenue in a flexible exchange rate setting eases pressure via exchange rate pass-through. The major risk to the outlook is oil price volatility; to mitigate that risk, the 2023 national budget assumes a stable oil price. If the price of oil remains stable, a budget surplus of 0.3% of GDP is projected, with the debt-to-GDP ratio falling further, to 52.5%, and the current account staying in surplus, at 4.3% of GDP in 2023.

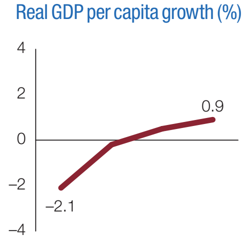
Climate change issues and policy options

Angola developed its National Climate Change Strategy (2018–2030), which establishes a vision for tackling climate change in the context of its Paris Agreement commitments. In its Nationally Determined Contribution (NDC), the country committed to reducing its greenhouse gas emissions 24% by 2025 and established a Climate and Environmental Observatory to monitor emissions. Angola's NDC identifies climate finance needs of $44.1 billion for 2021–25 to spur the green growth agenda, with mitigation accounting for 99.7% and adaptation for 0.3%. Despite potential for private investment in green energy, particularly photovoltaic off-grid projects to rural communities, internal financing opportunities are limited. Unlocking the potential for climate finance requires institutional improvements in regulatory frameworks to allow private participation as independent power producers and structuring of public–private partnerships in the context of a highly subsidized electricity tariff regime. Creating a dedicated national climate fund and strengthening public resource generation systems with green taxes can be key to promoting green growth initiatives with private participation.

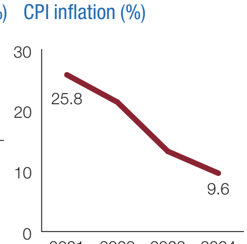
Real GDP growth (%)



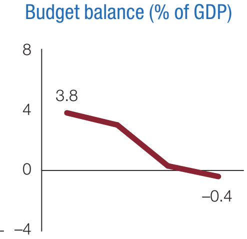
Real GDP per capita growth (%)



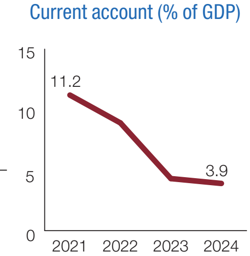
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

1 The Board of Governors agreed on this text during their meeting in 2022. However, Algeria, China, Egypt, Eswatini, Namibia, Nigeria, and South Africa entered a reservation and proposed "Russia-Ukraine Conflict."

Botswana

Recent macroeconomic and financial developments

Real GDP grew 11.9% in 2021 after contracting 8.7% in 2020 due to the COVID-19 pandemic. The broad-based 5.8% growth in 2022 was driven by a diamond market rebound, consumption-supportive government policies, and an effective vaccination drive (over 67% of the population has been vaccinated). At 12.2%, average inflation in 2022 remained above the Bank of Botswana's medium-term objective of 3%–6%, reflecting the domestic pass-through of high global commodity prices from Russia's invasion of Ukraine. The government temporarily reduced the value added tax rate to 12% from 14% and zero-rated cooking oil and gas to ease living costs. The Bank of Botswana raised the policy rate to 2.65% in August 2022 from 1.65% in May 2022.

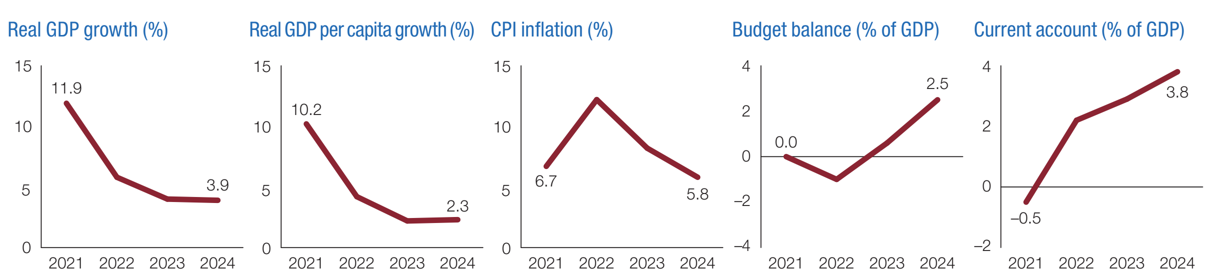
The 2021/22 budget was balanced, after a fiscal deficit of 9.5% of GDP in 2020/21, with higher mineral earnings and an underexecuted development budget. The 2022/23 deficit of 1.0% of GDP was financed through borrowing and reserves drawdown. Public debt, at 23.9% of GDP in 2021/22, is sustainable. The current account surplus of 2.2% of GDP in 2022 signaled rising diamond sales and receipts from the Southern African Customs Union. International reserves stood at $4.6 billion in November 2022 (9.7 months of import cover), compared with $4.8 billion at end-2021 (9.9 months). The banking sector's capital adequacy ratio averaged 19.1% from November 2021 to November 2022, above the 12.5% prudential requirement. The nonperforming loans ratio fell to 3.8% in November 2022 from 4.3% in December 2021. Botswana had a low poverty headcount ratio, 20.8% in 2021, but high unemployment, 25.4%, driven by youth unemployment of 39.9% in 2022.

Outlook and risks

GDP growth is projected to moderate at 4.0% in 2023, supported by anticipated higher economic activity from the liberalized beef sector, higher diamond prices, and ramped-up copper and vaccine production. The forecast hinges on the fast-tracked implementation of the government's Economic Recovery and Transformation Plan. Headwinds include higher global inflation from supply-chain disruptions linked to Russia's invasion of Ukraine, lower diamond earnings if diamond market economies go into recession, persistent droughts, and lower exports and Southern African Customs Union revenue if weak economic conditions persist in South Africa. With the economy operating below full capacity, inflation is projected to fall to 5.8% in 2024, within the central bank's target range. The projected fiscal surplus of 0.6% of GDP can be supported by full implementation of the government's consolidation and public financial management reforms. The current account may stay in surplus as the diamond and tourism industries rebound. Unemployment may be mitigated by the government's planned well targeted social protection system.

Climate change issues and policy options

Given its semi-arid climate, Botswana is vulnerable to multiyear droughts. For 2020–30, estimated climate mitigation financing need stands at $9.2 billion. Over 2010–20, the country received $570 million in climate finance, an average financing gap of $834 million a year. The stock of natural capital consists mainly of minerals (97% diamonds). Other resources are water and energy. Given the finite characteristic of minerals, earnings from natural capital may dwindle over time. Botswana's National Climate Change Policy provides for climate finance mobilization. Private climate finance is low due to the less comprehensive costing of climate finance needs for adaptation; limited institutional investor interest, compounded by low expertise and an inadequate regulatory environment; perceptions of higher transaction costs in developing green bankable projects; and a less developed renewable sector to support green bond issuances. Better adaptation data will require sufficient national technical expertise to cost relevant adaptation pathways. Botswana's 84 metric tons of irrecoverable carbon in the Okavango Basin make it vital to establish secure markets for carbon trading, by ensuring that value chains linked to development and inclusive growth strategies are effective. Botswana should continue deepening regulatory reforms to improve the private investment climate.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. The fiscal years start in the named April and conclude the end of March in the following year.

Eswatini

Recent macroeconomic and financial developments

Real GDP growth fell to 3.6% in 2022 from 7.9% in 2021, reflecting the spillover effects from South Africa's weak growth and the disruptive effects of Russia's invasion of Ukraine, which induced a slump in demand due to an upsurge in inflation, an increase in the cost of credit, and fiscal constraints. Inflation rose to 4.8% in 2022 from 3.7% in 2021, driven mainly by food and transport costs. To tame rising inflation, monetary policy was tightened, with the discount rate gradually increased to 7.25% in March 2023 from 3.75% in January 2022. The lilangeni and rand depreciated 9.5% against the US dollar in 2022 due largely to weak investor sentiments on South Africa over its persistent energy crisis.

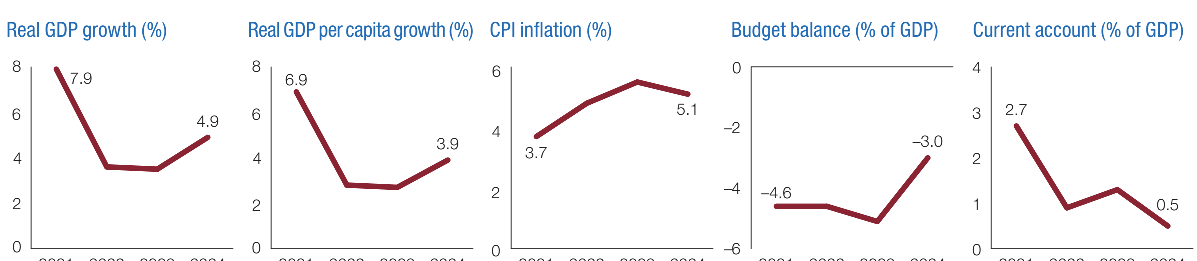
The 2022 fiscal deficit is an estimated 4.6% of GDP, similar to the rate in 2021, a result of fiscal consolidation. Public debt stood at 42.7% of GDP in December 2022, up from 40.4% in December 2021. The current account deficit dipped to an estimated 0.9% of GDP in 2022 due to weak trade and secondary income inflows. International reserves stood at 2.6 months of import cover in December 2022, below the recommended 3 months. The nonperforming loans ratio increased from 6.5% in January 2022 to 6.9% by end-2022, while private sector credit increased 7.8%. Unemployment remained high, at 33.3% in 2021, exacerbating the poverty rate (58.9%) and inequality (Gini coefficient of 0.546) amid high HIV prevalence (27.9%).

Outlook and risks

In 2023, GDP growth is projected to be maintained at 3.5%, supported by a rebound in domestic demand and rejuvenation of consumption and investment spending. Inflation is projected to remain elevated, averaging 5.3% over 2023–24, attributed to persistent global inflation and a weaker rand. The fiscal deficit is expected to narrow to 3.0% of GDP in 2024 from 5.1% in 2023 due to a strong rebound in Southern African Customs Union (SACU) receipts. With the forecasted higher growth trajectory, the public debt–to-GDP ratio is projected to decline to 41% in 2023 and 38% in 2024. The current account surplus is projected to average 0.9% in the medium term due to higher secondary income flows spurred by SACU. Economic tailwinds include the huge increase in SACU revenue windfalls and the proposed SACU Stabilisation Fund, expected to foster fiscal stability. Headwinds remain higher global inflation, weak growth in South Africa, and the difficult sociopolitical context.

Climate change issues and policy options

Eswatini has diverse land and climatic conditions, and its natural resources include arable land, water, and minerals. The mining industry's contribution to GDP is around 2%, concentrated in coal and quarry mining. The scope to leverage natural capital to finance climate programs remains minimal. Eswatini's 2021 Nationally Determined Contribution (NDC) suggests that the country needs $0.95–$1.5 billion to achieve its climate goals, resources beyond its capacity. The 2021 Climate Public Expenditure and Institutional Review indicated that Eswatini received about $209 million from international financiers over 2015–20 and that $103 million was leveraged as co-finance, mainly from domestic sources. The private sector's participation in NDC actions, though nascent, is imperative. Banks and large companies, such as sugar corporations, are key potential partners. Eswatini adopted the Strategy to Enhance Private Sector Engagement for climate finance, but barriers include lack of affordable long-term financing, market imperfections, inadequate enabling policies, perceived financial and technology risks, and high upfront capital costs. An enabling policy and regulatory environment to enable private innovation and investment in NDC actions is important, including creation of investment incentives that will minimize costs and reduce risks.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Eswatini's fiscal year, which runs from April 1 to March 31.

Lesotho

Recent macroeconomic and financial developments

Despite global disruptions caused by Russia's invasion of Ukraine, the economy remained resilient, growing 2.5% in 2022, driven by growth in services (2.6%) and construction (8.1%), fiscal stimulus, and COVID-19-related spending. This is an improvement on the 1.6% growth in 2021. Inflation rose to 8.3% in 2022 from 6.1% in 2021, owing to higher inflation in South Africa, the country's main trading partner. In 2022, the fiscal deficit narrowed to 4.3% of GDP from 4.8% in 2021 due to a rebound in Southern African Customs Union revenue. It was financed with government savings in the banking sector and borrowing. The current account deficit increased to 6.8% of GDP in 2022 from 4.2% in 2021, owing to higher imports. It was financed with South African capital transfers.

Real GDP per capita grew 1.5% in 2022, up from 0.3% in 2021, and is projected to grow 1.0% in 2023 and 1.5% in 2024. The nonperforming loans ratio rose from 4.1% in 2021 to 4.4% in 2022. The return on assets increased from 1.0% in 2021 to 1.4% in 2022, and the return on equity increased from 8.3% in 2021 to 11.7% in 2022. Poverty remains endemic, with half the population living below the national poverty line in 2017. The Gini coefficient is projected to increase from 0.446 in 2020 to 0.48 in 2021 and 2022. Youth unemployment stands at 33.2% compared with overall unemployment of 24%. And 500,000 people are food insecure.

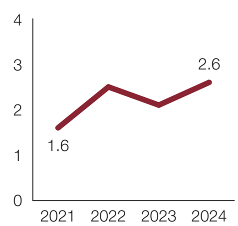
Outlook and risks

GDP is projected to grow 2.1% in 2023 and 2.6% in 2024, driven by the Highlands Water Project's huge infrastructure construction works involving tunnels and dams. Other tailwinds include higher government capital spending. Inflation is projected to fall to 6.5% in 2023 and 5.5% in 2024, owing to further projected marginal increases in food prices. The fiscal deficit is projected to increase to 5.5% in 2023 and 5.1% in 2024, owing to a projected decrease in government revenue arising from a drop in Southern African Customs Union revenue. The current account deficit is projected to narrow to 5.8% of GDP in 2023 and 5.1% in 2024, due to projected recovery in remittances. The main risk to the macroeconomic outlook remains the fragile fiscal situation, given the huge fiscal gap. Russia's invasion of Ukraine will also present headwinds to growth by increasing inflation, weakening demand for Lesotho's exports, and reducing investor confidence.

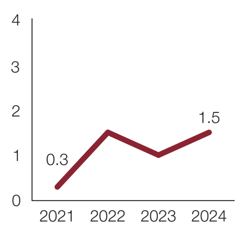
Climate change issues and policy options

Private climate finance and its role in financing climate and green growth are very limited. Lesotho received an average of $238 million a year in climate finance over 2019–20. Challenges to attracting private climate finance include lack of a culture of support at the national level, inadequate policy and legal frameworks, and unfavorable market conditions for private investment in cleantech solutions. Natural capital includes water and diamonds, valued at $3.2 billion—about 88% of the country's GDP—in 2018. However, Lesotho does not use these resources for climate finance, instead relying on trust funds. The estimated cumulative financing needed to adequately respond to climate change is $511–$582.53 million, or $54.71 million a year over 2020–30, excluding the cost of adaptation. Looking forward, Lesotho should strengthen the private sector's capacity and systems to support the implementation of climate finance activities, develop a strategy to create a conducive environment for attracting private investment, and undertake ambitious tax reforms that cover green taxes and subsidies.

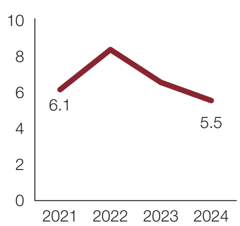
Real GDP growth (%)



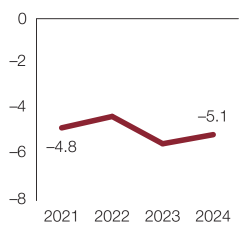
Real GDP per capita growth (%)



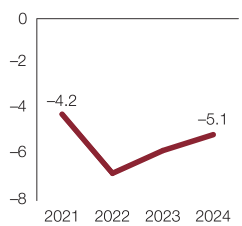
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Lesotho's fiscal year, which runs from April 1 to March 31.

Madagascar

Recent macroeconomic and financial developments

Real GDP grew 4.2% in 2022, down from 5.7% in 2021, due to the effects of tropical storms and cyclones, the COVID-19 pandemic, and Russia's invasion of Ukraine. Growth was boosted by the mining sector (up 23.6%) and the recovery in tourism, especially the hotel and restaurant sector, on the supply side and by investment (23.4% of GDP) and higher exports on the demand side. Inflation reached 8.1% in 2022, driven by higher energy and food prices. To mitigate the effects of inflation, the government capped the price of basic products (rice, sugar, cement), raised government employee wages 17% on average, and reduced the value added tax on fuel from 20% to 15%. The 62% increase in spending widened the budget deficit to 6.8% of GDP in 2022 from 2.8% in 2021, 58% of which was financed by external resources and 42% by treasury bills and advances from the central bank. The risk of overindebtedness remains moderate, with outstanding debt at 57% of GDP in 2022.

The current account deficit widened to 5.7% of GDP in 2022 due to an increase in imported services and a decline in remittances received, with foreign exchange reserves covering 4.3 months of imports. The financial sector remains sound overall, with the nonperforming loans ratio at 7.7% in 2022. Poverty is high, at an estimated 81% in 2021. The unemployment rate is 2.6%, 70% of which is young people age 15–30.

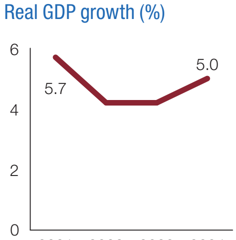
Outlook and risks

Real GDP is projected to grow 4.2% in 2023 and 5.0% in 2024, driven by a rebound in mining and quarrying and continued recovery in tourism on the supply side and by investment and exports of minerals contribute to the energy transition (graphite, nickel, cobalt) on the demand side. Inflation is projected to rise to 9.5% in 2023 before falling to 8.2% in 2024. The budget deficit is projected to narrow to 3.0% of GDP on average over 2023–24 thanks to higher revenue from oil products as the result of an agreement with distributors in December 2022. The current account deficit is projected to remain stable in 2023 and to narrow slightly, to 5.2% of GDP, in 2024. Possible headwinds include new waves of COVID-19 infection, higher energy and food prices, tighter global financial conditions, climate shocks, and sociopolitical tensions during the 2023 presidential elections.

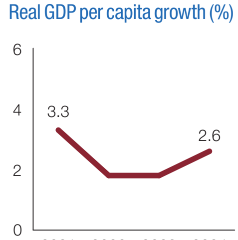
Climate change issues and policy options

An estimated $29.1 billion in finance—or $2.6 billion a year—is needed over 2023–30 to adequately respond to climate change. But the private sector's contribution to climate finance is low: of the $353 million in climate finance raised over 2019–20, only $15 million (4%) came from the private sector. This is due mainly to the absence of a regulatory framework encouraging the sector to develop natural resources, the failure to prioritize the development of natural capital, insufficient technical and financial capacities, the lack of bankable green investment projects and opportunities, and the poor governance of natural resources. But there are opportunities for the private sector. The country has rich natural capital, with dense forests, a 4,828 kilometer coastline, an exclusive economic zone of 1.2 million square kilometers, substantial mining potential, abundant water resources, and rich biodiversity. However, mobilizing private climate finance will require fiscal incentives, financing models, and technical and financial support for businesses involved in developing natural capital.

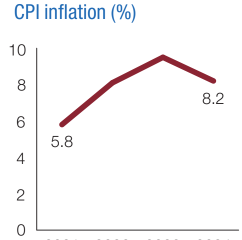
Real GDP growth (%)



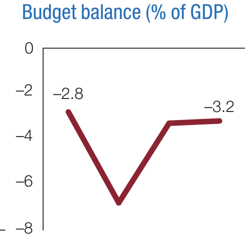
Real GDP per capita growth (%)



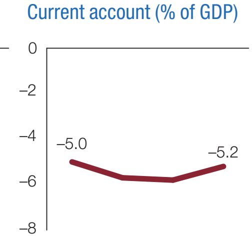
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Malawi

Recent macroeconomic and financial developments

Despite the reopening of the economy after almost two years of COVID-19 containment measures, GDP growth fell to 0.8% in 2022 from 2.2% in 2021. Russia's invasion of Ukraine, global logistical challenges, and climate shocks dampened growth. The largest contributor to 2022 GDP growth was agriculture (22.1%), followed by wholesale and retail trade (12.6%) and real estate and construction (6.5%). The downward trend in manufacturing's contribution to growth reversed to 12.7% in 2022. Monetary policy was tightened, with the key policy rate hiked to 18% in October 2022 from 12% in 2021. Inflation jumped from 9.3% in 2021 to 21.0% in 2022 on account of higher food and nonfood prices. The local currency was devalued in May 2022, dropping from 824.8 Malawi kwacha per US dollar to 1,036.2. Banking sector liquidity tightened in 2022, and nonperforming loans ratio rose to 6.1% from 4.5% at the end of 2021.

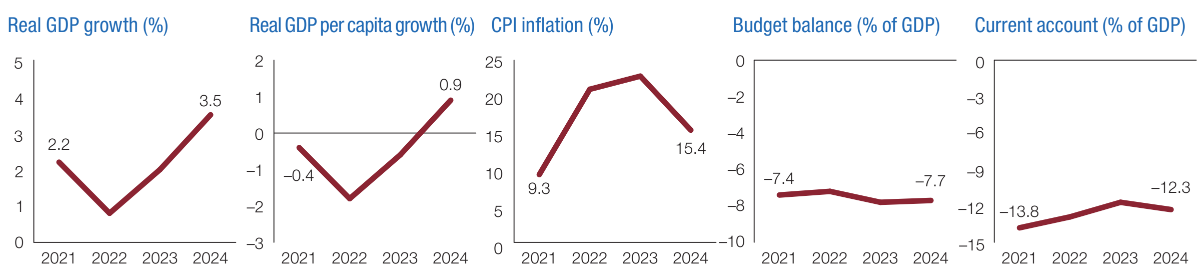
In 2022, the fiscal deficit narrowed marginally, to an estimated 7.2% of GDP from 7.4% in 2021 due to fiscal consolidation. Malawi continues to face structural balance of payments challenges on account of COVID-19-induced economic weaknesses in China and Russia's invasion of Ukraine, the country's key tobacco export destinations. Foreign currency shortages reduced imports, narrowing the current account deficit to 12.9% of GDP in 2022 from 13.8% in 2021.

Outlook and risks

GDP growth is projected to rebound to 2.0% in 2023 and 3.5% in 2024, driven by a recovery in agriculture, tourism and exports, and foreign direct investment. Headwinds include weather-related shocks and the prolongment of Russia's invasion of Ukraine. Despite tight monetary policy, inflation is expected to rise to 22.8% in 2023 before falling to 15.4% in 2024. The current account deficit is projected to narrow to 11.7% of GDP in 2023 and 12.3% in 2024 due to weak growth and domestic demand. Fiscal consolidation to achieve medium-term debt sustainability was expected to narrow the fiscal deficit, but a mixed picture is emerging. In 2023, the fiscal deficit is projected to rise to 7.8% of GDP due to the impact of Cyclone Freddy before falling to 7.7% in 2024. Using the baseline assumptions, the debt-to-GDP ratio is likely to fall to 72.6% by 2026 from 76.6% in 2022.

Climate change issues and policy options

Natural resource rents fell from 10.9% of GDP in 2016 to 4.0% in 2020. Malawi updated its Nationally Determined Contribution, prioritizing agriculture, water resources, health, infrastructure, land-use planning, transport, population and human settlements, and disaster risk management for adaptation. The financing needed for mitigation and adaptation in these sectors through 2040 is an estimated $46.3 billion. Private sector credit averaged $3.3 billion a month in 2022, only 15% of which was allocated to climate-related sectors. Estimated costs for damage and loss caused by climate events in 2019 alone amounted to $220 million. The public sector's dominance in climate-related sectors also crowds out the private sector, which grapples with the lack of clear frameworks for involvement. With the help of development partners, government capacity to develop frameworks for private sector participation in climate-related activities would be required.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Malawi's fiscal year, which runs from July 1 to June 30.

Mauritius

Recent macroeconomic and financial developments

Real GDP growth rose to an estimated 8.7% in 2022, up from 3.4% in 2021, spurred by sustained policy support and the lifting of travel restrictions and buoyed by recovery in the tourism sector. Monetary policy remained accommodative to support economic activity, taking advantage of low inflation. However, inflation rose sharply in 2022, to an estimated 10.8% from 4.0% in 2021, driven largely by surging imported food and energy prices because of Russia's invasion of Ukraine. Public finances have been under pressure in recent years. The fiscal deficit stood at 10.4% of GDP in 2021 and narrowed to an estimated 6.1% in 2022 as the economy continued to recover and the government resumed fiscal consolidation, which had been suspended during the COVID-19 pandemic. Public debt reached 100.7% of GDP in 2021, owing to increased COVID-19-related spending and the contraction in GDP. It started a downward trajectory in 2022 thanks to strong economic recovery and government plans to sell nonstrategic assets to allow for early repayment of debt.

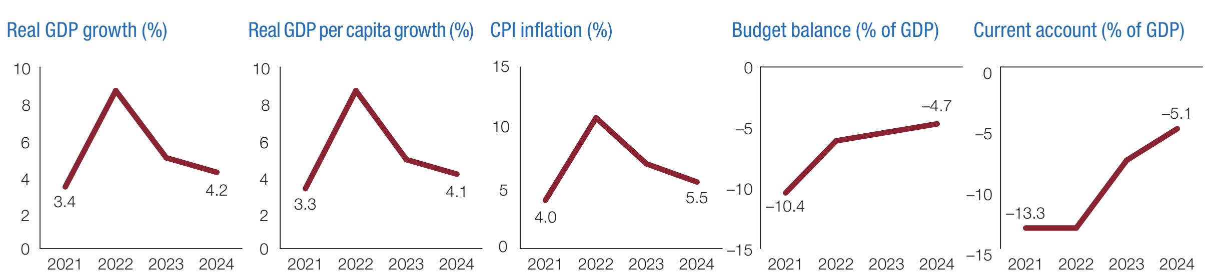
The current account suffers from structural deficits, driven by a large trade deficit. Its financing depends on resilient financial and capital flows in the global business sector. Gross international reserves remain high, estimated at 10.2 months of import cover in December 2022, down from 17.6 months of import cover at end-2021. The social landscape is mixed, with a low poverty headcount ratio (9.6% in 2017), high inequality (a Gini coefficient of .40 in 2017), and 9.1% unemployment (with 27.7% youth unemployment in 2021). Its Human Development Index value remains high (0.802 in 2021).

Outlook and risks

The economy is projected to grow 5.0% in 2023 and 4.2% in 2024 thanks to tourism. But growth is expected to slow in 2023 as Europe (a key market) experiences a downturn because of higher living costs and the effects of Russia's invasion of Ukraine. Monetary tightening will also weigh on domestic demand. The fiscal deficit is projected to further narrow to 5.4% of GDP in 2023 and 4.7% in 2024, financed predominantly through domestic borrowing and, to a lesser extent, external borrowing. Inflation is projected to moderate to 7.0% in 2023 and 5.5% in 2024. The trade deficit is also projected to fall to 7.7% of GDP in 2023 and 5.1% in 2024.

Climate change issues and policy options

Very few ecosystem assessments have been carried out in Mauritius, and the level of natural capital deterioration or enhancement remains unknown. The lack of quantitative assessment, along with increasing demand for information on environmental sustainability, has led to projects such as Maurice Ile Durable, which aims to make Mauritius a world model of sustainable development. Natural capital management will be a major factor in Mauritius's response to climate change. The country accounts for only 0.01% of global greenhouse gas emissions, but it is among the most exposed to natural disaster shocks and ranks low in adaptive capacity. Adaptation to and mitigation of climate change effects need to be strengthened. Estimating the cost of climate adaptation and mitigation is problematic, primarily because there is no agreed quantitative target. Mauritius's Nationally Determined Contribution suggests the country requires $2 billion for mitigation and $4.5 billion for adaptation by 2030. About 35% of the total would be covered by government resources and domestic private sector contributions and the rest by external sources. While Mauritius's financing need is among the highest in dollar terms across small islands states, it is much lower as a percentage of GDP. The government is seeking new sources of finance, especially from the private sector, through public–private partnerships and innovative financing instruments such as bonds (green bonds, blue bonds, resilience bonds, and catastrophe bonds) and de-risking instruments. Blended debt, equity, and grant finance may be used strategically to attract private investment.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Mozambique

Recent macroeconomic and financial developments

Real GDP growth rose from 2.3% in 2021 to an estimated 3.8% in 2022, consolidating the recovery from recent shocks such as the COVID-19 pandemic, conflict, and global geopolitical tensions. Growth was followed by higher inflation, which jumped from 5.7% in 2021 to 10.3% in 2022, driven mostly by fuel and food price increases. The Bank of Mozambique raised the reference interest rate from 15.25% in 2021 to 17.25% in August 2022. The exchange rate remained stable. The current account deficit widened to 39.1% of GDP in 2022 from 23.6% in 2021, given a one-off import of a liquefied natural gas offshore platform estimated at 25% of GDP. International reserves fell to 3.2 months of import cover in June 2022, due to high imports.

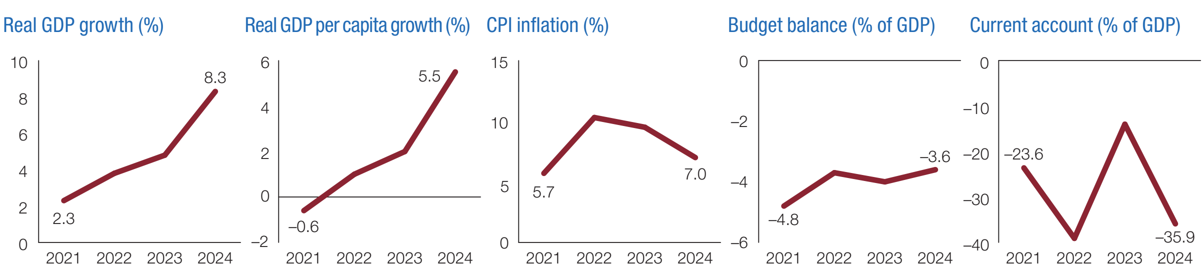
The budget deficit narrowed from 4.8% of GDP in 2021 to 3.7% in 2022 due to increased revenue from higher economic activity, despite a pressing wage bill and high debt service. Debt also fell marginally, from 106.4% of GDP in 2021 to 102.6% in 2022, although new borrowing came from more expensive domestic finance. The financial sector remained stable in the first half of 2022, with an increase in the solvency ratio from 26.6% in June 2021 to 27.3%. The poverty rate fell marginally, from 64.5% in 2021 to 64.2% 2022, following a 1.0% increase in GDP per capita.

Outlook and risks

GDP growth is projected to rise to 4.8% in 2023 and 8.3% in 2024, pushed by extractives and agriculture, leading GDP per capita growth to jump from 2.0% in 2023 and 5.5% in 2024. Inflation is projected to fall to 9.5% in 2023 and to return to the target of 7.0% in 2024. The fiscal deficit is projected to slightly deteriorate in 2023, to 4% of GDP, impacted by the wage bill, before turning to a deficit 3.6% of GDP in 2024. The current account deficit is projected to decline to 14.0% in 2023 and then drastically increase to 35.9% in 2024, given imports of liquefied natural gas projects. Headwinds include climate shocks and the insurgency in northern Mozambique. Tailwinds include the liquefied natural gas sector as an energy supplier for the country's electrification and just transition, government investment in agricultural productivity, and overall subregional growth, leading to higher usage of Mozambique's logistics corridors.

Climate change issues and policy options

Despite being one of the lowest contributors of greenhouse gas emissions, Mozambique is among the 10 countries most affected by climate change. At the 2021 United Nations Climate Change Conference, Mozambique set a target of reducing Nationally Determined Contribution emissions from 76 metric tons of carbon dioxide equivalent to 99, with adaptation the highest priority to ensure a long-term path toward green growth. The country's need for 2020–30 totals $53 billion, well above the $3.7 billion mobilized over 2011–20 and roughly three times its GDP. The Mozambique National Climate Change Adaptation and Mitigation Strategy 2013–2025 is the first comprehensive instrument to address climate change. Given the financial gap, it is critical for the government to emphasize private investment, particularly on the green growth front, with low-carbon energy, agriculture, and climate-resilient infrastructure and insurance schemes to meet its goals. To mobilize resources more efficiently, the country could habilitate national institutions to international governance standards for accessing worldwide climate finance; foster a more attractive investment environment, particularly for smaller hydro dams, wind, and solar farms; and advance a debt-for-climate swap proposal, which offers an opportunity to tackle both debt and climate issues.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Namibia

Recent macroeconomic and financial developments

Real GDP growth rose to 4.6% in 2022 from 3.5% in 2021, supported by the lifting of COVID-19-related restrictions in July 2022 and the continued recovery in primary and secondary industries. Inflation averaged 6.1% in 2022, up from 3.6% in 2021, driven by elevated global commodity prices linked to the COVID-19 pandemic and Russia's invasion of Ukraine. The Bank of Namibia progressively increased the policy rate to 7.25% in April 2023 from 6.75% in November 2022 and 3.75% in 2021.

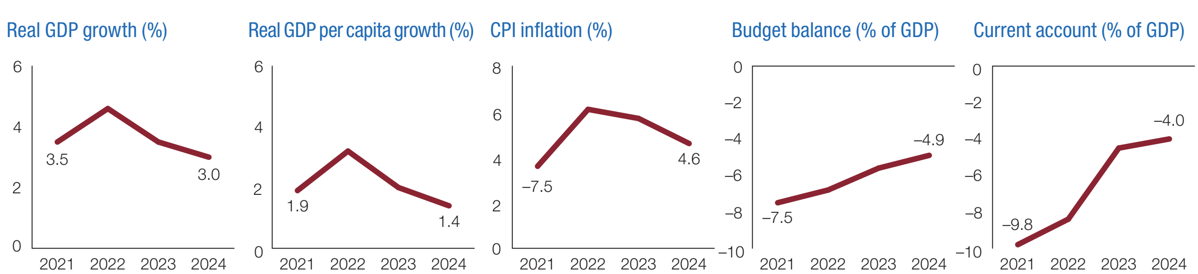
The fiscal deficit averaged 7.5% of GDP in 2021/22, as Southern African Customs Union (SACU) receipts and diamond earnings declined. The public sector wage bill remained high, taking public debt to 67% of GDP. In May 2022, Namibia launched a $15 million sovereign wealth fund that supports debt sustainability through spending stabilization. The current account turned to a deficit of 9.8% of GDP in 2021 and 8.4% of GDP in 2022, from a 2.8% surplus in 2020, after higher fuel import payments and declining SACU receipts. International reserves rose marginally, to 5.7 months of import cover in December 2022 from 5.6 months in 2021. The capital adequacy ratio of 17.0% in 2022 was above the 10% statutory requirement. The nonperforming loans ratio fell to 5.6% at end-2022 from 6.4% the year before. The headcount poverty ratio stood at 17.4% in 2019. Unemployment stood at 33.4% in 2018, with youth unemployment at 46.1% and female unemployment at 48.5%. Inequality is high, with a Gini coefficient of .572 in 2015.

Outlook and risks

Real GDP is projected to grow 3.5% in 2023 and 3.0% in 2024, buoyant on the continued economic recovery, particularly in diamond processing and export, and increased consumption in wholesale and retail trade and tourism. Headwinds include a higher import bill and lower SACU revenue for Namibia as South Africa struggles with rising global commodity prices due to international supply chain disruptions, low COVID-19 vaccine uptake (27% of the population was vaccinated as of May 2022), higher global inflation, and higher global interest rates. With the tight monetary policy stance, inflation is projected to remain below the central bank target of 6.0% in the medium term. The fiscal deficit is projected to decline, driven by strong domestic resource mobilization and tax compliance efforts by the new Namibia Revenue Authority and spending rationalization efforts. The current account deficit is projected to decline on higher diamond and tourism earnings.

Climate change issues and policy options

Namibia's low-lying and southern desert regions frequently experience rainfall variability. Its river basin areas and coastline are susceptible to flooding. Private climate finance is still low compared with public funding. In 2019/20, Namibia received on average $202.3 million in climate finance flows: $32 million (16%) from the private sector and $170 million (84%) from public sources. The government secured $544 million in climate finance at the 2022 United Nations Climate Change Conference in November 2022. Natural capital comprises minerals (diamonds, uranium, copper, magnesium, zinc, silver, gold, lead, semiprecious stones, and industrial minerals), land (8.1% forest cover in 2020), and a blue economy (more than 1,570 kilometers of coastline). Natural capital is valued at $19.6 billion, $17.2 billion of which is renewable. However, these resources are threatened by both climate change and weak resource governance. Between 2018 and 2022, several commercial banks issued green bonds to finance eligible renewable energy projects, showing the potential for private climate finance. Namibia needs to harness this potential by creating a strong enabling environment for private climate investment through regulatory reforms that support climate-resilient sectors and de-risk low-emission private investment.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data for the budget balance as a % of GDP reflect a financial year that begins April 1 and ends March 31 the following year.

São Tomé and Príncipe

Recent macroeconomic and financial developments

Real GDP growth declined moderately, from 1.9% in 2021 to an estimated 0.9% in 2022. The decline is attributed to the lingering effect of the COVID-19 pandemic on tourism, coupled with Russia's invasion of Ukraine, which disrupted global trade. As a small island development state, the country relies on tourism, which accounted for 43.7% of foreign currency revenue in 2021, as one of the main contributors to the economy.

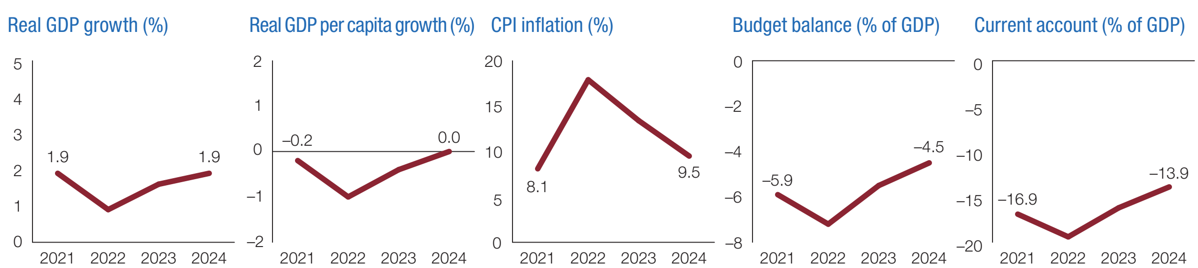
The economic slowdown was further constrained by the impact on the local market of higher food and oil prices in the international market. São Tomé and Príncipe imports 100% of its oil and half of its food. As a result, inflation rose to 17.9% in 2022 from 8.1% in 2021, on the back of the enduring COVID-19 pandemic effect. The fiscal deficit reached an estimated 7.2% of GDP in 2022, up from 5.9% in 2021. At the same time, the current account deficit climbed to an estimated 19.4% of GDP in 2022 from 16.9% in 2021 due to a sharp increase in oil and food prices on the global market. The current account deficit is financed mainly through credit for oil and multilateral loans. Net international reserves declined from $29.9 million in 2021 to $14.3 million in 2022 due to the associated increase in import costs of oil and food products. The return on assets rose from 1.0% in September 2021 to 1.4% in September 2022, and the return on equity followed the same trend, rising to 8.4% in September 2022 from 5.7% in September 2021.

Outlook and risks

Real GDP is projected to grow a mere 1.6% in 2023 and 1.9% in 2024 due to the slow return to global trade after the COVID-19 pandemic. The fiscal deficit is projected to decline to 5.5% of GDP in 2023 and 4.5% in 2024 due to prudent public spending and austerity measures to contain inflation. Export and tourism earnings are projected to rebound, helping narrow the current account deficit to 16.2% of GDP in 2023 and 13.9% in 2024, while international reserves are projected to rise to $20.3 million in 2023 and $25.2 million in 2024, urged by inflows of multilateral and bilateral loans and grants. A new International Monetary Fund program is projected to stir economic activity and drive growth by supporting the government in achieving macroeconomic stability, reducing debt vulnerability, alleviating balance of payments pressures, and creating the foundations for stronger growth. However, headwinds include an escalation of Russia's invasion of Ukraine, climate change events, poor infrastructure, and slower global trade, which can dampen economic growth.

Climate change issues and policy options

As a small island developing state, São Tomé and Príncipe is prone to climate shocks. The country thus developed its Nationally Determined Contribution (NDC) aiming to increase the renewable energy share in the national grid, reduce power grid losses, and increase energy efficiency, while substantially reducing the transport sector's carbon footprint. The estimated cost of the NDC from 2020 to 2030 to reduce emissions 27% by 2030 is $150 million. The measures will reduce the country's vulnerability to climate change while spurring private investment in power, agriculture, tourism, and transport. The private sector may pursue climate-smart agriculture practices and technology to enhance adaptation and resilience to climate change. The country has a target of 100% organic agricultural products, led by the private sector, aiming to promote sustainable local agriculture production for internal consumption and export while preserving biodiversity. Furthermore, the blue economy can be a new source of growth based on marine and biodiversity preservation. The current energy mix, with 95% of power generated by fossil fuels, can be altered with private sector support. The government is expected to adopt new legislation to facilitate private investment in the transition to green and clean energy.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

South Africa

Recent macroeconomic and financial developments

Real GDP growth dropped to 2.0% in 2022 from 4.9% in 2021, mainly on account of persistent electricity shortages, flooding in KwaZulu Natal, and constraints in the transport sector, coupled with the global downturn following Russia's invasion of Ukraine. Inflation rose to 6.9% in 2022 from 4.5% in 2021, driven by higher food and fuel prices. To curb rising inflation, the Reserve Bank of South Africa raised the base interest rate to 6.25% in September 2022 from 5.5% in July 2022. The rand depreciated from 15.3 per US dollar in January 2022 to 17.3 in December 2022.

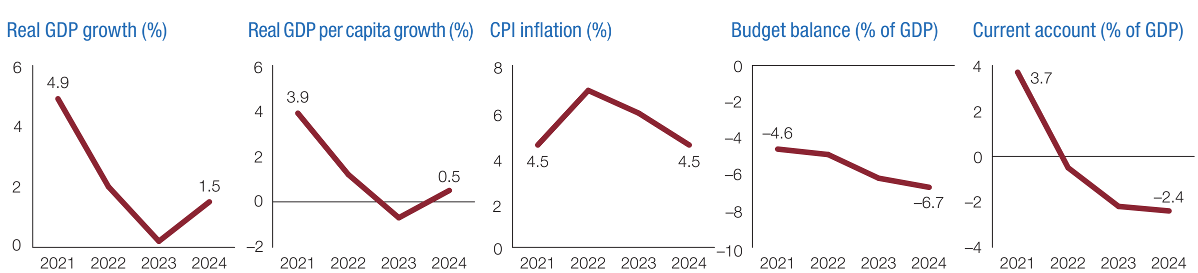
The budget deficit widened marginally, to 4.9% of GDP in 2022 from 4.6% in 2021, due to higher growth in priority spending, including spending related to the COVID-19 for the most vulnerable. The current account deficit also narrowed, to an estimated 0.5% of GDP in 2022 from a surplus of 3.7% in 2021, mainly because prices and volume of imports exceeded those of exports. External reserves increased from $58.4 billion in August 2021 to $63.4 billion in October 2022 (about 5.5 months of import cover), boosted by higher export earnings. Public debt increased marginally, to 71.4% of GDP in 2022 from 68.0% of GDP in 2021, due to increased budget financing requirements and fluctuations in interest and exchange rates. The financial sector continued to recover strongly from the impacts of the COVID-19 pandemic, with the nonperforming loans ratio declining from 4.5% in 2021 to 4.0% in 2022. Poverty remains high, with an estimated 30% of people living in extreme poverty in 2022. Inequality is also high, with a Gini coefficient of 0.63 in 2021. Unemployment was an estimated 32.7% as of December 2022.

Outlook and risks

The economy is projected to grow marginally, by 0.2% in 2023 and 1.5% in 2024, supported by growth in trade, tourism, mining, and manufacturing. Inflation is projected to ease to 5.9% in 2023 and decline further to 4.5% in 2024 on account of reduced fuel and food prices, subject to evolving global dynamics. The fiscal deficit is projected to increase marginally, to 6.2% of GDP in 2023 and 6.7% in 2024 due to fiscal consolidation, including higher tax revenue. The current account deficit is projected to widen to 2.2% of GDP in 2023 and 2.4% in 2024 due to an anticipated drop in commodity prices. Headwinds include continued electricity supply constraints, weak governance in state-owned enterprises, and the global economic downturn.

Climate change issues and policy options

South Africa has embraced the private sector in its efforts to tackle climate change. It was among the top-five recipients of private climate finance in Africa in 2019/20, with $656 million (40% of climate finance). But this compares poorly with climate finance needs; hence the focus on mobilizing more private financing. The country has taken measures to restructure the energy sector by moving toward renewable and cleaner energy sources. Natural capital was valued at $400 billion in 2018 ($213.8 billion of it renewable). Its National Climate Change Response Policy calls for including the financial services sector in shaping climate and green finance architecture.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Africa's fiscal year, which runs from April 1 to March 31.

Zambia

Recent macroeconomic and financial developments

Real GDP recovered to 4.6% growth in 2021 and 3.0% in 2022 after contracting 2.8% in 2020. The recovery was driven mainly by wholesale and retail trade, agriculture, and mining and quarrying. Inflation dropped from 22.1% in 2021 to 10.1% in 2022, driven mainly by the reduced food price shocks. The policy rate was maintained at 9.0% in 2021 and 2022, owing to inflationary pressures, weaker medium-term growth prospects, and vulnerabilities and risks to the financial sector. The fiscal deficit was 8.1% of GDP in 2021 and 8.9% in 2022, down from 13.8% in 2020.

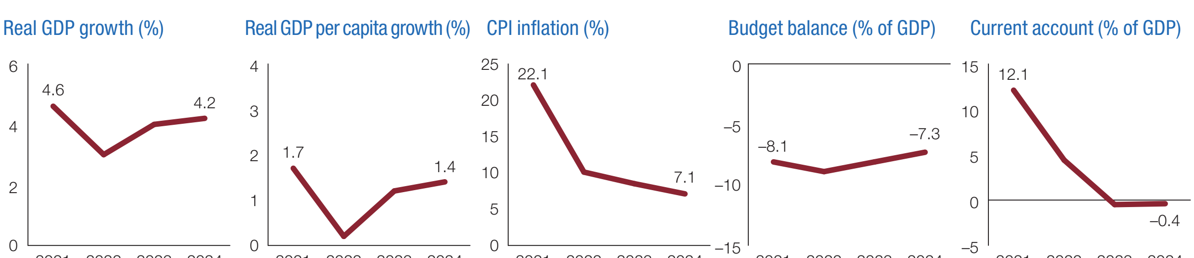
There was a trade surplus of 12.1% in 2021 on account of higher export volumes and prices and subdued imports of consumer goods. International reserves rose from 2.4 months of import cover in 2021 to 3.6 months in 2022 on account of the Extended Credit Facility and the Special Drawing Rights allocation from the International Monetary Fund. Zambia remains in high debt distress, with debt above 104% of GDP. The financial sector's performance improved in 2021 and 2022, with the nonperforming loans ratio rising from 9.0% in 2021 to 6.1% in 2022 due to business recoveries. Credit to the private sector was 8.9% of GDP in 2021 and 9.2% in 2022. Slightly over 50% of the population lives below the national poverty line, and the poverty rate is higher in rural areas (77%) than in urban areas (23%).

Outlook and risks

GDP is projected to grow 4.0% in 2023 and 4.2% in 2024, underpinned by the continued recovery in mining, services, and manufacturing; higher global copper prices; and the market confidence associated with ongoing fiscal consolidation measures. A slight uptick in growth in real GDP per capita is projected, to 1.2% in 2023 and 1.4% in 2024. Inflation is projected to decline to 8.5% in 2023 and 7.1% in 2024, within the 6%–8% target range. Upside risks include higher fuel prices and electricity tariffs and fluctuation in global fertilizer prices. The fiscal deficit is projected to persist at 8.1% of GDP in 2023 and 7.3% in 2024, owing to increased social spending. Headwinds include perennial drought, fluctuating copper prices, and the impact of Russia's invasion of Ukraine on fertilizer and fuel prices.

Climate change issues and policy options

Zambia's overall need for climate finance is an estimated $50 billion through 2030, which is expected to be mobilized predominantly through new climate finance mechanisms such as the Global Climate Fund and other climate-related bilateral, multilateral, and domestic financing. This includes the private sector, which already provides climate finance through corporate social responsibility, in addition to investment with returns. A good example of private financing is the $53 million Green Outcomes Fund that was recently established by Zambia National Commercial Bank, Kukula Capital, and the World Wide Fund for Nature–Zambia. The Development Bank of Zambia also attained an accreditation by the Green Climate Fund to receive and submit proposals on behalf of developers of green projects. Carbon-market financing mechanisms remain underexploited but have great potential. Weather-indexed insurance instruments are already being used, as are infant-stage green bond initiatives. Zambia is endowed with many natural resources (land, water, forest, and wildlife). The mining sector accounts for 12% of GDP, and the forest sector accounts for 5%–7%. More than 300,000 people make their living directly or indirectly from fishing.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Zimbabwe

Recent macroeconomic and financial developments

Real GDP growth moderated to 3.0% in 2022, down from 8.5% in 2021, due largely to exogenous and endogenous shocks. Floods and drought adversely affected agricultural output, which contracted 14% in 2022. Total output was further constrained by macroeconomic instability in 2022, arising from exchange rate depreciation and hyperinflation. The Zimbabwe dollar depreciated 521% against the US dollar in 2022, falling from 108 per US dollar in January 2022 to 671 in December 2022. This triggered an increase in inflation: from 60.6% in January 2022 to 285% in June 2022. Russia's invasion of Ukraine exerted further pressure on the economy by triggering increased fuel and food prices. Inflation moderated at 243.8% in December 2022 as the government introduced measures to arrest the rapid currency depreciation, such as selling gold coins and raising the interest rate from 100% to 200%.

The fiscal deficit narrowed to 0.9% of GDP in 2022, reflecting fiscal consolidation. The current account surplus also narrowed to 1.0% of GDP in 2022 from 2.9% in 2021 due to higher fuel and imported commodity prices. Debt stood at $17.5 billion in 2022 (66% of GDP). External debt was estimated at $14 billion, while domestic debt stood at $3.5 billion as of 30 September 2022. Zimbabwe has started implementing the Arrears Clearance, Debt Relief and Restructuring Strategy to resolve long-outstanding debt and external arrears with creditors. Gross international reserves were an estimated $540 million (0.9 month of import cover) in 2022. As of September 2022, Zimbabwe had used $582 million of the International Monetary Fund's $960 million additional Special Drawing Rights allocated in August 2021. Poverty and inequality are high due to deteriorating economic conditions. The extreme poverty rate was an estimated 44% in 2022, and the Gini coefficient was 0.503 in 2023. As of 27 January 2023, Zimbabwe had recorded 259,942 cases of COVID-19 infection and 5,635 deaths. Some 12.69 million COVID-19 vaccine doses have been administered, and over 31% of the population is fully vaccinated against the virus.

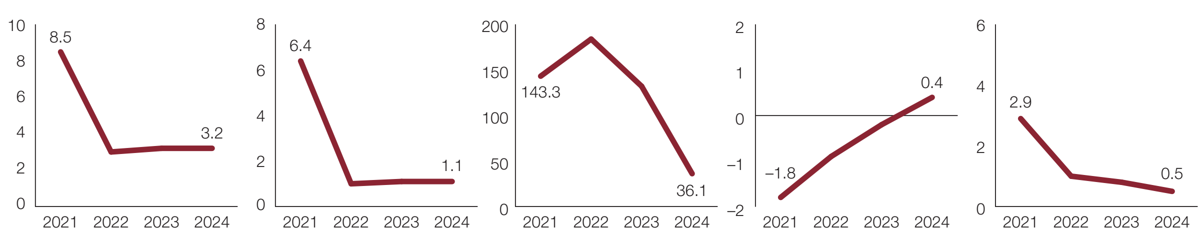
Outlook and risks

Real GDP growth is projected to recover to 3.2% in 2023 and 2024, anchored largely by agriculture, mining, and services. Tight monetary and fiscal policy is expected to increase macroeconomic stability in 2023. Inflation is projected to ease further, to 132.2% in 2023 and 36.1% in 2024, supported by economic stability, subject to evolving global dynamics. The fiscal deficit is projected to narrow to 0.2% of GDP in 2023 on account of higher revenue mobilization and stringent budget execution. The current account is projected to show a surplus of 0.8% of GDP in 2023 and 0.5% in 2024, supported by favorable commodity export prices and increased remittances. But the uncertain global economic outlook due to geopolitical tension coupled with climatic shocks, power shortages, and exchange rate volatility remain major risks.

Climate change issues and policy options

Zimbabwe has prioritized private financing to achieve its climate change targets in transitioning to green and inclusive growth. The country is developing the National Climate Change Fund and Climate Finance Facility to crowd-in the private sector through blended finance and results-based approaches to de-risk markets and scale up investment and boost participation in scaling up climate actions. Zimbabwe received about $990 million in climate finance between 2010 and 2020, averaging $90 million a year. This leaves a financing gap of $440–500 million a year, thus greatly limiting the country's ability to build climate resilience.

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



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

WEST AFRICA

Benin

Recent macroeconomic and financial developments

Real GDP growth was steady at 6% in 2022 following a remarkable 7.2% in 2021, led by the primary, secondary, and tertiary sectors. The economy has shown resilience to the effects of recent crises: the COVID-19 pandemic, Russia's invasion of Ukraine, and the security situation in northern parts of the country. Inflation rose to 2.5% in 2022 from 1.7% in 2021 due to the rising cost of basic necessities.

The budget deficit remained high, at 5.5% of GDP in 2022 compared with 5.7% in 2021, due to looser fiscal policy. Outstanding government debt climbed 2.5 percentage points, to 52.8% of GDP in 2022 from 50.3% in 2021. In December 2022, risk of debt distress was moderate. The current account deficit widened slightly, to 4.9% of GDP in 2022 from 4.1% in 2021, with imports rising more rapidly than exports. The depth of the financial sector remains weak overall, with private bank lending representing only 15.2% of GDP in 2022. The nonperforming loan ratio improved to 12.6% in late December 2021 from 16.8% in late December 2020. Over 70% of credit was concentrated among the five largest borrowers in 2021, up from 64.6% in 2020. About 38.5% of the population was living in poverty in 2019, and underemployment was 72.9%. Social protection programs (health and retirement insurance), essential to strengthening social inclusion, are still in development.

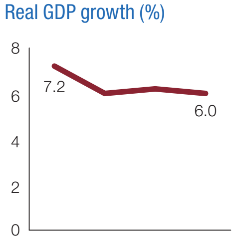
Outlook and risks

Real GDP growth is projected to remain steady at 6.2% in 2023 and 6.0% in 2024 thanks to momentum in the primary, secondary, and tertiary sectors. The main risks to the economy are unfavorable variations in global cotton and oil prices and the negative effects of climate change. Furthermore, the unfavorable evolution of Nigeria's economic situation and the worsening security situation in Benin's northern areas could compromise the economic outlook. Inflation is projected to rise to 2.8% in 2023 and 2.3% in 2024 as global oil prices stabilize. Budgetary policy is likely to benefit from an ongoing International Monetary Fund program that provides $638 million in funding. The budget deficit is projected to drop slightly, to 4.5% of GDP in 2023 and 4.1% in 2024. The current account deficit is projected to fall to 4.0% of GDP in 2023 and 3.8% in 2024 due to the decline in raw material prices (food products).

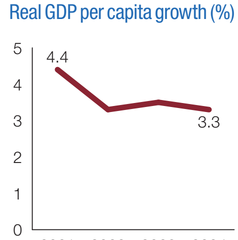
Climate change issues and policy options

The estimated climate finance needed over 2020–30 is $13.8 billion, or $1.3 billion a year. If the country receives the same $2.3 billion a year that it received over 2010–20, it will face a finance deficit of at least $910 million a year. Private climate finance remains largely nonexistent. In 2019–20, climate finance reached $360 million, 98.6% of it from the public sector and only 1.4% of it from the private sector. To boost private sector participation in climate finance, the government needs to create a green investment bank that, for example, issues green bonds, provides debt relief for small and medium enterprise and startups. Moreover, to achieve green growth based on green industrialization, Benin should further capitalize on its natural capital, which consists of nearly 121 kilometers of coastline and a continental plateau with 3,100 square kilometers of lagunas, brackish lakes, and a river system comprising 700 kilometers of waterways. The country also has large, yet underutilized, mineral assets (gold, construction materials, iron, phosphates, nickel, and zircon).

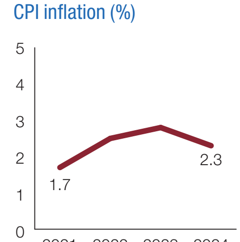
Real GDP growth (%)



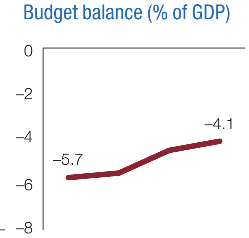
Real GDP per capita growth (%)



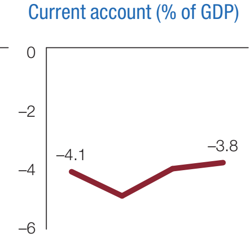
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Burkina Faso

Recent macroeconomic and financial developments

Real GDP growth dropped to 3.2% in 2022 from 6.9% in 2021 because extractive activities fell 13.6% in 2022 despite growing 7.3% in 2021, following the closure of several mines for security reasons. Other factors in the economic slowdown were sociopolitical instability, military coups, a deteriorating security environment, and the effects of Russia's invasion of Ukraine. Contributors to growth included agriculture (up 10.3% in 2022 after declining 12.3% in 2021) and the tertiary sector (up 6.6% in 2022 compared with 13.5% in 2021). On the demand side, public investment fell. Inflation jumped to 14.4% in 2022 due to higher imports of food products and oil. Private sector funding in the banking sector rose 16% in 2022. The budget deficit widened to 8.5% of GDP in 2022 from 6.3% in 2021 after public spending rose to 26.1% of GDP in 2022 from 25.6% in 2021 to address security and humanitarian challenges and provide oil subsidies. But tax revenue also increased, to 16.3% of GDP in 2022 from 15.2% in 2021. Public debt was an estimated 57.2% of GDP in 2022, up from 47.1% in 2021, suggesting moderate risk of overindebtedness. The current account balance turned to a deficit of 5.2% of GDP following a surplus of 0.4% in 2021 due to higher costs for food and energy imports and a weak rise in exports.

The security context and resulting humanitarian crisis have exacerbated poverty in rural areas (estimated at 51.1% in 2019) as well as unemployment (57% of the population age 15 and older).

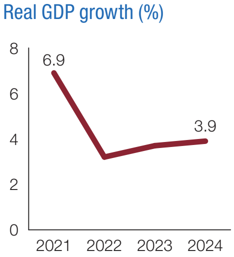
Outlook and risks

Real GDP is projected to grow 3.7% in 2023 and 3.9% in 2024, less than the 6% average for 2017–19, due to sociopolitical instability and the deteriorating security environment. The restrictive monetary policy of the Central Bank of West African States and improved food availability are expected to reduce inflation to 6.1% in 2023 and 3.7% in 2024. The budget deficit is projected to fall to 6.1% of GDP in 2023 and 5.2% in 2024, despite increased needs to address security and humanitarian challenges, thanks to higher tax revenue. Public debt is projected to remain sustainable, rising to 62% of GDP in 2023 and 2024 due to an increase in treasury bonds issued to fill the budget deficit. The current account deficit is projected to narrow to 3.1% of GDP in 2023 and 2.9% in 2024. Possible headwinds include a delay in re-establishing constitutional order, pronounced deterioration in the security situation, inflationary pressures, and lower prices for exported raw materials (gold and cotton).

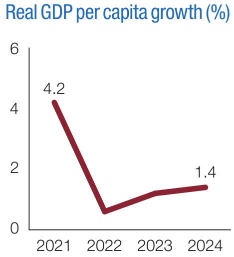
Climate change issues and policy options

Burkina Faso remains highly vulnerable to climate change and aims to reduce its greenhouse gas emissions 29.4% by 2030. An estimated $636.9 million a year in climate finance is needed over 2021–30 for adaptation and mitigation, but only $284.5 million a year was mobilized over 2010–20, primarily from international partners. Both the private and banking sectors are involved in climate finance through the Intervention Fund for the Environment and through Coris Bank International (from the Green Climate Fund). Yet the private sector faces several obstacles, including low availability of resources dedicated to green investment, high cost of investment in climate change adaptation, and lack of awareness of how to access climate funds. The country should thus adopt green financial instruments such as green bonds to mobilize additional resources, adopt tax incentives to encourage green investment, and strengthen private capacity to design bankable ecological projects. The agricultural, forestry, and pastoral sectors, which accounted for 22% of GDP over 2011–22), and the mining sector (10.7%) are key to creating wealth. These sectors employ nearly 80% of the labor force. If sustainably exploited, natural capital, estimated at $50.8 billion in 2018, could contribute to climate finance and green growth.

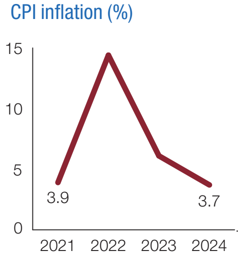
Real GDP growth (%)



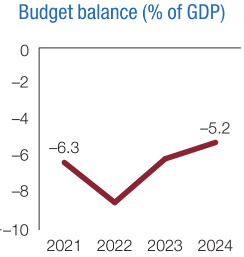
Real GDP per capita growth (%)



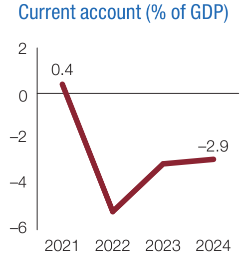
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Cabo Verde

Recent macroeconomic and financial developments

Real GDP grew by 7.0% in 2021 and 10.5% in 2022, supported by transport, the digital economy, construction, and tourism. Renewable energy (22% of total power supply) also stimulated growth through reduced energy import costs on the supply side, and private consumption and exports bolstered growth on the demand side. Credit guarantees and social safety nets targeting 24,406 workers helped boost income per capita 6.0% in 2021 and 9.6% in 2022. The exchange rate peg to the euro anchored the central bank's accommodative monetary policy. Inflation increased from 1.9% in 2021 to 8.0% in 2022 due to higher food and energy prices induced by Russia's invasion of Ukraine.

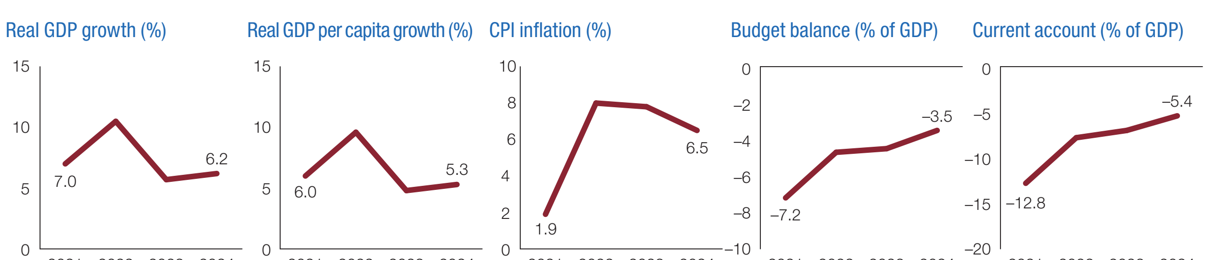
Spending efficiency and improved tax collection reduced the fiscal deficit from 7.2% of GDP in 2021 to 4.7% in 2022. The deficit was financed mainly by external disbursements and domestic loans. Public debt fell from 143.0% of GDP in 2021 to 128.1% in 2022, reflecting higher nominal GDP growth. High concessionality, long maturity (22 years), and fixed interest rates suggest debt sustainability. The current account deficit narrowed from 12.8% of GDP in 2021 to 7.8% in 2022, driven by tourism revenue and remittances. The current account was financed by foreign direct investment, which boosted international reserves from €591 million in 2021 to €601.1 million in 2022 (5.7 months of import cover). The financial sector is stable, adequately capitalized, and liquid. The poverty rate increased from 31.6% in 2021 to 35.5% in 2022, exacerbated by effects from Russia's invasion of Ukraine, as 80% of food is imported.

Outlook and risks

Real GDP is projected to grow by 5.7% in 2023 and 6.2% in 2024, supported by agriculture, energy, the digital economy, and tourism. Headwinds include effects from Russia's invasion of Ukraine, rising global interest rates, climate change, and potential recession in Europe, which accounts for 80% of imports. Inflation is projected to remain high, at 7.8% in 2023 and 6.5% in 2024, driven by imported food and energy prices. Monetary policy, although accommodative to support economic recovery, could be tightened to mitigate inflationary pressures. The fiscal deficit is projected to narrow from 4.5% of GDP in 2023 to 3.5% in 2024, reflecting improved tax collection. The current account deficit is projected to shrink to 5.4% of GDP in 2024 from 7.0% in 2023, as recovery in tourism and remittances helps preserve international reserves at 5.5 months of import cover. The poverty rate is projected to fall to 34% in 2023 with the progressive resumption of economic growth.

Climate change issues and policy options

Limited fiscal buffers exacerbate the gap in Cabo Verde's private climate finance over 2020–30 to $120.3 million (2% of GDP). Private climate finance in 2019/20 averaged $21 million—98% of it from public and multilateral climate funds and 2% from institutional investors, and targeted transport, energy, the blue economy, and the digital economy. The regulatory framework for public–private partnerships is stable. Cabo Verde gained experience in blended finance, notably from independent power producers in solar and wind energy. However, private climate finance experience remains limited, as evidenced by the disparity between private ($12.20) and public ($157.50) climate finance per capita. Challenges to private climate finance include a weak financial system, poor economies of scale, and skills constraints. Cabo Verde has promoted innovative climate finance instruments, such as the social bond envisaging environmental sustainability, the blue fund launched on the Blu-X sustainable finance platform, and a $150 million debt-for-nature swap with Portugal. Going forward, deploying public capital to crowd-in private investment is critical to harness climate finance. Cabo Verde's natural resource wealth, comprising marine fisheries and minerals (such as salt), is threatened by climate change. As a result, natural capital's contribution to GDP underperforms its potential, with agriculture accounting for 5%, fisheries 1%, and extractives 0.3%.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Côte d'Ivoire

Recent macroeconomic and financial developments

Real GDP growth dropped from 7.4% in 2021 to 6.7% in 2022 due to the ongoing effects of Russia's invasion of Ukraine and the COVID-19 pandemic. Growth is driven mainly by the extractive industry, manufacturing, construction, retail trade, telecommunications, private and public investment, and private consumption. Inflation rose from 4.2% in 2021 to 5.2% in 2022, induced mainly by higher food prices due to inadequate local supplies and by the higher cost of transportation caused by increased global energy prices. To maintain the population's purchasing power, the government subsidized oil prices in the first quarter of 2022, upgraded civil service salaries, and capped the price of mass market products. This widened the budget deficit from 4.9% of GDP in 2021 to 6.8% in 2022. Outstanding debt rose from 52.1% of GDP in 2021 to 56.0% in 2022. The risk of overindebtedness remains moderate, as in 2021, even with less capacity to absorb shocks.

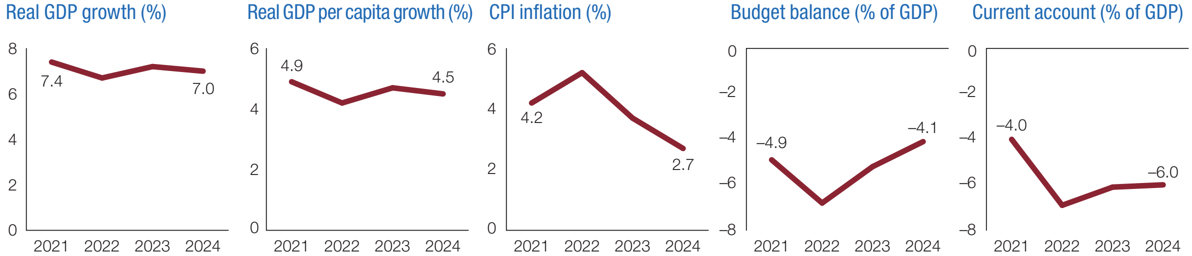
The current account deficit widened from 4% of GDP in 2021 to 6.9% in 2022 due to the deteriorating terms of trade. Import prices rose more than export prices, exacerbated by the euro's depreciation against the US dollar. Despite higher average interest rates for bank loans (6.1% in 2022 compared with 5.6% in 2021), credit to the economy rose 11.4%, against 12.5% in 2021, due to momentum in economic activity.

Outlook and risks

GDP is projected to grow 7.2% in 2023 and 7.0% in 2024 as the reforms and investments in the National Development Plan (NDP) 2021–2025 accelerate and production starts at the Baleine gas and oil field discovered in 2021–22. Growth could be fueled by several sectors (energy, construction, mining, agribusiness, trade, telecommunications, and agriculture), as well as investment and consumption. Inflation is projected to fall to 3.7% in 2023 and 2.7% in 2024 due to increased local food supplies and the continued fight against the high cost of living. The budget deficit is projected to narrow to 5.2% of GDP in 2023 and 4.1% in 2024 due to greater mobilization of domestic resources and better control of public spending. The current account deficit is projected to widen to 6.1% of GDP in 2023 and 6.0% in 2024 due to higher NDP investment. Possible headwinds include a deteriorating political climate following local elections in 2023, the ongoing effects of Russia's invasion of Ukraine, a resurgence of the COVID-19 pandemic, and a decline in the price of agricultural raw materials.

Climate change issues and policy options

The climate finance deficit averages $2.7 billion a year over 2020–30, with limited potential for private contributions. The country has no sovereign fund, and investment funds are limited and difficult for small and medium enterprises to access. But the country can rely on its network of insurance companies and on two pension funds (Caisse Nationale de Prévoyance Sociale and Caisse Générale de Retraite des Agents de l'État). Due to resource mobilization difficulties, private climate finance remains extremely low. Resolving this problem should focus on addressing the inadequate legal framework, specifically for the carbon market, and tax incentives; the lack of awareness of existing finance; and poor national capacity and technical skills in innovative climate finance. Natural capital, worth an estimated 45% of the national economy, is a major asset that should be promoted as the country seeks to establish sustainable economic growth.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Gambia

Recent macroeconomic and financial developments

After muted 0.6% growth in 2020 due the COVID-19 pandemic, GDP growth remained subdued at 4.3% in 2021 and 4.4% in 2022, as the effects of Russia's invasion of Ukraine disrupted agriculture, tourism, construction activities, and private investment. Increased COVID-19 spending (0.5% of GDP) and food support (0.7% of GDP) protected livelihoods and businesses, bolstering real GDP per capita growth from –2.0% in 2020 to 1.9% in 2022. High food and fuel prices induced by Russia's invasion of Ukraine, freight charges, and the strong US dollar raised inflation from 7.4% in 2021 to 9.6% in 2022. In response, the policy rate was raised from 10% in May 2022 to 12% in September 2022 and 13% in December 2022.

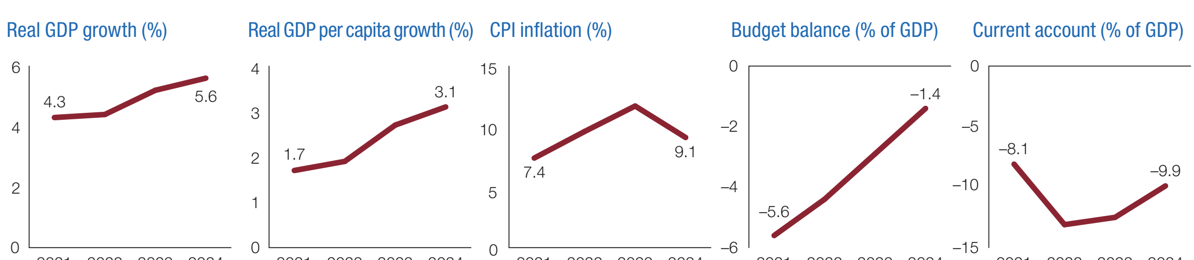
Improved revenue collection and spending rationalization contained the fiscal deficit at 4.4% of GDP in 2022, financed mostly by grants and $20 million in Special Drawing Rights. Public debt declined from 83.8% of GDP in 2021 to 80.8% in 2022, yet risk of debt distress remains high. The current account deficit, financed by foreign direct investment, widened to 13.1% of GDP in 2022, reflecting disruptions in cashew and timber exports and weak remittances. Gross international reserves dropped from $520 million in 2021 (7 months of import cover) to $420 million in 2022 (4.4 months). The financial sector remains resilient, with the capital adequacy ratio at 26.9%, well above the statutory ratio of 10%. The nonperforming loans ratio rose from 5.1% in 2021 to 4.2% in 2022. The poverty rate increased from 48.4% in 2019 to 53.4% in 2022, exacerbated by the COVID-19 pandemic.

Outlook and risks

GDP growth is projected to remain below pre-COVID-19 levels, at 5.2% in 2023 and 5.6% in 2024, as uncertainties about Russia's invasion of Ukraine, tighter international financial market conditions, and climate change could weaken economic activity in agriculture, construction, energy, and tourism. These shocks could also intensify fiscal pressures and affect the debt profile. Inflation is projected to be 11.7% in 2023, reflecting high fuel and food prices and exchange rate depreciation, but to fall to 9.1% in 2024 as commodity prices normalize. The central bank is expected to continue tightening monetary policy to address inflationary pressures. The fiscal deficit is projected to decline from 2.9% of GDP in 2023 to 1.4% in 2024, owing to restrained spending and improved tax collection efforts. The current account is projected to narrow from 12.5% of GDP in 2023 to 9.9% in 2024 as tourism strengthens and export disruptions dissipate.

Climate change issues and policy options

The Gambia's Green Growth Index rose from 42.8% in 2010 to 44.6% in 2021, still short of its green growth target. This implies that by enforcing appropriate green growth policies, The Gambia could promote economic growth while reducing vulnerability to climate change. The country's 2050 Climate Vision and sectoral green growth strategies are aligned with its Nationally Determined Contribution (NDC). NDC financing need over 2020–30 totals $1.64 billion. In 2019/20, private climate finance inflows amounted to $65 million, mostly from public, bilateral, and multilateral institutions. The private sector accounted for 1% and targeted only a few initiatives on carbon markets in forests and renewable energy. Challenges to private climate finance include a heavy tax regime, currency risk, and technical capacity. The Gambia has the potential to scale up private climate finance through innovative approaches such as green bonds, debt-for-nature swaps, blended financing, and carbon markets. Renewable natural capital increased 86.2% between 1995 and 2018. This suggests the potential to leverage private climate finance with natural resources. The Gambia boasts more than 500 marine fish species and 47.5% of land area covered by 505,000 hectares of forests, 10% of which is woodland.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Ghana

Recent macroeconomic and financial developments

Real GDP growth slowed to 3.3% in 2022 from 5.4% in 2021 due to macroeconomic instability, global financial tightening, and spillover effects of Russia's invasion of Ukraine. Inflation was an estimated 31.5% in 2022, up from 10% in 2021, driven by food and energy prices and depreciating local currency. The Bank of Ghana tightened monetary policy; the policy rate was hiked to 27% in 2022 from 14.5% in 2021. The fiscal deficit widened slightly, to 9.3% of GDP from 9.2% in 2021, due to higher spending. Public debt hit 93.5% of GDP in 2022, up from 82.0% in 2021, driven by primary fiscal deficits and exchange rate depreciation. The current account deficit narrowed to 2.8% of GDP from 3.2%, driven by an improved trade balance. The capital and financial accounts recorded deficits.

Foreign exchange reserves declined to $6.2 billion in 2022 (2.9 months of import cover) from $9.7 billion in 2021 (6.9 months). The financial sector remained sound. At 14.2%, the capital adequacy ratio is above the target of 13.0% but declining. Credit risk, measured by the nonperforming loans ratio, remained elevated at 14.8%, and real credit growth declined to 14.5% due to rising inflation. The poverty rate declined from 11% in 2021 to 10% in 2022. However, living standards have been negatively impacted by the rising cost of living and unemployment. The latter increased from 11.9% in 2015 to 13.4% in 2021, with youth (ages 15–24) unemployment an estimated 7.2% in 2021, up from 7.3% in 2020.

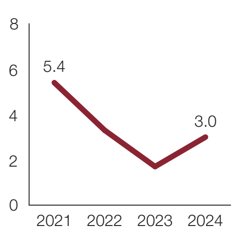
Outlook and risks

The outlook is tilted negative due to possible shocks from a prolongment of Russia's invasion of Ukraine and a tighter global financial market. GDP growth is projected to fall to 1.7% in 2023 and to recover to 3.0% in 2024, in line with global demand trends. Inflation is projected to remain elevated at 44.7% in 2023 and to decline to 20.4% in 2024, driven by the base effect and food and energy inflation. The fiscal deficit is projected to narrow to 8.9% of GDP in 2023 and 9.0% in 2024 on account of new revenue enhancement measures. The current account deficit is projected to widen to 3.0% of GDP in 2023 and to narrow to 2.5% in 2024 following global growth trends. Headwinds include delays in international financial support, volatility in key export commodity prices, and financial stress. Possible mitigation measures include international financial assistance, enhanced fiscal consolidation, economic diversification, and private sector growth.

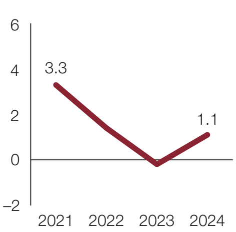
Climate change issues and policy options

Ghana's Green Growth Index is estimated at 51%, or about halfway to its green growth target. This indicates that with the right green growth policies and strategies, Ghana could achieve economic growth while reducing vulnerability and building resilience to climate change. This requires boosting financing from public and private sources. An estimated $1.9 billion a year in financing is needed to meet the country's Nationally Determined Contribution. The main source of climate finance has been the public sector, which contributed $100 million, leaving a gap of $1.8 billion a year for 2020–30. The private sector has the potential to raise climate finance equivalent to 8.8% of GDP. The government is exploring practical solutions to close the financing gap, including private equity, carbon markets, and climate impact bonds. It is also working on policies and regulations to enable participation in the global climate finance market. Ghana could explore ways of attracting sovereign welfare and pension funds. Factors constraining private climate finance include risks and barriers associated with inadequate regulations. Natural capital (renewable and nonrenewable) increased slightly between 1995 and 2018, suggesting the potential to leverage private finance with natural capital.

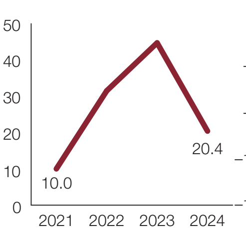
Real GDP growth (%)



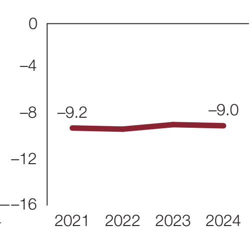
Real GDP per capita growth (%)



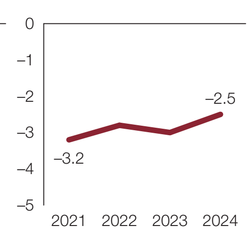
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Guinea

Recent macroeconomic and financial developments

Real GDP grew an estimated 4.8% in 2022, up from 4.4% in 2021, driven by output in the mining sector. The sustained growth demonstrates the country's resilience to sociopolitical shocks, the COVID-19 pandemic, and Russia's invasion of Ukraine. Inflation dropped to 12.2% in 2022 from 12.6% in 2021. Imported inflation was partially offset by the appreciation of the Guinean franc. The budget deficit narrowed to an estimated 1.3% of GDP in 2022 from 1.7% in 2021. Performance improved due to higher revenue from the mining sector but was constrained by rising electricity subsidies due to low tariffs for hydroelectric power.

Public debt fell to 35.5% of GDP in 2022 from 40.4% in 2021. The risk of external overindebtedness is moderate, but the fiscal space for absorption of shocks is limited. The current account deficit widened to 7.4% of GDP in 2022 from 2.1% in 2021, as debt service payments resumed after the freeze implemented by the G20, the Paris Club, and the International Monetary Fund in response to the COVID-19 pandemic. The deficit was financed by foreign direct investment in mining, loans, and project funding grants. Foreign exchange reserves totaled 2.5 months of import cover in 2022, down from 2.8 months in 2021. The banking sector was stable, but the nonperforming loans ratio rose to 11% in 2022 from 10% in 2019, with most nonperforming loans in transportation and commerce. The poverty rate fell from 55.2% in 2012 to 43.7% in 2019, and unemployment followed a bell curve, rising from 3.8% in 2012 to 5.2% in 2014 and dropping again to 4.8% in 2018.

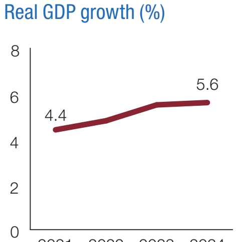
Outlook and risks

Real GDP is projected to grow 5.5% in 2023 and 5.6% in 2024, stimulated by mining production, energy availability, and infrastructure investment. Inflation is projected to fall to 11.2% in 2023 and 9.9% in 2024 thanks to reduced tensions resulting from Russia's invasion of Ukraine and related imports of fertilizers and agricultural seeds as well as improved supply chains for imported consumer goods and equipment. Possible headwinds include weak recovery in nonextractives, the effects of Russia's invasion of Ukraine, low mobilization of internal resources (12.6% of GDP in 2022 compared with a norm of 20% in Economic Community of West African States members), and sociopolitical tensions. The budget deficit is projected to widen to 2.6% of GDP in 2023 and 2.9% in 2024, linked to high electricity subsidies and election-related spending. The current account deficit is projected to drop to 6.7% of GDP in 2023 and 4.6% in 2024, linked to mining exports. The foreign trade deficit will be financed by foreign direct investment in mining, loans, and grants. Foreign exchange reserves are projected to fall to 2.2 months of import cover in 2023 and 2024.

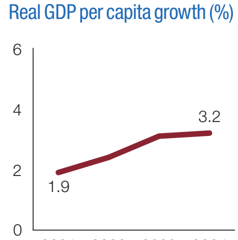
Climate change issues and policy options

In 2020, Guinea ranked 146th of 182 countries in vulnerability and preparedness for climate change. The effects of climate change will be felt in water resources, agriculture, hydroelectric power production, and the economy as a whole. Climate finance mobilized over 2016–20 averaged $200 million a year compared with average need of $1.6 billion a year. Forecasts for 2020–30 are similar, with an average finance gap of $1.4 billion a year. The resilience of the economy and its ability to transition toward inclusive and green growth may be limited. Structural weaknesses include the narrowness of the nonextractive private sector, the shallowness of the financial sector, the limited diversification of National Social Security Fund financing, and the near lack of alternative instruments such as a stock market or private equity. Reforms to mining sector governance and the business framework as well as a deeper financial market will be needed to channel public and private finance into green investment. The main driver for mobilizing public resources to close the climate finance gap is mining, described as a geological scandal, which accounts for 80% of exports and generates 20% of GDP but contributes very little to government revenue (2%–3%).

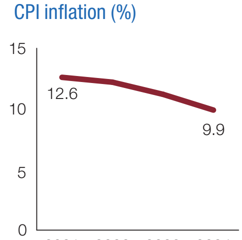
Real GDP growth (%)



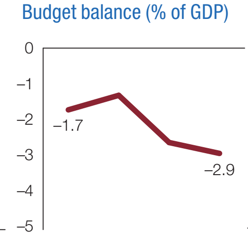
Real GDP per capita growth (%)



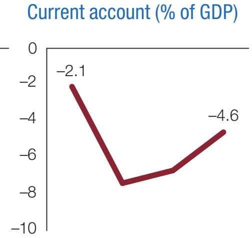
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Guinea-Bissau

Recent macroeconomic and financial developments

Real GDP growth dropped to 3.7% in 2022 from 6.4% in 2021 due to inflationary pressures that limited private consumption on the demand side and lower manufacturing and primary sector on the supply side. Inflation rose to 7.9% in 2022 from 3.3% in 2021, driven by higher prices for imported food and oil. The budget deficit widened to 6.3% of GDP in 2022 from 5.6% in 2021 due to temporary measures to curb the effects of Russia's invasion of Ukraine, irregular hiring of workers, and expenses linked to upcoming elections. The deficit was financed by grants and loans as well as bond issues. Risk of overindebtedness is high after public debt rose from 78.5% in 2021 to more than 80.0% in 2022. The current account deficit widened to 5.8% of GDP in 2022 from 0.8% in 2021 on higher prices of imported commodities and lower exports of cashews. The financial sector is solid except one undercapitalized systemic bank. The nonperforming loans ratio dropped from 21.8% in 2020 to 14.6% in June 2022.

Poverty rose from 63.0% in 2019 to 68.4% in 2021 due to the COVID-19 pandemic. In 2022, higher prices affected private consumption and thus the quality of life of households, which spend most of their income on food.

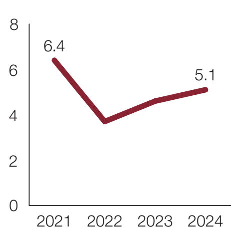
Outlook and risks

Real GDP is projected to grow 4.6% in 2023 and 5.1% in 2024 thanks to planned infrastructure investment and the health of agriculture and industry. Inflation is projected to reach its target of 3% in 2024 thanks to the central bank's tighter monetary policy. The budget deficit is projected to narrow to 5.7% of GDP in 2023 and 3.1% in 2024 thanks to higher revenue and control of public spending. Public debt is projected to fall to 75.4% of GDP in 2024 as a result of reforms supported by a new International Monetary Fund program to ensure debt sustainability. The current account deficit is projected to narrow to 4.3% of GDP in 2024, reflecting an expected increase in cashew exports. Possible headwinds include deteriorating terms of trade (particularly in cashew export prices), sociopolitical instability, delayed implementation of reforms, and climate shocks. Persistent inflationary pressures would affect food security and poverty.

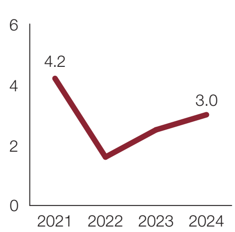
Climate change issues and policy options

Guinea-Bissau is among the countries most affected by climate change. An estimated $688.8 million in climate finance is needed to address mitigation and adaptation over 2021–30 and reduce greenhouse gas emissions 30%. Committed finance has been mobilized from development partners and climate funds. Investment from the private sector, including banks, is practically nonexistent, mainly because of the absence of a suitable regulatory framework, the lack of expertise and experience, and the high cost of investment. The sectors that are particularly adapted to private investment include renewable energy, energy efficiency, forestry, and biodiversity. To attract private finance, the country must develop a regulatory framework dedicated to climate finance, put in place fiscal incentive measures, promote good governance, and increase technical capabilities. While the public accounts make it difficult to access sustainable financing markets and innovative instruments, the country could create a national green fund with the help of partners and target impact funds that are increasingly directed toward forestry, biodiversity, and sustainable agriculture. The country has considerable agricultural potential, natural resources that could be exploited (large deposits of bauxite, phosphates, hardwood, and heavy sand), and oil reserves estimated at 1.1 billion barrels in 2019.

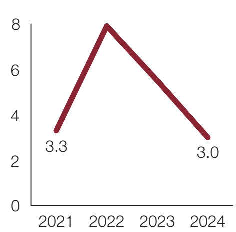
Real GDP growth (%)



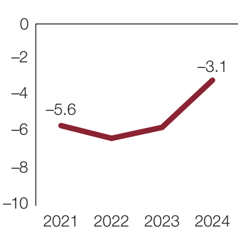
Real GDP per capita growth (%)



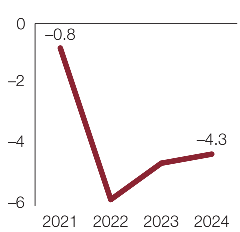
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Liberia

Recent macroeconomic and financial developments

GDP growth fell to an estimated 4.0% in 2022 from 5.0% in 2021, driven largely by growth in mining and construction on the supply side and increased infrastructure spending on the demand side. Growth was slower due to the impact of Russia's invasion of Ukraine, including higher commodity prices and tight fiscal space. Inflation eased from 7.9% in 2021 to 7.4% in 2022 on a steady decline in domestic food prices. The fiscal deficit widened to an estimated 4.8% of GDP in 2022 from 2.4% in 2021 due to higher spending on infrastructure and wages. As of October 2022, public debt had increased to 54.6% of GDP from 53.2% in 2021, reflecting increased borrowing.

The current account deficit narrowed to 17.4% of GDP in 2022 from 17.7% in 2021 thanks to a smaller trade deficit, as export receipts increased, driven by gold exports. International reserves stood at $691 million in December 2022 (4 months of import cover), down from $700 million (4.2 months) in 2021. The exchange rate appreciated 4.6% against the US dollar, from 159.34 Liberian dollars per US dollar in December 2021 to 152.38 in December 2022, due to higher net remittances and export receipts. The financial sector remained sound, with a capital adequacy ratio of 34.03% in September 2022 compared with the 10% target, although the nonperforming loans ratio remained high, at 23.43%, compared with the 10% target. The share of people living below the international poverty line ($2.15 a day) remains high, at 35.4%. Unemployment was an estimated 4.1% in 2021.

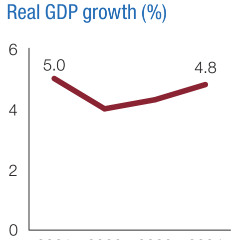
Outlook and risks

GDP is projected to grow 4.3% in 2023 and 4.8% in 2024, driven by expansion in mining, services, and agriculture. Inflation is projected to edge to 8.2% due to election-related speculation in 2023 but will ease to 6.5% in 2024 due to a stable exchange rate and calm after the election. The fiscal deficit is projected to be 4.1% of GDP in 2023 and to stabilize at 4.0% in 2024 on account of fiscal consolidation. The current account deficit is projected to be 16.7% of GDP in 2023 and 16.2% in 2024 due to higher exports. Public debt is projected to rise to 55.3% of GDP in 2023 and 56.9% in 2024. The exchange rate and financial market are projected to remain stable. Headwinds include the prolongment of Russia's invasion of Ukraine and a deterioration of terms of trade on gold and rubber. Possible mitigation measures include stepping up support to the vulnerable.

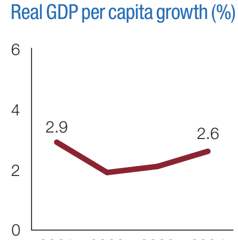
Climate change issues and policy options

Liberia's Green Growth Index stagnated in the 49%–53% range during 2010–21. The country is highly vulnerable to the adverse effects of climate change, with a vulnerability score of 0.606 (ranking it 177th of 181 countries). This requires huge financial needs. The government needs an estimated $490.6 million to achieve its climate and green growth ambitions through 2025 and faces a gap of $460 million based on its Nationally Determined Contribution, with zero financing yet from the private sector. Some of the main reasons are difficulty accessing financing to pay for adaptation actions, lack of financial incentives to motivate private actors to invest in new products or markets that support adaptation, and lack of de-risking opportunities in investments—particularly large-scale infrastructure investments that support green growth. Liberia has great potential as a carbon sink for the world, given its huge forest reserves. In 2018, natural capital was worth $24.7 billion, or $5,134 per capita, including forest capital per capita of $1,035. Natural capital could therefore serve as a potential source of climate action and green growth financing with private sector involvement.

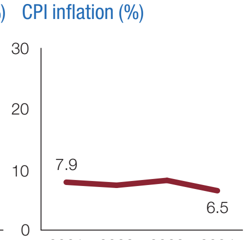
Real GDP growth (%)



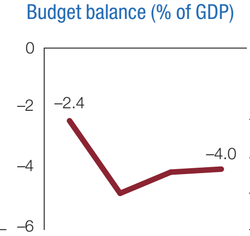
Real GDP per capita growth (%)



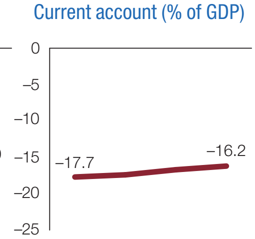
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. Data on the budget balance correspond to Liberia's fiscal year, which runs from July 1 to June 30.

Mali

Recent macroeconomic and financial developments

Real GDP grew 3.7% in 2022, up from 3.1% in 2021, driven by the primary and secondary sectors, particularly cereal production (up 16.7%) and industrial gold production (up 4.4%), and higher consumption by households and government agencies. Inflation rose to 9.7% in 2022 from 3.9% in 2021, leading to three 25 basis point increases in key Central Bank of West African States rates.

The budget deficit widened to 5.0% of GDP in 2022 from 4.9% in 2021. Of the 1,348.0 billion CFA francs ($2.3 billion) in funding need in 2022, 83.3% was covered through domestic financing, especially from the West African Economic and Monetary Union financial market (96.8% of domestic financing), where Mali's Public Treasury raised only 71.9% of its resource objectives. Public debt declined to 49.9% of GDP in 2022 from 52.0% in 2021, but the risk of overindebtedness remains moderate. The current account deficit narrowed to 7.2% of GDP in 2022 from 7.7% in 2021, as exports rose more than imports (20% versus 10%). The banking system (comprising 14 banks and 3 bank-like financial institutions) recorded a marked improvement in portfolio quality, with a decrease of the nonperforming loan ratio to 4.2% in December 2022 from 4.7% in December 2021. Social conditions deteriorated in 2022, with the poverty rate rising to 45.4% from 44.6% in 2021, 1.3 million additional people in need of humanitarian aid, 20% of schools closed, and 2.5 million people lacking health coverage.

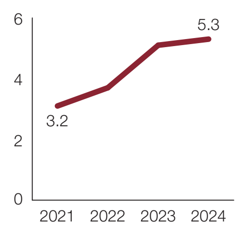
Outlook and risks

Real GDP is projected to grow 5.1% in 2023 and 5.3% in 2024, driven by recovery in cotton production, extractive activities (discovery of lithium), industrial gold production, the launching of new industries, and the restructuring of struggling industries. Inflation is projected to moderate at 2.6% in 2023 and 2.4% in 2024 as a result of strong cereal production (expected to jump 7.7% in 2023 and 5.1% in 2024) coupled with the temporary suspension of grain exports. The budget deficit is projected to narrow to 4.8% of GDP in 2023 and 4.1% in 2024 thanks to the introduction of the Integrated Civil Service Management System. Public debt is projected to rise to 53.4% of GDP in 2023 but decline to 53.3% in 2024, with a crowding-out effect on credit to private companies from 2023 and domestic debt (27.6% of GDP) likely to exceed external debt (25.8%). The current account deficit is projected to narrow to 6.6% of GDP in 2023 (with the Export Development Strategy 2022–2025 set to raise exports 25% by 2025) but widen to 6.8% in 2024. Possible headwinds include new sanctions by the Economic Community of West African States resulting from changes to the consensus timetable for elections, the lack of security, and the impact of climate change.

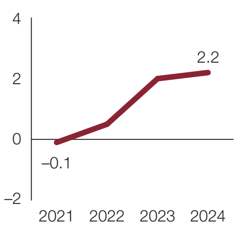
Climate change issues and policy options

The cost of mitigation measures for 2020–30 is $3.0 billion, and adaptation finance is likely to be $8 billion. To mobilize these resources, Mali will have to rely on a range of internal and external finance sources. The financing gap could be substantial, although the number of parties involved makes it difficult to estimate. The private sector has considerable potential, including the Private Sector Guarantee Fund. The government has designated the National Bank for Agricultural Development and the Development Bank of Mali to be accredited by the Green Climate Fund. A strategic plan has been developed to ensure that the private sector has an active role in climate finance. Private climate investment is being directed toward energy, waste management, forestry, and agriculture. The private sector could profit from the country's enormous potential, as Mali has some of the greatest solar power potential and the largest reserves of natural hydrogen in the world. The obstacles to private climate finance are the lack of information concerning opportunities, the lack of training in procedures for accessing climate finance, low participation in the development of climate change strategies, and limited access to international finance. Solutions include training, awareness-raising, issuing green bonds, providing access to clean development mechanisms, selling carbon credits, adopting ecological taxation, and creating a private sector lending window for the Green Climate Fund.

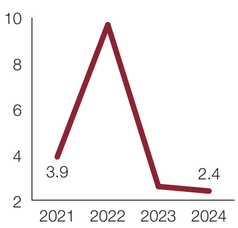
Real GDP growth (%)



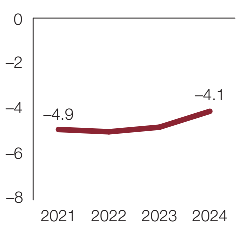
Real GDP per capita growth (%)



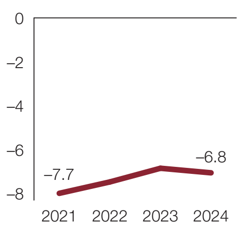
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Niger

Recent macroeconomic and financial developments

Real GDP growth rebounded to 7.2% in 2022, on strong performance across all sectors, particularly primary and tertiary services (which grew 7%), on the supply side and ongoing major infrastructure projects on the demand side. Inflation exceeded the West African Economic and Monetary Union (WAEMU) target of 3%, fueled by higher consumer food prices and the deteriorating international economic situation.

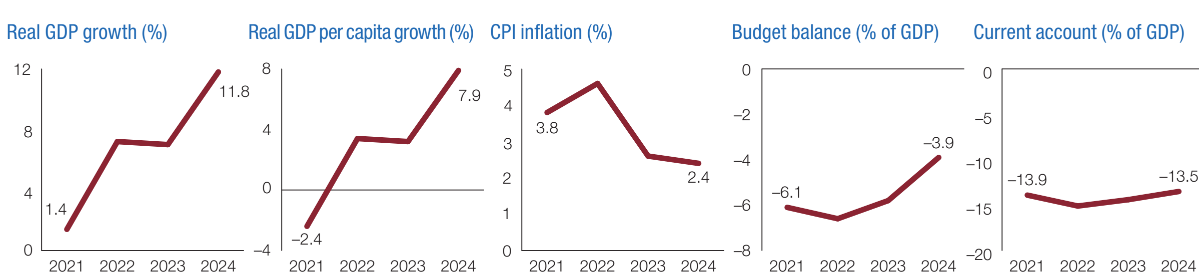
The budget deficit widened to 6.6% of GDP in 2022 from 6.1% in 2021 due to public spending rising more than public revenue. Constraints on budgetary performance continue to be both structural (tax base, economic structure, economic and social needs, and the like) and cyclical (lower global price for uranium, closing of the border with Nigeria). The budget deficit was financed primarily by external resources (budgetary support and projects), mainly grants. Public debt rose slightly to 51.2% of GDP in 2022 from 50.9% in 2021. Foreign loans accounted for 65% of public debt—below the WAEMU target—resulting in moderate risk of external debt distress. The chronic current account deficit widened to 15.1% of GDP in 2022 from 13.9% in 2021, financed by concessional loans and foreign direct investment, which rose substantially between 2017 and 2020. The social situation remains precarious, with extreme poverty at 42% in 2021.

Outlook and risks

Real GDP is projected to grow 7.0% in 2023 and 11.8% in 2024, with all sectors growing at least 5%. Consumption and higher oil investment as well as exports enabled by the new pipeline are projected to boost GDP growth. Possible headwinds include lack of security, climate change, a deteriorating international economic situation, and the like. Inflation will be contained below the WAEMU target of 3%. Public finances are expected to consolidate, with a substantial increase in public revenue from oil production, and the quality of public spending is improving under the new public finance reform strategy. Public debt is projected to remain sustainable, with most external borrowing contracted on concessional terms. The current account and trade deficits are projected to narrow. Social conditions are also expected to improve thanks to economic recovery and the resilience-building measures in the new Economic and Social Development Plan 2022–2026.

Climate change issues and policy options

Niger is highly exposed and vulnerable to the effects of climate change, with substantial energy requirements for its economic and social development. The country's objective is to fulfill its commitments under the Paris Agreement, particularly in terms of limiting the rise in temperature to less than 2°C or even 1.5°C by 2050. To meet this challenge and implement the revised Nationally Determined Contribution roadmap, Niger has developed a private sector financing strategy. The strategy sets out five intervention areas: mobilizing and involving private industry and professional organizations in adaptation planning, implementation, and monitoring and evaluation; updating the overview of the market's state of progress by identifying the sectors that are most promising and of the most interest to companies, compiling an inventory of companies in these sectors or with the potential to participate in them, and conducting a financing needs assessment; mobilizing financial resources from private funders as well as private stakeholders and corporations and implementing an annual work plan and budget; promoting climate technology innovation; and building capacity for company training and support structures as well as for companies themselves.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Nigeria

Recent macroeconomic and financial developments

Real GDP growth fell to 3.3% in 2022 from 3.6% in 2021, precipitated mainly by a decline in oil production. This led to 5% shrinkage in overall industry, which was offset by expansion in services (7%) and agriculture (2%). On the demand side, the decline in GDP growth was driven by contraction in public consumption (2.5%) and net exports (80%). Growth in income per capita declined to 0.8% from 1.2% in 2021. The fiscal deficit narrowed to 4.9% of GDP in 2022 from 5.2% in 2021 and was financed by borrowing, bringing public debt to $103.1 billion (about 22% of GDP) from $92.6 billion in 2021.

Inflation peaked at a two-decade high of 18.8%, fueled by energy and food price increases and pass-through effects of exchange rate depreciation. The Central Bank of Nigeria successively raised the policy rate, which peaked at 16.5% in November 2022 from 11.5% at the start of the year, to tame rising inflation. Buoyed by relative improvement in oil exports, the current account recorded a small surplus of 0.1% of GDP in 2022, reversing three years of deficit. Gross international reserves declined 7.5% to $37.1 billion (5.7 months of import cover). The nonperforming loans ratio stood at 4.2% in 2022, below the regulatory requirement of 5%. The capital adequacy ratio, at 13.8%, exceeded the regulatory benchmark of 10% in 2022. The multidimensional poverty rate (63%) and unemployment (33.3%) remained high.

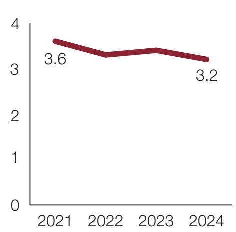
Outlook and risks

Real GDP growth will remain subdued, averaging 3.3% in 2023–24, with inflation elevated at 19.6% in 2023 before declining to 13.6% in 2024, reflecting efforts to shore up domestic food supply and the effects of contractionary monetary policy. The planned removal of the subsidy on Premium Motor Spirit (PMS) and increased revenue could further narrow the fiscal deficit to below 5% of GDP in 2023–24. The deficit will be financed by borrowing, biased toward concessional debt and longer maturities. Higher oil exports may not offset subdued capital inflows, with the current account projected to be in deficit, averaging 0.2% of GDP in 2023–24. Peaceful resolution of the court challenge of the 2023 presidential election could confirm Nigeria's maturing democracy, boosting investment. Headwinds include insecurity and potential social resistance to removing the PMS subsidy. Maintaining the subsidy could further increase fiscal risks, exacerbated by high debt service costs.

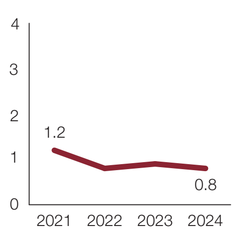
Climate change issues and policy options

Natural capital was an estimated $842.4 billion in 2018, $582.4 billion of it nonrenewable and $260.1 billion of it renewable. These resources can drive sustainable and inclusive green growth. Exploiting Nigeria's large gas reserves, estimated at 206.53 trillion cubic feet, and addressing gas flaring can support the net-zero transition. Abundant solid and critical minerals present opportunities for green development. With the discovery of more than 3,000 lithium pegmatite bodies, Nigeria can lead lithium-ion battery manufacturing. The benefits include green job creation and climate change mitigation. Such opportunities require a blueprint to attract green financing and investment. From 2019 to 2020, average climate finance amounted to only $1.9 billion from both public ($1.5 billion) and private ($435 million) sources. Across sectors, $798 million was in energy, followed by $626 million in cross-sectoral projects, $300 million in agriculture, $128 million in transport, and the rest in other sectors. Nigeria needs $247 billion in climate finance through 2030 to implement its Nationally Determined Contribution. Investment is needed in clean energy, including 8 gigawatts of solar energy. The private sector has the potential to mobilize climate finance. Innovative financing opportunities include green bonds for energy efficiency and sukuk bonds for resilient transport infrastructure. Restructuring the sovereign wealth fund also presents an opportunity for climate finance.

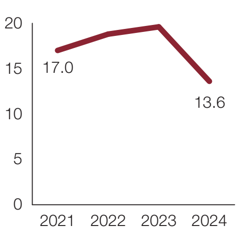
Real GDP growth (%)



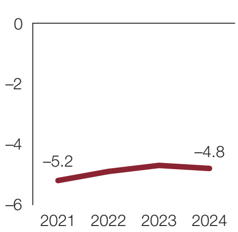
Real GDP per capita growth (%)



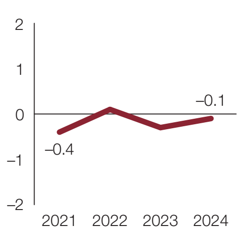
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Senegal

Recent macroeconomic and financial developments

Real GDP growth dropped to 4.0% in 2022 from 6.5% in 2021 due to the effects of Russia's invasion of Ukraine, a sharp slowdown in the secondary sector, and contraction in the primary sector (which shrank 0.5%) caused by an unfavorable agricultural season and sanctions against Mali, the leading customer for Senegalese exports, by the Economic Community of West African States. Inflation reached a record high of 9.7% in 2022, driven by soaring food prices. To contain these inflationary pressures, the Central Bank of West African States revised the minimum liquidity injection rate to 3.0% and the marginal lending rate to 5.0%, and the government raised energy subsidies to 4% of GDP and drastically reduced public investment. The budget deficit narrowed slightly to 6.1% of GDP in 2022 from 6.3% in 2021 thanks to a 23% increase in public revenue. Public debt rose from 64.0% of GDP in 2019 to 75.0% in 2022 because of public deficits accumulating since the COVID-19 pandemic.

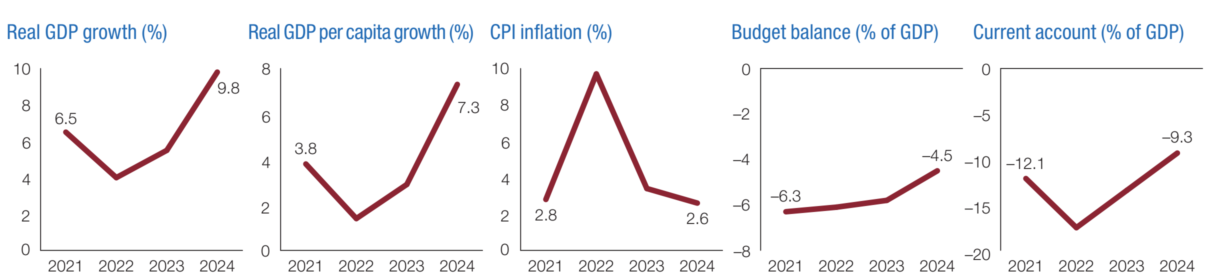
The current account deficit is projected to widen to 17.5% of GDP in 2022 from 12.1% in 2021 following the sanctions on Mali and higher import costs. The banking sector remains resilient, with a 20.2% increase in loans to the economy. The nonperforming loans ratio fell slightly from 11.5% in 2021 to 11.2% in 2022. The poverty rate remained stable at around 37% in 2022 as growth was driven by the urban services sector, whereas poor people live in rural areas and depend on farming.

Outlook and risks

Real GDP is projected to grow 5.0% in 2023, driven by an upturn in agricultural output as well as gradual normalization of the effects of Russia's invasion of Ukraine, and to 9.8% in 2024 thanks to expected oil production. Inflation is projected to drop to 3.4% in 2023 and 2.6% in 2024 due to tighter monetary policy. The budget deficit is projected to narrow to 5.8% of GDP in 2023 and 4.5% in 2024 thanks to the expected rationalization of subsidies and domestic revenue mobilization. Debt is projected to fall below 70% of GDP in 2024 thanks to the narrower public deficit and growth prospects. The current account deficit is projected to drop below 10% of GDP in 2024 for the first time since 2020, with the start of hydrocarbon exports. Possible headwinds include prolongment of Russia's invasion of Ukraine, declining terms of trade, effects of climate change and the regional security situation.

Climate change issues and policy options

Despite having a carbon footprint well below that of developed countries, Senegal is experiencing substantial economic impacts due to vulnerability to climate change. About $2.8 billion a year is needed in compensation. The estimated climate finance needed to strengthen climate resilience is $13 billion, or $1.1 billion a year. Climate finance thus needs to be pursued both locally and internationally to ensure the energy transition and build resilience to climate change. The private sector's contribution to climate finance remains low. The country has initiated a range of actions to attract private investment, particularly by implementing a clear regulatory framework and innovative financing mechanisms, but the private sector makes far too little use of these financing sources. Crédit Agricole's accreditation with the Green Climate Fund in 2020 represents an important step in mobilizing the private sector around climate finance. To increase private participation, an incentive system (fiscal or preferential) is needed that will promote climate change adaptation and mitigation. Added to this is the need for further technical capacity-building and guaranteed access to information on private investment opportunities and how to structure and implement projects.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Sierra Leone

Recent macroeconomic and financial developments

Real GDP growth declined to 2.8% in 2022 from 4.1% in 2021 due to the impact of Russia's invasion of Ukraine. Growth was driven by mining exports (iron ore) on the demand side and by the recovery in key sectors on the supply side. Inflation rose to 26.1% in 2022 from 11.9% in 2021, driven by food and fuel inflation and depreciation of the leone. The fiscal deficit declined to an estimated 4.8% of GDP from 7.3% in 2021 due to higher grants. Public debt increased to an estimated 92.9% of GDP from 79.8% in 2021. The country remains at high risk of debt distress.

The current account deficit narrowed to an estimated to 10.3% of GDP from 15.0% in 2021, attributable to an improved trade balance and higher net transfers. The current account deficit is financed by the financial account. Gross foreign reserves fell to $599.5 million (3.3 months of import cover) in September 2022 from $932 million in December 2021 following measures to increase food and fuel supplies in local markets. The exchange rate depreciated sharply after mid-2021 due mainly to the widening trade deficit. The financial sector is underdeveloped but generally sound, with most indicators above the recommended minimum, except the nonperforming loans ratio (at 14.8% in 2021 against a regulatory target of 10%). Sierra Leone is characterized by high poverty (59.2% in 2020), income inequality (Gini coefficient of 0.357 in 2018), and high youth unemployment (70%), compounded by skills mismatch.

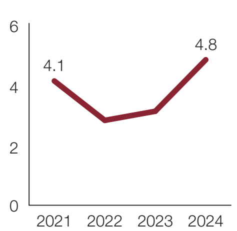
Outlook and risks

GDP growth is projected to increase to 3.1% in 2023 and 4.8% in 2024, driven by the mining sector and the continued recovery of agriculture, manufacturing, construction, and tourism. Inflation is projected to rise to 27.1% in 2023 but decline to 20.8% in 2024 as external shocks subside. The fiscal deficit is projected to narrow to 3.2% of GDP in 2023 and 2.3% in 2024 due to higher tax revenue supported by economic recovery and spending rationalization. The current account deficit is projected to narrow to 8.0% of GDP in 2023 and 7.4% in 2024 as the trade deficit narrows and official and private grants increase. Headwinds include the likelihood of a global economic recession, a prolongment of Russia's invasion of Ukraine, sustained increases in food and fuel prices, lower international financial assistance, and a re-emergence of COVID-19 and other public health emergencies.

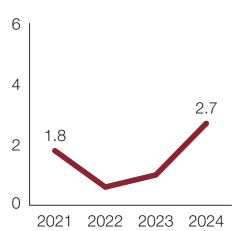
Climate change issues and policy options

Sierra Leone's Green Growth Index deteriorated from 45.3% in 2010 to 44.9% in 2021, highlighting the challenges associated with achieving the green growth target. This was due to weak performance in green economic opportunities. Despite this, supported by green growth policies and strategies, Sierra Leone has the potential to foster economic growth while reducing vulnerability to climate change. Its national and sectoral green growth policies and strategies are aligned with its Nationally Determined Contribution, whose financing need is an estimated $276 million. Inflows amounted to $164 million, 12% of which came from the private sector. Sierra Leone can mobilize private climate finance through innovative instruments, including a carbon market, debt-for-climate swaps, and climate-related debt. Between 1995 and 2018, its nonrenewable natural capital rose 94% in real terms, and its renewable natural capital rose 70%. This provides a major chance to leverage private climate finance with natural resources. Ongoing initiatives to enhance natural capital include pursuing oil and gas exploration and strengthening the legislative framework around forest protection and related environmental issues to leverage climate finance from forests, including carbon credits, REDD+ payments, and grants for forest conservation or reforestation.

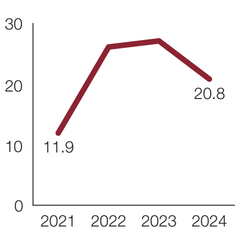
Real GDP growth (%)



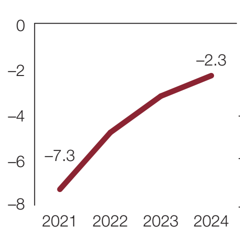
Real GDP per capita growth (%)



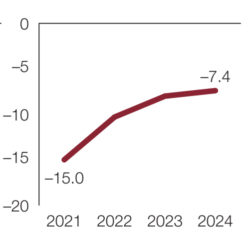
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.

Togo

Recent macroeconomic and financial developments

Real GDP growth declined to 5.5% in 2022 from 6.0% in 2021 due to the security crisis in the far north of the country and Russia's invasion of Ukraine. Inflation rose from 4.6% in 2021 to 7.8% in 2022, driven by higher food and energy prices. The fiscal deficit widened from 4.7% of GDP in 2021 to 8.4% in 2022 due to purchasing power support measures (subsidies and tax exemptions for basic products) as well as additional security spending. The current account deficit widened from 0.9% of GDP in 2021 to 3.7% in 2022 due to higher costs of imported goods (oil and food) brought about by the disruption of supply chains during the COVID-19 pandemic and the effects of Russia's invasion of Ukraine.

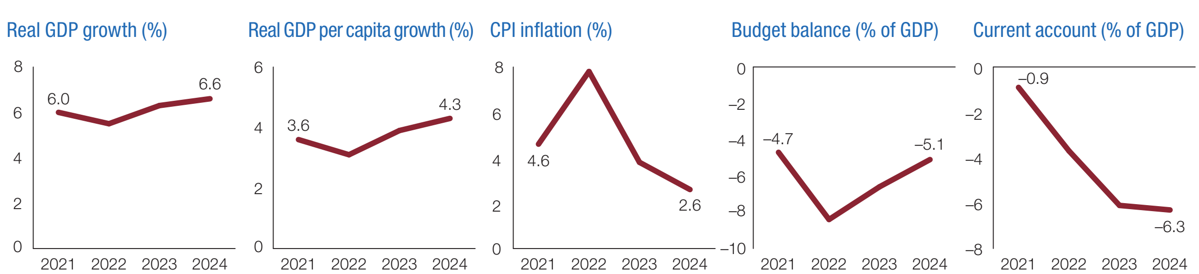
Loans to the private sector to boost economic activity increased 14.3%, to 32.8% of GDP. The nonperforming loans ratio fell from 12.0% in 2021 to 8.1% in 2022 due mainly to the recovery of overdue loans and favorable monetary conditions in the West African Economic and Monetary Union, which allowed banks to lighten their balance sheets to restore their capacity to finance the economy. Risk of debt distress is moderate. Public debt dropped to 55.9% of GDP in 2022 from 63.1% in 2021 thanks to debt management measures.

Outlook and risks

Real GDP is projected to grow 6.3% in 2023 and 6.6% in 2024 thanks to the government's 2025 roadmap for infrastructure projects and economic, financial, and structural reforms, including those aimed at boosting agricultural production and yields. Inflation is projected to fall to 3.8% in 2023 and 2.6% in 2024 thanks to purchasing power support from the government. The current account deficit is projected to widen slightly to 6.1% of GDP in 2023 and 6.3% in 2024 on higher import growth than export growth. The fiscal deficit is projected to narrow to 6.6% of GDP in 2023 and 5.1% in 2024 due to continued public financial management reforms. Possible headwinds include unfavorable fluctuations in global phosphate and oil prices, prolongment of Russia's invasion of Ukraine, repeated terrorist attacks in the country's northern regions, and the effects of climate change.

Climate change issues and policy options

Obtaining private financing for climate change and green growth is challenging for Togo. The estimated finance needed to adequately address climate change is $7.0 billion over 2020–30, or $702.6 million a year. The estimated cost of losses and damages due to adaptation is $2.7 billion, or 38.8% of total financing need, and the financing gap averages $560 million a year. This gap could severely limit the country's ability to build climate resilience and promote green growth and calls for private sector mobilization. Of the $126 million in climate finance over 2019–20, only $17.4 million (14%) was provided by the private sector. The private sector is thus being called on to strengthen access to electrical power by providing individual solar kits and to fight coastal erosion in order to ensure environmental sustainability and mitigate the effects of climate change.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team.