AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK (MEO) 2024 UPDATE

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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ISBN 979-8-9893890-0-1

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Key Messages

- **Africa's economic prospects have improved but growth remains fragile amidst multiple global and domestic shocks.** The continent's average real GDP growth is now projected at 3.2% in 2024 and 4.1% in 2025, compared to 3.0% in 2023. This represents a downward revision of 0.5 and 0.2 percentage points in 2024 and in 2025, respectively, relative to the May 2024 AEO projections. The downward revision reflects effects of multiple factors: persistent inflationary pressures, geopolitical fragmentations and weak financial flows, elevated debt vulnerabilities and high debt servicing costs, pockets of regional conflicts and insecurity, climate shocks, weak global demand, which has weighed down on Africa's exports.

- **Heightened inflationary pressures will remain a key challenge for Africa's economic growth outlook and cost of living in the near to medium term.** Average inflation is projected to remain high at 17.8 % in 2024, almost 8% points above the four-year average prior to the COVID-19 pandemic. However, thanks to consistent aggressive tight monetary policy and prospects for improved weather conditions that could support food production, average inflation in Africa is expected to fall to 13 % in 2025. Higher inflation has eroded people's purchasing power and stoked a cost-of-living crisis. Central banks' monetary policy tightening through sustained interest rate hikes has raised the cost of capital thereby weakening investment while the rise in the cost of living has increased the risk of social tensions. Further policy adjustments need to strike the delicate balance of containing inflation and to ensure that growth is not impaired.

- **Although public debt-to-GDP ratios are stabilizing, they remain above the pre-pandemic levels with heightened risks.** Fiscal consolidation efforts have helped narrow Africa's median fiscal deficit to 4.7 % of GDP in 2024, the lowest since the COVID-19 pandemic in 2020. As a result, the median debt-to-GDP ratio is expected to decline to around 60% in 2024, from 63.5% in 2021–23 and is projected to fall further to 59.2% in 2025. Nonetheless, debt vulnerabilities remain elevated with nine African countries already in debt distress and 11 others at high risk of debt distress as of September 2024.

- **Persistent geopolitical fragmentations, regional and domestic conflicts and climate related shocks could undermine policy effectiveness, requiring well calibrated short-term, medium-term and long-term policy priorities and responses.** Geopolitical tensions and escalation of the conflict in the Middle East could negatively affect growth prospects globally and in Africa through disruptions in trade routes with implications on commodity and energy prices. In addition, the fight against global inflation and climate-related shocks constitutes further downside risks that make Africa's medium-term growth prospects uncertain. Navigating this difficult and uncertain economic landscape will require well calibrated short-term, medium-term and long-term policy priorities.

    - **In the short run,** proper coordination among fiscal, monetary and exchange rate policies can help narrow the domestic macroeconomic imbalances and reduce associated vulnerabilities which, if left unattended could jeopardize growth prospects. Crucially these policies should remain responsive and reinforce each other rather than conflicting.

    - **In the long run,** implementing structural reforms such as expediting trade integration and improving the business environment to attract more foreign direct investment could diversify funding sources and the economy. Given the difficult external financial environment and growing financing needs especially for green transition, African countries will need more support from the international community, including from multilateral and regional development banks.

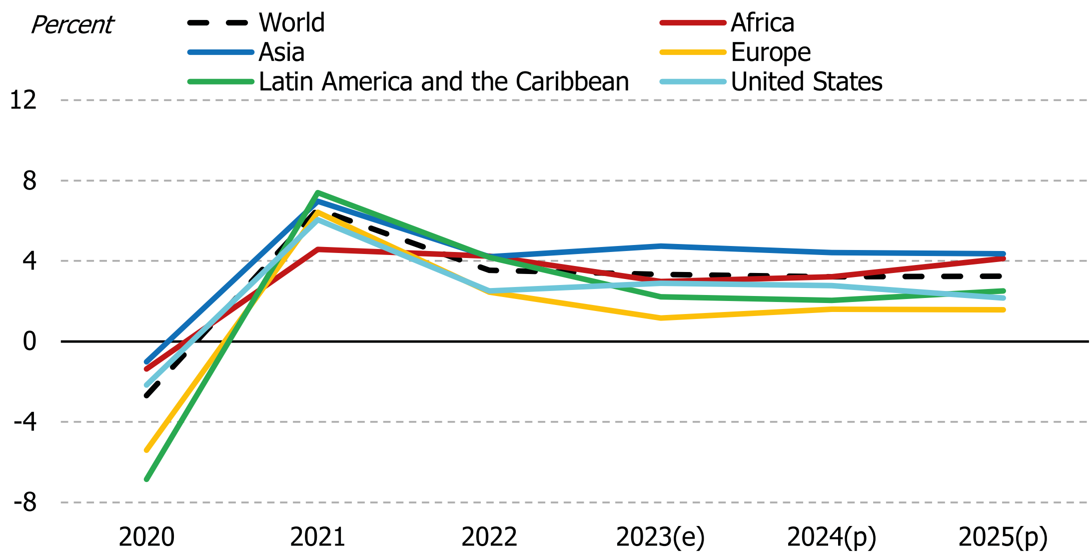
1. Growth Performance and Outlook

Africa's economic prospects have improved but growth remains fragile amidst multiple global and domestic shocks. The continent's average real GDP growth is now projected at 3.2% in 2024, compared to 3.0% in 2023 (figure 1). The revised growth outlook represents a downgrade of 0.5 percentage points relative to the May 2024 AEO projections. Growth in Africa is projected to rebound to 4.1% in 2025, but this projection remains 0.2 percentage points lower relative to the previous forecast period.

The revised growth outlook for Africa in 2024 mirrors the expected world average of 3.2%.

However, Africa's projected growth of 4.1% in 2025 surpasses the world average of 3.2% and that of other regions, including Latin America and the Caribbean (2.5%), the euro area (1.2%) and the Middle East and Central Asia (3.9%). Only emerging and developing Asia will post higher growth than Africa, averaging 5.1% in 2024-25[1].

Figure 1. Real GDP Growth, 2020 – 2025



Source: African Development Bank statistics the International Monetary Fund's World Economic Outlook, October 2024

Note: e- estimated; p-projected

[1] The IMF's World Economic Outlook (October 2024), projects a global growth to average 3.2 % in 2024 and remain stable at this level in 2025 led by Emerging and Developing Asia (5.3 % in 2024 and 5.0 % in 2025).

The downward revision of growth forecasts for 2024 and 2025, reflects several headwinds African countries are facing.

Africa remains vulnerable to domestic and global shocks and the lack of proactive policy responses perpetuates the impact of these shocks with lasting implications on the region's economic performance and prospects. Prolonged geopolitical fragmentation and global tensions and other multiple shocks exacerbated the effect of COVID-19, and Africa's domestic structural weaknesses such as low industrial base and heavy dependence on primary commodities, which, coupled with weak global demand, continue to weigh down the continent's export performance. Prolonged conflicts in some parts of the continent such as the Sahel and the Horn of Africa, have further deepened Africa's vulnerability, imposing direct impacts on economic activity in these countries and, indirectly, by spilling over to neighboring countries. Prior evidence shows that direct and indirect costs of conflict in Africa range from 8 % to 25% of GDP[2]. Furthermore, effects of climate change, such as droughts, are also weighing negatively on agriculture and manufacturing activity through reduced electricity generation. For instance, the drought in the Southern Africa region, has affected power generation and agricultural production in Botswana, Zambia and Zimbabwe due to reduced water levels.

The 2024-25 growth downgrade is broad-based across many countries and regions in Africa

- **Central Africa's** projected growth for 2024 was revised slightly downwards by 0.1 percentage point to 4.0% from the May 2024 forecast cycle while that for 2025 is pegged at 3.8%, a 0.9 percentage point below the earlier projected growth of 4.7% in the previous forecast round (figure 2). The region's slight downward revision reflects slower growth in five out of the seven countries. In 2024, growth in Equatorial Guinea has been revised upwards to 5.0% from -5.8% in 2023, largely reflecting strong hydrocarbon growth due to the operationalization of a new natural gas field. The projected rebound in growth in Equatorial Guinea for 2024 will be offset by the decline of 5.3% points in 2025, which, together with the downward revision in Chad, will impact average growth for the region to 3.8% compared with 4.7% in the May 2024 AEO forecast growth. The downward revision in Chad reflects the projected decline in agricultural and livestock production. In Equatorial Guinea, the tapering off in hydrocarbon production due to persistent structural weaknesses coupled with the rise in price of raw materials explains the projected decline. Central Africa remains heavily dependent on commodity exports and growth is predominantly anchored by the evolution in global commodity prices and domestic production conditions in individual countries.

- **In East Africa**, the projected growth for 2024 is revised downwards by 0.4 percentage point to 4.5%, reflecting deeper than previously forecast recessions in Sudan and South Sudan. The conflict in Sudan has debilitated the country's economy, with growth now projected to contract by 9.2% in 2024, representing a 3.3 percentage points decline from the 5.9% contraction previously projected in May 2024. The conflict has adversely impacted South Sudan's oil exports and hence growth. The South Sudanese economy is projected to contract significantly by 26.4% in 2024. The earlier projection was a 5% contraction in real GDP. For 2025, East Africa's growth is projected to rebound strongly, reaching 5.4% but this will still be 0.3 percentage points lower than the 5.7% forecast in May 2024.

The downward adjustment to the region's growth forecast mainly reflects persistence of conflict in Sudan. Inflationary pressures and fiscal challenges in Ethiopia, Rwanda and

[2] Novta and Pugacheva (2021)

Kenya could also weigh down on growth in these countries.

- Compared with May 2024 forecasts, **North Africa's** growth outlook is revised downwards by 0.9 percentage point to 2.7% for 2024. Except for Mauritania where the growth forecast was revised upwards by 0.5 percentage point to 4.7% and Algeria, where the growth forecast remained unchanged at 4.0%, the outlook for other countries in the region has been lowered by between 0.6 percentage point (in Morocco) and 11.1 percentage points (in Libya). The high downgrade in Libya reflects sustained disruptions in oil production due to political strife between rival factions. North Africa has also been affected by the effects of the conflict in the Middle East.

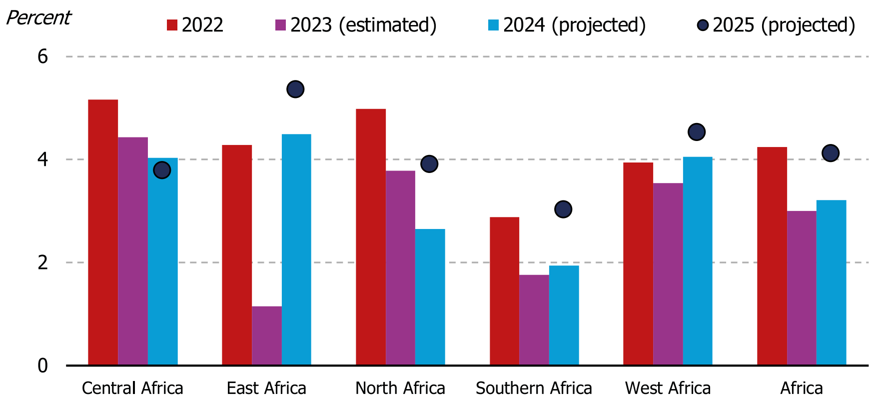
- Growth outlook for the **Southern Africa** region in 2024 has been revised downwards by 0.3 percentage point to 1.9%, from 2.2 perfect in the previous forecasting round. This revision is mainly attributed to significant growth downgrades in Botswana and Zambia of about 3.0 percentage points due to adverse effects of the drought which has affected all sectors of the economies for these countries. In Botswana, growth has also been affected by declining diamond production. Other downgrades have been made to growth forecasts for Malawi (by 1.3 percentage points) and Mozambique (by 0.9 percentage point). Malawi's recent macroeconomic imbalances – persistent fiscal deficits, balance-of-payments challenges, unsustainable debt, and shortage of foreign exchange, which has stoked price instability – have been exacerbated by impact of severe drought on agriculture. In Mozambique, growth remains subdued due to the conflict in the Cabo Delgado and tight financial conditions. Prospects for improved weather conditions bode well for Southern Africa's growth outlook for 2025, which has been revised upwards by 0.3 percentage point, with growth in Zambia projected to benefit the most, by 1.7 percentage points to 6.2 % in 2025.

- In **West Africa**, growth projection for 2024 have been lowered slightly by 0.2 percentage point to 4.1%, mainly reflecting growth revision in Senegal (lowered by 3.8 percentage points) and in Nigeria, the region's largest economy (lowered by 0.3 percentage point), respectively. Growth in Senegal has been downgraded due to weaker activity in the country's mining, construction, and agro-industrial sectors.

  For Nigeria, the revision reflects weakening domestic demand on account of monetary policy tightening and further depreciation of the exchange rate. Upgraded growth forecasts in Togo, Ghana and Guinea-Bissau were insufficient to mitigate the decline in Nigeria and Senegal.

  For 2025, growth has been revised slightly upward by 0.1 percentage point, with growth in Niger expected to benefit the most by 1 percentage point, in part driven by oil production and export.

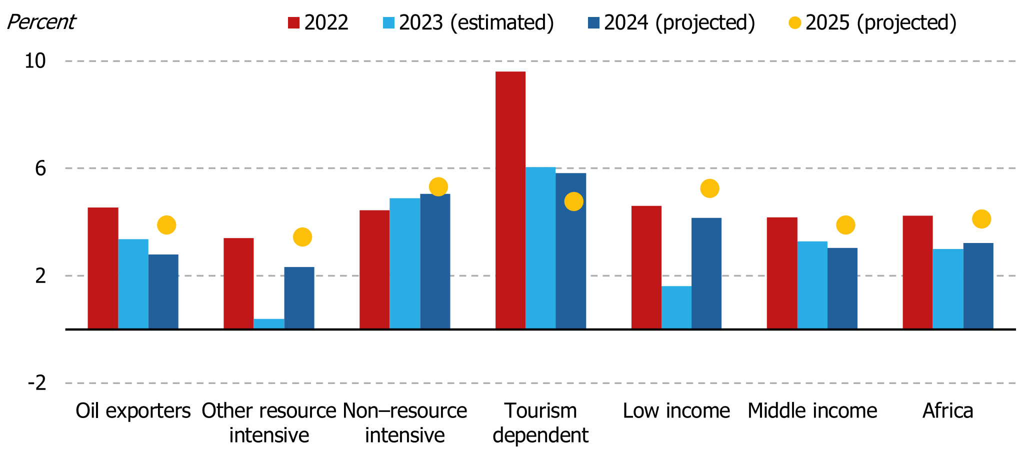
Figure 2. GDP growth in Africa, by region, 2022–25



Source: African Development Bank statistics

Apart from tourism-dependent countries, the growth outlook has been downgraded across other country groupings in both 2024 and 2025, respectively. The growth outlook for oil exporting countries has been downgraded by 0.7 and 0.2 percentage point in 2024 and 2025, respectively, reflecting continued challenges in oil production due to structural weaknesses and stabilization in oil prices for much of the first three quarters of the year amid OPEC+ production cuts and Middle East tensions. Growth prospects for other resource intensive economies have also been revised downwards, reflecting expectations of lower commodity prices which remains a subject of considerable headwinds, with the further escalation of conflicts in the Middle East posing the greatest risk. Growth outlook for non-resource intensive economies has also been downgraded by 0.3 percentage point to 4.9% and 5.3% in 2024 and 2025, respectively, reflecting continued macroeconomic challenges such as high inflation and reduced fiscal space in several countries within this grouping.

Figure 3. GDP Growth in Africa, by country grouping, 2022-25



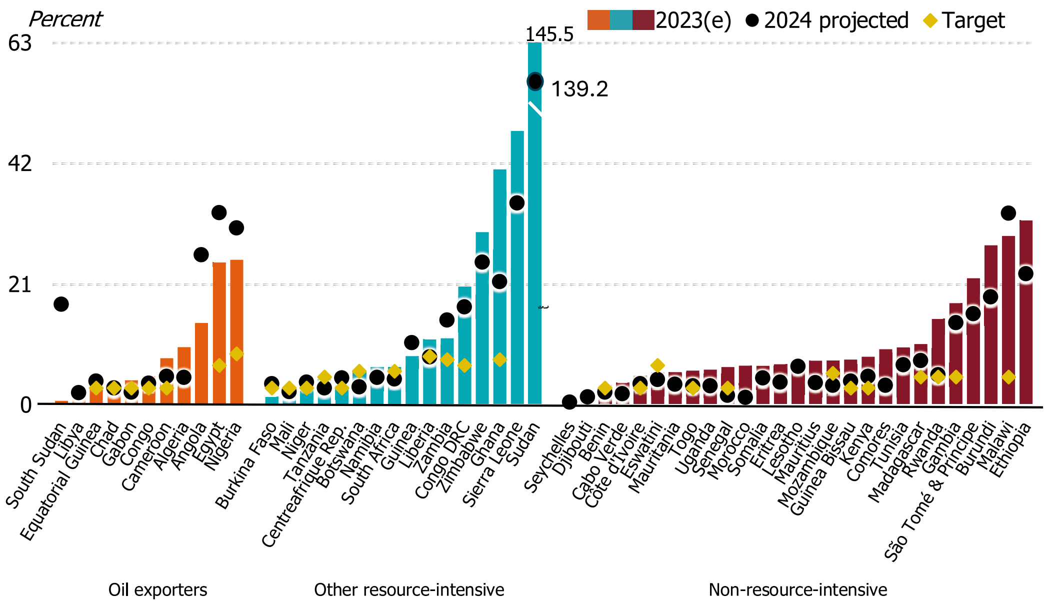
Source: African Development Bank statistics

2. Other macroeconomic developments

Inflationary pressures remain persistent, and inflation is still above long-run targets in many African countries. Africa's average annual inflation rate is projected at 17.8% in 2024, up from 16.9% in 2023. The sustained upward trend in inflation reflects higher food and energy prices. Average inflation in two of Africa's largest economies – Egypt and Nigeria – exceeded 30% in 2024, increasing by 9.5% and 6.4% points in Egypt and Nigeria, respectively (see figure 4). The recent build-up in inflationary pressures in Egypt emanated largely from supply chain disruptions and increased fuel prices due to multiple shocks including Red Sea attacks on international ships by Houthi[3].

In Nigeria, inflationary pressures remain strongly entrenched, driven by the depreciation of the naira, fuel price hikes due to removal of the subsidy on premium motor spirit, and the impact of severe floods and as waves of insecurity across the country continue to impact farming activities. Supply side drivers of inflation have blunted the effectiveness of traditional monetary policy instruments, suggesting a different approach is required to address the spiraling inflationary pressures. In countries where fiscal factors dominate supply side drivers of inflation, conventional expenditure restraint may be warranted, but caution should be exercised to prevent economies slipping into recession in such countries.

Figure 4. Consumer prices inflation, 2023-2024, by country



Source: African Development Bank statistics

Note: Values for Zimbabwe and Sudan have been truncated for a better visibility of others countries

[3] https://www.al-monitor.com/originals/2024/09/egypt-urban-inflation-rises-262-august-first-jump-five-months

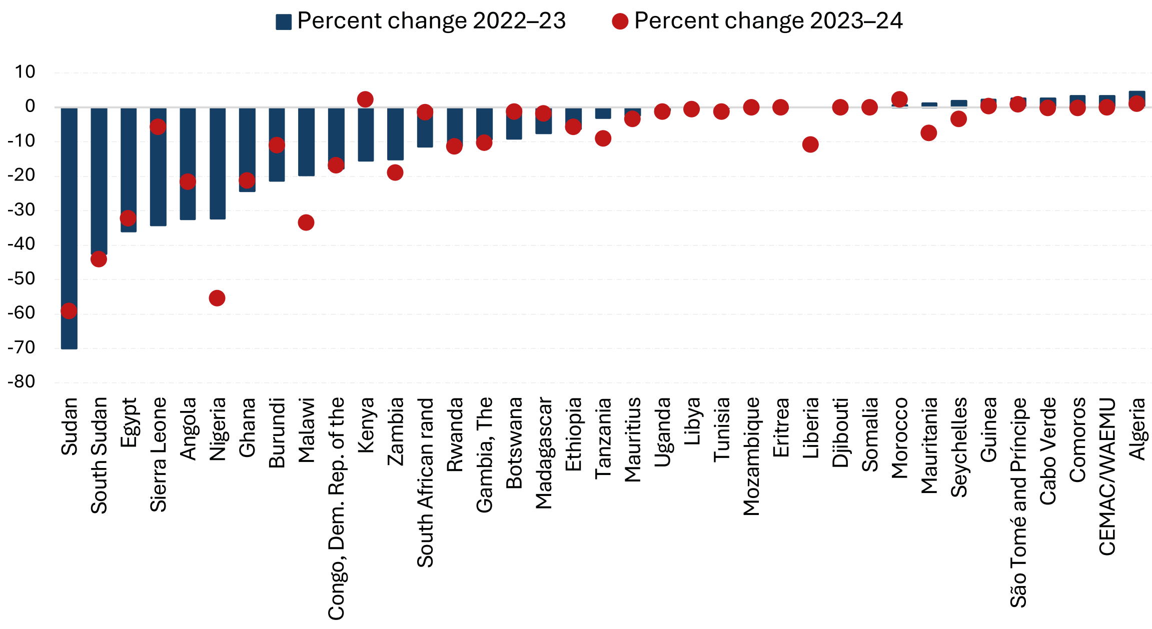
Excluding Egypt and Nigeria, Africa's average annual inflation rate decelerated to 9.3% in 2024 from 12.0% in 2023, mirroring the gains made in the rest of the world, as global inflation is projected to decline marginally from an annual average of 5.7% in 2023 to 5.3% in 2024. The disinflation process that started in 2024 is expected to continue into 2025, with the continent's average inflation rate excluding Egypt and Nigeria projected to decline further to 7.6%. This could potentially allow central banks in the continent to ease monetary policy by mid-2025, particularly in countries where inflation rates are close to their targets. In 33 of the 49 African countries with available data, monetary authorities have maintained restrictive monetary policy stance and left policy interest rates unchanged at relatively high levels since May 2024. This restrictive monetary policy stance has persisted despite falling inflation rates in most of these countries. High interest rates, however, pose, challenges for growth. It raised borrowing costs and constrained economic activity for the private sector, threatening to erode post-pandemic growth gains.

Addressing the cost-of-living crisis in Africa requires a multifaceted approach that tackles both immediate needs and long-term structural weaknesses. In the short term, central banks need to maintain their contractionary monetary policy while fiscal authorities provide targeted social safety nets to support the most vulnerable populations. This would help to prevent a further deterioration in living standards. At the same time, there is a need to address structural constraints that limit domestic productive capacity response to policy interventions. In this regard, policy measures should include improving infrastructure to lower transportation and energy costs, investing in agriculture to increase food production and reduce dependency on food imports, increasing domestic production of refined petroleum products to reduce energy imports that have become increasingly vulnerable to global supply disruptions and promoting industrialization to create jobs and diversify economies. Strengthening regional trade and cooperation can also help to create buffers against global economic shocks by reducing reliance on external markets.

Downward pressures on African currencies continued but pockets of stabilization emerging. African currencies continued to weaken against the US dollar despite the pause in the global monetary policy tightening cycle toward the end of 2023 and the recent policy rate cuts in advanced economies (figure 5). Depreciation in exchange rates has been exacerbated by short-term external financing pressures as many countries face debt repayment due in 2024 and 2025. Many of Africa's largest economies have had to contend with significant exchange rate depreciations in 2024 as heightened geopolitical tensions and regional conflicts, declining commodity prices as well as a heavy reliance on imports and dollar-denominated transactions weighed on domestic currencies. In Nigeria, for instance, the country's currency lost 55.4% of its value by end-September 2024. The sustained depreciation was – mainly driven by excess demand for foreign exchange against limited supply due to weak oil receipts. In March 2024, the Central Bank of Egypt devalued the official exchange rate between Egyptian pound and the US dollar by 35% to correct market distortions. However, this devaluation was done amidst persistent foreign exchange shortages, putting further pressures on the Egyptian pound, resulting in a depreciation rate of 32.3%, year-on-year. The Ghanaian cedi continued to weaken, with a year-to-date depreciation of 21.4% as of end-September. A slowdown in foreign direct investment, rising public debt, reduced donor funding, increased demand for US dollars to pay for essential consumer goods and crop failures that have caused a decline in key cocoa production to 55% of the seasonal average explain the weakening of the cedi. In non-resource intensive countries, Malawi recorded the highest depreciation rate (33.5%) due to country's recent transition to de facto pegged exchange rate regime combined with volatile terms of trade, and climate-related shocks.

Conversely, some currencies have either stabilized or appreciated for most of the second half of 2024, reversing the steep depreciation recorded in 2022 – 2023. For example, the Kenyan shilling recovered previous losses to appreciate by about 17.7% as of end-September in 2024 to become one of Africa's best performing currencies. The Shilling has been buoyed by market sentiment following the country's repayment of the Eurobond in June and uptick in portfolio investment. Increased export inflows and the scaling up of investment in the automotive industry, targeting to expand electric vehicle (EV) production provided additional support to the Moroccan dirham which has strengthened by 2.3% against the US dollar in 2024.

Figure 5. Exchange rate changes, by country 2022–23 and 2023–24



Source: African Development Bank statistics

Global financial conditions are slowly easing and coupled with domestic efforts towards fiscal consolidation through enhanced domestic resource mobilization, public debt to GDP ratios are gradually stabilizing. After two years of tight global financial conditions that excluded many African countries from access to Eurobonds markets and increased debt burdens, African sovereign spreads are narrowing. This marks the end of the two-year hiatus from international capital markets with many countries having recently issued Eurobonds. The easing of global financial conditions, together with fiscal consolidation measures taken since the end of the pandemic (Table 1) are helping to stabilize public debt to GDP ratios. Moreover, several countries have either implemented (full or partial) removal of fuel subsidies (Angola, Guinea, Kenya, and Nigeria) or have planned to eliminate energy subsidies by 2025 (Senegal and Egypt). Finally, debt restructuring negotiations provide an additional incentive for prudent fiscal management in Ghana, Zambia and Ethiopia. However, the debt vulnerabilities are not over yet: given the exchange rate effects and high borrowing costs, debt ratios have remained above the pre-pandemic levels and debt vulnerabilities remain elevated due to increasing debt repayments (Box1).

Table 1: Revenue measures introduced in selected African countries, 2020-2024

Country	Year	Description
Congo	2020	Introduction of e-stamp duty of 50 XAF per (data) postpaid invoice
DRC	2020	Introduction of a new tax was imposed on mobile consumers, comprising an annual payment of $1 for 2G handsets and $7 for 3G/4G handsets
Ethiopia	2023	Introduced new taxes on telecommunication service of mobile and wireless telephone (internet, voice, and SMS) from 0 to 5%
Ghana	2021	Introduction of 1% on value of goods (COVID-19 Health Recovery Levy), similar to a VAT/GST increase.
Ghana	2022	Introduction of a new 1.5% tax on all electronic transactions above 100 Ghanaian cedi ($13; £11) effective May 1st, 2022.
Guinea	2021	Increase of mobile marketing tax from 400 GNF to 640 GNF per connection per year; Increase of excise duty on voice calls (TCT) from 1 to 2GNF per second (from 60 to 120 GNF per min)
Kenya	2021	Increase of excise duty on mobile services from 15% to 20%
Kenya	2024	Phased out of preferential corporate tax rates applicable to special economic zones and export processing zones, with rate at zero
Kenya	2024	Authorities are considering in the Medium-Term Revenue Strategy (2024/25-2026/27) a proposal to reduce the corporate income tax from 30 to 25%.
Lesotho	2020	Increase of VAT rate from 12% (reduced rate) to 15% (general rate)
Mauritania	2020	Increase of custom duty on scratch cards from 15% to 30%
Mauritania	2023	increased value added taxes on telecommunications from 16 to 18 plus special income tax of 5% on telecom companies
Nigeria	2020	Increase of VAT rate from 5% to 7.5%
Nigeria	2022	National Health Insurance Authority Act 2022 imposed a telecommunications tax of not less than 1 kobo per second on GSM calls.
Nigeria	2022	5% Excise Duties on Telecommunications Services (Postpaid and Prepaid)
Sierra Leone	2020	Increase of excise duty on incoming international calls from $ 0.09 to $ 0.14 per min
Tanzania	2021	Introduction of a levy on airtime recharge at a rate ranging from TZS 5 to 223, depending on recharge value
Tanzania	2021	Introduction of a levy on mobile money transfer and withdrawal transactions at a rate ranging from TZS 10 to 10,000

Uganda	2021	Introduction of 12% excise duty on data from 1 July 2021
Burundi	2023	Introduction of tax of 5% for hotels and restaurants and 22% on mobile financial services
Cabo Verde		New taxes on tourism services increased from 10 to 15%.
Cameroon	2022	Introduction of a 0.2% tax on the transfer and withdrawal of money via mobile wallets
Rwanda	2023	Rwanda income bracket in Rwandan Francs and tax rate:0-60,000: exempt of tax;60,001–100,000: 10;100,001–200,000: 20; ≥ 200,001: 30

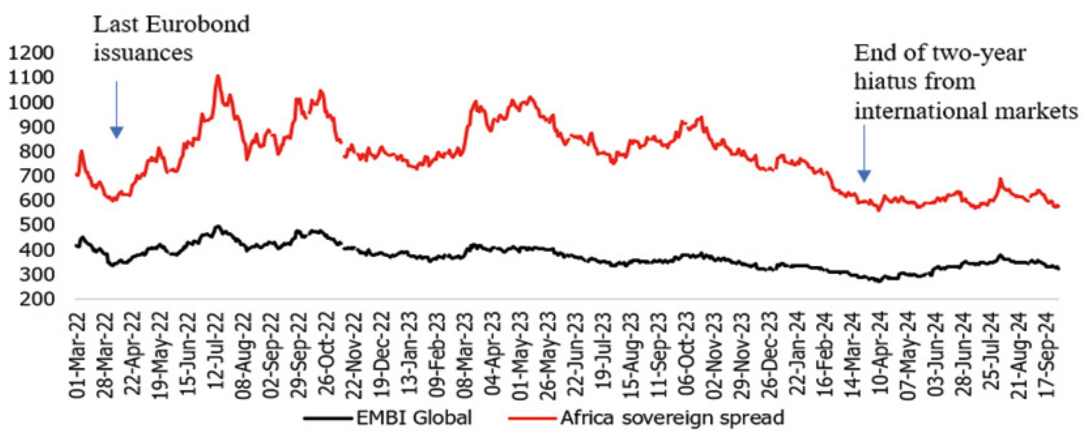
Source: GSMA, PwC and EY, 2023

Box 1

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

African sovereign yield spreads are trending down but remain substantially above the global average (Box Figure 1). Several African countries - Côte d'Ivoire, Benin and Kenya - have since returned to international markets to issue sovereign bonds as global market conditions improve. However, these issuances came at higher cost. For instance, Kenya's new Eurobond was issued at a coupon rate higher than the 6.875% offered on the Eurobond maturing in 2024.Senegal followed suit, raising $750 million in the Eurobond issuance in June 2024. Compared to high rates incurred by Benin (7.9%) and Kenya (10.37%) on their issuances, Senegal's bond placement was at a relatively lower interest rate at 7.75 %, joining Côte d'Ivoire which raised $ 2.6 billion at 6.61% in January in 2024. The return to the capital markets by African countries underscores the fact that Eurobonds remain an option for financing African development. However, with significant debt repayments scheduled in 2024 ($74 billion) and 2025 ($67 billion), most issuances are meant to refinance the earlier maturing debt, rather than invest the resources in productive sectors and human capital development - health and education - thereby endangering future growth prospects and debt repayment capacity. Moreover, borrowing costs remain high as these bond issuances come at higher coupon rates compared to rates of previously issued and maturing notes. While global financial conditions are easing gradually, African governments will continue to grapple with the high debt burden, external funding squeeze and temporary liquidity pressures.

Box Figure 1: Africa sovereign spread versus emerging market bond index (EMBI) global

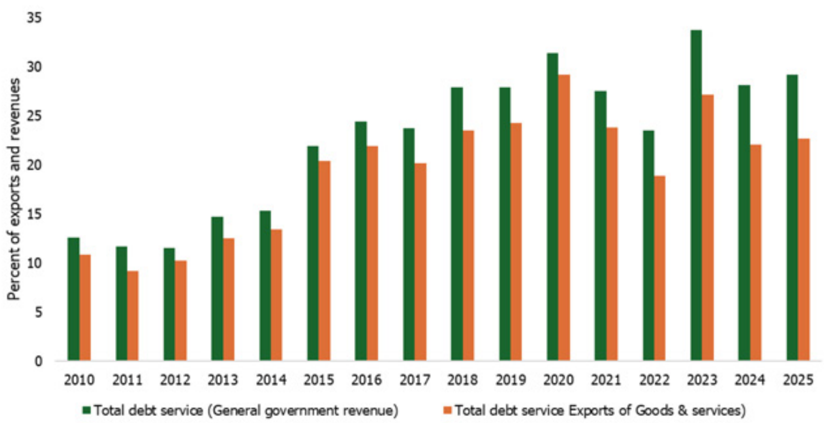


Source: Staff calculations based on Haver Analytics

Public debt ratios are stabilizing although above the pre-pandemic level and risks remain

The fiscal consolidation measures instituted by governments have helped narrow Africa's median fiscal deficit to 4.7% of GDP in 2024. This is the lowest since the COVID-19 pandemic in 2020. Consequently, the median debt-to-GDP ratio is expected to decline to around 60% in 2024 from 63.5% in 2021–23 and is projected to decline further to 59.2% in 2025. Nonetheless, debt vulnerabilities remain elevated as of September 2024, with nine African countries in debt distress and 11 others at the high risk of debt distress. Debt vulnerabilities have been amplified by in debt service cost stoked by high global interest rates and stronger US dollar. The debt burden could persist and reverse any gains emanating from fiscal consolidation efforts. Indeed, debt amortization accounts for a significant share of government revenue in Africa (Box Figure 2). The median debt service on total debt as a proportion of government revenue is estimated at 28.1% in 2024 and this figure is expected to increase to 29.2% in 2025. Moreover, external liquidity pressures are expected to rise, reflecting an increasing ratio of total debt service to exports of goods and services from 22% in 2015-2019 to 29.2% in 2020. This ratio was estimated at 22% in 2024 and is projected to increase, albeit marginally, to 22.7% in 2025. With over 70% of publicly guaranteed debt in Africa denominated in US dollars, liquidity pressures may further increase, if exports revenues or other sources of foreign exchange do not compensate for resource flows through higher debt service payments. Rising debt burdens and external liquidity pressure have drawn governments to reduce public spending from critical areas of development. According to the AEO 2024, between 2010 and 2019, average public expenditure on education in Africa was 3.6% of GDP, below the world average of 4.2% of GDP, with public spending on health was even lower at 1.8% of GDP. Regaining fiscal fitness and a sustainable debt situation may require restructuring and reprofiling of their debt. Already, Zambia, Ghana and Ethiopia have made significant progress in negotiations for debt restructuring. These experiences offer some lessons for countries seeking to restructure their debt.

Box Figure 2: Public debt service on total debt



Source: Staff calculations using data from World Bank International Debt Statistics

While debt restructuring should be part of the policy toolkit for countries in debt distress, in part because restructuring negotiations may provide incentives for prudent fiscal management, it is not the panacea to fiscal largesse and unproductive public expenditure. Rather, fiscal consolidation combining both domestic revenue mobilization and prudent public expenditure, should be the first order policy option against accumulating unsustainable debt.

3. Forces shaping the medium term economic outlook

Africa's economic outlook remains mired in uncertainty, shaped by global, regional, and local factors ranging from persistent inflationary pressures to risks to global growth and commodity price dynamics as well as persistent geopolitical tensions.

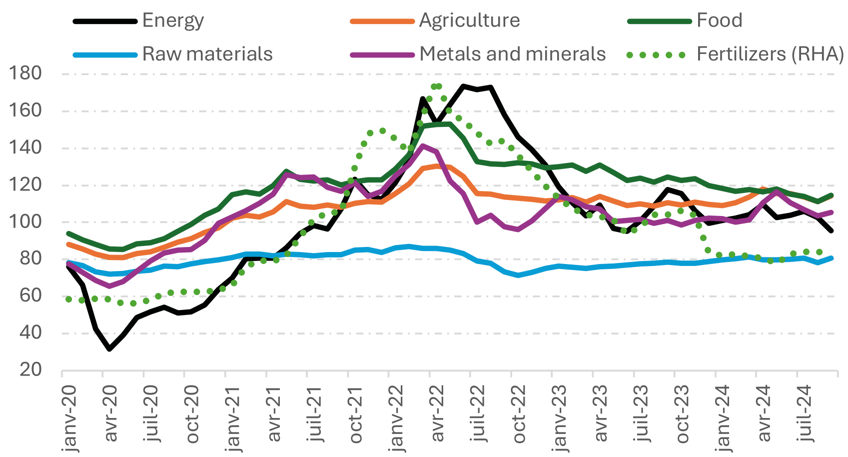
Lingering inflationary pressures pose a material risk and policy challenge for Africa's economic outlook in the near to medium term. Average inflation is projected to remain elevated at 17.8% in 2024 before cooling to 13% in 2025. Higher inflation is a cost to business and has toked a cost-living crisis with increased risk of social tensions. The path towards lower inflation remains patchy due to the effects of trade tensions and supply chain disruptions, volatile commodity prices, and the continent's medium-term growth trajectory will depend on the policy response African countries adopt to tame growing inflationary pressures. In countries where high inflation necessitates further interest rate hikes, this should be done gradually to avoid abrupt shocks to growth. Conversely, in countries where inflation levels allow for monetary easing, central banks should set appropriate targets to prevent reemergence of strong inflationary pressures which could derail recent efforts in fighting inflation. However, monetary policy alone may not be sufficient to contain inflation in Africa due to the prevalence of supply constraints which dominate demand factors in driving inflation on the continent. Policymakers must therefore focus on addressing domestic supply constraints to manage inflation while supporting economic growth. Fiscal policy should prioritize productive capital expenditures over consumption spending through targeted public infrastructure investment in key sectors to boost production.

The gradual rebound global growth and interest rate cuts in major advanced economies bode well for reigniting Africa's growth momentum. The forecast for global economic growth broadly points to a favorable but cautious recovery. According to the IMF's October 2024 World Economic Outlook, global growth is projected to stabilize at 3.2% in 2024-2025, and growth projections for key trading partners such as the Euro area, China, and India are broadly encouraging. In the Euro area, growth is expected to pick up by 0.4 percentage point to 0.8% in 2024 and by a further 0.4 percentage point in 2025. In China and India, growth forecasts have been revised upward for 2024 and 2025 from the IMF's April 2024 projections. The current and anticipated stronger global economic momentum in Africa's key export destinations will stimulate demand for commodity exports and investment in the continent, boosting its economic prospects. Global growth momentum is also likely to lead to higher incomes in the African diaspora, increasing the potential for higher remittances that, if properly harnessed, can be channeled towards investment in African economies. The recent monetary policy easing in advanced economies is expected to continue, and the resulting low global interest rates could taper exchange rate pressures through reduced capital outflows from Africa. This could in turn support price stability and foster investment across African economies.

Fluctuations in commodity prices will have a far-reaching impact on Africa's growth and shape the outlook for the medium-term. Energy prices have remained relatively stable since the beginning of the year, with the energy price index falling by just 0.6% monthly through September. Food prices have continued to fall since their peak in mid-2022. Nevertheless, energy and food prices are still higher than they were at the height of the pandemic in 2020 (figure 6). The trajectory of commodity prices, particularly for energy and food, remains uncertain and will be closely linked to the impact of ongoing geopolitical tensions on production and supply chains. Energy prices are likely to increase due to the persistence of multiple shocks and the risks associated with potential spread of the conflict in the Middle East. These risks have already begun to materialize, In the first week of October 2024, the price of Brent crude oil rose by more than 5% to $77.62 amid uncertainty over potential strikes on Iranian oil and nuclear facilities by Israel. The revised growth projections for Africa are therefore based on an expected upward trend of energy prices, with crude oil prices projected to rise by 1.2% in 2024 relative to 2023. However, prospects of a full resumption of oil production in Libya following the resolution of dispute between rival political factions could help mitigate concerns over supply disruptions. The impact of high oil prices on net oil exporters will depend on their ability to increase production in the short term. African countries with limited capacity to raise oil output due to several factors, such as insecurity in Nigeria are likely to miss opportunities of higher prices to increase export revenues and raise resources for investment in public infrastructure and social services. This could stifle prospects for higher medium-term growth prospects.

On the other hand, developments in the Middle East are less likely to significantly influence the global supply and price of food, as this region's contribution to food production and distribution is limited.[4] Consequently, the pace of decline in food prices on the continent is expected to remain slow, with possible fluctuations driven by local factors including, but not limited to climate change induced weather conditions and insecurity-related threats to supply. Elevated food prices will perpetuate the cost-of-living crisis due to high food inflation and this is likely to pose further risks to food security and place additional pressures on fiscal space as governments strive to protect the most vulnerable.

Figure 6: Global Commodity price indices, January 2020–Sept 2024



Source: Staff calculations based on the World Bank Commodity database.

[4] World Bank's 2024 Commodity Markets Outlook. The report shows that the Middle East conflict's effects on global commodity markets have been limited so far. Overall oil prices have not risen significantly since the start of the conflict. Prices of agricultural commodities, most metals, and other commodities have barely budged.

4. Risks to the Outlook

Africa's projected medium-term growth prospects are subject to a myriad intervening factors highlighted above. Both global and domestic risks remain high and could further disrupt the recovery. However, Africa's growth prospects could improve provided the global economy remains resilient, headline inflation continues its downward trend, and sustained progress is made on debt restructuring under the G20 Common Framework and other debt relief initiatives.

UPSIDE RISKS

- **Global inflation may recede faster than expected, which could trigger a normalization of monetary policy and enable stronger growth for Africa.** Largely reflecting the steep drop in inflation while remaining persistent, global inflationary pressures are easing with IMF estimates indicating a moderation albeit at a slower pace than anticipated. Global inflation is projected to decrease from 5.7% in 2023 to 5.3% in 2024 and 3.5% in 2025. This downward trend in inflation results from lower prices for goods, which is likely to offset persistent price pressures in consumer services and a partial rebound in energy costs in the recent period. Declining inflation may accelerate the normalization of monetary policy already underway in Africa's key trading partners, such as Europe, the US, and China, stimulating economic activity in these regions. With growth acceleration in these areas, demand for African exports may rise, enhancing Africa's medium-term growth prospects.

- **Further progress in debt restructuring and fiscal consolidation can further boost growth.** Sovereign debt levels in Africa are slowly returning to pre-pandemic levels. Continued fiscal consolidation efforts and successful debt treatments could accelerate the downward trend in public debt, further improving the fiscal outlook and positively impact growth in the short to medium term. Under the G20 Common Framework (CF), some African countries are at risk of debt distress – Chad, Zambia, Ghana, and Ethiopia – have benefited from the provision of debt treatments and relief. For example, following the signing of a memorandum of understanding, Zambia, has reached an agreement with external bondholders to restructure $3 billion of debt. Similarly, Ghana has reached an agreement with official bilateral creditors to restructure $5.4 billion of debt as well as with external bondholders to restructure $13 billion of its debt. These countries are making progress towards restoring debt sustainability, aided by debt treatment, subsequent IMF-supported programs, and related financing, as well as budget support from development finance institutions. These developments offer optimism for other African countries facing debt vulnerabilities, and considering the potential for additional countries to join, these debt relief initiatives could reinforce domestic fiscal consolidation efforts and free up additional resources needed to spur growth in Africa.

DOWNSIDE RISKS

- **While the global economy secured a soft landing, downside risks are increasing and now dominate the outlook.** While global disinflation has continued broadly, the pace has shown some signs of slowing, and the delay in the fight against disinflation constitutes a risk to the global economy and financial markets. In addition, growth in China for 2024 has been revised downward in the IMF's October 2024 WEO, posing risks to the global economy. Adding to these risks is a potentially deeper Chinese property market contraction with potential negative implications on global economic growth. Likewise, heightened financial volatility and sudden market selloffs such as those that occurred in early August 2024 could lead to another monetary policy tightening cycle and exacerbate debt distress and currency market volatility in Africa. Furthermore, the outcomes of elections in some major advanced economies could significantly affect multilateralism and lead to a shift in global trade towards greater protectionism that could weigh down the global economy.

- **Persistent geopolitical fragmentations could exacerbate policy uncertainty amid multiple shocks that African countries continue to face.** Geopolitical tensions and escalation of the conflict in the Middle East will affect growth prospects globally through disruptions in trade routes with implications on commodity and energy prices. The IMF's growth forecast for Sub-Saharan Africa alone has been revised downward by 0.1 percentage point for 2024, partly on account of the ongoing conflict in the Middle East.[5] Furthermore, IMF estimates indicate that all African regions except North Africa could experience a permanent decline of up to 4% of GDP after 10 years due to geopolitical tensions and stand to lose an estimated $10 billion of FDI and official development assistance (ODA) inflows.[6] Moreover, deeper fragmentation would restrict cross-border technological diffusion and hinder innovation, reducing productivity and employment opportunities from migration. For debt restructuring negotiations under the G20 Common Framework, fragmentation could hinder creditors' coordination and delay sovereign debt restructuring negotiations.

  Likewise, deeper geoeconomic fragmentation could undermine the effectiveness of policies to address environmental challenges, including the shift toward low-carbon economies.

- **Regionally, the decision of Mali, Niger, and Burkina Faso to permanently withdraw from ECOWAS could affect these countries** through restricted access to regional and international financing flows and trade channels. According to a recent World Bank's assessment of the potential economic impacts of the three countries' withdrawal, concessional financing flows from MDBs to these countries has stalled.[7] Moreover, the borrowing cost from the regional market of the West African Economic and Monetary Union (WAEMU) has risen for the three countries, with Mali and Burkina Faso's regional bond issued in February 2024 (following the announcement of their withdrawal from ECOWAS) having been undersubscribed at yields above 10%.[8] As these countries conclude their formal exit from ECOWAS, the continued absence of external budget support, combined with tighter financing conditions across the WAEMU regional market will exacerbate borrowing costs and funding squeeze. Furthermore, across the continent, looming debt repayments in 2024-2025 could exacerbate external funding squeeze and liquidity pressures, narrowing the scope for government spending on infrastructure and investment in human capital, and increasing debt vulnerabilities. Although African countries are re-accessing the Eurobond market due to the recent easing of the global financial market, the fact that most of these issuances are meant to clear previously issued debts is a cause for concern.

- **The effect of regional and domestic conflicts as well as emerging health pandemics are taking a toll on several African countries.** Since 2020, Africa has witnessed a resurgence in social unrest and internal conflicts in several countries including Kenya, Sudan, and the

[5] World Economic Outlook, October 2024
[6] Zhang and Reyes 2023.
[7] « Evaluation préliminaire des impacts économique potentiels de la sortie du Burkina Faso, Mali et Niger de la CEDEAO », World Bank, 2024.
[8] Current average 3-year bond yields are 9-10 % for Mali and Burkina. Their February 2024 bond issues after the announcement of withdrawal from ECOWAS were undersubscribed at higher yields

Democratic Republic of Congo. In Kenya for instance, efforts to implement austerity measures and expand domestic resource mobilization through the 2024 Finance Bill faced a backlash culminating in the June 2024 public unrest. The decision of the government to suspend the implementation of the bill eased social tensions but created an estimated financing gap of $2.4 billion[9]. Sudan has been plagued by decades of civil unrest, and in 2023 the conflict escalated to major parts of the country. The ongoing conflict has raised policy uncertainty and hampered capital inflows, created a humanitarian crisis, further jeopardizing Sudan's progress in meeting the sustainable development goals (SDGs). To date, Sudan remains in recession with a projected economic contraction of 9.2% in 2024. The security situation in the eastern region of the Democratic Republic of Congo (DRC) remains tenuous, with several pockets of fragility and conflicts spread across the country. Despite abundant minerals and being Africa's top producer of copper and the world's top producer of cobalt, as well as second largest country in Africa by size, the World Bank (2024) estimates that about 74.6% of the DRC's population live below $ 2.15 per day in part due to fragility.[10] Furthermore, the spread of Mpox is having a significant impact on the country due to a weak surveillance infrastructure, and overall fragility in health systems and economy more generally. According to the IMF's estimates, the pressure on the country's public finances, including for vaccine procurement, could amount to more than 1% of GDP.[11] Several cases have also been reported in other parts of central and eastern Africa and the virus is likely to spread further.

- **Climate related shocks have become frequent, taking a toll on agricultural production and productivity as Africa faces constrained financing.** Climate related shocks have caused significant economic losses and humanitarian damage while stretching public resources thin as governments implement measures to mitigate damages and protect the most vulnerable. Torrential rains and severe flooding have affected more than 2.3 million people in West and Central Africa in 2024, with Chad, Nigeria, Mali, and Niger hardest hit.[12] These severe floodings have robbed people of vital livelihoods, worsened economic prospects, and driven food insecurity among the most vulnerable. With critical infrastructure damaged or destroyed and large swaths of land unreachable, access to essential services like health care, education, and markets has been severely disrupted. Moreover, the severe drought in Southern Africa with crippling power cuts and low agriculture production, particularly in Malawi, Namibia, Zambia, and Zimbabwe, have significantly affected economic activity and food security in these countries. It is estimated that during periods of high climate related shocks, Africa loses about 5% of GDP as 9 % of budgeted funds are reallocated to mitigate the effects of climate change.[13]

[3] Republic of Kenya (2024). The National Assembly of Kenya, on 25 July 2024 voted to reject the 2024 Finance Bill following President Ruto's decision to reject the Bill due to country wide demonstrations: http://parliament.go.ke/index.php/node/22244

[10] World Bank (2024): The World Bank in the Democratic Republic of Congo.

[11] IMF Regional economic outlook for Sub-Saharan Africa, October 2024

[12] https://www.unocha.org/publications/report/chad/west-and-central-africa-flooding-situation-overview-6-september-2024

[13] World Meteorological Organization (2024). Africa faces disproportionate burden from climate change and adaptation costs.

Policy recommendations

Many African countries are facing macroeconomic imbalances and elevated vulnerabilities, marked by fragile economic landscape with growth projection downgraded to 3.2% in 2024 and persistence in inflationary pressures. In addition, despite fiscal consolidation measures helping to stabilize debt to GDP ratio, it remains at elevated against a backdrop of low debt service capacity and rising debt service burdens, eroding the resources available for development spending. On the external position, many countries face rising short-term external financing needs, and this is taking a toll on their foreign exchange reserve buffers and creating exchange rate depreciation pressures. Navigating these imbalances and vulnerabilities represents a difficult balancing act which will require well calibrated short, medium and long-term policy priorities along with support from the international community.

In the short run, proper coordination among fiscal, monetary and exchange rate policies can help narrow the domestic macroeconomic imbalances and reduce associated vulnerabilities which if left unattended could jeopardize medium-term growth prospects:

- **On fiscal policy,** there is a difficult tradeoff facing many countries in addressing debt vulnerabilities while sustaining growth-promoting public spending and satisfying elevated spending pressures for basic public services. In this context, improved public finances focused on revenue mobilization should be the first order policy option in an environment of heightened funding squeeze and building liquidity pressures. Top priority should be given to minimizing the adverse impact of fiscal consolidation measures, both in the form of higher taxes or deep expenditure cuts on lives and livelihoods, especially for the most vulnerable segments of the population. For some countries, especially those in high risk of debt distress or in debt distress, there is still a pressing need for debt restructuring and concessional funding from the international community to shore up fiscal buffers.

- **On monetary and exchange rate policy,** with inflation receding in many countries and growth still fragile, the main dilemma is whether to keep the policy rates unchanged or start reducing them now. Currently, 33 African countries have maintained their restrictive stance and kept their policy rates unchanged since May 2024 while 12 countries have eased the policy stance and four have started a tightening cycle to anchor inflation. While the appropriate timing of rate cuts will depend on the persistence of inflationary pressures, monetary policy should remain focused on ensuring price stability to ensure credibility and anchor expectations, which are necessary to bring down inflation and pave the way for monetary policy accommodation over the next few years to support stronger growth. Coordination between fiscal, monetary, and exchange rate policies is crucial, but key is to ensure that these policies remain responsive and reinforce each other rather than be conflicting.[14] This is important, especially for countries that are shifting from a fixed to a flexible exchange rate regime. Regarding exchange rate policy, persistent external pressures facing many countries justify letting the exchange rate depreciate given low foreign exchange reserves to avoid creating market distortions.

- **In the long run,** implementing structural reforms including expediting trade integration and improving the business environment to attract more foreign direct investment could diversify funding sources and the economy. Given the difficult external financial environment and growing financing needs especially for the green transition,

[14] For more details on the coordination of fiscal and monetary policies, see IMF, 2024

African countries will need more support from the international community, including from multilateral and regional development banks. A reform of the international financial system as discussed in AEO 2024 could provide more funding to help developing and emerging countries fight poverty, tackle global challenges, including climate change, and maximize development impact.

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