AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK

JANUARY 2023

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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FOREWORD

Global macroeconomic conditions have recently become increasingly uncertain with the persistence of multiple shocks that make policymaking and investment decisions very challenging. The highly volatile external environment has spilled over to the African continent, threatening to halt the gradual recovery from the lingering effects of the COVID-19 pandemic. The dynamic and persistent nature of global shocks and their interaction with prevailing pockets of domestic and regional risks require regular diagnosis and targeted policy actions to address their impact on African economies.

Against this backdrop, *Africa's Macroeconomic Performance and Outlook*—the Bank's new biannual publication to be released in the first and third quarters of each year—aims to provide African policymakers, global investors, researchers, and other development partners with an up-to-date evidence-based assessment of the continent's recent macroeconomic performance and short- to medium-term outlook amid dynamic global economic developments. The new report will be updated with forecasts and analysis from the surveillance of regional and global macroeconomic developments. And it will complement *African Economic Outlook,* the Bank's annual flagship publication, which will be launched on the sidelines of the Annual Meetings in May of each year. This year's edition will focus on policies to mobilize private financing for climate change and green development in Africa.

The release of this first edition of *Africa's Macroeconomic Performance and Outlook* comes at a time when African economies face significant headwinds as global and domestic shocks undermine progress toward restoring macroeconomic and social stability and sustaining economic recovery due to higher living costs stoked by rising inflationary pressures. Our estimates show that Africa's average real gross domestic product (GDP) growth slowed to 3.8 percent in 2022. The slowdown reflects the impacts of downside factors, including spillovers from rising geopolitical tensions, climate change risks, and the lingering impacts of the COVID-19 pandemic, which have been amplified by tightening global financial conditions and the associated increase in domestic debt service costs.

Despite the challenging external environment, Africa has demonstrated continued resilience, with all but one country maintaining positive growth in 2022 and with outlooks stable for 2023 and 2024. Africa's GDP growth is projected to average about 4 percent in 2023 and 2024, higher than the projected world averages of 2.7 percent and 3.2 percent, respectivel. The top five performing African countries before the COVID-19 pandemic are projected to grow by more than 5.5 percent and could reclaim their position among the world's top 10 fastest growing economies in 2023–24. The projected stability in medium-term growth in Africa largely reflects the benefits of policy support in Africa, global efforts to mitigate the impacts of exogenous shocks and rising uncertainty, and stable growth in Asia, one of Africa's main trading partners.

However, this welcome recovery and the economic resilience of African economies come with a cautious optimism. Global financial conditions have tightened and are projected to remain restrictive in the near term, compounded by increased volatility in global financial markets and persistent disruptions in global supply chains. This could put further pressure on exchange rates and keep debt vulnerabilities and domestic inflation elevated, threatening food and energy security in most African countries.

This edition of *Africa's Macroeconomic Performance and Outlook* recognizes the difficult challenges that African economies face in navigating the multiple overlapping global risks. The report thus advocates for bold policy actions at the national, regional, and global scales to help African economies mitigate the compounding risks. The Bank reiterates its call for accelerating implementation of structural reforms to enhance government-enabled private sector industrialization in key sectors. In agriculture and agribusiness. In climate-smart and just energy transitions. In value chain development in natural resource sectors, especially in minerals for green development. In quality health care infrastructure and pharmaceutical industries. In digitalization and e-governance. And more.

The report also presents policy options to mitigate the effects of tighter global financial conditions and to revitalize financial flows to Africa. Tapping into the private sector's accumulated savings (at home and abroad) and channeling them to urgently finance infrastructure and social development will be key as the continent continues to build back better to secure a resilient, prosperous, and sustainable future for all Africans.

I am very pleased to release *Africa's Macroeconomic Performance and Outlook 2023.* Let us stand together to build the Africa We Want —a continent that continues to play pivotal roles in improving the quality of its citizens' lives and contributing to the sustainability of economies everywhere.

Dr. Akinwumi A. Adesina
President, African Development Bank Group

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Preparation of the report was supervised by Abdoulaye Coulibaly, Director (Governance and Economic Reforms) and Director (Officer-in-Charge), Macroeconomic Policy, Forecasting, and Research Department (ECMR). The core team comprised Anthony Simpasa (Acting Division Manager, Macroeconomic Policy, Forecasting and Debt Sustainability, ECMR.1), Hammed Amusa, Francis Leni Anguyo, Lacina Balma, Alexandre Kopoin, Adamon Mukasa, Dawit Tessema, and Andinet Woldemichael, all from ECMR.1. The report was co-led by Francis Leni Anguyo and Alexandre Kopoin, with contributions from the core team. Assi Okara, Zackary Seogo, James Ochieng Banu, Yaye Betty Camara, Julian Slotman, Blaise Gnimassoun, Zeineb Cherif, Tadadjeu Sosson, and Mercy Tacia contributed to various sections of the report. Promise Aderibigbe and Michael Abah provided administrative support.

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KEY MESSAGES

Following the impressive recovery in 2021 after the shock of the COVID-19 pandemic, African economies slowed amid significant headwinds in 2022, but they remain resilient with a stable outlook. The slowdown in economic growth has been due to a confluence of factors, including the growing impacts of climate change, persistent COVID-19 risks in Africa and globally, and the spillover effects of rising geopolitical tensions such as evolving flashpoints of conflict and insecurity on the continent and Russia's invasion of Ukraine.[1] These domestic and external shocks have led to substantial volatility in global financial markets, fueled inflationary pressures, increased the costs of capital and of debt servicing, disrupted global supply chains (especially in food and energy markets), and softened demand in major export markets, especially in Europe and China, Africa's main trading partners.

As in many emerging market economies, tightening financial conditions and the appreciating US dollar have had dire consequences for most African economies. They have increased the cost of servicing existing debt and heightened the risk of debt distress. They have also restricted access to international capital markets for new financing to meet fiscal needs. And they have greatly amplified instability in foreign exchange markets and pushed price stability beyond the grasp of most central banks. This comes at a time when African countries' fiscal positions have already been stretched by COVID-19 policy responses and support for vulnerable populations against rising food and energy prices amid high debt and greater physical impacts of climate change.

The estimated average growth of real gross domestic product (GDP) slowed to 3.8 percent in 2022 from 4.8 percent in 2021—and is projected to stabilize at 4 percent over 2023–24. The slowdown reflects the confluence of the domestic and external shocks just highlighted. In addition, the downward revision of Libya's real GDP growth for 2021 from 177.3 percent to 28.3 percent due to updated oil production data dwarfed the marginal declines in other economies. This is evidenced by the 2.1 percentage point downgrade of the continent's average growth rate for 2021. The stable outlook projected for 2023–24 reflects continuing policy support in Africa and global efforts to mitigate the impact of external shocks and rising uncertainty. China's anticipated reopening after three years of zero-COVID policy and the stable growth outlook for Asia could bolster Africa's growth in the medium term. An important market for Africa's commodities, Asia accounts for about 40 percent of the continent's total merchandise exports.

Despite the confluence of multiple shocks, growth across all five African regions was positive in 2022—and the outlook for 2023–24 is projected to be stable (figure 1).

- *Central Africa.* Bolstered by favorable commodity prices, growth is estimated to have been the continent's fastest, at 4.7 percent, up from 3.6 percent in 2021.

1. Agreed wording at the 2022 African Development Bank Group Annual Meetings in Ghana. Algeria, China, Egypt, eSwatini, Namibia, Nigeria and South Africa entered a reservation and proposed "Russia–Ukraine Conflict."

- *Southern Africa.* Growth decelerated the most, to about 2.5 percent in 2022 from 4.3 percent in 2021. This slowdown reflects subdued growth in South Africa, as higher interest rates, weak domestic demand, and persistent power outages weighed on the economy.
- *West Africa.* Growth is estimated to have slowed to 3.6 percent in 2022 from 4.4 percent in 2021, reflecting decelerations in Côte d'Ivoire and Nigeria, the region's two large economies. Though hit by the COVID-19 pandemic, insecurity, and weak oil production (despite higher international oil prices), Nigeria could benefit in 2023 from ongoing efforts to restore security in the restive oil-producing region. A peaceful political transition following the 2023 elections could further boost investor confidence. Nigeria's recovery in 2023 could help raise West Africa's average growth to more than 4 percent in the medium term.
- *North Africa.* Growth is estimated to have declined by 1.1 percentage point, to 4.3 percent in 2022 from 5.4 percent in 2021, due to the sharp contraction in Libya and the drought in Morocco. Growth is projected to stabilize at 4.3 percent in 2023, supported by a projected strong rebound in the two countries and sustained growth elsewhere in the region.
- *East Africa.* Growth is estimated to have moderated to 4.2 percent in 2022 from 5.1 percent in 2021 but is projected to recover to the prepandemic average above 5.0 percent in 2023 and 2024. While East Africa's production structure is relatively diversified, countries in the region are largely net importers of commodities. They thus bear the brunt of high international prices in addition to recurrent climate shocks and insecurity, particularly in the Horn of Africa.

Despite the confluence of multiple shocks, growth across all five African regions was positive in 2022—and the outlook for 2023–24 is projected to be stable

Slowing global demand, tighter financial conditions, and disrupted supply chains had differentiated impacts on African economies. The impacts of shocks on resource-intensive economies and major commodity exporters varied in 2022 depending on the type of exported commodities. Overall, the outlook is positive, with prices for key exports remaining high and competition for Africa's natural resources expected to grow as advanced economies look for alternative food and energy markets and for mineral resources to support their green transitions.

- *Tourism-dependent economies* are estimated to have grown by 6.3 percent in 2022, up from 4.2 percent in 2021, buoyed by easing COVID-19 pandemic risks and by household savings accumulated during the pandemic in tourism-source countries. But with inflation rising in tourism-source markets, growth is projected to slow slightly, to 5.1 percent in 2023.
- *Oil-exporting countries,* which account for about 51 percent of the continent's GDP, are estimated to have weakened marginally, to 4.0 percent growth in 2022 from 4.2 percent in 2021. This was due to a sharp growth deceleration in Libya and subdued growth in Nigeria, the group's largest economies. Their growth is projected to stabilize at 4.1 percent in 2023 thanks to the expected reduction in political risks in Libya and the projected improvement in oil production in Nigeria, as prices remain elevated relative to the downturn during the pandemic.
- *Other resource-intensive economies* are estimated to have declined to 2.8 percent growth in 2022 from 4.7 percent in 2021. The deceleration reflects structural weaknesses, inadequate electricity generation, subdued household consumption spending because of high inflation, and weak global demand. As with their oil-exporting peers, average growth for this group could inch higher, to 3.0 percent in 2023, as market conditions improve.
- *Non-resource-intensive economies* are estimated to have declined to 4.3 percent growth in 2022 from 6.3 percent in 2021, weighed down by the effect of heightened inflation on household consumption and subdued global demand for exports. These economies, most of them net oil importers, have suffered from high energy prices and elevated food prices, which are likely to have dampened household consumption spending.

Tighter global financial conditions put pressure on African domestic currencies, raising the risk from already high inflation, but inflation is projected to ease in 2023 as countries sustain restrictive monetary and structural

policies. The tighter global financial conditions destabilized the foreign exchange markets of most African countries, but the dynamics were mixed. Most African currencies, especially in commodity-exporting countries, lost substantial value against the US dollar in 2022 due to monetary policy tightening in the United States. Depreciation rates ranged from 21 percent in Malawi to 24 percent in Sierra Leone to 33 percent in Ghana to 69 percent in South Sudan. Other African currencies appreciated, including 29 percent in Angola, 16 percent in Seychelles, and 14 percent in Zambia. While depreciation rates are projected to slow in 2023 and 2024, currency weaknesses in Africa's more globally integrated economies (Algeria, Kenya, Nigeria, and South Africa) are expected to persist in 2023, due largely to continuing tight global financial conditions and weak external demand.

Average consumer price inflation is estimated to have increased by 0.9 percentage point, to 13.8 percent in 2022 from 12.9 percent in 2021, the highest in more than a decade. It reached double digits in 19 African countries, with the highest rates in East Africa (25.3 percent), West Africa (16.8 percent), and Southern Africa (13.2 percent). Rates remained in the single digits in North Africa (8.1 percent) and Central Africa (7.3 percent). Zimbabwe recorded the largest increase—to 285 percent in 2022 from 98.5 percent the previous year —driven partly by markup pricing of imports as the economy continued to grapple with prolonged economic challenges. Inflation also remained elevated in Malawi (21.7 percent) and Angola (18.6 percent). The inflationary pressures in 2022 can be attributed mostly to imported inflation driven by the pass-through effects arising from Russia's invasion of Ukraine on food and energy prices and by sustained global supply chain disruptions. Average inflation is projected to gradually ease—declining to 13.5 percent in 2023 and to 8.8 percent in 2024, below the 9.1 percent in 2019 (before the COVID-19 pandemic) and the 9.6 percent average between 2014 and 2018. The current wave of monetary policy tightening and the improvement in domestic food supply conditions could slow price increases. Central Africa will experience relatively low inflation, projected at 5.7 percent in 2023, partly reflecting its coordinated monetary policies and the benefits of a stable regional currency.

Africa's current account deficit narrowed slightly, to 1.5 percent of GDP in 2022 from 1.7 percent in 2021, due to improved trade balances buoyed by higher commodity exports. The deficit is projected to stabilize at 1.6 percent of GDP in 2023–24, supported by the knock-on effects of commodity prices on net commodity importers and exporters. Similarly, the average fiscal deficit is estimated to have narrowed to 4.4 percent of GDP in 2022 from 5.2 percent in 2021, thanks to fiscal consolidation measures by several countries. Rising commodity prices boosted revenues in net exporters. And tourism earnings rose as tourist arrivals firmed after COVID-19 pandemic risks subsided and the associated restrictions eased.

The welcome recovery and the economic resilience of African countries in the short to medium term come with cautious optimism given the considerable global uncertainty. The risks of debt default could increase in some African countries—given the already high accumulation and changed structure of public debt in the past decade, the additional financial pressures created by the appreciating US dollar, and the tightening monetary conditions globally. The high dependence on exports of primary commodities with limited value addition could delay the structural transformation presented by the green transition. In addition, political risks could rise in 30 African countries. Among them, Algeria, Democratic Republic of Congo, Egypt, Ethiopia, Libya, Madagascar, Nigeria, South Africa, and Zimbabwe are scheduled to hold national elections in 2023 or 2024. And with the low rates of COVID-19 vaccination (currently 26 percent), there is moderate risk of new variants emerging across Africa, which could be amplified with a full reopening of the global economy. Last, there is low to moderate risk of sustained geopolitical tensions, and an escalation of Russia's invasion of Ukraine could further disrupt global supply chains and commodity markets. (Figure 2 presents the outlook for countries' key macroeconomic indicators.)

The welcome recovery and the economic resilience of African countries in the short to medium term come with cautious optimism given the considerable global uncertainty

The main downside risks to the outlook are:

- High interest rates, which could exacerbate the cost of debt service and slip some countries into a high risk of debt distress.
- Losses and damages due to extreme weather events.
- Dependence on commodity exports with limited value addition.
- Regional conflicts in key hotspots such as Burkina Faso, Democratic Republic of Congo, Ethiopia, Mali, and Mozambique.
- Political risks due to upcoming national elections in some countries.

Bold policy actions are needed to address the effects of rising inflation and subdued growth

An estimated 15 million additional people were driven into extreme poverty in Africa due to higher global energy and food prices in 2022, exacerbating the increase in extreme poverty induced by the COVID-19 pandemic. Poorer households suffered disproportionately from high commodity prices, losing on average about 0.9 percent of real income per capita due to rising food prices and 1.2 percent due to surging energy costs. Some countries recorded much deeper declines in per capita income. In contrast, the richest 10 percent of the continent's population suffered smaller losses—0.7 percent from higher food prices and 0.9 percent from higher energy costs, due largely to lower food and energy shares in their budgets.

Bold policy actions are needed to address the effects of rising inflation and subdued growth. A mix of monetary, fiscal, and structural policies includes:

- Timely and aggressive monetary policy tightening in countries with acute inflation and cautious tightening in countries where inflationary pressures are low.
- Effectively coordinating fiscal and monetary actions to optimize outcomes of targeted policy intervention to tame inflation and fiscal pressures.
- Enhancing resilience by boosting intra-Africa trade, especially in manufactured products, to cushion economies from volatile commodity prices.
- Accelerating structural reforms to build tax administration capacity and investments in digitalization and e-governance to enhance transparency, reduce illicit financial flows, and scale up domestic resource mobilization.
- Improving institutional governance and enacting policies that can leverage private financing, especially in climate-proof and pandemic-proof greenfield projects—and mobilizing Africa's resources for inclusive and sustainable development.
- Taking decisive action to reduce structural budget deficits and accumulation of public debt in countries facing a high risk of debt distress or already in debt distress.
- Scaling up support to the most vulnerable people to cushion the impact of rising food and energy prices in countries with some fiscal room to maneuver.
- Managing foreign exchange reserves to reduce exchange rate volatility and enhance export competitiveness.

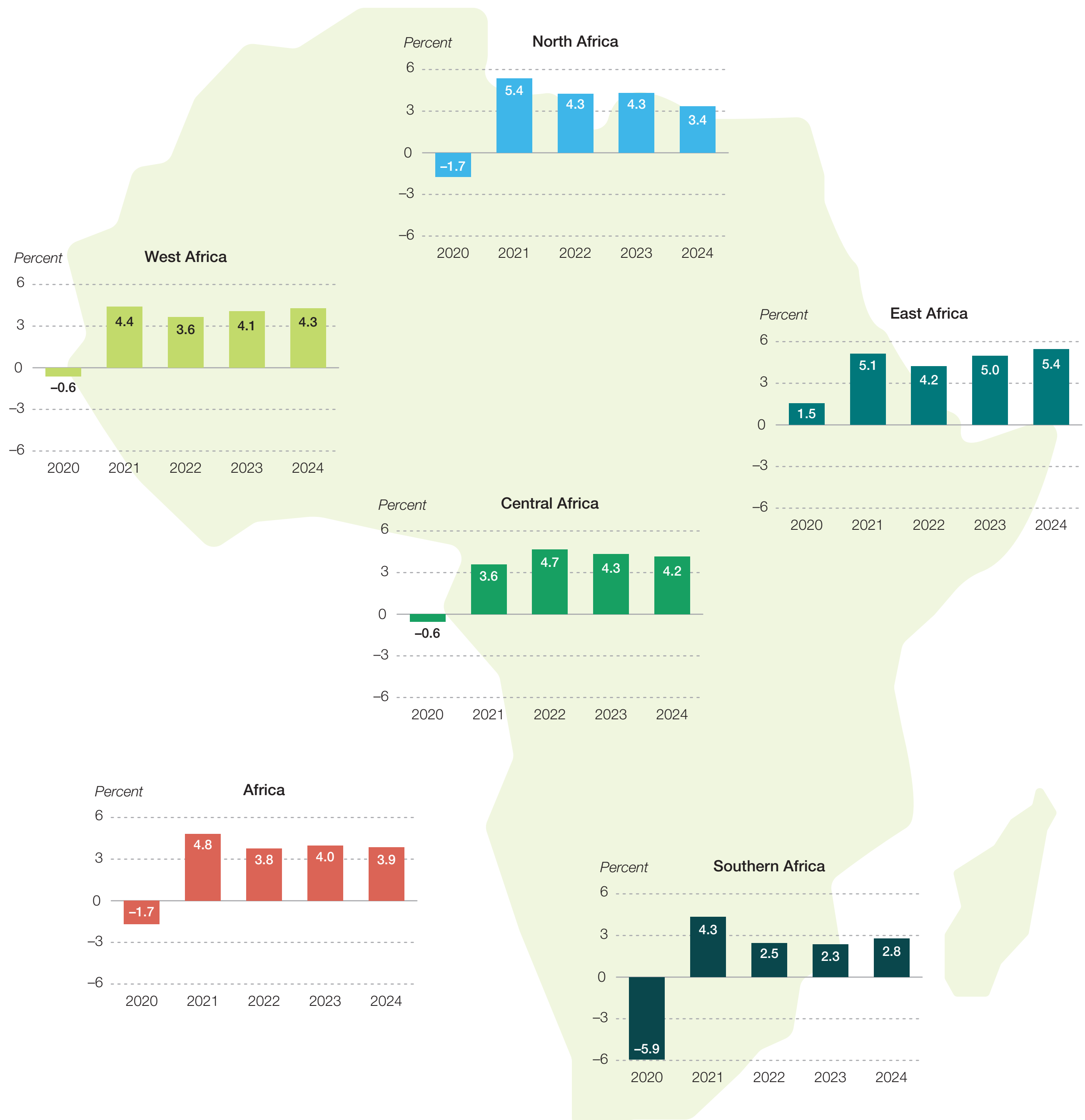
Strategic industrial policies are needed to correct market failures, drive export orientation, and encourage healthy competition in key sectors. The penetration of Africa's exports into international markets is held back by industrial policies that fail to support competition and value addition to its primary products. African economies have to rethink their development models by harnessing private sector opportunities. They have to catalyze climate-smart agriculture and agribusiness. They have to transform their energy sector by favoring the emergence and development of gas-to-power, green hydrogen, and other renewable energy manufacturing industries. They have to foster healthcare infrastructure and pharmaceutical industries, in line with national resource endowments and market competitiveness. And they have to support local content development and franchising to develop value chains and get more value from natural resources, especially in countries with minerals for green development.

African countries need to boost regional trade to enhance resilience to spillovers from the global economic slowdown and reduce persistent trade deficits. Structural reforms to boost regional trade can build a more vibrant regional market in the medium to long term. That requires accelerating investments in regional hard and soft infrastructure, including regional transport and logistics. It also requires promoting the free movement of goods and services by removing trade and nontrade barriers. And it requires strengthening African payment systems. With the recent disruptions in global supply chains and calls for reshoring and friend-shoring trade, the African Continental Free Trade Area presents a major opportunity for countries to internalize shocks while improving their trade balances and building economic resilience.

To meet the significant financing gaps in Africa, it is imperative to enact policies that can mobilize and leverage private financing for development in Africa. Multilateral development banks and other development finance institutions should deploy their risk capital to catalyze private financing for inclusive growth and sustainable development in Africa. The global finance architecture should be refined to better align financial flows with inclusive growth and sustainable development without exacerbating debt vulnerabilities.

To meet the significant financing gaps in Africa, it is imperative to enact policies that can mobilize and leverage private financing for development in Africa

FIGURE 1 Growth performance and outlook, by region, 2020–24



Source: African Development Bank statistics.

FIGURE 2 Heatmap for the outlook of key macroeconomic indicators, by country, average, 2023–24

	GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
Algeria	2.3	6.7	3.4	–3.7
Angola	3.7	9.7	9.4	0.1
Benin	6.4	2.0	–4.0	–3.8
Botswana	3.8	7.1	3.1	1.0
Burkina Faso	3.3	6.9	0.1	–5.0
Burundi	4.4	9.5	–11.3	–4.8
Cabo Verde	5.2	3.9	–6.5	–5.0
Cameroon	4.2	3.0	–3.1	–1.8
Central African Rep.	3.6	3.9	–7.5	–3.8
Chad	3.7	3.0	–2.1	7.8
Comoros	3.3	3.1	–3.8	–2.8
Congo	4.4	3.1	5.4	5.9
Congo, Dem. Rep.	6.8	7.7	0.2	–2.5
Côte d'Ivoire	7.1	3.1	–5.0	–4.5
Djibouti	5.1	3.8	19.1	–2.7
Egypt	3.8	12.2	–3.0	–6.5
Equatorial Guinea	–7.3	5.4	–3.8	3.2
Eritrea	2.9	5.2	10.5	0.2
eSwatini	2.8	4.9	0.9	–3.4
Ethiopia	6.0	24.1	–3.9	–3.0
Gabon	3.2	3.0	–1.3	2.0
Gambia	6.4	9.9	–13.0	–2.3
Ghana	3.3	19.5	–4.2	–7.6
Guinea	5.4	10.3	–5.0	–3.3
Guinea-Bissau	4.6	3.4	–4.8	–3.8
Kenya	5.4	6.0	–5.2	–6.7
Lesotho	2.2	5.7	–4.7	–5.7
Liberia	4.4	7.0	–16.3	–4.0
Libya	12.9	3.5	23.7	20.5
Madagascar	5.3	7.4	–6.0	–7.1
Malawi	3.0	14.0	–12.0	–8.0
Mali	5.4	2.9	–7.1	–4.0
Mauritania	5.3	7.3	–9.3	–1.9
Mauritius	4.8	5.9	–6.6	–5.3
Morocco	2.9	2.4	–2.1	–5.0
Mozambique	6.5	7.8	–14.2	–3.7
Namibia	2.7	4.6	–5.5	–4.8
Niger	9.6	2.9	–13.4	–4.9
Nigeria	3.2	14.6	–0.4	–4.9
Rwanda	7.9	6.7	–10.8	–6.6
São Tomé et Príncipe	3.0	11.3	–9.6	–3.4
Senegal	9.4	3.1	–11.6	–4.8
Seychelles	5.2	2.5	–19.2	–1.2
Sierra Leone	3.8	24.0	–8.0	–2.9
Somalia	3.4	4.0	–14.6	–1.1
South Africa	1.6	5.0	–0.4	–4.5
South Sudan	2.2	14.2	0.7	–0.3
Sudan	2.7	78.7	–7.3	–4.3
Tanzania	5.6	5.1	–3.5	–3.1
Togo	6.3	3.0	–5.7	–5.7
Tunisia	2.4	8.0	–5.6	–7.3
Uganda	5.9	6.2	–8.0	–4.0
Zambia	4.2	8.3	–2.6	–7.9
Zimbabwe	2.9	120.4	0.3	–1.2

Note: Green indicates good performers on a particular indicator, yellow indicates fair performers, and red indicates weak performers. Real GDP growth above 6 percent is colored green, 4–6 percent yellow, and below 4 percent red. Inflation below 5 percent is colored green, 5–9.9 percent yellow, and above 10 percent red. Current account surplus is colored green, deficit of less than 5 percent yellow, and deficit of more than 5 percent red. Fiscal deficit of less than 3 percent is colored green, 3–5 percent yellow, and more than 5 percent red.

Source: Staff calculations.

1

GROWTH PERFORMANCE AND OUTLOOK

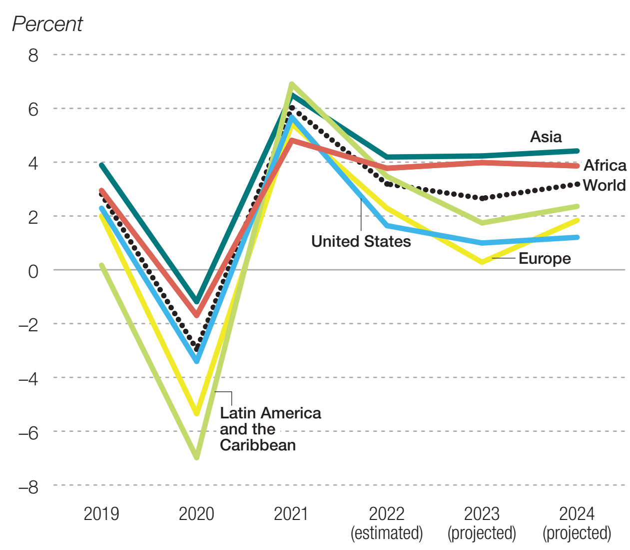
Although average growth in Africa is estimated to have slowed in 2022 after the strong recovery in 2021, the medium-term outlook remains stable

Africa's average real gross domestic product (GDP) growth is estimated to have slowed to 3.8 percent in 2022 from 4.8 percent in 2021, a marked downward revision from the 6.9 percent estimated in *African Economic Outlook 2022* (figure 1.1; see also appendix table A1.1).[1] The downward revision stems from adjusting Libya's real GDP growth to 28.3 percent in 2021, a nearly 150 percentage point reduction from the earlier estimate of 177.3 percent. The reduction reflects substantial downward adjustment in oil production, which has fluctuated with episodic outbreaks of armed insurgency and political instability, as rival factions fight for control of oil wealth.

The slower growth in 2022 is attributed mainly to the headwinds identified in *African Economic Outlook 2022*—the lingering effect of the COVID-19 pandemic, particularly in China, and higher global food and energy prices, reinforced by supply chain disruptions emanating from Russia's invasion of Ukraine—combined with tightening global and local financial conditions on African economies. Of the continent's 54 countries, 23—including the two biggest economies, Nigeria and South Africa—are estimated to have posted weaker growth in 2022. The biggest deceleration was in Libya, which shed 40.4 percentage points from the previous year's revised estimated growth rate, followed by eSwatini (6.6 percentage points) and Morocco (6.4 percentage points). Libya's macroeconomic situation remains tenuous. Despite the recovery in 2021, its economy is estimated to have contracted by 12.1 percent in 2022. The recession reflects protests that began in April 2022, resulting in blockades of several major ports and oil fields, causing production to fall to below the 2021 daily average of 1 million barrels.

Africa's estimated growth of 3.8 percent in 2022 is, however, stronger than the 2.9 percent in 2019 (before the COVID-19 pandemic) and the 3.3 percent average during 2014–18 (the end of the commodity supercycle). Africa's growth is projected to remain stable, averaging about 4.0 percent during 2023–24. The stabilized medium-term growth largely reflects policy support in Africa and global efforts to mitigate exogenous shocks and rising uncertainty. China's reopening after three years of zero-COVID policy and the stable growth outlook for Asia could bolster Africa's growth in

FIGURE 1.1 Real GDP growth, by region, 2019–24



Source: African Development Bank statistics and the International Monetary Fund's *World Economic Outlook,* October 2022.

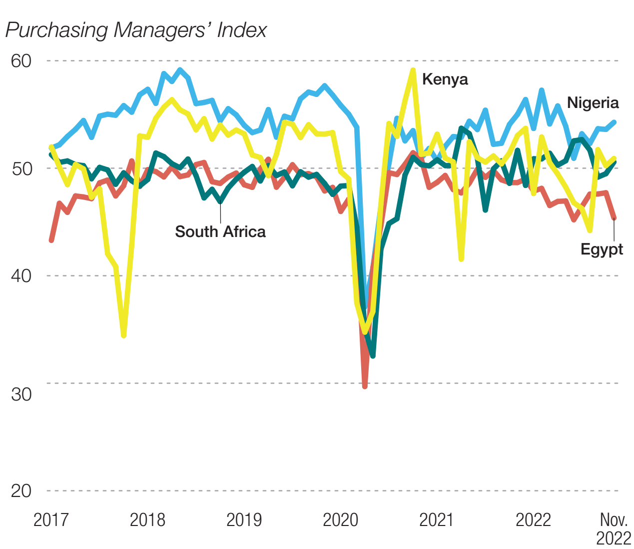
the medium term. Asia is an important market for Africa's commodities, accounting for about 40 percent of the continent's total merchandise exports. Africa's economic growth outlook could also greatly benefit from increased intraregional trade, which may offset some of the export losses attributed to sluggish demand in other major market destinations such as the United States and Europe.

Africa's top five performing economies before the COVID-19 pandemic are projected to grow by more than 5.5 percent on average and to reclaim their position among the world's 10 fastest growing economies. However, considerable risks remain on the evolution of the global oil prices and the attendant impact on growth across the continent. The global oil market remains uncertain due to output cuts by the Organization of the Petroleum Exporting Countries and Russia and due to the price cap imposed on Russia's oil by the G7 economies. Further escalation of Russia's invasion of Ukraine could keep oil and other commodity prices elevated for a prolonged period, while a quick resolution could ease inflationary pressures.

Africa's top five performing economies before the COVID-19 pandemic are projected to grow by more than 5.5 percent on average in 2023–24

Africa's estimated growth in 2022 lagged Asia's but surpassed Europe's and the world's average. The October 2022 edition of the International Monetary Fund's *World Economic Outlook* projected global growth of 3.2 percent in 2022 and 2.7 percent in 2023 (see figure 1.1). These projections reflect broad-based global weakness, led by the world's three largest economies—China, the euro area, and the United States. Recession is a near certainty in Europe and China, which posted one of the slowest growth rates in decades, and in the United States, inflation reached a four-decade high. This slowdown, which extends to other world regions, will have significant negative spillovers on demand for Africa's exports and investment flows and, in turn, on economic growth.

FIGURE 1.2 Purchasing Managers' Index values, selected countries, 2017–November 2022



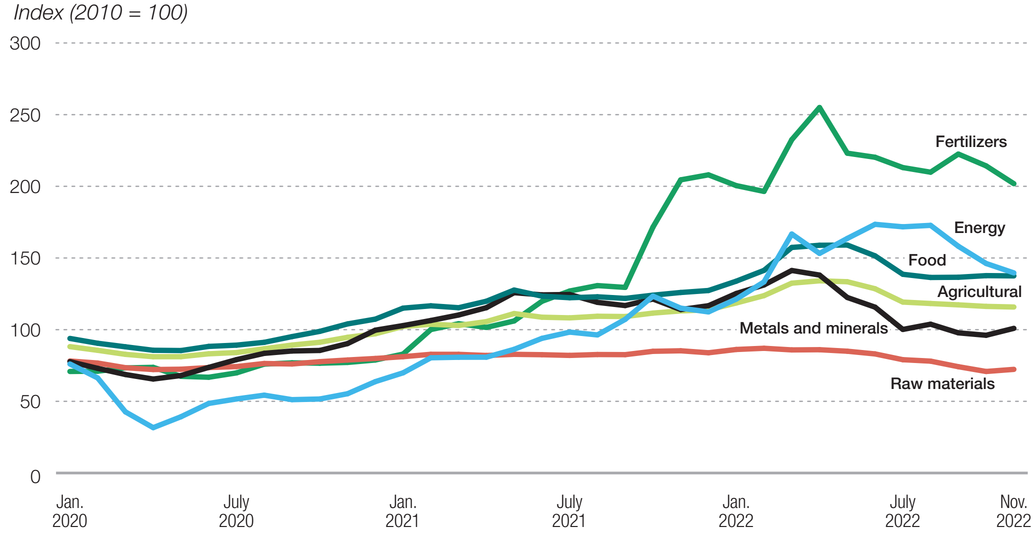
Source: Haver Analytics and IHS Markit.

High frequency leading indicators of economic activity, such as the Purchasing Managers' Index (PMI), also suggest subdued activity in four of Africa's top six economies, which account for at least half of the continent's GDP (figure 1.2). The PMI values for Egypt and Kenya, and to less extent for Nigeria and South Africa, have generally been on a downward trend since March 2022, suggesting sustained softening economic activity in these countries, reinforcing their growth slowdowns. From March to November 2022, Egypt's PMI value declined by 4.3 percent year-on-year, compared with an increase of 9.7 percent during the same period in 2021. The year-on-year PMI values also trended downward for Kenya (2.6 percent in 2022, against an increase of 8.5 percent in 2021) and Nigeria (0.2 percent in 2022, against an increase of 11.6 percent in 2021). The underwhelming performance on the PMI partly reflects monetary policy tightening to tame spiraling inflation.

Structural weaknesses also continue to hold back economic activity in some of the leading resource-rich economies. In South Africa, power outages have disrupted economic activity across all sectors, from retail and other services to manufacturing and mining. Nigeria's economic growth has been adversely affected both directly, by low oil production due to insecurity and aging infrastructure, and indirectly, through a cascading impact on nonoil sectors with strong links to the oil economy. Low oil production in Nigeria has eroded the positive price effect of high global oil prices, while rising global prices of food and fertilizer have fed into already elevated inflation.

Commodity prices rose in March 2022 (figure 1.3), immediately following Russia's invasion of Ukraine in February, but have since reverted

FIGURE 1.3 Global commodity price indices, January 2020–November 2022



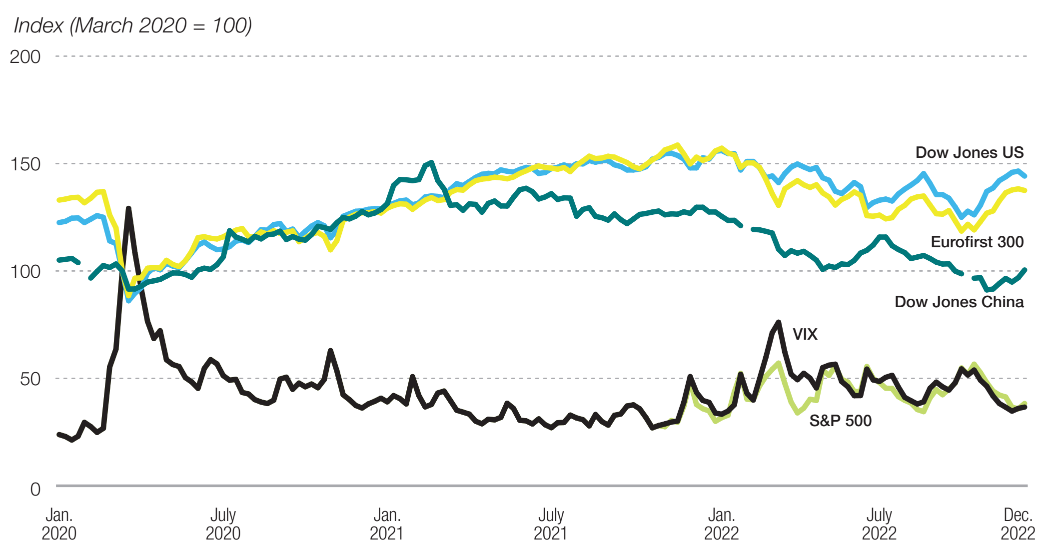
Source: Staff calculations based on data from the World Bank commodity database.

Instability in global energy supplies and prolonged conflict will continue to drive high prices

to the levels before the conflict, except energy prices. Energy prices rose by 27.6 percent, led by natural gas, and have been volatile on the upside due to supply uncertainty as Russia curtailed pipeline deliveries to Europe in response to sanctions imposed by the United States and its European allies. Instability in global energy supplies and prolonged conflict will continue to drive high prices.

Tightening global financial conditions due to interest rate hikes by central banks in advanced and emerging market economies has caused stress and increased volatility in global financial and stock markets (figure 1.4). For instance, between March and December 2022, the US Federal Reserve raised the federal funds rate by a cumulative 420 basis points to avert entrenchment of inflation that peaked at 9.1 percent in July—a

FIGURE 1.4 Leading global capital market indices, January 2020–November 2022



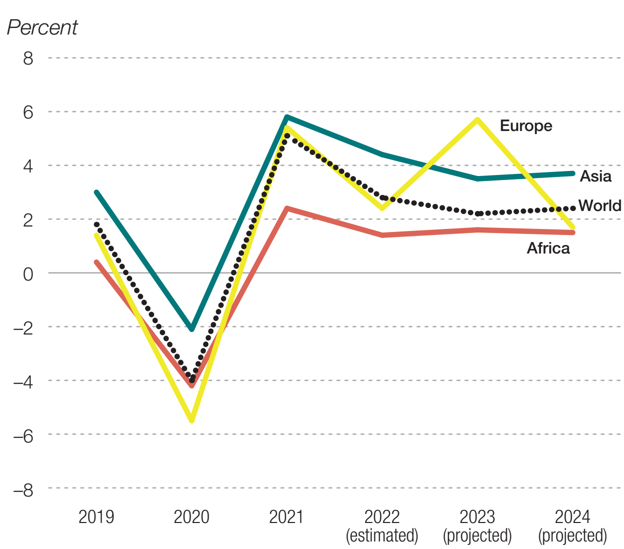
Source: African Development Bank statistics and Haver Analytics.

40-year high. Coupled with rising uncertainty and weak global sentiment, the globalization of financial risk from tight monetary policy and Russia's invasion of Ukraine has reinforced the need for tighter monetary policy by central banks in Africa (see discussions on policy rate changes in the monetary policy section below). African countries are also experiencing pressures from currency policy tightening, feeding into domestic inflation and weakening the prospects for faster economic growth.

Africa's subdued economic performance in 2022 has translated into weak per capita income growth (figure 1.5), posing considerable challenges to poverty reduction and possibly delaying reversal of income losses induced by the COVID-19 pandemic in 2020. Following a strong recovery in 2021, per capita income growth is estimated to have declined to 1.7 percent in 2022 from 4.5 percent, relegating Africa to the bottom of all regions. This trend could delay socioeconomic development, especially given that 24 countries are low-income, and the pandemic and Russia's invasion of Ukraine reversed earlier progress in poverty reduction.[2]

Africa's subdued economic performance in 2022 has translated into weak per capita income growth

FIGURE 1.5 **Real GDP per capita growth, by region, 2019–24**



Source: African Development Bank statistics; the International Monetary Fund's *World Economic Outlook,* October 2022; and United Nations Population Division estimates.

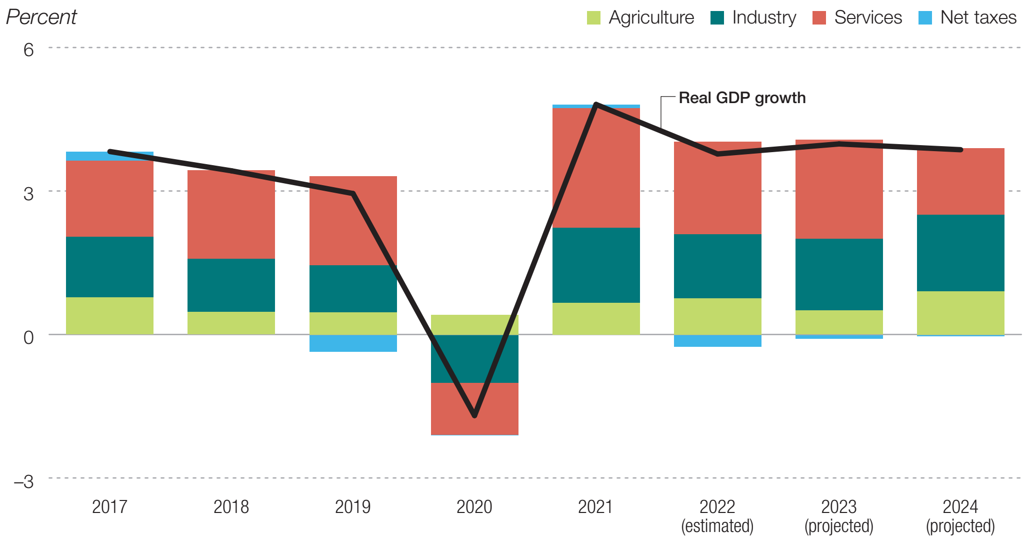
Sectoral and demand-side decomposition of growth

The contribution of private consumption and investment to growth declined considerably in 2022 on the demand side, as did the services sector's contribution on the supply side

On the supply side, services remained the dominant contributor to GDP growth. In 2022, the sector contributed 1.9 percentage points to overall growth, accounting for 48.1 percent, compared with 2.5 percentage points and 52.9 percent in 2021 (figure 1.6). The reduced contribution of services to overall real output growth was due to a broad slowdown in growth from the strong recovery in 2021. Although the contribution of services to growth is projected to rise to 2.1 percentage points in 2023, tight financial conditions pose a considerable challenge to this outlook, particularly for financial services and tourism. Similarly, the industrial sector recorded a material decline in its contribution to growth in 2022, to 1.3 percentage points from 1.6 percentage points in 2021, due in part to high inflation and production costs that subdued aggregate demand. Industry's contribution to growth is projected to average 1.6 percentage points in 2023 and 2024.

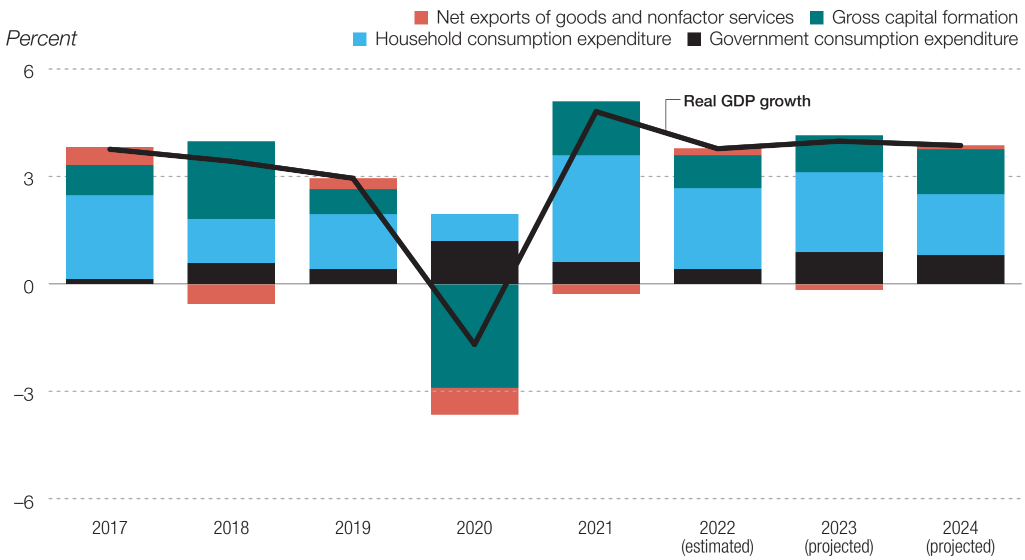
Private household consumption spending and investment (gross capital formation) have been the main drivers of growth on the demand side. In 2022, the two components respectively contributed 2.3 percentage points and 0.9 percentage points to Africa's estimated 3.8 percent GDP growth (figure 1.7). This was equivalent to about 84.6 percent of growth in aggregate domestic demand, much lower than the 93.3 percent in 2021 but higher than the average before the COVID-19 pandemic (the combined average contribution to growth was 80.4 percent in 2017–19, while the share for private household consumption was 50.1 percent, and the share for investment was 23.2 percent). The slack was taken up by net exports, which recovered strongly in 2022, contributing 0.2 percentage point to GDP growth (about 4.8 percent), up from −0.3 percentage point (–5.8 percent) in 2021. However, Africa's overdependence on exports of primary commodities with limited value addition—held

FIGURE 1.6 Sectoral composition of GDP growth, 2017–24



Source: African Development Bank statistics.

FIGURE 1.7 Demand-side composition of GDP growth, 2017–24



Source: African Development Bank statistics.

Private household consumption spending and investment (gross capital formation) have been the main drivers of growth on the demand side

back by industrial policies unsupportive of competition and value addition to its primary products—could delay the structural transformation presented by the green transition. African countries need to rethink their development models and implement strategic industrial policies to correct market failures and encourage healthy competition in key sectors to drive export penetration in global markets.

The declining contribution of private consumption and investment to growth in 2022 reflects rising inflation and tight financial conditions, which constrained private spending. In contrast, the positive contribution of net exports was reflected in improved terms of trade due to higher commodity prices. Over the past three years, the contribution of government consumption spending to GDP growth has been stable at about 0.7 percentage point, almost twice the average for the three years before the COVID-19 pandemic. Higher consumption spending since 2020 reflects expansionary fiscal policy to contain the impact of the pandemic as well as cushioning the domestic economy and households from shocks stemming from Russia's invasion of Ukraine. In the near term, high interest rates are likely to be a drag on investment, while high food and energy prices and depreciating currencies could weigh on private consumption spending. Reflecting these factors, consumption spending (private and public) and investment are likely to remain fragile over the medium term as uncertainty lingers.

Growth performance and outlook across regions and countries

Growth in North Africa is estimated to have declined by 1.1 percentage points, to 4.3 percent in 2022 from 5.4 percent in 2021

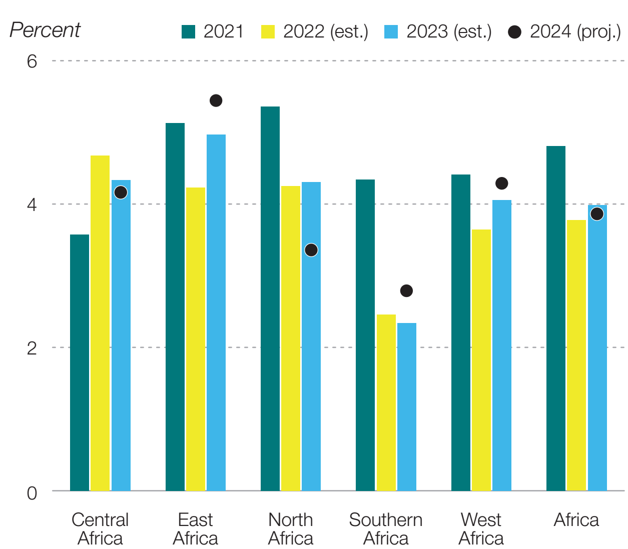
Economic performance in Africa exhibits marked cross-regional variations

The deceleration in Africa's average growth masks cross-regional variations, largely reflecting differences in the structure of economies, commodity dependence, differentiated impact of global exogenous shocks, and the domestic policy responses to mitigate impact of these shocks (figure 1.8).

North Africa

Growth in North Africa is estimated to have declined by 1.1 percentage points, to 4.3 percent in 2022 from 5.4 percent in 2021. This decline mainly reflects the sharp contraction in Libya and the effects of the drought in Morocco. Growth in the region is projected to stabilize at 4.3 percent in 2023, supported by the expected strong recovery in Libya and Morocco, countering the projected slowdown in Algeria and Egypt. However, the region's economies remain subject to significant headwinds, notably the fluidity in Libya's political situation and climate shocks, which could impact growth in 2024, as seen by the projected 3.4 percent decline in real GDP. In contrast, Egypt's growth almost doubled from 3.3 percent in 2021 to 6.1 percent in 2022, boosted by expanded infrastructure investments, higher gas production, and increased vessel traffic through the Suez Canal. Similarly, Mauritania's growth more than doubled from 2.4 percent in 2021 to 5.3 percent in 2022, supported by a rebound in household consumption, greater production of iron ore and gold, and increased investment in natural gas and renewable energies. North African countries such as Algeria and Libya could be alternative sources for the European Union's oil and gas needs, if the bloc's plans to diversify away from dependence on imports from Russia materialize.

FIGURE 1.8 **GDP growth in Africa, by region, 2021–24**



Source: African Development Bank statistics.

Central Africa

Growth in Central Africa is estimated to have risen to 4.7 percent in 2022 from 3.6 percent in 2021. The broad-based growth benefited from high commodity prices for a region with net exporters of crude oil, minerals, and other commodities. Growth is projected to decline slightly to 4.3 percent in 2023 and to stabilize at 4.2 percent in 2024 as global demand picks up and domestic conditions strengthen to support consumer demand and investment, following risk aversion induced by the COVID-19 pandemic. Real GDP in Democratic Republic of Congo and Equatorial Guinea grew the fastest in 2022, by 6.6 percent and 5.5 percent, respectively. Equatorial Guinea was among those most affected by the pandemic, with prolonged contractions extending into 2021, so its rapid expansion in 2022 reflected a recovery toward its previous growth path.

East Africa

Growth in East Africa is estimated to have moderated to 4.2 percent in 2022 from 5.1 percent in

2021—and is projected to rise to 5.0 percent in 2023 and 5.4 percent in 2024. While the production structure is relatively diversified, countries in the region are largely net importers of commodities and bear the brunt of high international prices in addition to recurrent climate shocks such as drought, particularly in the Horn of Africa. The slowdown in 2022 was therefore attributed mainly to effects of these shocks, exacerbated by disruptions to global supply chains. Tight monetary and fiscal policy to rein in inflation has also constrained domestic household consumer demand, amplifying the effects of exogenous shocks on economic activity, home to some of the most fragile economies due to internal conflicts. Constrained household consumption was compounded by contractions in agriculture and manufacturing activities, weak growth in credit to the private sector, and rising public debt.

The top growth performers in 2022 were Seychelles (8.3 percent), Rwanda (6.9 percent), and Kenya (5.5 percent). In contrast, fragility and structural weaknesses of South Sudan's economy are likely to persist, with the recession projected to continue until 2023 before growth rebounds to 4.6 percent in 2024. Rwanda is projected to lead growth in the region in 2023 and 2024, at rates above 7 percent, benefiting from higher infrastructure spending. Uganda and Ethiopia are also projected to grow strongly in 2023 and 2024, exceeding 5 percent on account of developments in the oil sector for Uganda and continued infrastructure spending for Ethiopia.

West Africa

Growth in West Africa is estimated to have slowed to 3.6 percent in 2022 from 4.4 percent in 2021. It is projected to pick up in the medium term, to 4.1 percent in 2023 and 4.3 percent in 2024. In all countries in the region except Gambia, Guinea, Niger, and Togo, growth decelerated in 2022. Sustained economic performance in the region's more diversified economies is projected to drive average regional growth to 4.1 percent in 2023 and 4.3 percent in 2024.

- In Ghana, growth dipped to an estimated 3.6 percent in 2022 from 5.4 percent in 2021, weighed down by deep macroeconomic imbalances—higher inflation, depreciating local currency, and high public debt, estimated at 91 percent of GDP.
- In Nigeria, the region's largest economy, growth is estimated to have declined to 3.0 percent in 2022 from 3.6 percent in 2021, but still above the country's population growth rate of about 2.4 percent. However, Nigeria has suffered from a protracted decline in oil production due to technical inefficiencies arising from aging infrastructure and theft, limiting the gains from high international oil prices. It is also experiencing deep macroeconomic imbalances, underpinned by a costly subsidy on fuel, near 20-year high inflation, and foreign exchange shortages that drove rapid depreciation of the national currency, further eroding citizens' purchasing power. Uncertainty about policy continuity in the aftermath of the 2023 general elections, coupled with rising insecurity, has dampened investor confidence, which in turn has constrained investment, further weakening the country's growth prospects. Against these headwinds, real GDP growth is projected to remain tepid at 3.1 percent in 2023 before slowly picking up to 3.3 percent in 2024.
- In Côte d'Ivoire, investment in strategic logistics infrastructure, expanded construction projects to meet growing urbanization, and planned energy projects to enhance the country's renewable energy sector are projected to boost growth from an estimated 6.8 percent in 2022 to 7.2 percent in 2023.
- Senegal, poised to become an oil and gas exporter in 2023 and capitalizing on a recovery in tourism and agricultural output, could ascend to the list of Africa's fastest growing economies. In this context, growth in Senegal is projected to accelerate from 4.7 percent in 2022 to 10.2 percent in 2023.

Growth in West Africa is estimated to have slowed to 3.6 percent in 2022 from 4.4 percent in 2021

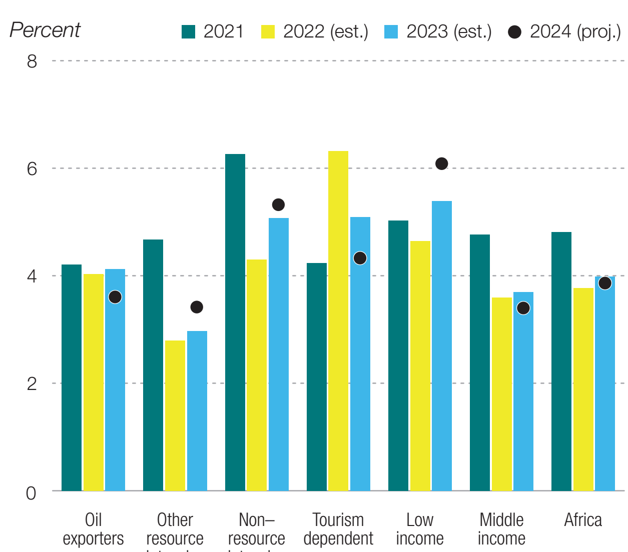
Southern Africa

Growth in Southern Africa is estimated to have remained tepid in 2022, declining to 2.5 percent from 4.3 percent in 2021, reflecting persistent weaknesses in South Africa, the region's largest economy and main trading partner. South Africa's real GDP growth more than halved, to 1.9 percent in 2022 from 4.9 percent in 2021, due to subdued global demand, power outages, and devasting floods that affected industrial production in KwaZulu-Natal.[3] A buildup in inflationary pressures also affected household consumption spending, a key driver of growth in South Africa. South Africa's close trade ties with other countries in Southern Africa means that shocks buffeting the country are directly or indirectly transmitted to the rest of the region. In particular, countries in the Common Monetary Area[4] and the Southern African Customs Union (SACU)[5] experience near symmetrical shocks to those affecting South Africa.

Elsewhere in the SACU area, estimated growth was above 2 percent, except in eSwatini, whose growth of 1.3 percent was even lower than that in neighboring South Africa. Fed by sustained recovery in tourism inflows, Mauritius's real GDP grew the fastest, at 7.0 percent in 2022. Real output in Angola, the region's second largest economy, expanded by 2.9 percent in 2022, supported by high prices of oil and other minerals. Mozambique, which has been battling multiple shocks—including insurgency in the Cabo Delgado region, lingering effects of cyclone Idai, and bouts of high inflation—posted 3.8 percent growth in 2022. Cessation of hostilities in Cabo Delgado is key to boosting investment in liquefied natural gas and other allied industries, for associated social benefits in surrounding areas. Growth is accordingly projected to accelerate to 5.0 percent in 2023 and 8.0 percent in 2024. In the medium term, however, persistent weakness in South Africa will continue to weigh on the region, with real output projected to decelerate to 2.3 percent in 2023 before rising to 2.8 percent in 2024, largely reflecting broad-based improvement in economic conditions, led by Mozambique, where economic growth is projected to expand by 3 percentage points to 8 percent.

Easing pandemic restrictions coupled with savings accumulated during COVID-19 spurred pent-up tourism demand

FIGURE 1.9 **GDP growth in Africa, by country group, 2021–24**



Source: African Development Bank statistics.

Country groups

Tourism-dependent economies grew by an estimated 6.3 percent in 2022, led by Seychelles (8.3 percent), Mauritius (7.0 percent), and Cabo Verde (4.5 percent) (figure 1.9). Although these countries account for less than 1 percent of the continent's GDP, the severe contraction in real output during the COVID-19 pandemic materially affected Africa's average growth. The high growth in 2022 is therefore important for sustaining Africa's postpandemic recovery. Easing pandemic restrictions coupled with savings accumulated during COVID-19 spurred pent-up tourism demand, evidenced by a higher than expected rebound in the number of visitors. For instance, tourist arrivals in Seychelles by October 2022 had exceeded the government's forecast of 258,000, with current tourist numbers equal to 89 percent of 2019 arrivals and markedly higher than the 183,000 in 2021. Tourist numbers were also boosted by domestic strategies, including long-term temporary residency permits and suspension of visa requirements for high-end tourism markets. These strategies reflect policy efforts to promote the sector to secure sustainable tourism revenues and create employment. The full impact of resuming tourism activities and easing residual minimal restrictions in international travel may, however, be offset by high inflation and tight financial conditions in key tourist-source countries. Growth is thus projected to slow to 5.1 percent in 2023 and, if adverse global conditions persist and the risk of pandemic resurgence materializes, could slow further to 4.3 percent in 2024.

Average growth for non-resource-intensive economies declined to an estimated 4.3 percent in 2022 from 6.3 percent in 2021, weighed down by the effect of heightened inflation on household consumption and subdued global demand for exports. The deceleration was fastest in eSwatini (6.6 percentage points) followed by Morocco (6.4 percentage points), Rwanda (4.0 percentage points), and Kenya (2.0 percentage points). Non-resource-intensive economies, representing about 24 percent of the continent's GDP, are more diversified than their commodity-dependent peers, though agriculture remains the mainstay for most of them. Non-resource-intensive economies —Benin, Côte d'Ivoire, Gambia, Kenya, Rwanda, and Togo—posted growth rates above 5.5 percent. Their growth is projected to accelerate to 5.1 percent in 2023, reflecting a projected recovery in government spending on infrastructure projects and the resilience of their diversified economic structures.

Average growth in oil-exporting countries declined marginally to an estimated 4.0 percent in 2022 from 4.2 percent in 2021, largely reflecting the sharp decline in Libya and weaker growth in Nigeria. Africa's oil-exporting countries account for about 51 percent of the continent's GDP, so their growth has a significant influence on Africa's average performance. Nigeria, Africa's largest economy and top oil producer, accounts for about 30 percent of the output for this group of countries. But it has suffered from steady declines in oil production, due to continuing underinvestment in infrastructure and rising incidences of theft and overall insecurity. The negative output effect has thus offset any gains from higher prices of crude oil, impeding the sector's contribution to growth. Underdeveloped oil and gas infrastructure in many oil-exporting countries could prevent them from fully benefiting from the European Union's planned shift from dependence on Russian oil. Average growth for this group of countries is thus projected to stabilize at 4.1 percent in 2023 but to decline to 3.6 percent in 2024. Efforts to sustain political stability and drive investments to open new oil fields, rehabilitate aging oil wells and expand production and transport infrastructure could enable Africa's oil exporters to take advantage of the global shift away from reliance on Russian oil. Considerable risks remain in the long term, however, as the net-zero transition gathers pace.

Average growth across other resource-intensive economies declined to an estimated 2.8 percent in 2022 from 4.7 percent in 2021. The deceleration reflects inadequate electricity generation, subdued household consumption spending because of high inflation, and weak global demand. Botswana topped the list of declines with a decline of 7.1 percentage points in 2022, much deeper than Burkina Faso (4.3 percentage points), Zimbabwe (4.2 percentage points), South Africa (3.0 percentage points), and Ghana (1.8 percentage points). Average growth for this group is projected to remain stable but lower, at 3.0 percent, and to increase in 2024 to only 3.4 percent, due to resumption of full-scale mining operations after the retrenchment associated with the COVID-19 pandemic in Guinea, Liberia, Mali, Niger, and Tanzania.

Average growth in oil-exporting countries declined marginally to an estimated 4.0 percent in 2022 from 4.2 percent in 2021, largely reflecting the sharp decline in Libya and weaker growth in Nigeria

Risks and upside factors to the growth outlook

Africa's projected medium-term growth outlook is subject to significant headwinds. The main downside risks include:

- A steep slowdown of the global economy could reduce demand for Africa's exports and dampen investment flows.
- Persistent inflation, prolonged tightening of global financial conditions, the high cost of capital, domestic currency depreciations, and lower financial inflows could increase the risks of debt distress in some African countries.
- Continuing losses and damages due to climate and other adverse extreme weather–related shocks could affect agricultural production and drive sustained high food prices and exacerbate extreme poverty.
- Continuing overdependence on exports of raw materials, which limits opportunities for a green transition and a manufacturing-led structural transformation.
- Geopolitical tensions and a further escalation of Russia's invasion of Ukraine remain important risks to global supply chains and the evolution of commodity prices.
- Conflicts and tensions in some African countries make them more fragile to shocks.
- Planned national elections in 30 African countries—including Algeria, Egypt, Ethiopia, Democratic Republic of Congo, Libya, Madagascar, Nigeria, South Africa, and Zimbabwe

in 2023 and 2024—could increase uncertainty over sustained policy and political stability and weaken investor sentiments.

- If Russia's invasion of Ukraine is prolonged, it could perpetuate already elevated global uncertainty, raise food and energy prices, and increase sovereign debt vulnerabilities and debt levels in many African countries.
- The low rates of COVID-19 vaccination (currently estimated at 26 percent) limit Africa's herd immunity, which leaves the continent vulnerable to potential new variants and a resurgence of infections as the world transitions to full easing of restrictions.

On the upside, Africa's growth outlook could strengthen, conditional on higher than projected global economic growth and successful efforts to quickly resolve Russia's invasion of Ukraine, which could ease pressure on food and energy prices. The recent commitment (in December 2022) of $55 billion by the United States to Africa over the next three years in the form of new trade opportunities and infrastructure could unlock the continent's financing and spur investment in clean energy and digital economy. This comes on the back of the China-Africa Cooperation forum in Senegal in August 2022 on strengthening friendship, solidarity, and cooperation for a new era of common development. The renewed engagement between Africa and its partners gives additional impetus to the continent's future development. These engagements will reinforce global efforts to mobilize resources to offset the impacts of climate change. And resolving Africa's debt problems comprehensively and quickly—reinstating the Debt Service Suspension Initiative and coordinating and accelerating negotiations under the G20 Common Framework—could free resources for public infrastructure investment to support growth.

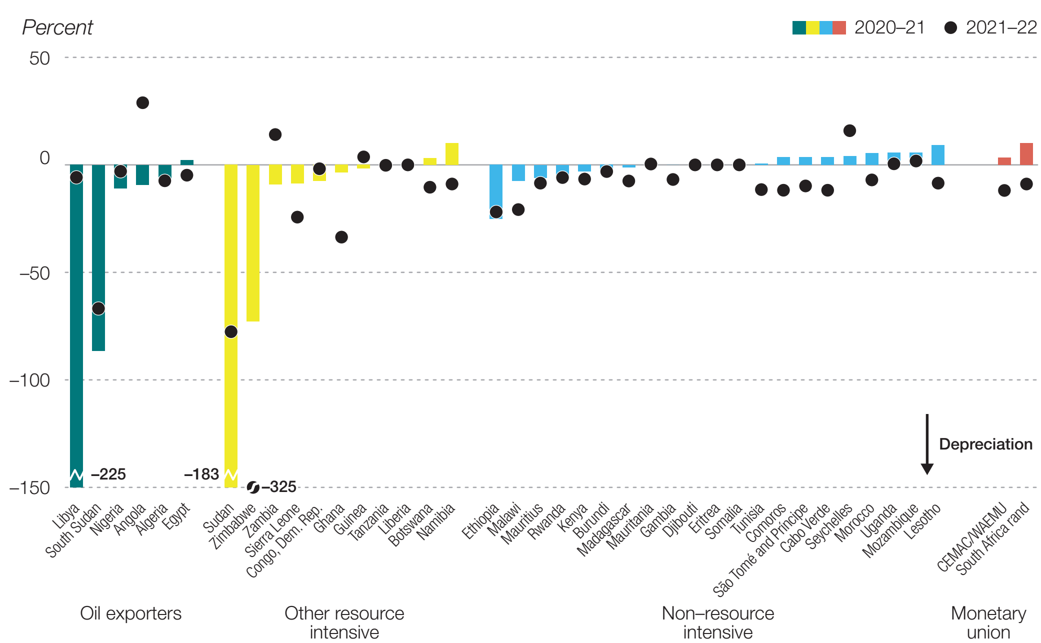
Exchange rates, inflation, and monetary policy

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

While the dynamics of exchange rates in Africa were mixed, the majority of currencies depreciated against the US dollar (figure 1.10), due partly to the US Federal Reserve's aggressive interest rate hikes in 2022 and to global uncertainty driving investors away from emerging market economies'

While the dynamics of exchange rates in Africa were mixed, the majority of currencies depreciated against the US dollar

FIGURE 1.10 Exchange rate changes, by country 2020–21 and 2021–22



Source: African Development Bank statistics.

assets, including African currencies, toward "safe haven" US treasuries. Although most African currencies lost substantial value against the dollar during 2022, others gained or remained stable. All of Africa's leading commodity-exporting countries except Angola experienced sustained exchange rate depreciations despite higher international commodity prices in 2022. Depreciation rates varied from 68.8 percent in South Sudan, whose currency has been weakening following exchange rate reunification and as the economic and political situation has deteriorated, to 7.4 percent in Algeria, 4.8 percent in Egypt, and 3 percent in Nigeria. Algerian monetary authorities devalued the dinar to protect foreign exchange reserves. In both Nigeria and South Sudan, foreign exchange supply constraints stoked a widening of the premium between the official exchange (commonly referred to as the investor and exporter rate) and the parallel market exchange rate. In Nigeria, the parallel market exchange rate depreciated by nearly a third year-on-year, dwarfing the 3 percent depreciation for the official rate. This widened the premium between the two rates by about 70 percent.

Among the currencies of other resource-intensive countries, Ghana's cedi was among Africa's worst performing, depreciating more than 33.4 percent against the US dollar in 2022. The first-order effects of declining investor confidence about the sustainability of the country's large debt led to the sharp depreciation. Currency depreciation pressures were significant for Sierra Leone's leone (down 24 percent against the US dollar) and Malawi's kwacha (down 21 percent). Both countries are experiencing severe macroeconomic imbalances, including constrained revenues and weak investment flows. The currencies of Ethiopia, Sudan, and Zimbabwe depreciated by more than 10 percent against the US dollar, as they succumbed to global risk aversion and waning investor confidence for developing economies. Currency weaknesses in Africa's major economies —Algeria, Kenya, Nigeria, and South Africa—are also expected to persist in 2023, due largely to tighter global financial conditions and weak external demand. This wave of depreciations could be contained if countries continue to strengthen their monetary policies in the face of tighter financial conditions in advanced countries, though further tightening could exacerbate the already high cost of capital and halt economic recovery. African central banks thus face a real policy dilemma in the face of successive global shocks.

Among the best performing currencies, Angola's kwanza appreciated by more than 29 percent year-on-year against the US dollar in 2022, reflecting the combined effects of increased oil revenues, improved credit rating by major rating agencies, and more accommodative monetary policy. The kwacha was also bolstered following creditors' agreement to restructure the country's external debt, which triggered approval of the International Monetary Fund's three-year Extended Credit Facility for $1.3 billion. The resultant investors' favorable outlook for Zambia's macroeconomic situation boosted the kwacha, which appreciated by 14 percent year-on-year against the US dollar in 2022. Seychelles' exchange rate appreciated by around 16 percent against the US dollar in 2022, due mainly to the resumption of tourist activities and associated increase in foreign exchange inflows.

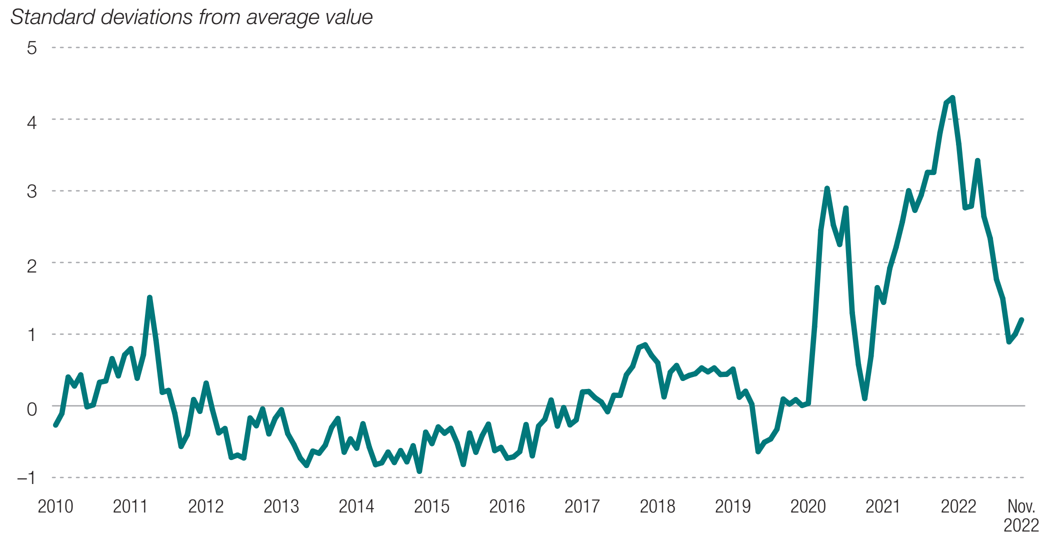
All of Africa's leading commodity-exporting countries except Angola experienced sustained exchange rate depreciations despite higher international commodity prices in 2022

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

Russia's invasion of Ukraine in February 2022 exacerbated already weak global supply chains, further raising in commodity prices and increasing inflationary pressures. After peaking at 4.3 in December 2021, the standard deviation of the Global Supply Chain Pressure Index declined steadily, reflecting ebbing pressures (figure 1.11). But the index remains at a historically high level, above the average of −0.07 in 2019, before the COVID-19 pandemic. Global supply chain pressures remain a major concern, even with weak global demand.

The buildup in global supply chain pressures, amplified by effects of Russia's invasion of Ukraine, showed in the steep rise of global commodity prices, particularly for food and energy in the first half of 2022. Crude oil prices rose the fastest, by around 29.4 percent, from $86.50 in January 2022 to $112 in May 2022, settling at an average of $91.80 between June and September 2022. In

FIGURE 1.11 Global Supply Chain Pressure Index, 2010–22



Note: The Global Supply Chain Pressure Index is a new measure of supply chain conditions by the Federal Reserve Bank of New York. It is calculated by combining variables from several transportation and manufacturing indices, such as those related to delivery times, prices, and inventories.

Source: US Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv; staff calculations.

Russia's invasion of Ukraine in February 2022 exacerbated already weak global supply chains, further raising in commodity prices and increasing inflationary pressures

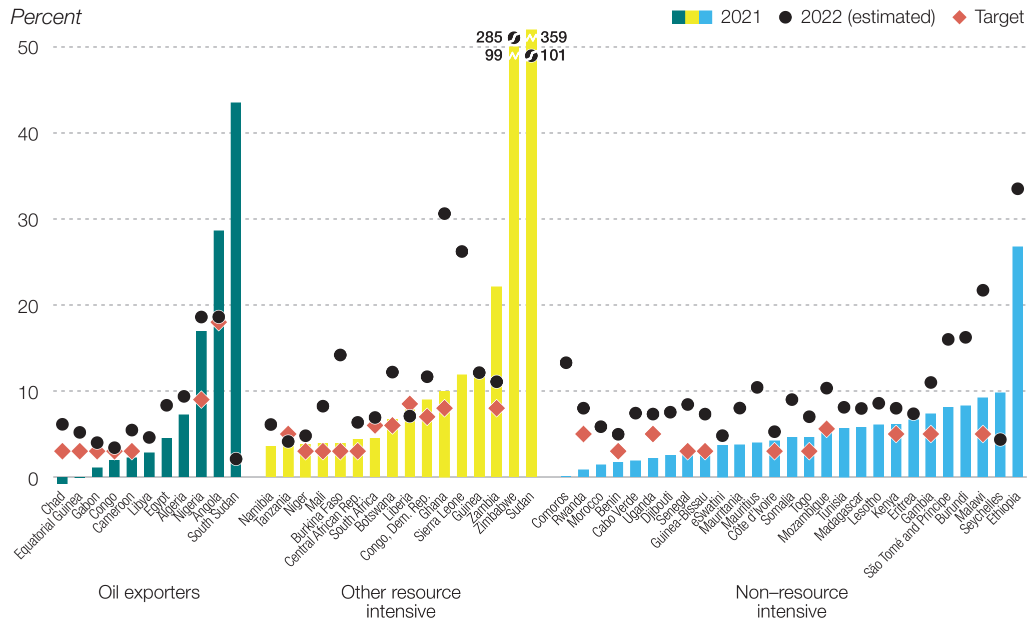
contrast, global food prices rose by 13.5 percent over the same period, from $139.90 to $158.80, settling at an average of $141.21 in the second half of 2022. These price increases have driven broad inflationary pressures.

In Africa, average consumer price inflation is estimated to have increased by 0.9 percentage point, to 13.8 percent in 2022 from 12.9 percent in 2021 (a slight revision from the estimated 13 percent in *African Economic Outlook 2022*), the highest rate in more than a decade. Africa's persistently high inflation reflects domestic factors such as expansionary public investment spending and, more important, the direct effect of imported inflation, driven mainly by external factors such as rising oil and food prices, exacerbated by supply chain disruptions. Inflation surpassed central bank target rates for countries with explicitly defined bands, reaching double digits in 19 countries, with the highest rates in Zimbabwe, Sudan, and Ethiopia, in that order (figure 1.12).

East Africa had the highest average inflation rate of 25.3 percent in 2022, reflecting large price increases in Sudan and Ethiopia, due to global supply constraints and demand pressures. Both countries experienced large pass-through effects from global to local cereal prices. Sudan imports 70–80 percent of its domestic wheat consumption, Ethiopia, 25 percent. Sudan also experienced rapid exchange rate depreciation after it floated its currency in March 2022 (see figure 1.10), and Ethiopia faced supply-side constraints attributed to severe drought and conflict in the Tigray region, which reduced food supplies, stoking inflation. However, the largest increase in inflation induced by food and energy prices in 2022 was in West Africa (to 16.8 percent from 12.7 percent in 2021) and North Africa (to 8.1 percent from 4.6 percent in 2021). Central Africa's inflation rate nearly doubled, to 7.3 percent in 2022 from 3.9 percent in 2021, as Chad and Equatorial Guinea emerged from deflation in 2021.

Average inflation in Southern Africa rose moderately to 13.2 percent in 2022 from 10.8 percent in 2021. This increase was due largely to inflation persisting in a majority of the region's countries, including Botswana, Malawi, Mauritius, Sao Tome and Principe, and Zimbabwe, where average prices rose by more than 5 percentage points, with the largest increase in Zimbabwe. Inflation in

FIGURE 1.12 Consumer price inflation, by country, 2021 and 2022



Source: African Development Bank statistics.

Zimbabwe rose drastically to 285 percent in 2022 from 98.5 percent in 2021, driven partly by markup pricing of imports as the economy continues to grapple with economic challenges ranging from steep depreciation of the local currency to high debt and rising poverty. Inflation also remained elevated in Malawi (21.7 percent) and Angola (18.6 percent). Countries with declining inflation were Zambia, buoyed by appreciation of the local currency and better domestic supply of staple and seasonal food commodities, and Angola, where higher oil prices lifted the value of the kwanza.

Inflation in Africa is projected to decline slightly to 13.5 percent in 2023 and 8.8 percent in 2024, below the 9.1 percent in 2019 and the 9.6 percent average between 2014 and 2018, before the COVID-19 pandemic, due to continued efforts to tame the effects of imported inflation. But high inflation could linger, reflecting persistence in supply chain disruptions and associated increases in commodity prices. At the regional level, inflation persistence will remain strong in East Africa due to continued supply constraints, the impact of climatic change, and conflicts and political uncertainty affecting some countries in the region. Central Africa will experience relatively stable and low inflation, projected at 5.7 percent in 2023, partly reflecting coordinated monetary policies and the benefits of a stable regional currency.

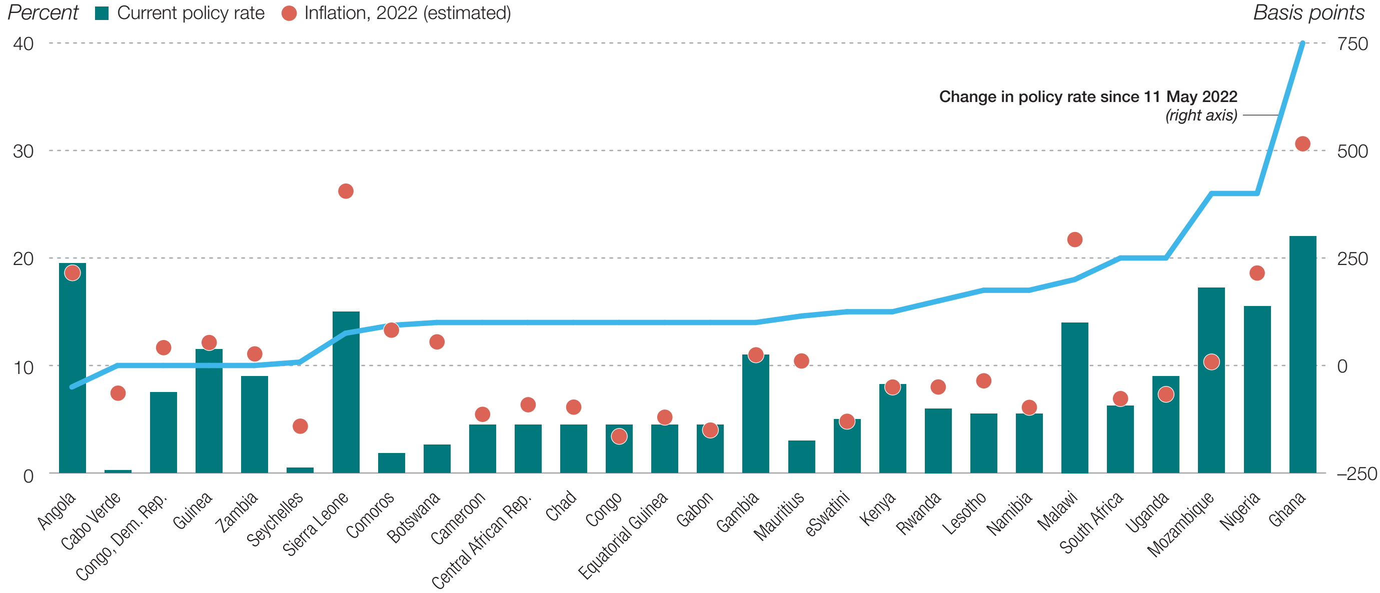
Central banks in Africa took a cue from advanced economies and tightened monetary policy to tame rising inflationary pressures

As global inflation spiraled, central banks in advanced countries tightened monetary policy by raising interest rates. The aggressive contractionary monetary policy triggered a wave of tighter global financial conditions, exposing developing and emerging markets to potentially disruptive capital outflows and currency depreciations, which elevated the domestic cost of servicing foreign currency–denominated debt. Most African countries facing inflationary pressures also adjusted monetary policy rates upwards (figure 1.13). Given the prevailing less liquid financial markets, if bolder and more transformative policies are not implemented, the current aggressive tight monetary policy stance could lead to a further sharp decline in emerging market asset returns, thereby undermining the growth outlook in the short to medium term.

Other central banks have been more cautious, considering the current source of inflationary pressure as structural and temporary,

In Africa, average consumer price inflation is estimated to have increased by 0.9 percentage point, to 13.8 percent in 2022 from 12.9 percent in 2021

FIGURE 1.13 Current policy rates and changes since 11 May 2022, by country



Source: Staff calculations based on data from Haver Analytics and African Development Bank statistics.

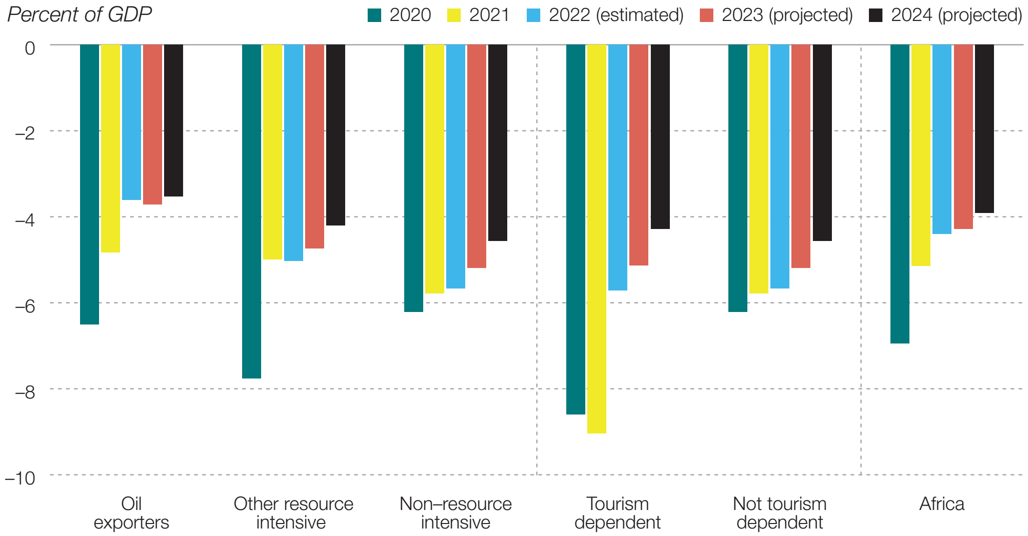
anchored on global supply chain disruptions rather than domestic demand–induced price increases. Therefore, the magnitude and frequency of policy rate adjustments varied widely across countries (see figure 1.13). Some central banks swiftly raised policy rates in 2022, ranging from 400 basis points in Mozambique and Nigeria to 750 in Ghana. The latter two countries also have some of the highest inflation rates on the continent. Despite the large doses of interest rate increases in all three countries, inflation expectations remained deeply entrenched, and real interest rates in all countries remain sizably negative, challenging the potency of traditional monetary policy tools. The failure of higher policy rates to alleviate inflationary pressures thus implies that more innovative instruments should be explored to deal with nondemand shocks propelling the current wave of structurally driven inflation. So, countries need to scale up efforts to increase domestic food supplies to ease the pressure of high prices of imported food on inflation. Further rate adjustments are also likely to disproportionately increase the cost of credit and impose a tax on growth. Indeed, despite high inflation, some countries have not tightened monetary policy, due partly to already-elevated interest rates, implying that further increases could risk stalling economic recovery.

Fiscal positions and domestic resource mobilization

Fiscal deficits are expected to gradually narrow in the near term, but uncertainties remain

The average fiscal deficit in Africa is estimated to have narrowed to 4.4 percent of GDP in 2022 from 5.2 percent in 2021 in the wake of fiscal strain induced by the COVID-19 pandemic. The average fiscal deficit increased sharply from 4.1 percent of GDP in 2019 to 6.9 percent in 2020, due to the fiscal stimulus measures that countries deployed to mitigate the pandemic's impact. The deficit narrowed in 2022 on improved revenue performance, especially in oil-exporting countries. Most net oil exporters posted surpluses, which partially offset Nigeria's sustained elevated fiscal deficit (5.3 percent of GDP in 2022) on the average for the group. Countries with fiscal surpluses include Angola, Chad, Congo, Equatorial Guinea, Gabon, and Libya, bringing the average deficit for the group to an estimated 3.6 percent of GDP in 2022, down from 4.8 percent in 2021 (figure 1.14).

FIGURE 1.14 Fiscal balance as a share of GDP, by country grouping, 2020–24

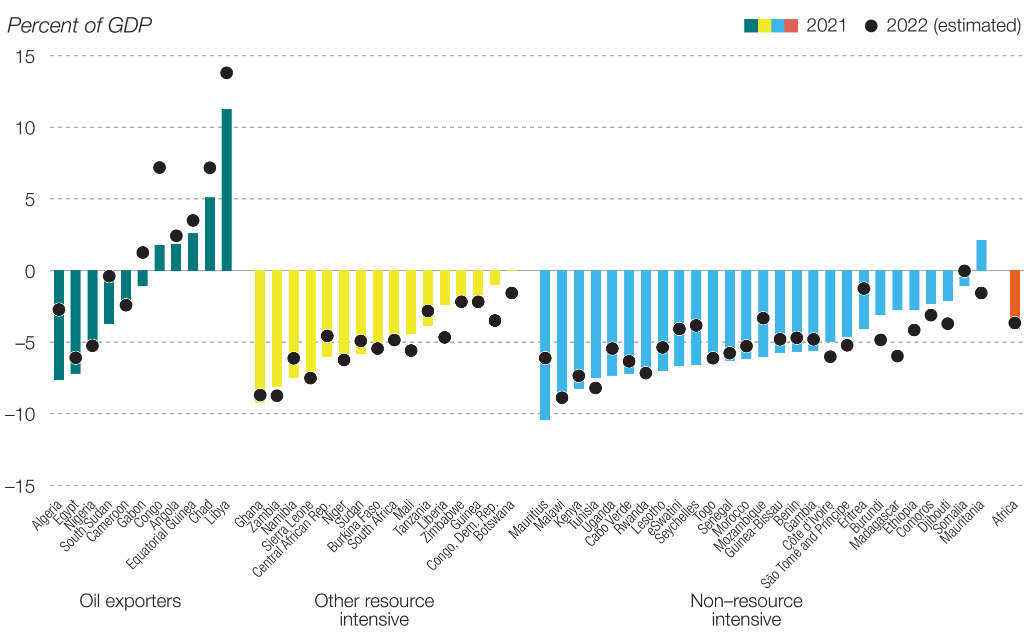


Source: African Development Bank statistics and the International Monetary Fund's *World Economic Outlook,* October 2022.

The average fiscal deficit for non-resource-intensive countries, which include net oil importers, narrowed marginally to an estimated 5.7 percent of GDP in 2022 from 5.8 percent in 2021, supported by economic recovery and attendant improvements in revenues (figure 1.15). Some of these countries (such as Mauritius, Mozambique, and Seychelles) reduced their deficits by more than 2 percentage points. In contrast, the average fiscal deficit for other resource-intensive

The average fiscal deficit in Africa is estimated to have narrowed to 4.4 percent of GDP in 2022 from 5.2 percent in 2021 in the wake of fiscal strain induced by the COVID-19 pandemic

FIGURE 1.15 Fiscal balance as a share of GDP, by country, 2021–22



Source: African Development Bank statistics and the International Monetary Fund's *World Economic Outlook,* October 2022.

economies remained stable, at an elevated 5 percent of GDP. In these countries, rising commodity prices and fiscal consolidation measures partially offset higher public spending to cushion vulnerable people from high energy and food prices. Following large fiscal deteriorations in the aftermath of the COVID-19 pandemic, tourism-dependent economies have rebounded strongly, buoyed by increased receipts from rising tourist arrivals. The average fiscal deficit for this group improved markedly to 5.7 percent of GDP in 2022 from 9 percent of GDP in 2021. The improvement also reflects gradual retrenchment of expansionary fiscal spending initiated to support economic recovery.

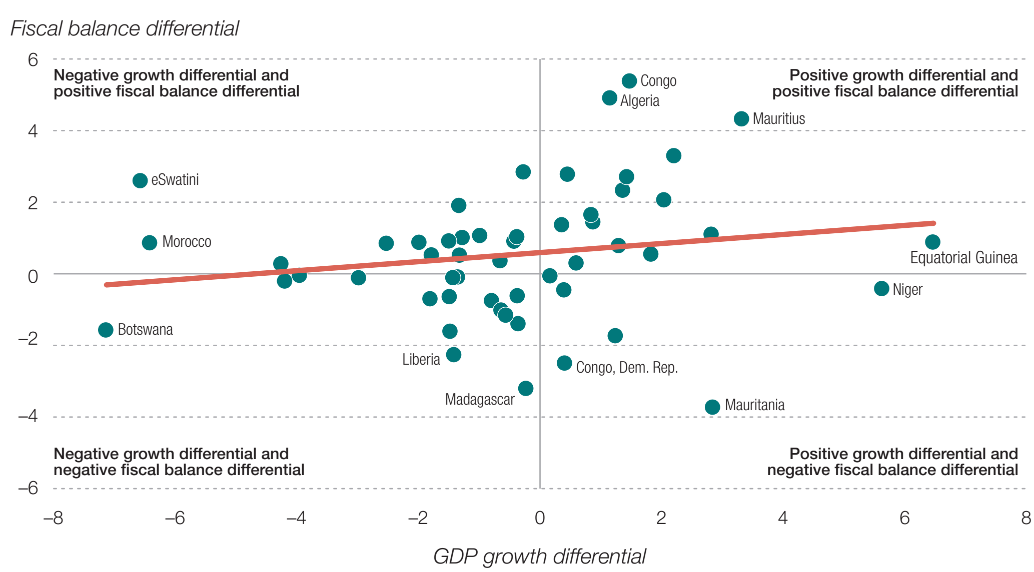
Overall, countries with better growth performance also recorded improved fiscal positions in 2022 (figure 1.16). Between 2021 and 2022, countries with growth differentials of 1 percentage point reduced the fiscal deficit by 0.13 percentage point on average. Higher sustained growth, especially when accompanied by productive and efficient public spending, is important for fiscal consolidation. Some countries, such as Equatorial Guinea and Mauritius, have shown stronger resilience to adverse effects of the COVID-19 pandemic and other external shocks. Their GDP growth and fiscal positions both improved in the two years following the outbreak of the pandemic. Other countries, including Ghana, Morocco, Nigeria, eSwatini, and Uganda, reduced their fiscal deficits despite a negative real GDP growth differential. Yet countries such as Burundi, Democratic Republic of Congo, Mauritania, and Niger have run larger fiscal deficits despite positive GDP growth differentials.

Fiscal positions across the continent are projected to improve in the medium term, supported by stronger revenue performance, which could create additional room for fiscal consolidation, especially in countries that have shrinking fiscal space from COVID-19 pandemic spending. Thus, Africa's average fiscal deficit is projected to be 4.3 percent of GDP in 2023, 0.3 percentage point higher than in 2019, before the pandemic. The fiscal deficit is expected to further improve in 2024 to 3.9 percent of GDP, as economies sustain postpandemic revenue gains.

The projected narrowing of the average fiscal deficit over the medium term implies that the burden of fiscal policy will fall on realigning spending with continuing challenges of revenue mobilization, especially following expansionary spending induced by the COVID-19 pandemic. As deep spending cuts are instituted, countries need to increase the efficiency of spending and to shift priorities toward growth-enhancing and

Fiscal positions across the continent are projected to improve in the medium term, supported by stronger revenue performance, which could create additional room for fiscal consolidation, especially in countries that have shrinking fiscal space from COVID-19 pandemic spending

FIGURE 1.16 **Real GDP growth and fiscal balances, by country, 2021–22**



Note: Libya was removed from the sample due to ongoing revisions to real GDP growth and the fiscal balance.
Source: Staff calculations.

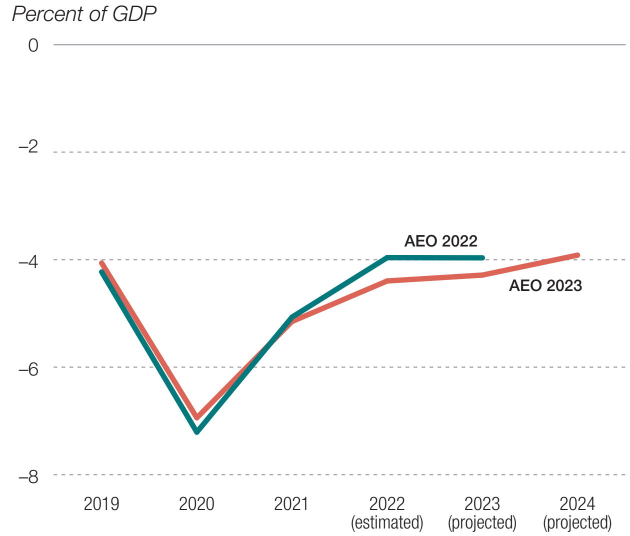
poverty-reducing investments, including support to domestic food production and vulnerable people affected by rising prices. Some adjustments to discretionary recurrent spending through better targeting of fiscal support and improved institutional capacity that enhances spending efficiency is thus essential to preserve public infrastructure investment for sustained and stronger economic growth and to build revenue streams to repay public debt.

In addition, global economic uncertainty—buffeted by geopolitical tensions, weak growth coupled with high inflation, and flagging demand—poses significant downside risk to Africa's overall fiscal performance in 2023 and beyond. The path of fiscal consolidation could thus be long and patchy, with projections for lower fiscal deficits at risk of being missed. For instance, the predicted narrowing of fiscal deficits in *African Economic Outlook 2022* was not achieved, with a gap of 0.4 percentage point in 2022. Fiscal pressures triggered by steep global economic challenges and the cascading impact on African countries derailed any fiscal consolidation efforts as revenues remained broadly weak, despite improvement in some countries. As a result, the deficit is now estimated to be 0.4 percentage point larger than projected in 2022 and projected to be 0.3 percentage point wider in 2023 (figure 1.17).

As the global economy remains mired in uncertainty, fiscal positions on the continent will remain vulnerable to global shocks. African governments will thus need to think of bolder and more transformative policies to build fiscal buffers to confront potential future crises. This is especially so for net commodity exporters that have seen prices of their export commodities soar after record declines at the height of the COVID-19 pandemic. For non–commodity exporters, fiscal consolidation, bold policy actions targeting subsidies to vulnerable groups, and improved fiscal management will be key to building fiscal fitness. But for all countries, implementing strategic revenue enhancement measures should be a key priority for scaling up domestic resource mobilization to expand fiscal space.

Enhancing domestic resource mobilization is one of the most pressing policy challenges facing

FIGURE 1.17 Fiscal deficit projections revised downward amid challenging economic environment



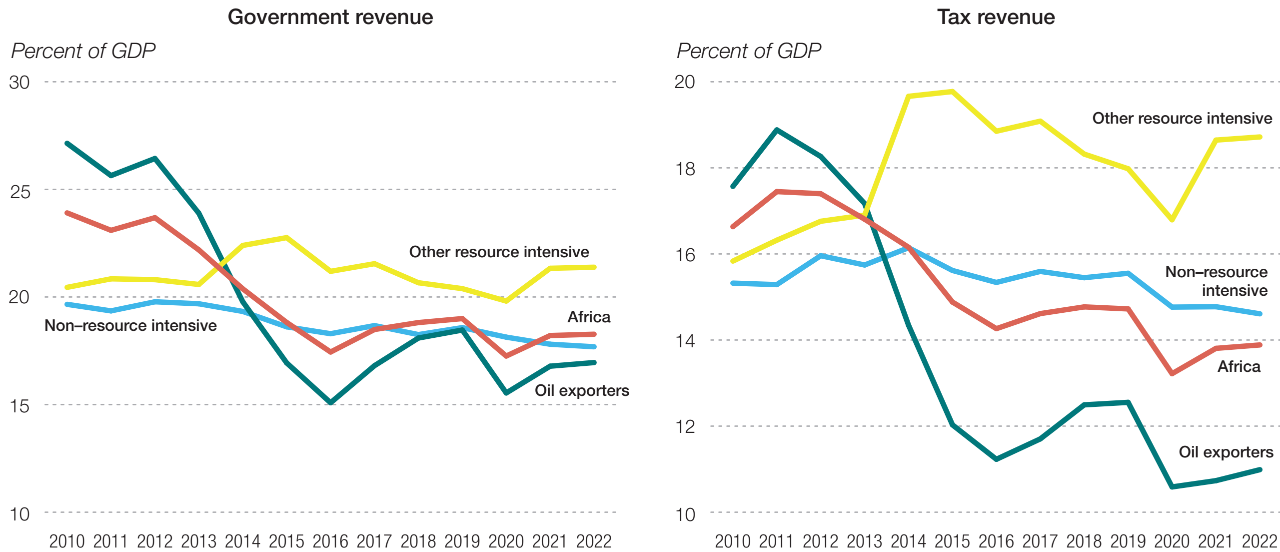
Source: Staff calculations.

African countries to achieve the United Nations Sustainable Development Goals (SDGs), the African Union's Agenda 2063, and the Bank's High 5 priorities. As stipulated in SDG 17.1, domestic resource mobilization—the generation of government revenues through taxation and other nondebt income sources—is essential for allowing countries to own and flexibly chart policies that address their specific development challenges, while mitigating the risks of debt overhang.

However, in the decade preceding the COVID-19 pandemic, average general government revenue as a percentage of GDP (excluding grants) declined substantially from 23.9 percent in 2010 to 19 percent in 2019 (figure 1.18). Tax revenue, the main source of domestic revenue in most countries, also declined over the same period by about 2 percentage points, to 14.7 percent of GDP. This was well below the average for Asia-Pacific (21 percent), Latin America (22.9 percent), and Organisation for Economic Cooperation and Development members (33.8 percent). Crucially, revenue performance falls short of the 15 percent minimum for a developing country to adequately finance progress toward the SDGs.

Only resource-intensive countries other than those dependent on oil had a higher tax revenue ratio in 2019 of 18 percent of GDP.

FIGURE 1.18 Average revenues, by economic grouping in Africa, 2010–22



Source: Staff calculations.

Non-resource-intensive countries, at 15.6 percent of GDP, barely met the threshold for developing countries due partly to weak tax collection capacity. Non-resource-intensive economies depend largely on direct income taxes—corporate income and pay-as-you-earn—and given the inefficiency in tax collection systems, the share of tax revenue in total GDP decreases. However, some countries, such as Togo, have implemented ambitious reforms that have helped improve domestic resource mobilization (box 1.1). In contrast, tax revenues in oil-dependent economies have not increased over the past decade. This "revenue curse" is reflected in the low tax-to-GDP ratio of 12.6 percent, which suggests countries' inability to decouple their economies from dependence on oil for fiscal revenues.

The COVID-19 pandemic has had a major impact on revenues, further upending African countries' already fragile fiscal situation. General government revenue as a share of GDP fell by almost 1.7 percentage points, from 19 percent in 2019 to 17.3 percent in 2020. The economic recovery accompanying the reopening of most economic sectors has gradually lifted revenue. Average general government revenue was estimated at 18.3 percent of GDP in 2021–22, due mainly to improved performance in other resource-intensive countries. The economic fallout from the pandemic also affected tax revenues, which declined as a share of GDP by more than 1.5 percentage point, from 14.7 percent in 2019 to 13.2 percent in 2020. Tax revenues for 2021–22 are also estimated to have increased to 13.9 percent of GDP, nearly 1 percentage point below the prepandemic average and the 15 percent average minimum to adequately finance progress toward the SDGs in developing countries.

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

BOX 1.1 **Togo's positive experience in mobilizing domestic resources**

Despite a challenging environment for mobilizing domestic resources in Africa, evidenced by lower and declining government and tax revenues, some countries have demonstrated good performance by sustaining progress made before the COVID-19 pandemic. Given that African countries will need to tap into their own resources to reduce the large finance gaps—to reduce poverty and transition to green growth—policy reforms are needed to increase the efficiency of domestic resource mobilization.

Togo's experience in improving domestic resource mobilization is illustrative. Its tax revenue stood at 15 percent of GDP in 2020, above the average of 13.2 percent for the continent. Unlike most African countries where the COVID-19 pandemic reduced tax proceeds in 2020, Togo collected higher tax revenues, up 0.2 percentage point from 14.8 percent of GDP in 2019, despite tax cuts and deferrals to support businesses. Continued efforts since the onset of the pandemic increased tax revenue to 15.5 percent of GDP in 2021 and to an estimated 15.9 percent in 2022, higher than Africa's average of 13.9 percent of GDP.

With the support of multilateral partners, including the African Development Bank, the government of Togo embarked on ambitious reforms conducive to improved revenues. Among the pioneer tax reforms was the establishment of the Togo Revenue Authority (OTR) in 2012, with the overarching goal of improving tax administration by transforming it into a revenue authority to foster effective, transparent, and impartial application of tax laws. To improve transparency and traceability and speed up tax payment, a system of direct collection has been based on removing accounting and tax cashier positions, instead entrusting banks with tax collection transactions. Establishing the OTR and strengthening technical and human capacity helped improve the operational performance of tax administration regarding revenue collection through the design of a framework conducive to rationalizing and simplifying tax and customs procedures, reducing tax evasion, and improving transparency in the management of resources derived from extractive industries.

The government has also been leveraging digitization to improve tax collection. A system of online tax declaration and payment for large businesses has been introduced and extended to medium and small enterprises. Online payment has become mandatory for large and medium enterprises since 2019. These reforms have thus allowed the OTR to reduce the cost of voluntary tax compliance by taxpayers and to professionalize the public revenue administration. In 2015, just one year after operationalization, the tax services registered a 26 percent increase in cash revenue —amounting to $766 million.

Source: https://www.afdb.org/ar/news-and-events/afdbs-support-to-tax-reforms-leads-to-improved-revenues-in-togo-14561.

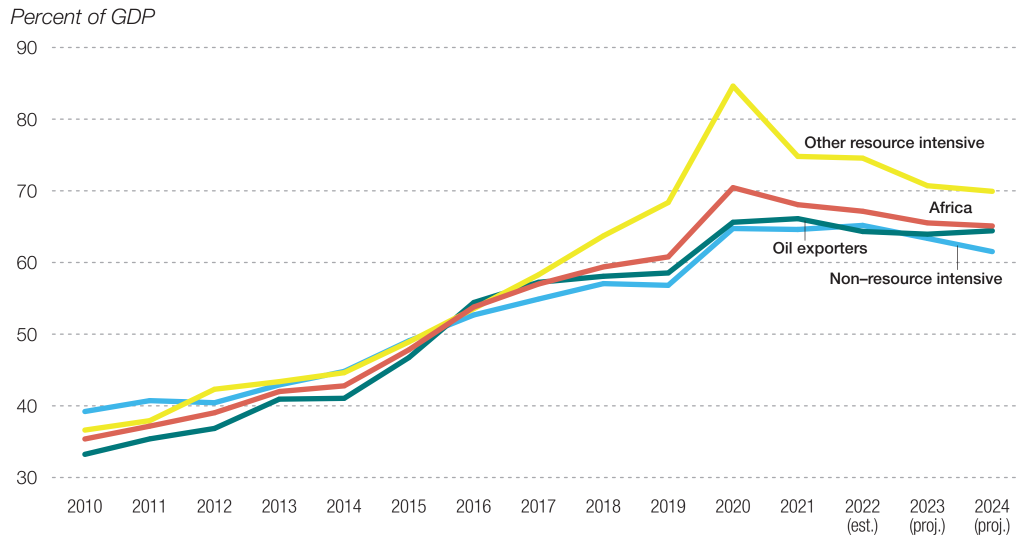
Debt dynamics and implications for growth

Sovereign external debt is projected to remain high, with lingering vulnerabilities

Sovereign external debt is estimated to have declined marginally to 67 percent of GDP in 2022 from 68 percent in 2021.[6] This ratio remains higher than the 61 percent of GDP in 2019, before the COVID-19 pandemic, but it could stabilize at around 65 percent in 2023 and 2024 (figure 1.19). The stability in the debt ratio is, however, subject to great uncertainty due to growing financing needs associated with rising food and energy import bills, high debt service cost due to exchange rate depreciations, and rollover risks.

Public external debt is especially high among other resource-intensive (nonoil) economies. For this group of countries, public debt remained unchanged in 2022 at around 75 percent of GDP, reflecting lower average economic growth, rising interest rates, and depreciating currencies.

FIGURE 1.19 Gross government debt as a share of GDP, by economic grouping, 2010–24



Source: Staff calculations based on data from the International Monetary Fund's World Economic Outlook database.

Improvements in fiscal balances for these countries dampened further increases in public debt. Public debt is expected to decline to 70 percent of GDP in 2023, due mainly to a projected decline of more than 30 percentage points in Sudan's debt, which is expected to benefit from debt relief. In 2022, Sudan's public debt was estimated at 189.5 percent of GDP, down from 263.4 percent in 2020.

For oil-rich countries, debt is set to decline to 64 percent of GDP in 2022 from 66 percent in 2021, despite a buildup in Nigeria. Nigeria's public debt has increased steadily due to a weak revenue position coupled with a large outlay on fuel subsidies, estimated at about 3 percent of GDP. For other countries in this group, the gain from export earnings boosted by high oil prices will strengthen their currencies and improve their external position. These factors will mitigate the effect of rising interest rates and reduce the debt burden in these countries. Debt is estimated to have declined by double digits in Angola (30 percentage points), Congo (22 percentage points), and Equatorial Guinea (16 percentage points). In Angola, exchange rate appreciation and higher receipts from oil exports account for the sharp decline in public debt estimated in 2022.

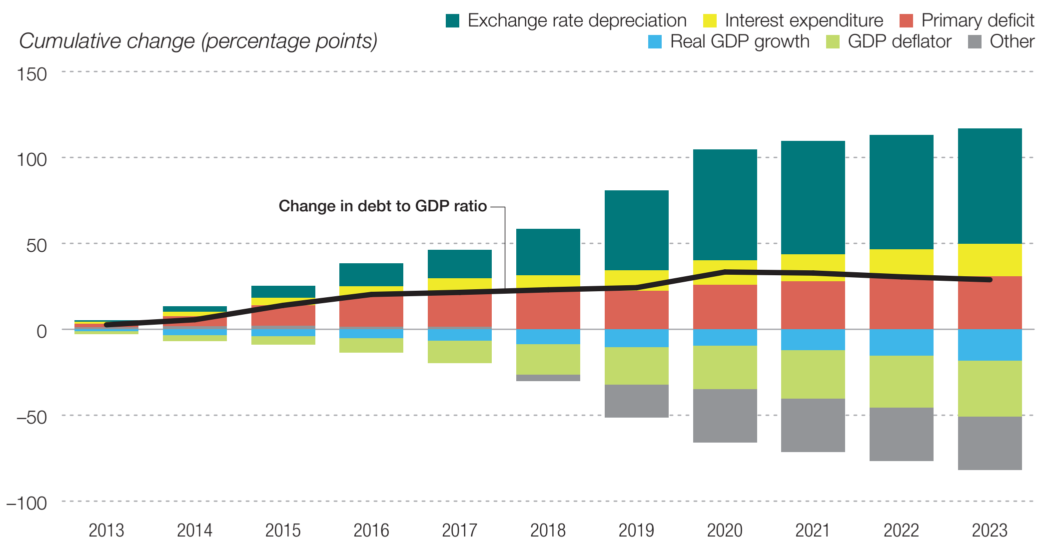
Non-resource-rich countries exhibit a reverse pattern in the evolution of public debt, which is estimated to have increased to 65.2 percent of GDP in 2022 from 64.6 percent in 2021. The rise in debt ratio reflects a deteriorating fiscal deficit, significant weakening of domestic currencies, and rising debt service costs. Projected higher economic growth and efforts to reduce the fiscal deficit through fiscal consolidation and spending restraint are projected to bring the debt ratio down to 63 percent of GDP in 2023.

The decomposition of debt-creating flows indicates that the projected exchange rate depreciation and high primary deficits will have a greater cumulative impact on external debt dynamics than historical drivers such as real GDP growth (figure 1.20). Similarly, interest expenditures, through higher nominal interest rates, are projected to contribute significantly to higher debt accumulation relative to past values, due to the current normalization of monetary policy across the world, reversing the historically ultra-low interest rate environment.

Tighter global financial conditions are expected to weigh on sovereign borrowing costs

Tighter global financial conditions have led to capital flight from Africa, which occurred at the height of Russia's invasion of Ukraine in March 2022 and in the months where interest rate hikes in advanced economies gained pace. Africa is

FIGURE 1.20 Drivers of public debt dynamics as a share of GDP, 2013–23



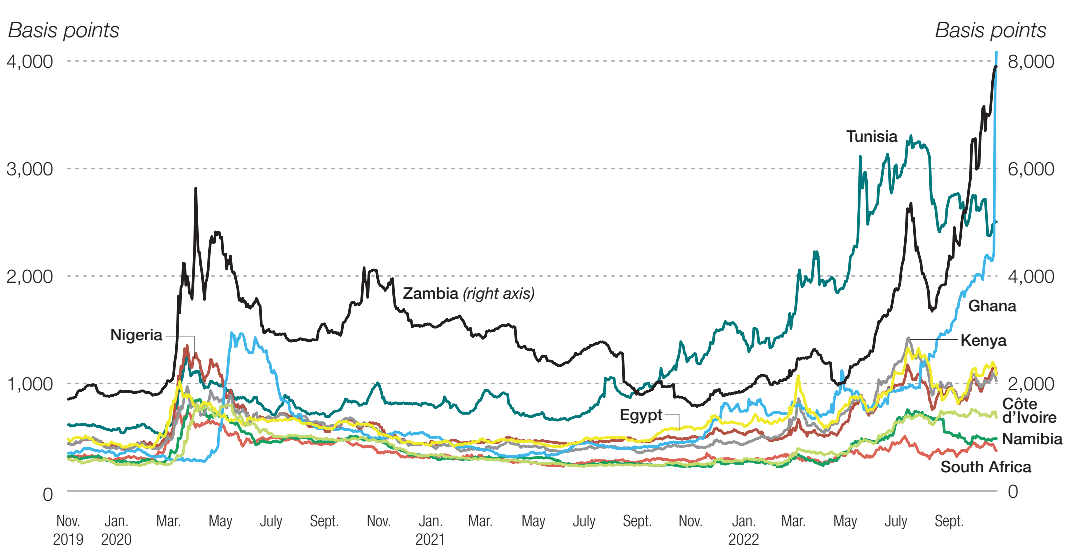
Source: Staff calculations based on data from the International Monetary Fund's World Economic Outlook database.

expected to record net portfolio and other investment outflows totaling $22.5 billion throughout in 2022.[7] Global monetary policy tightening has also stoked depreciations of Africa's domestic currencies and concomitantly increased sovereign bond spreads across market-access countries (figure 1.21). The increase in yields for African bond issues, especially in 2022, is related more to the high volatility in global financial markets since the beginning of Russia's invasion of Ukraine.

Capital flight and investors' search for yield have pushed Africa's sovereign bond spreads to record levels—an indicator of sovereign financial risk and distress (see figure 1.21). Ghana's sovereign bonds, for example, were already trading distressed prior to Russia's invasion of Ukraine due to fiscal concerns, and spreads have widened by

Global monetary policy tightening has also stoked depreciations of Africa's domestic currencies and concomitantly increased sovereign bond spreads across market-access countries

FIGURE 1.21 10-year sovereign bond spreads, by country, November 2019–October 2024

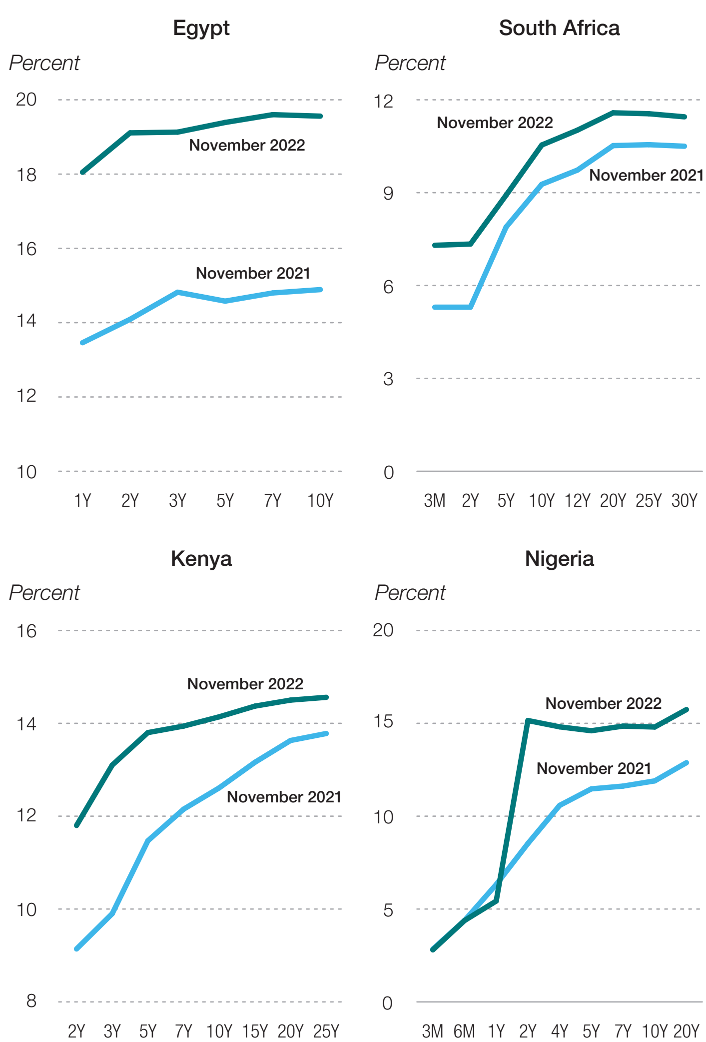


Source: Staff calculations based on data from Haver Analytics.

more than 1,500 basis points since August 2022. Egypt, hurt by the increase in wheat prices, has seen the sovereign spread widening by more than 700 basis points. Equally, Nigeria, which has not fully benefited from higher oil prices due to production constraints, has faced spreads of more than 600 basis points since April 2022. In South Africa, the 10-year bond yield spreads have risen less dramatically—by nearly 130 basis points.

Rising bond spreads shifted entire yield curves for African sovereigns upward, as in Egypt and South Africa, two of the continent's mature secondary bond markets (figure 1.22). In Egypt, the incomplete transmission of monetary policy, together with high public debt and inflation expectations, as well as large public borrowing needs, have been the main drivers of the shift in the yield curve, which does not fully reflect the lower policy rate. In Kenya, Nigeria, and South Africa, the variation in yields partly reflects high inflation expectations and interest rate hikes to tackle high inflation rates, coupled with weak public finances.

FIGURE 1.22 **Yield curves are shifting upward, 2022**



Source: Staff calculations based on Investing.com data.

Debt vulnerabilities and implications for debt relief

Debt vulnerabilities are likely to linger as countries continue to grapple with the economic shocks from the COVID-19 pandemic and Russia's invasion of Ukraine. At the end of September 2022, 23 African countries were either in debt distress (8 countries) or at high risk of debt distress (15 countries), up from 20 in 2020. Debt vulnerabilities in many of Africa's debt-distressed economies preceded the pandemic. Strikingly, these vulnerabilities have increased over time and since 2020 have been exacerbated by pandemic-related effects. These vulnerabilities have increased since 2016, with more countries progressively sliding into debt distress or high risk of debt distress (see annex table A1.3). Since January 2022, all 23 countries that were either in debt distress or at high risk of debt distress recorded an increase in sovereign spreads of more than 700 basis points. The announcement of interest rate hikes by the US Federal Reserve in July 2022 led to sharper increases of more than 1,000 basis points in some countries, highlighting increased debt vulnerability.[8] Persistently tight global financial conditions pose the threat of more countries sliding into debt distress or high risk of debt distress.

The high debt burden, coupled with weak revenue performance, limits public sector nvestent capacity in Africa. Thus, restoring debt sustainability could expand fiscal space but will require debt reprofiling or an outright restructuring for some countries. Recognizing that timely and orderly debt resolution is in the interest of both debtors and creditors, the G20 has taken an important step to facilitate restructuring official external debt through the Common Framework for Debt Treatment. But significant delays and challenges call for urgent and bold actions to fast-track the implementation of the Common Framework to ensure faster resolution of debt crises. Faster debt resolutions will also require broader participation of debtor countries and lenders, especially private creditors. Zambia seized this opportunity and was one of the first countries to request to restructure its public external debt under the Common Framework in early 2021. But progress has been slow and hinges largely on reaching an agreement with private creditors. So far, only Chad has reached an agreement with external creditors, including private creditors under the Common Framework. Ethiopia requested debt relief from its bilateral creditors in early 2021 under the Common Framework. The creditors' committee, co-chaired by China and France, has met several times, but conclusions have not yet been issued.

External position and current account balance

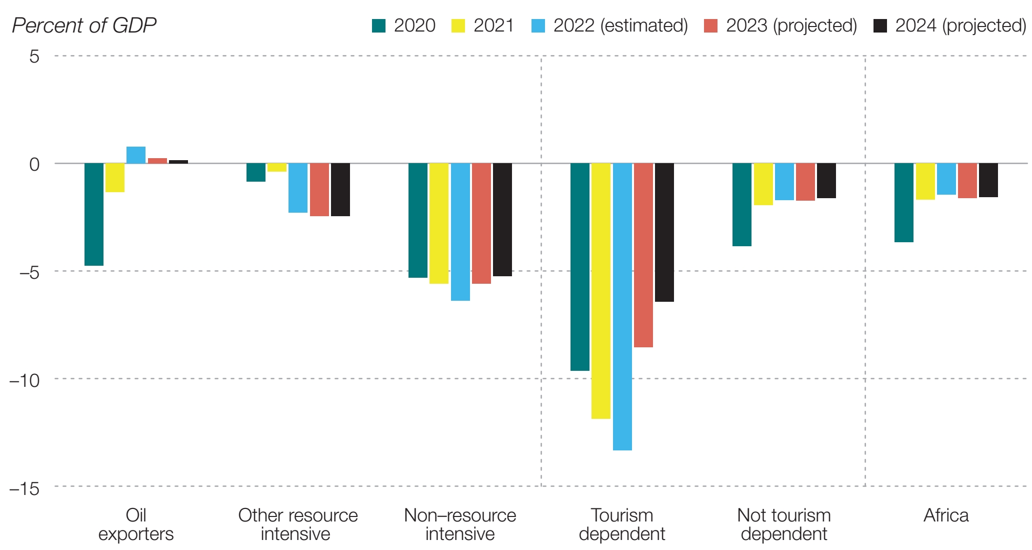
Africa's overall external position is expected to marginally improve, but uncertainty remains with increased food and energy prices weighing on commodity importers

The continent's average overall current account deficit is estimated to have marginally narrowed to 1.5 percent of GDP in 2022 from 1.7 percent in 2021 (figure 1.23), benefiting net commodity exporters from corrective measures to restore external balances after sharp contractions at the height of the COVID-19 pandemic. Many countries have reignited their export promotion strategies, while others are accumulating international reserves to build buffers to mitigate future shocks. Oil-exporting countries such as Angola, Chad, Congo, Egypt, Equatorial Guinea, and Nigeria have strengthened their current account positions. Others, including Algeria, Botswana, Gabon, and South Sudan, have turned from current account deficits in 2021 to surplus in 2022, benefiting from improved trade revenues. The continent's average current account deficit is projected to stabilize at 1.6 percent of GDP in 2023–24, which is an improvement of more than 2 percentage points from the prepandemic level of 3.7 percent. Africa's average external account could further benefit from sustained high commodity prices.

Africa's commodity-exporting economies recorded improved external positions. For instance, oil exporters benefitting from higher oil prices are estimated to have a current account surplus of 0.8 percent of GDP in 2022, reversing the deficit of 1.3 percent in 2021 (see figure 1.23). But the surplus could be erased in 2024, due in part to continuing net capital outflows, with the average current account surplus projected at 0.1 percent of GDP. Other resource-rich economies are expected to reverse their gains in 2021

The continent's average overall current account deficit is estimated to have marginally narrowed to 1.5 percent of GDP in 2022 from 1.7 percent in 2021

FIGURE 1.23 Current account balances, by economic grouping, 2020–24



Source: African Development Bank statistics.

for similar reasons, with the current account deficit estimated at 2.3 percent in 2022 and projected to stabilize to 2.4 percent in 2023.

For non-resource-intensive economies—about half of African countries—higher food and energy import bills weakened their external positions. The current account deficit is estimated to have deteriorated to 6.4 percent in 2022 from 5.6 percent in 2021. The deterioration in external positions is worsened by depreciating domestic currencies in these countries. Such depreciations, if sustained, would increase the import bill and erode countries' external positions, creating ripple effects in the real economy, through an increase in imported inflation. The average current account deficit of non-resource intensive economies is projected to narrow to 5.6 percent of GDP in 2023, reflecting the expected easing of the ripple effect of Russia's invasion of Ukraine should global efforts toward faster resolution materialize. Coupled with China's expected reopening after three consecutive years of zero COVID-19 policy, a cessation of Russia's invasion of Ukraine could lead to a recovery in global trade and capital flows, which could benefit African economies.

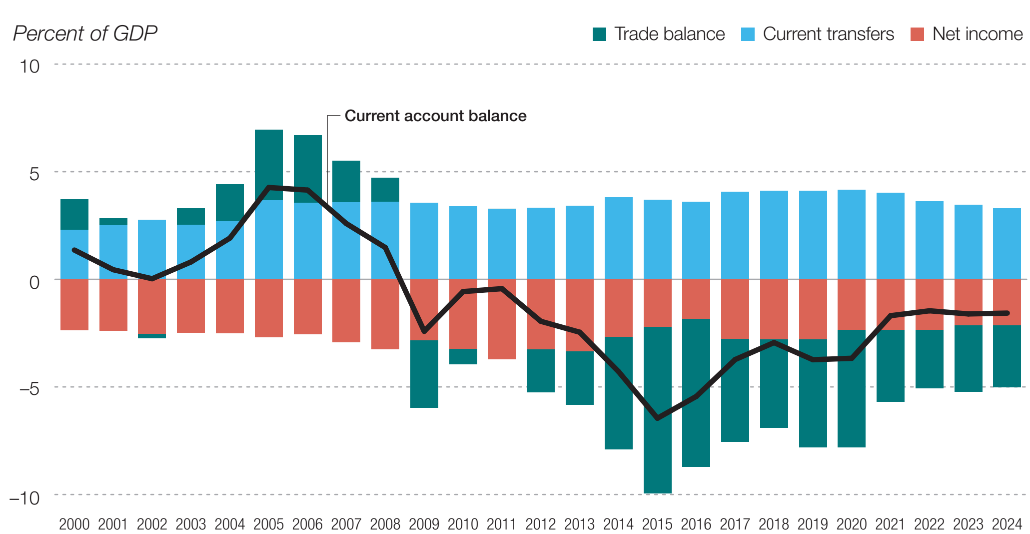
Despite improvements in tourist arrivals and receipts, tourism-dependent economies saw their current account deficit widen to an estimated 13.3 percent in 2022 from 11.9 percent in 2021

Despite improvements in tourist arrivals and receipts, tourism-dependent economies saw their current account deficit widen to an estimated 13.3 percent in 2022 from 11.9 percent in 2021. The deficit is projected to narrow to 8.5 percent in 2023, a marked improvement reflecting strong performance in external inflows and earnings from tourism in the medium term. According to the World Tourism Organization, an estimated 700 million tourists travelled internationally between January and September 2022, more than twice (133 percent) the number for the same period in 2021. This also reflects a strong recovery of nearly 61 percent of pre-pandemic levels.[9] Nearly two-thirds of the World Tourism Organization's Panel of Tourism Experts expect tourist arrivals to exceed current levels; an additional quarter expect it to remain at current levels.

The trade deficit and net factor payments are the principal drivers of the current account, but this has been offset partially by net current transfers including remittances and foreign aid (figure 1.24).

The contribution of net income outflows has declined over time, while the deficit in merchandise trade has been growing since 2012, peaking at about 57 percent in 2015 as net commodity exporters suffered trade losses from lower prices. The contribution of the trade deficit has since declined, but it remains above 35 percent on average and is projected to remain at the same level in the medium term. Africa has persistently posted

FIGURE 1.24 **Current account balance decomposition, 2000–24**



Source: African Development Bank statistics.

net income outflows—as from workers' compensations and dividends on portfolio and direct investments—though the magnitude has diminished since 2014. In contrast, net current transfers (workers' remittances, intergovernment official transfers, among others) have been positive throughout the period, alleviating the impact of the trade deficit and income outflows on the current account. These dynamics are expected to persist at least in the medium term given the resumption of remittances, official development assistance, and other transfers.

With persistent trade deficits, structural reforms aimed at boosting regional trade bode well in the medium to long term. They include accelerated investment in regional hard and soft infrastructure, including regional transport and logistics, promoting cross-border free movement of goods and services by removing of trade and nontrade barriers, and strengthening African payment systems. With the sustained disruption in global supply chains and the increasing calls for trade reshoring and friend-shoring, the African Continental Free Trade Area thus presents a unique opportunity for countries to internalize exogenous shocks while improving their trade balances and building future economic resilience.

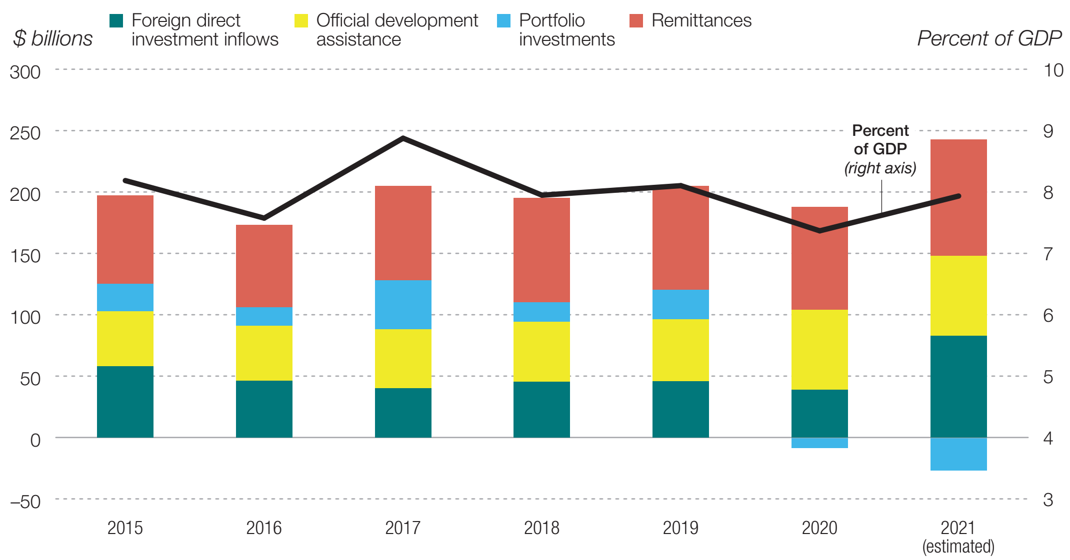
External financial flows

Financial inflows have rebounded from the fallout of the COVID-19 pandemic but remain volatile amid tighter global financial conditions

After a decline in 2020 due to the COVID-19 pandemic, external financial flows to Africa are estimated to have rebounded by around 20 percent in 2021. Financial flows declined to 7 percent of GDP in 2020 from 7.9 percent in 2019 (figure 1.25) but have since rebounded. Foreign direct investment (FDI) is estimated to have more than doubled to $83 billion in 2021 from $38.9 billion in 2020. Although FDI inflows to Africa accounted for only 5.2 percent of global FDI in 2021, which stood at $1.58 trillion, the large increase highlights the attractiveness of African markets. According to the United Nations Conference on Trade and Development, Europe remains the largest source of FDI to Africa, with more than €212 billion, representing about 50 percent of total investment inflows to the continent. The United Kingdom ($65 billion in assets) and France ($60 billion) are the two European countries with the highest investment activity in Africa. Their dominance reflects historical ties and local knowledge of African markets. The United States is a distant third,

After a decline in 2020 due to the COVID-19 pandemic, external financial flows to Africa are estimated to have rebounded by around 20 percent in 2021

FIGURE 1.25 External financial flows to Africa, 2015–21



Source: African Development Bank statistics and staff calculations assuming constant official development assistance between 2020 and 2021.

with about $45 billion in assets in 2021, or 13 percent of total FDI to Africa.[10] China, Russia, India, Germany, and Turkey have also increased their investment in Africa, but their shares remain low.

The five major FDI destinations in Africa are, in descending order, South Africa, Egypt, Mozambique, Nigeria, and Ethiopia. In 2021, South Africa remained the largest FDI recipient, with investments worth more than $40.9 billion, nearly half the total inflows to Africa that year. Recent investments in the country included a $4.6 billion clean energy project sponsored by UK-based Hive Energy, as well as a billion-dollar data construction project in Johannesburg's Waterfall City. Egypt and Mozambique each attracted $5.1 billion in FDI inflows in 2021. FDI to Mozambique grew by 68 percent, directed largely at greenfield projects in the energy sector. Despite economic challenges, Nigeria continues to attract FDI inflows, but the sectoral focus has shifted away from oil and gas to electric power, mainly to finance renewables and manufacturing such as tanning. Agriculture has also received sizable foreign investment. Across all sectors, Nigeria recorded total FDI of $4.8 billion in 2021, which includes financing for a $2.9 billion industrial complex.[11] Ethiopia recorded $4.3 billion in FDI in 2021, 79 percent higher than the previous year, the bulk of it directed at renewable energy projects.

Unlike FDI, which recovered strongly in 2021, net portfolio investment outflows totaled a record $27 billion, sustaining the asset selloff at the peak of the COVID-19 pandemic in 2020

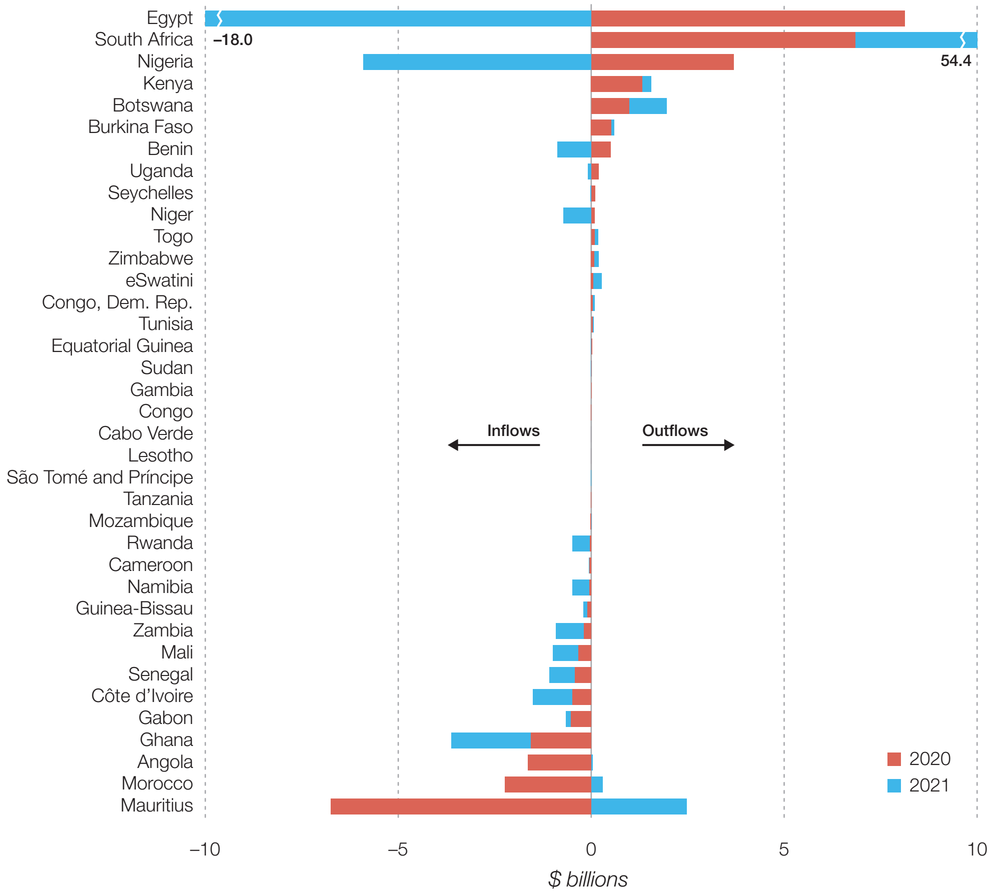
Unlike FDI, which recovered strongly in 2021, net portfolio investment outflows totaled a record $27 billion, sustaining the asset selloff at the peak of the COVID-19 pandemic in 2020. Portfolio outflows were highest in the more mature equity and debt markets of Mauritius and South Africa (figure 1.26). Few African countries attracted more portfolio investment in 2021. For instance, Egypt reversed the outflow of $8.1 billion in 2020, increasing its portfolio investment by $18 billion in 2021. Nigeria, after a net outflow of $3.7 billion in 2020, reversed these losses, with $5.9 billion in inflows in 2021. Similarly, Ghana bolstered its portfolio position by $2.1 billion in 2021, building on $1.6 billion in 2020. But more broadly, increased financial volatility and global risk aversion have reduced capital flows to emerging markets and developing economies. The continent is expected to experience portfolio outflows, estimated at $22.5 billion in 2022.

Official development assistance (ODA) to Africa rose to $64.8 billion in 2020 from $50.7 billion in 2019, an increase of 28 percent. Despite challenges faced by advanced economies with growing fiscal strains and domestic financing needs, many African countries benefited from higher ODA in 2020 relative to 2019, partly reflecting support for health supplies and other containment measures related to the COVID-19 pandemic. Countries that experienced increased ODA include Mauritius (1,410 percent), Angola (420 percent), Morocco (143 percent), Ghana (142 percent), Comoros (81 percent), and Sao Tome and Principe (81 percent). But the bulk of ODA to Africa in 2020 was concentrated in Ethiopia ($5.3 billion), Kenya ($4 billion), Democratic Republic of Congo ($3.4 billion), Nigeria ($3.4 billion), Uganda ($3.1 billion), and Somalia ($3 billion). The top 10 recipient countries received nearly half the total ODA to Africa in 2020. Given the large capital outflows from Africa and the geographic concentration of ODA, governments need to create an attractive environment to engage the private sector if they are to boost growth, achieve climate goals, and transition to green and inclusive development.

ODA is estimated to have increased in 2021 as fiscal challenges stoked by the COVID-19 pandemic eased in source countries. But as advanced economies channel their resources toward reconstruction and humanitarian assistance in Ukraine, this may come at the expense of meeting their ODA commitments to Africa. If Russia's invasion of Ukraine is prolonged, there could be substantial long-term effects on ODA flows to Africa.

Remittances to Africa declined by around 3.4 percent, from $87 billion in 2019 to $84.06 billion. The smaller decline in 2020 was due to increased remittances in Angola, Egypt, Kenya, Morocco, Zambia, and Zimbabwe, which offset the sharp fall in Nigeria. Remittances to Nigeria, which accounted for 24 percent of total flows to Africa between 2019 and 2020, declined by more than a quarter year-on-year. Excluding Nigeria, remittance flows to Africa increased by 5.8 percent, driven by better-than-expected economic conditions in host countries, a depreciated exchange rate, and a shift from cash (informal) to digital (formal) transfers. In 2021, remittances

FIGURE 1.26 Portfolio investments in Africa, by country, 2020 and 2021



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

Source: Staff calculations.

Remittances to Africa increased by around 12.9 percent, from $84.06 billion in 2020 to $95 billion in 2021, buoyed by a return to growth in host countries

to Africa increased by around 12.9 percent, to $95 billion, buoyed by a return to growth in host countries. The increase was driven by strong increases in flows to Morocco (40 percent, to $10.4 billion), Democratic Republic of Congo (34 percent, to $1.33 billion), Kenya (20.1 percent, to $3.73 billion), Nigeria (11.2 percent, to $19.2 billion), and Egypt (6.4 percent, to $31.5 billion). The resilience of remittances also corroborates recent evidence of migrants' countercyclical support to families, even in times of crisis or shocks in their host countries.[12]

In the near term, high global inflation could reduce remittances to African countries. But the depreciation of African domestic currencies against the US dollar could increase remittances due to high local currency equivalent in recipient countries. Sustained high oil prices could also boost remittances to Africa from Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates). However, uncertainty surrounding the dynamics of remittance flows to Africa could weigh on growth prospects and exacerbate poverty in Africa.

Although private financial flows have rebounded, Africa faces huge gross financing needs to reduce poverty, realize climate ambitions, and transition to green growth. Additional resources required to finance Africa's economic recovery from the COVID-19 pandemic in 2020–22 were estimated at $432 billion. With the effects of Russia's invasion of Ukraine stretching fiscal positions for countries dependent on imports of food, energy, and fertilizer, this figure could be low, especially with such additional challenges as lower government revenue, rising debt burden, high inflation, slowing growth, and climate-related shocks.

Climate financing faces a gap estimated at $1.3–$1.6 trillion over 2020–30, or $118.2–$145.5 billion a year. Unless more resources are mobilized, Africa risks not achieving the SDGs, including moving toward a greener and inclusive growth. Africa's share in total global climate finance increased by only 3 percentage points on average in 2010–19, from 23 percent (or $48 billion in total) in 2010–15 to 26 percent (or $73 billion) in 2016–19, well below the continent's financing needed to implement the nationally determined contributions associated with the Paris Agreement. Given this gloomy picture, the option of tapping into private resources and Africa's huge natural capital endowment becomes of paramount importance.

It is imperative to enact policies that can leverage and significantly mobilize private financing for Africa's transition to green and inclusive development

Globally, private assets under management by sovereign wealth funds and private pension funds stood at $15 trillion in 2020, and those by institutional investors in Africa were more than $300 billion. Investing just a part of this in African infrastructure (including climate-resilient and green projects) could generate more than enough to provide Africa with universal electricity and to close Africa's infrastructure financing gap. It is thus imperative to enact policies that can leverage and significantly mobilize private financing for Africa's transition to green and inclusive development.

Against this backdrop, the two thematic chapters of *African Economic Outlook 2023* will emphasize mobilizing private financing to address climate-related challenges and the transition to green and inclusive growth. That report will also explore the immense opportunities in Africa's natural capital endowment as a complementary source of mobilizing climate financing.

NOTES

1. AfDB 2022.
2. AfDB 2021, and AfDB 2022.
3. According to Statistic South Africa, KwaZulu-Natal accounted for a fifth of the South Africa's manufacturing in 2019.
4. Common Monetary Area—eSwatini, Lesotho, Namibia, and South Africa. The Lesotho and Namibian currencies trade at par with the South African rand and circulate freely in these countries.
5. The SACU, comprising Botswana, eSwatini, Lesotho, Namibia, and South Africa, provides for common external and excise tariffs to this common customs area and the revenue collected in the bloc area is shared among members according to a revenue-sharing formula, as described in the agreement establishing the bloc.
6. African countries with limited access to external financing are increasingly seeking recourse to domestic debt markets for resources to finance their deficits. This situation is likely to continue as global financial conditions tighten further, shutting many economies out of the international financial markets. Thus, domestic debt could amplify already elevated debt vulnerabilities (AfDB 2021). While domestic borrowing could become an important source of deficit financing, external debt remains the major source of sovereign debt in African countries (for the continent's low-income countries, for example, external debt represents more than 80 percent of total debt). For those with high domestic debt, most of it is in the form of central bank advances to the central government.
7. UNCTAD 2022.
8. Chuku and Kopoin 2022.
9. UNWTO 2022.
10. European Commission 2022.
11. UNCTAD 2022.
12. World Bank and KNOMAD 2022.

2

SOCIOECONOMIC EFFECTS OF RISING FOOD AND ENERGY PRICES

With the effects of the COVID-19 pandemic still lingering and climate shocks upending Africa's socioeconomic situation, the sharp rise in food and energy prices, stoked by Russia's invasion of Ukraine, is compounding the difficulties of many African countries. Targeted public policy responses are needed to mitigate the impact of multiple shocks on the most vulnerable households in the broader context of limited fiscal space across the continent.

Extreme poverty and inequality

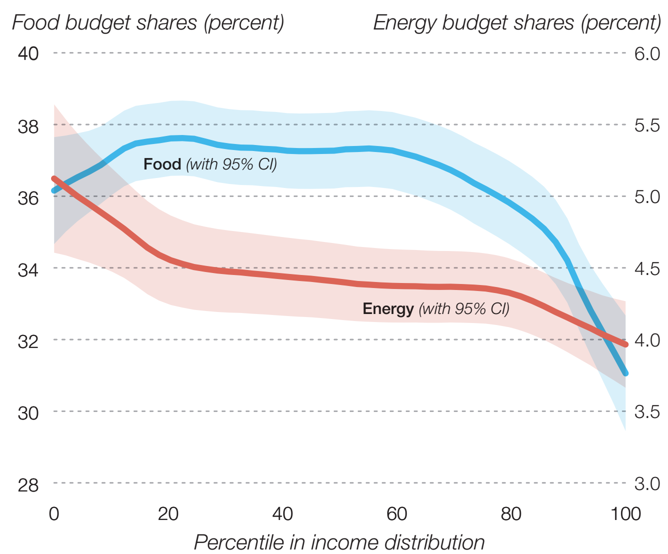
Russia's invasion of Ukraine stoked a sharp spike in energy and food prices

African households face heightened risks to their livelihoods from increases in commodity prices (see figure 1.3). At the start of Russia's invasion of Ukraine in February 2022, crude oil prices increased by about 20 percent, from \$93.50 per barrel to \$112.40 and averaged \$102.80 between March and October 2022. Wheat prices rose by about 28 percent, from \$364.90 per metric ton in February 2022 to \$446.50 in March 2022 and averaged \$427.20 between March and October 2022. Similarly, fertilizer prices also surged by about 22 percent, from \$547.10 per metric ton in February 2022 to \$668.90 in March 2022 and averaged \$624.90 between March and October 2022. As uncertainty heightened, prices of other commodities, particularly agricultural products and metals, also rose from their levels before Russia's invasion of Ukraine.

The impact of increasing food and energy prices depends on the net market status of African households and varies across the income distribution

The impact of food and energy price increases varied by African households' characteristics. While consumers are hit by higher food and energy prices, sellers benefit from price increases, so the sign of the aggregated impact depends on whether a household is a net buyer or a net seller of these commodities.[1] Analysis from the Household Impacts of Tariffs database[2] indicates that, across the 29 African countries with data, households spend on average 36.3 percent of their income on food items but get only 15.2 percent from food sales. In addition, about 4.4 percent of household income is allotted to energy. This average pattern masks the heterogeneity across the income distribution (figure 2.1). Poorer households tend to allocate a larger share of their budget to food items and energy. For example, the poorest

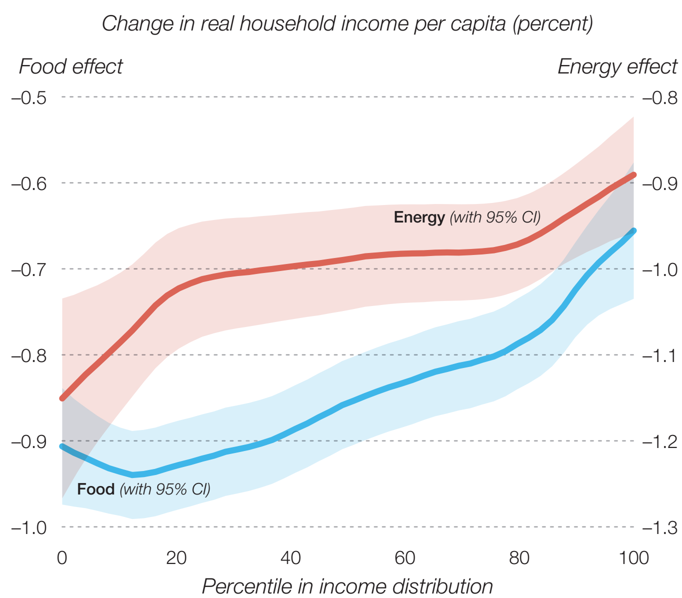
FIGURE 2.1 Household spending on food and energy items by income



Note: Refers to 29 African countries with data.

Source: Staff calculations based on data from the Household Impacts of Tariffs database.

FIGURE 2.2 Estimated impact of food and energy price inflation on Africa's real household income per capita



Source: Staff calculations based on Deaton (1989), Artuc et al. (2019), World Bank Commodity Price Data (The Pink Sheet), and Household Impacts of Tariffs (HIT) database.

On average, the poorest 10 percent of African households are estimated to have lost on average about 0.91 percent of their real income per capita due to higher food prices and 1.16 percent due to higher energy prices

10 percent of African households spend on average 36.5 percent of their income on food and 5.2 percent on energy, while the richest 10 percent spend 31.8 percent on food and 3.9 percent energy.

Poorer households are likely to be disproportionately affected by higher food and energy prices

Figure 2.2 displays the estimated impacts of food and energy price inflation on real household income per capita[3] along the income distribution by comparing food and energy price indices in February 2022 with the average price indices between March and October 2022.[4] These estimates assume that there is no price rigidity so that the observed price increases are fully and instantaneously transmitted onto domestic prices.[5] This short-run analysis also neglects any potential household adjustment to consumption and income-generating behaviors as a result of price changes.[6]

Average household real income per capita in Africa fell by 0.84 percent (food) and 1 percent (energy) due to the price inflation since Russia's invasion of Ukraine. This led to an aggregated real household income per capita loss of 1.84 percent for the entire spectrum of households. On average, the poorest 10 percent of African households are estimated to have lost on average about 0.91 percent of their real income per capita due to higher food prices and 1.16 percent due to higher energy prices. In contrast, the richest 10 percent suffered respective losses of 0.67 and 0.88 percent, given their lower food and energy budget shares.

The poverty impact of rising food and energy prices has been severe in Africa, with the number of extreme poor estimated to have increased by 15 million since Russia's invasion of Ukraine

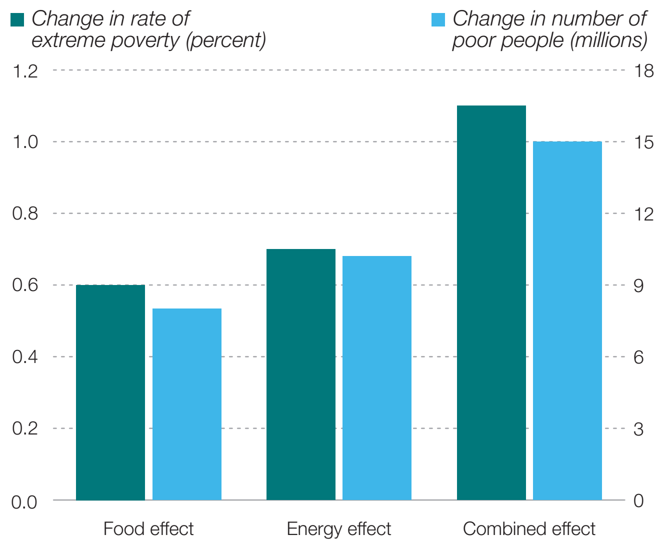
High global food and energy prices have stoked a sharp fall in real household per capita income, eroding household welfare and exacerbating poverty and inequality in African countries. Changes in extreme poverty have been computed from household income distributions following a counterfactual approach similar to the AEO 2022.[7] This is done by comparing poverty rates in the absence of a shock stemming from Russia's invasion of Ukraine (counterfactual scenario) with those from the surge in food and energy prices (commodity price scenario). Household income distributions were recalculated to account for changes in real income and the net market status of households.

Relative to the counterfactual scenario, the number of extreme poor based on the $1.90 a day poverty line is estimated to have increased by about 8 million people in Africa after accounting for higher food inflation observed since March 2022. This corresponds to a 0.6 percent increase in the rate of extreme poverty (figure 2.3). The additional number of people falling into extreme poverty due to energy price inflation is estimated at 10.2 million, bringing the combined poverty effect of soaring food and energy prices to about 15 million people, or 1.1 percent of Africa's population. The poverty effect of energy price increases is higher than for food prices because the energy impact is fully passed through household income while the negative impact of high food prices is partly offset by increases in household income from net sellers.

At the country level, the poverty impact is likely to vary depending on household budget and income shares allotted to food and energy, and the overall income distribution. For each poverty effect (food, energy, and combined), the distribution of increases in poverty across countries is broken down into countries with a low poverty impact (top 10 countries), high impact (bottom 10 countries) and medium impact (the rest of the countries). The heatmap in figure 2.4 presents the results of this exercise. For countries with the highest poverty impacts (in red), extreme poverty is estimated to have respectively increased by 1.04 and 1.36 percentage points due to food and energy price spikes. This corresponds to a combined effect of 2.04 percentage point increase. Countries with low impact (in green) recorded a smaller increase of 0.1 percentage point.

By affecting net buyers and poorer households more than other household groups, food and energy price inflation has also amplified income inequality between households. Since March 2022, income inequality (proxied by the GINI coefficient) has increased by 0.04 in Africa due to cumulative increase in food and energy prices, from about 40 to 40.04. However, the estimated inequality impact depicts large cross-country disparities (figure 2.5) and is positively correlated with changes in domestic food price inflation (figure 2.6). Overall, in the absence of offsetting policy measures, African countries with larger changes in domestic food price inflation recorded widening inequality in 2022. African countries can use different mitigation policies to try to cushion the impact the soaring food and energy prices on household livelihoods. But a careful *ex ante* evaluation of the effectiveness of these policies needs to be carefully evaluated before their implementation (box 2.1).

FIGURE 2.3 **Estimated impact of food and energy price inflation on extreme poverty in 2022**



Note: For countries with missing data on food and energy shares in the HIT database, the approach was to impute those values by attributing to each percentile the corresponding average value of food and energy budget and income shares of countries within the same region.
Source: Staff calculations based on Deaton (1989), Artuc et al. (2019), World Bank Commodity Price Data (The Pink Sheet), the World Bank's Povcalnet database, and Household Impacts of Tariffs (HIT) database.

Food security and nutrition

Rising food and energy price inflation could exacerbate food insecurity and malnutrition in Africa

Before the recent increases in food and energy prices in the wake of Russia's invasion of Ukraine, Africa had made significant strides in improving nutrition. The proportion of undernourished population declined to 19 percent in 2019–21, a 4.5 percentage points drop from 23.5 percent in 2000–02 (figure 2.7). Despite these gains, undernourishment[8] in Africa remains higher than in other world regions—8.3 percent in Asia and 7.7 percent in Latin America and the Caribbean. In absolute terms, the number of undernourished people increased from an average of 195.5 million during 2000–02 to 256.1 million in 2019–21. The latest data show that the number of Africans facing risk of hunger could even rise to 270 million in 2022 and potentially reach 310.7 million by 2030.[9] High levels of undernutrition in Africa reflects the rise in prevalence of severe food insecurity,[10] from 16.7 percent in 2014 to more than 23.4 percent since 2021.[11] In absolute terms, the number of severely food insecure people also increased from 192.1 million in 2014 to 322 million in 2021. The recent rise in food and energy prices could thus worsen food insecurity and malnutrition on the continent, risking the achievement of SDGs 1 and 2.

High global food and energy prices have stoked a sharp fall in real household per capita income, eroding household welfare and exacerbating poverty and inequality in African countries

FIGURE 2.4 Heatmap of the estimated impact of food and energy price inflation on extreme poverty by country in 2022

	Food effect	Energy effect	Combined effect
Algeria	9	4	3
Angola	34	33	34
Benin	5	16	18
Botswana	1	13	24
Burkina Faso	8	38	21
Burundi	2	9	1
Cabo Verde	15	12	8
Cameroon	40	17	28
Central Africa Rep.	3	22	9
Chad	18	10	13
Comoros	45	42	32
Dem. Rep. of Congo	24	23	20
Congo	25	37	35
Côte d'Ivoire	32	34	42
Djibouti	17	27	15
Egypt	19	8	10
eSwatini	28	43	38
Ethiopia	35	16	16
Gabon	11	18	5
Gambia	42	31	25
Ghana	4	25	12
Guinea	12	3	7
Guinea-Bissau	51	35	49
Kenya	29	48	46
Lesotho	32	45	36
Liberia	37	1	26

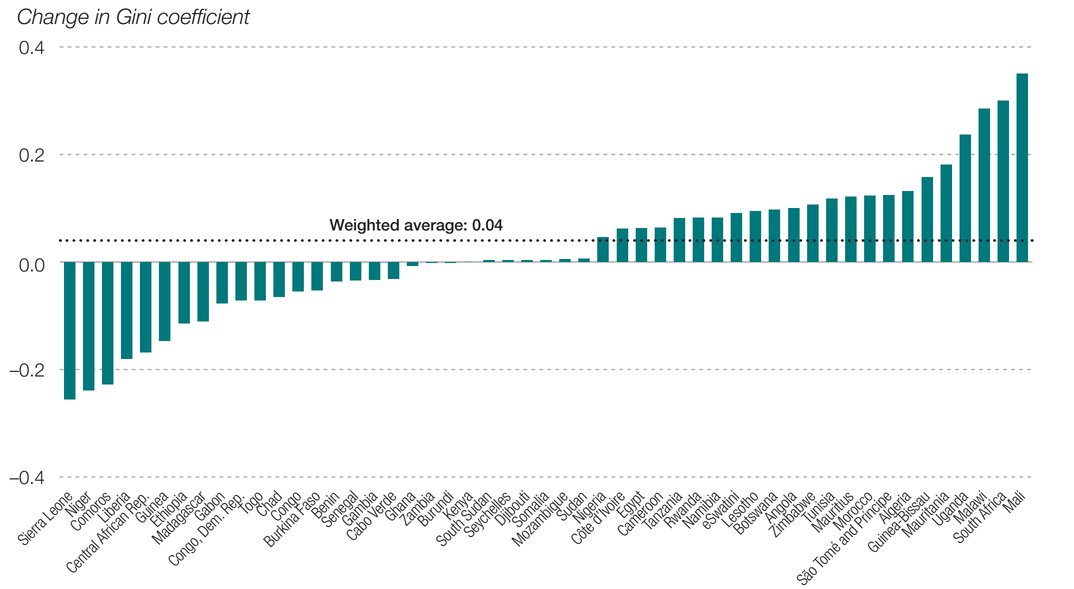
	Food effect	Energy effect	Combined effect
Madagascar	22	24	19
Malawi	14	51	51
Mali	38	40	30
Mauritania	33	19	14
Mauritius	7	7	4
Morocco	13	6	6
Mozambique	41	39	41
Namibia	23	41	39
Niger	49	49	45
Nigeria	50	50	50
Rwanda	36	11	23
São Tomé and Príncipe	6	15	43
Senegal	26	26	27
Seychelles	20	28	11
Sierra Leone	47	20	31
Somalia	27	36	33
South Africa	46	29	37
South Sudan	16	30	22
Sudan	48	46	47
Tanzania	34	14	29
Togo	44	32	48
Tunisia	10	5	2
Uganda	21	47	44
Zambia	43	2	17
Zimbabwe	39	44	40

Average poverty impact

	Food effect	Energy effect	Combined effect
Low impact	–0.04	–0.03	0.10
Medium impact	0.25	0.37	0.74
High impact	1.04	1.36	2.04

Note: This heatmap plots countries' poverty impacts of food and energy price inflation. For each (food, energy or combined) effect, countries are ranked by the magnitude of the estimated impacts: the first top 10 countries (low impact) are colored green; the bottom 10 countries (high impact) are colored red; and the remaining countries (ranked 11th to 41st) are colored yellow. The numbers in the heatmap refer to each country's ranking for each estimated effect. This means that countries with the largest food effect are not exactly the same as those with the largest energy impact. Similarly, countries with the largest combined effect are different from those of food and energy effects because individual effects either cancel out or reinforce each other, depending on the structure of income distribution in each country. Overall, therefore, the combined effect is not exactly the sum of food and energy effects. Poverty data are not available for Equatorial Guinea, Eritrea and Libya.
Source: Staff calculations based on Deaton (1989), Artuc et al. (2019), World Bank Commodity Price Data (The Pink Sheet), the World Bank's Povs calnet database, and the Household Impacts of Tariffs (HIT) database.

FIGURE 2.5 Estimated impact of food and energy price inflation on inequality by country



Source: Staff calculations based on Deaton (1989), Artuc et al. (2019), World Bank Commodity Price Data (The Pink Sheet), the World Bank's Povcalnet database, and the Household Impacts of Tariffs (HIT) database.

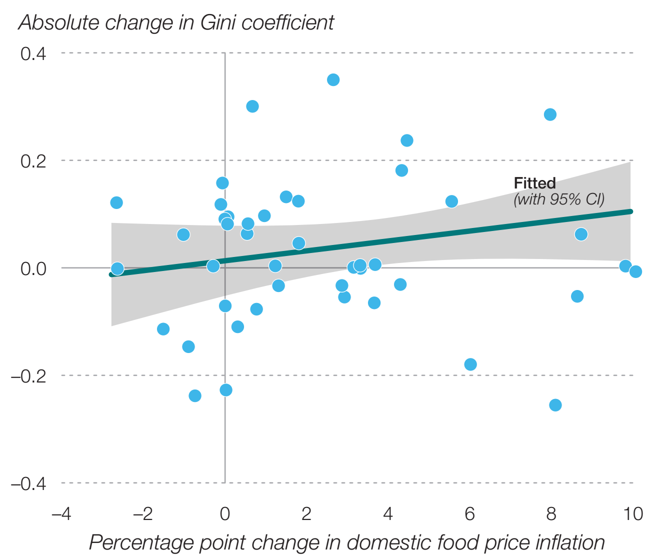
The proportion of undernourished population declined to 19 percent in 2019–21, a 4.5 percentage point drop from the 23.5 percent in 2000–02

The prevalence of undernourishment could increase by up to about 2 percent in Africa in 2022 due to increasing commodity prices

Due to the high shares of income devoted to food expenditures, many households in Africa are extremely vulnerable to food price shocks (see previous section). Simulations by FAO et al. (2022) show that vulnerable populations in Africa are the most at risk of increased undernourishment due to rising food prices (figure 2.8). Under the moderate shock scenario, FAO et al. (2022) show that Africa's number of undernourished would increase by 1 percent in 2022 (excluding North Africa), higher than the 0.93 percent for Asia and the Pacific and 0.62 percent for Latin America and the Caribbean. In the more severe shock scenario,[12] the number of undernourished in the continent (excluding North Africa) would increase by close to 2 percent. The larger impact on the continent is mainly due to the combined effect of the higher share of low-income households coupled with large proportion of household food expenditures, and Africa's dependency on imported cereals, especially from Russia and Ukraine.

The average cereal import dependency ratio,[13] which measures the extent to which a country's domestic supply of cereals is produced domestically

FIGURE 2.6 Correlation between changes in the GINI coefficient and changes in domestic food price inflation in 2022



Source: Staff calculations based on Deaton (1989), Artuc et al. (2019), World Bank Commodity Price Data (The Pink Sheet), the World Bank's Povcalnet database, and the Household Impacts of Tariffs (HIT) database.

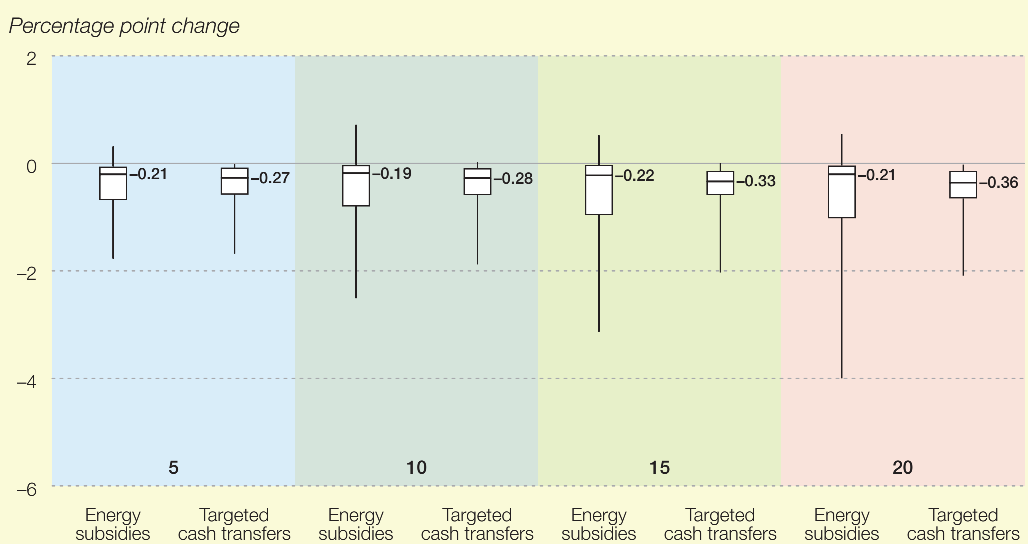
BOX 2.1 Energy subsidies or targeted cash transfers to mitigate the poverty impacts of higher prices?

In the face of soaring commodity prices, governments have at their disposal several options, including one-off or timebound income support, (un)targeted cash transfers, subsidies, unemployment insurance, tax cuts, etc.[1] This box analyzes the effectiveness of two policy options widely applied on the rate of extreme poverty in Africa, under the assumption that they require similar implementation costs.[2]

In the first policy option, *each* household receives the amount of subsidy proportional to its energy expenditures following price increases, assuming that households maintain their energy budget shares in the short run. The rate of these energy subsidies is chosen on a 5 to 20 percent range, with an interval of 5 percentage points. The estimated annual costs of such policy range from a median of $22.9 million per country under the 5 percent scenario to $91.4 million for the 20 percent scenario.

In the second policy option, *only the poorest 10 percent* of the population benefit from cash transfers: the cost that a country could incur when applying the first policy option under different energy subsidy rates is distributed equally to all households located at the bottom 10 percent of income distribution. The impact of these two policy options with equivalent aggregate costs is summarized in box figure 1.

BOX FIGURE 1 Simulated impact of energy subsidies and targeted cash transfers on extreme poverty in Africa for various rates of energy subsidy



Note: The figure shows the impact on extreme poverty of the application of different rates of energy subsidies (5, 10, 15 and 20 percent) to household incomes. For each subsidy rate, the impact is computed as the difference between the poverty rate accounting for the influence of energy subsidies or an equivalent cash transfer targeting the poorest 10 percent of the population and the poverty rate in the absence of any mitigation policy. Median values are shown. The height of the boxes corresponds to the interquartile range. Outliers (values below the 5th and above the 95th percentiles) have been omitted. Potential administrative costs necessary for the implementation of each policy have been ignored for ease of analysis.

Source: Staff calculations based on Deaton (1989), Artuc et al. (2019), World Bank Commodity Price Data (The Pink Sheet), the World Bank's Povcalnet database, and the Household Impacts of Tariffs (HIT) database.

(continued)

BOX 2.1 Energy subsidies or targeted cash transfers to mitigate the poverty impacts of higher prices? *(continued)*

Cash transfers targeting the poorest 10 percent appear more effective in mitigating poverty increases resulting from soaring energy prices. This policy could lead to a median decline in extreme poverty rates of 0.3 percentage points compared with 0.2 percentage point for the corresponding 5 percent universal energy subsidy. Cumulatively, the second policy option targeting the poorest 10 percent could prevent about 5.9 million Africans from falling into poverty against 5.7 million for a universal energy subsidy of 5 percent. In addition, while the median impact of the universal energy subsidy seems to level off at higher rates, for targeted cash transfers, the impact becomes increasingly larger, attaining a 0.4 percentage point decline at a subsidy rate of 20 percent, preventing about 9.3 million people from falling into extreme poverty. However, at the country level, the choice of the best policy option will ultimately depend on both the structure of the income distribution of the population, the dynamics of household budget shares, the necessary fiscal space, and the administrative capacities to implement the option cost-effectively as well as potential household behavior changes.

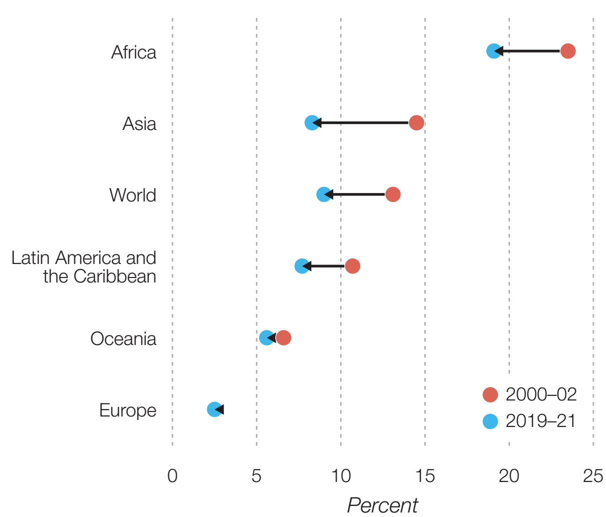
Notes

1. Molina et al. 2022.
2. Amaglobeli et al. 2022.

and imported for Africa averaged 29.6 percent between 2017 and 2019 (figure 2.9), indicating that the continent is a net importer of cereals. Africa's average cereal import dependency ratio was more than three times Asia's (8.3 percent). The cereal import dependency ratio for all other major regions is negative—Europe (–26.6 percent), North America (–28 percent), indicating that these regions are net exporters of cereals. At the country level, there is significant heterogeneity in cereal import dependency ratio in Africa, ranging from 100 percent in Cabo Verde to –2.8 percent in Zambia, the only African country with negative cereal import dependency ratio among countries with available data. Out of 49 African countries for which data were available, only 16 have cereal import dependency ratios below the continental average (29.6 percent). The rise in local food prices has also been exacerbated by domestic production constraints, low productivity, and high price of modern agricultural inputs, primarily fertilizers, and pesticides.

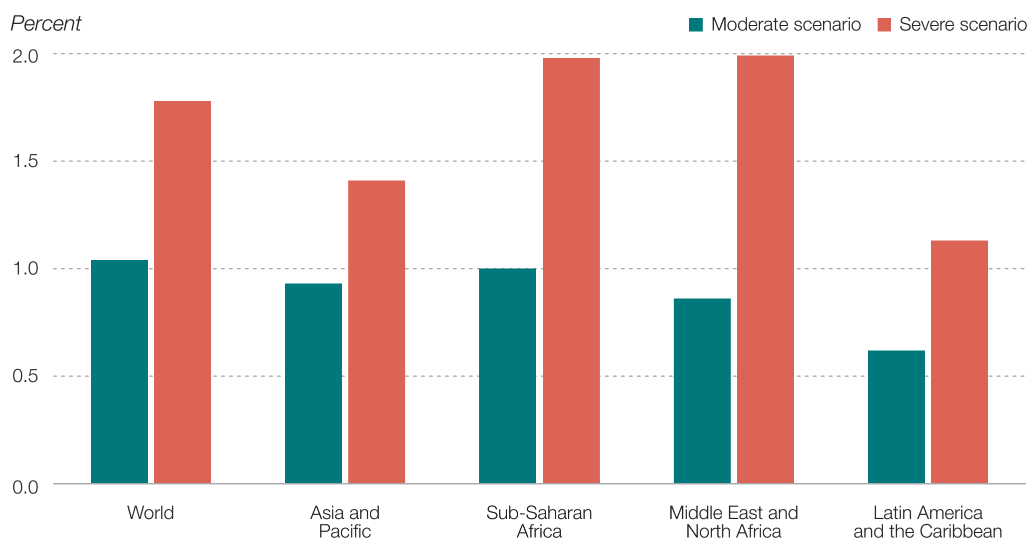
The immediate socioeconomic impact of high food prices is reflected in higher incidence of malnutrition, the first-order determinant of weak human capital in early years of childhood. The effects of early childhood malnutrition and hunger due to high food price inflation are alarming and can be long-lasting. Pediatric studies show that exposure to malnutrition during the first 1000 days, from conception to 24 months, is considered the critical window to invest in nutrition. For example, exposure to 10 percentage points higher month-to-month food inflation while in utero increases the risk of under-five stunting by 9.5 percent.[14] Moreover, exposure to high food inflation during pregnancy could increase childhood mortality. Beyond health and mortality in children, undernourishment during early life negatively impacts educational and cognitive achievements, labor market outcomes, and social behavior.

FIGURE 2.7 Dynamics of the prevalence of undernourishment, 2000–21



Source: Staff calculations based on FAOSTAT.

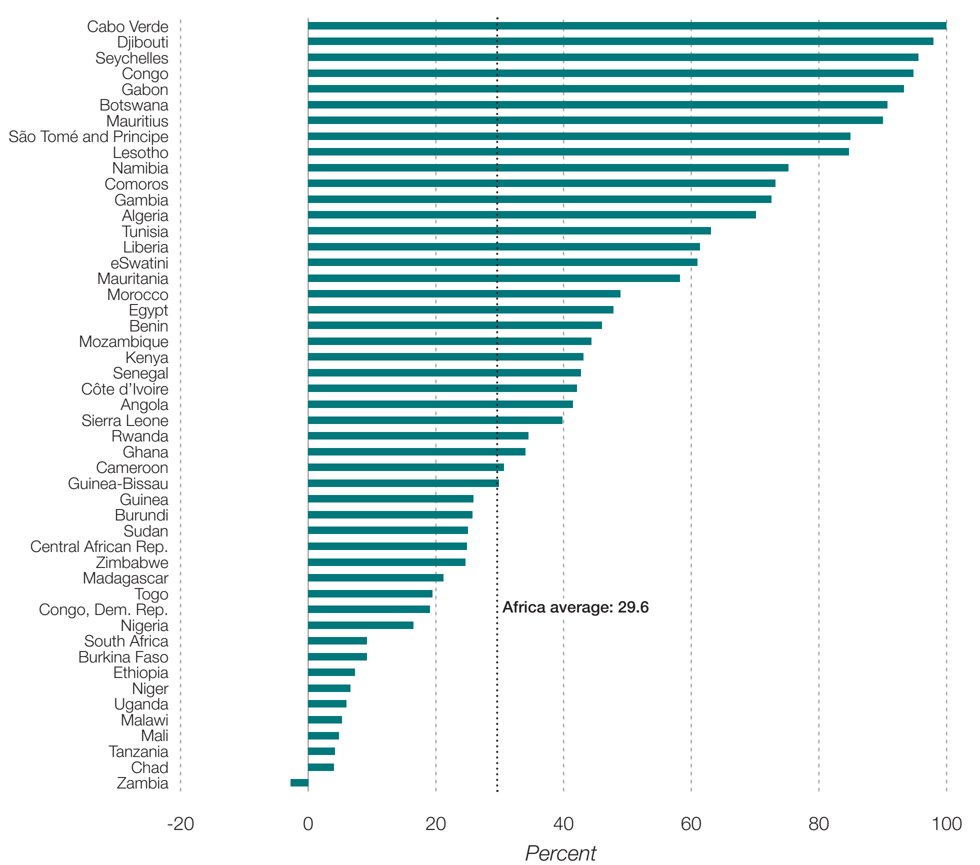
FIGURE 2.8 **Estimated percent increase in the number of undernourished people in 2022 by region**



Source: Staff calculations based on FAO et al. (2022).

Africa's cereal import dependency ratio averaged 29.6 percent between 2017 and 2019, indicating that the continent is a net importer of cereals, but there is significant heterogeneity across countries

FIGURE 2.9 **Average cereal import dependency ratio in Africa, 2017–19**



Source: Staff calculations based on FAOSTAT.

The rise in energy prices and energy security

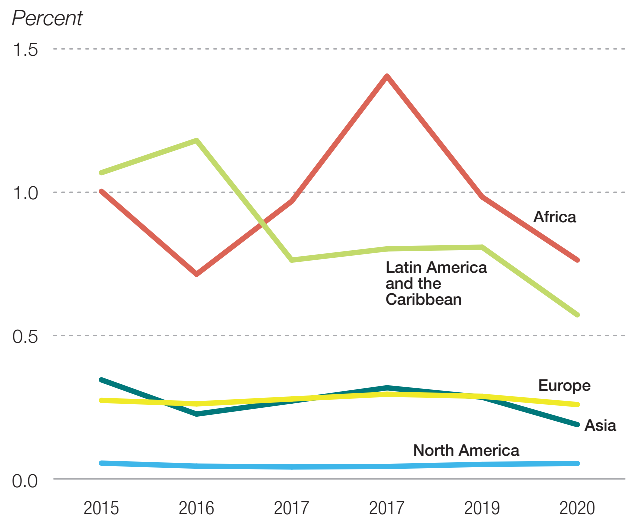
Rising energy prices are exacerbating energy insecurity in Africa

The recent rise in energy prices has a negative implication for energy security in Africa, defined as access to an uninterrupted supply of sustainable and affordable energy sources.[15] However, impacts vary depending on the country's development status and whether it is a net importer or net exporter of energy. Energy consumption in Africa is lower than in other comparable regions due in part to its low level of energy security, reflecting inadequate production to meet the rising demand. In 2019, the per capita consumption of electricity in Africa was 550 kWh compared with 2,300 kWh in Asia.[16] The high disparity in energy security and consumption across low-income countries—mainly non-oil exporting on one hand, and high-income countries on the other—could also be attributed to the level of energy subsidies.

Energy subsidies are controversial due to their distortionary nature. But in most countries, this is one of the most available and important fiscal (and political) tools governments use to protect households against potential welfare losses arising from food and energy prices and other exogenous shocks. In Africa, per capita fossil-fuel energy subsidies for consumption and production as a percent of income per capita exceed other regions. In 2020, per capita fossil-fuel subsidies represented 0.76 percent of Africa's GDP per capita, compared with 0.57 percent in Latin America and the Caribbean, 0.26 percent in Europe, 0.19 percent in Asia, and 0.05 percent in North America (figure 2.10).

Africa's average per capita fuel subsidy is largely driven by a few middle-income and oil-rich countries, mainly Algeria, Egypt, and South Africa (figure 2.11). Of 53 African countries with data, 40 provide no or a negligible (less than $10 per capita) fuel subsidy. As a result, consumers and producers in many African countries are directly exposed to global energy price volatility that passes through to the local energy market. Of 29 African countries with data on net energy imports as percent of energy use in 2014, 13 were net exporters.

FIGURE 2.10 **Annual fossil-fuel subsidy per capita as a share of GDP per capita, 2015–20**

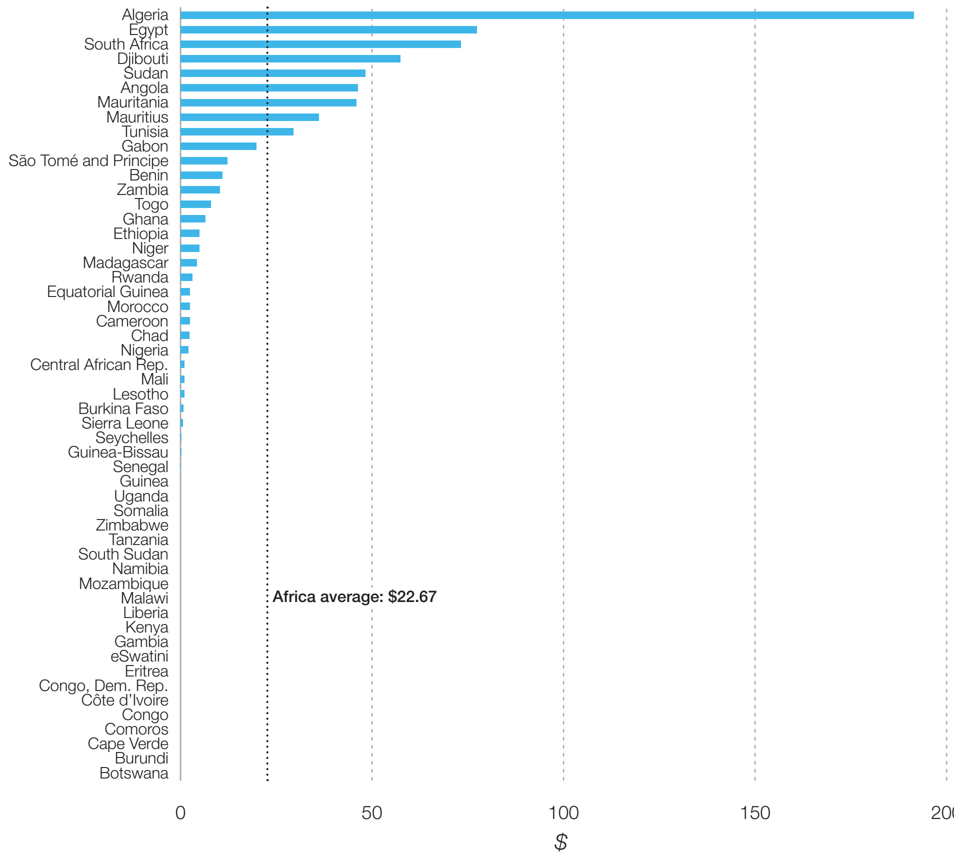


Source: Staff calculations based on *Our World in Data* and IMF's WEO, October 2022 edition.

The rise in energy prices and its effects on energy security could also impair the productivity and competitiveness of African businesses. Around 80 percent of businesses in Africa experience power outages, much higher than 66 percent in South Asia and 38 percent in Europe.[17] And power outages are more likely to be longer in Africa than in other regions. Such intermittent power losses force businesses to incur additional costs to procure backup diesel generators and purchase fuel resulting in losses in sales, productivity, and competitiveness. While the average loss for Africa in sales is around 7.6 percent per year, businesses in countries such as the Central African Republic lose up to 25 percent of their sales due to electricity outages (figure 2.12). The impact is not only limited to loss of sales for business, but it also includes lost jobs and tax revenues.

The rise in energy prices also has implications for the social sector, such as education, health, and other social services. In the health sector, millions of Africans die every year from communicable and noncommunicable diseases due to lack of access to reliable energy for healthcare facilities. In Ghana, the risk of mortality increases by 43 percent for each day of power outage that lasts for more than two hours.[18] In education, about 80 percent of African countries' primary

FIGURE 2.11 Annual fossil-fuel subsidy per capita ($), 2020

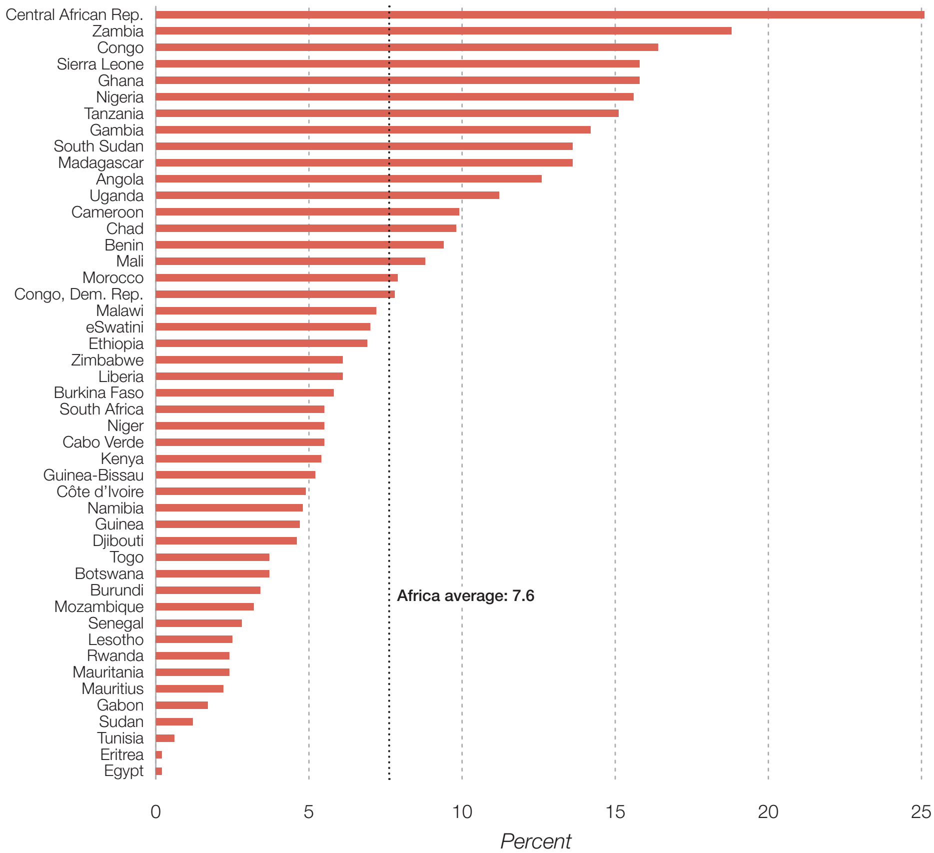


Source: Staff calculations based on *Our World in Data.*

Of 53 African countries with data, 40 provide no or a negligible fuel subsidy. As a result, consumers and producers in many African countries are directly exposed to global energy price volatility

and secondary schools lacked electricity access, according to United Nations Educational, Scientific and Cultural Organization.[19] That makes it difficult to access textbooks and learning materials through information technologies and to climate-proof classrooms with air conditioning. About 1.75 million of Africa's public health centers and schools lack reliable electricity, while about 25 percent of healthcare facilities lack electricity and 75 percent lack reliable power.[20]

FIGURE 2.12 Average annual sales losses due to electricity outage, 2010 or latest



Source: Staff calculations based on World Bank Enterprise Survey data.

NOTES

1. Deaton 1989.
2. The Household Impacts of Tariffs (HIT) dataset contains harmonized nationally representative household survey and tariff data for 54 low- and lower-middle income countries, 29 of them from Africa. It covers highly disaggregated information on household budget and income shares for 53 agricultural products, wage labor income, nonfarm enterprise sales and transfers, as well as spending on manufacturing and services (Artuc, Porto, and Rijkers 2019).
3. The impact of food and energy price inflation was approximated following Deaton (1989) and Artuc, Porto, and Rijkers (2019) as: $\frac{dV_i^h}{y^h} = \frac{\partial V^h}{\partial lny^h}(w_i^h - s_i^h)dlnp_i$, where V_i^h is the indirect utility of household *h* derived from commodity *i*; y^h is the total household real income; w_i^h is the income share derived from the sales of good *i*; s_i^h is the budget share of good *i*; p_i is the price of good *i*. Following Deaton (1989, 1997), the private marginal utility of income $\frac{\partial V^h}{\partial lny^h}$ is assumed to be unity so that the equation reduces to $\frac{dV_i^h}{y^h} = (w_i^h - s_i^h)dlnp_i$. The total effect of food and energy price inflation is thus given by $V^h = \frac{dV^h}{y^h} = \Sigma_i(w_i^h - s_i^h)dlnp_i,\ i = \{food; energy\}$.
4. To compute food and energy price inflation, the report used seasonally adjusted monthly price indices (2010=100) from the World Bank Commodity Price Data (The Pink Sheet), to factor out seasonal effects on the price data. Results indicate that energy price inflation was 22.5 percent higher than before Russia's invasion of Ukraine, and food price inflation about 4 percent higher.
5. The assumption is realistic given that the pass-through from the rise in global prices of cereal, mainly wheat, cooking oil, and rice to local food prices was almost one-to-one in some African countries (Okou, Spray, and Unsal 2022).
6. Artuc, Porto, and Rijkers 2019.
7. AfDB 2022 and Lakner et al. 2022.
8. Undernourishment means that over a period of one year, a person is unable to acquire enough food to meet the daily minimum dietary energy requirements.
9. FAO et al. 2022.
10. Severe food insecurity means that, at times during the year, a person has experienced increasing difficulties in accessing food, such as reducing the quantity of food, skipping meals, going hungry, or going a whole day without eating because of a lack of money or other resources.
11. FAO et al. 2022.
12. The moderate shock scenario assumes an export shortfall in grains and oilseeds totaling 24 million tons in 2022/23 and a crude oil price of $100/barrel, leading to an increase of world wheat price by 8.7 percent. In the severe shock scenario, global export of grain and oilseed markets would drop by 58 million tons, with the increase in the international wheat price estimated at 21.5 percent, compared with the already high baseline (FAO et al. 2022)
13. The cereal import dependency ratio is computed as (cereal imports − cereal exports) / (cereal production + cereal imports − cereal exports) × 100. Given this formula the indicator assumes only values ≤ 100. Negative values indicate that the country is a net exporter of cereals. See https://www.fao.org/faostat/en/#definitions.
14. Woldemichael, Kidane, and Shimeles 2022.
15. http://www.osce.org/.
16. AfDB 2022.
17. AfDB 2022.
18. Apenteng et al. 2018.
19. UNDESA 2014. https://sustainabledevelopment.un.org/content/documents/1608Electricity%20and%20Education.pdf.
20. AfDB 2022.

POLICY OPTIONS TO ADDRESS RISING INFLATION, SUBDUED GROWTH, AND INCREASED DEBT VULNERABILITIES

3

African countries have faced a confluence of shocks that weakened macroeconomic fundamentals in many countries. Economic recovery has slowed, average inflation is up, current account and fiscal positions remain weak, and debt vulnerabilities have increased. The slowdown in economic growth, coupled with the higher inflation and limited fiscal space, is increasing extreme poverty. Addressing the headwinds affecting Africa will require a range of monetary, fiscal, social, and structural policies.

Monetary, fiscal, and structural policy mix and policy coordination to address rising inflation

Inflationary pressures, after rising in 2022, are expected to remain elevated in 2023 and 2024. Growth, after declining in 2022, is expected to remain subdued in 2023 and 2024. African countries need to deploy a mix of monetary, fiscal, and structural policies to tackle the soaring inflation. The choice of policies and the scale of interventions will, however, depend on country circumstances. Where inflation is acute, monetary policy tightening need to be timely and aggressive to curb second-round inflationary effects emanating from structural rigidities and supply constraints. Countries with lower inflation will need to undertake cautious tightening of monetary policy so as not to undermine growth efforts while keeping inflation in check.

Where fiscal deficits are large and exceed sustainable medium-term levels, promoting external rebalancing may necessitate fiscal consolidation to avoid sudden stops of capital flows and balance of payment pressures. Fiscal consolidation policies to reduce deficits and debt accumulation should not prolong the pandemic's long-term effects, notably by safeguarding growth-enhancing investments in infrastructure, healthcare, and education. Policies should continue to shield vulnerable households from higher food and oil prices. Creating space for gradual but substantial growth-friendly fiscal consolidation that prioritizes efficient public expenditure and enhances efficiency in revenue collection would help rebalance current accounts, especially in economies with weaker-than-warranted external positions. Countries with structural external imbalances should do more to improve competitiveness through gradual reforms to labor and product markets.

Coordinating monetary and fiscal policy actions is essential to optimize economic performance and sustain it over the long term. As monetary authorities increasingly focus on implementing policies to address rising global inflation and ensure price stability, fiscal policy should not run counter to monetary efforts. Contrary fiscal policy actions in the current environment of heightened inflation pressures would only prolong inflation and could cause severe financial instability. African countries that have fiscal room may support their most vulnerable populations against the rising inflation and food insecurity. The type of the appropriate fiscal tools will depend, however, on country circumstances and may include energy subsidies and targeted cash transfers.

In the medium to long term, countries where structural weaknesses are the main driver of inflation and food insecurity, particularly those affecting agricultural output, will need to adopt strategies to unlock the potential of Africa's agriculture to boost output, stabilize prices, and enhance food security, notably by adopting drought-resistant crops and deploying technology such as mechanized irrigation and digital platforms (e-wallets) for input purchases and crop harvest marketing.

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

Accelerating implementation of the African Continental Free Trade Area presents an opportunity to create a borderless Africa that could underpin a competitive continental market to cushion economies from multiple shocks. It entails investing in soft and hard infrastructure, especially regional transport and logistics hubs, and dismantling trade and nontrade barriers that continue to hamper the free flow of goods and services. Harmonizing and strengthening cross-border payment systems through technological advances and accelerating efforts toward coordinated macroeconomic stability have the added benefits: they facilitate trade and build more integrated and resilient regional economies by minimizing the effects of disruptions in global supply chains and the emergence of trade re-shoring and friend shoring.

Accelerating implementation of the African Continental Free Trade Area presents an opportunity to create a borderless Africa that could underpin a competitive continental market to cushion economies from multiple shocks

Stepping up domestic resource mobilization to achieve the Sustainable Development Goals (SDGs), the AU Agenda 2063, and the AfDB Group's High 5s

Given African countries' huge financing needs, bolstering domestic resource mobilization is an imperative. Countries need to accelerate economic and structural reforms by broadening domestic financial markets, strengthening tax administration capacity, and investing in digitalization and e-governance to enhance transparency and reduce illicit financial flows. Enhancing compliance and garnering public trust in paying taxes could bolster resource mobilization for expanded fiscal space and unlock private financing to recover from the multiple shocks buffeting the continent.

Mitigating the effects of tightening financial conditions to restore macroeconomic stability

The tightening of financial conditions has led to rapid exchange rate depreciation in many countries. African countries with floating exchange rate regimes should allow their currencies to adjust and focus monetary policy on achieving price stability. However, to reduce excessive exchange rate volatility, where reserve cover is adequate and the tools are available, countries may need to undertake foreign exchange interventions and use macroprudential policy measures to mitigate the impact of capital outflows. African central banks will, however, face a difficult balancing act between curbing inflation and providing policy support to sustain economic recovery.

In the face of such fragile economic situations, countries need to avoid policies with contradictory effects. So, authorities should build the necessary policy credibility to restore macroeconomic stability. Countercyclical monetary policy will limit the speed of transmission of high foreign inflation to the domestic economy and help maintain positive real returns on investments. This could also reduce capital outflows and help avoid exchange rate depreciations that exacerbate domestic inflation and undercut export competitiveness. Measures to cope with tighter financial conditions will depend on country-specific circumstances since African economies are affected asymmetrically by the rise in global interest rates.

Addressing the looming debt crisis and revitalizing financial flows and resource mobilization to reduce the risk of financial fragility

Addressing the looming debt crisis in Africa requires domestic policy actions and global support. Domestically, countries need to reassess their debt-carrying capacity and to channel resources into productive investments. Global coordination will shore up domestic initiatives and reactivating the now defunct Debt Service Suspension Initiative could give debt-stressed countries additional fiscal space to meet persisting COVID-19 recovery costs—including $144.3 billion for vaccinations in 2020–22, a third of Africa's financing needs and help absorb the additional exogenous shocks caused by Russia's invasion of Ukraine.

Global initiatives should focus on refining the international finance architecture to better align financial flows with the inclusive growth and sustainable development agenda without exacerbating debt vulnerabilities of countries. Fast-tracking implementation of the G-20 Common

Framework—by ensuring clarity in procedures and timelines remains an important option and concluding negotiations for countries already signed up for the facility—will create confidence for others wary of the risk of credit-rating downgrades. Catalyzing the allocation of developed economy resources from the IMF's Special Drawing Rights to African countries must be accelerated to meet the urgent fiscal needs of addressing the growing challenges. Channeling such resources through the African Development Bank Group and through the African Development Fund window could be highly beneficial to all parties. This will allow the Bank to leverage additional resources—up to four times the resources received to fast-track development financing at concessional rates to African countries, particularly transition economies.

Improving institutional governance would help revitalize foreign direct investment flows. African countries need to incentivize investment flows back to the continent, especially for climate-proof and pandemic-proof greenfield projects. For instance, establishing one-stop centers could facilitate the creation and registration of new businesses and reduce administrative bottlenecks that hinder new investment. In addition, countries should offer tax incentive regimes to promote investment, but not at the expense of raising future revenues and creating the much-needed jobs. Among the actionable policies likely to restore investor confidence into Africa's lucrative infrastructure space are targeted waivers, easy registration and licensing, and protection of property rights. The African Development Bank Group's *African Economic Outlook 2023* will focus on key policies to mobilize private financing for climate change and green development in Africa.

Reforming social safety net and social protection programs to build household resilience to shocks

Energy subsidies and targeted cash transfers have cushioned the impact of shocks on households. But in many African countries, the targeting is seldom informed by the asymmetric impact of shocks on beneficiaries, so the benefits tend to accrue to richer households, not poorer households. Countries have also kept these subsidies a permanent feature of their policy toolkit, often for political expedience. Yet, food and energy subsidies should be time-bound, deployed as a countercyclical response to one-off or temporary shocks to support households cope with rising commodity prices (see box 2.1). Developing robust and sustainable social safety nets and social protection programs capable of boosting household resilience to commodity price shocks and reducing food insecurity should be encouraged.[1] Such social safety nets should be flexible and easily scalable, specifically tailored to support poor households affected by high food and energy costs. This will also require building national household databases in the medium term to make social protection programs more inclusive and efficient. Digitalization can accelerate the identification of beneficiaries and in a centralized and publicly accessible database.

Structural reforms to promote competition, export-oriented value addition and agriculture-led industrialization

Strategic industrial policies are needed to correct market failures, drive export orientation, and encourage healthy competition in key sectors. The penetration of Africa's exports in international markets is held back by industrial policies that fail to support competition and value addition to its primary products. African economies need to rethink their development models by harnessing private sector opportunities. They have to foster healthcare infrastructure and pharmaceutical industries, depending on national resource endowments and market competitiveness. They also have to catalyze climate-smart agriculture and agribusiness as well as transform emergence and development of gas-to-power, green hydrogen, and other renewable energy manufacturing industries. Furthermore, they have to support local content development and franchising to develop value chains and get more value from natural resources, especially in countries with minerals for green development.

The penetration of Africa's exports in international markets is held back by industrial policies that fail to support competition and value addition to its primary products

Governments should accelerate implementation of structural reforms to support agriculture-led industrialization, an important step toward increasing food security and reducing high dependence on food imports. This will require boosting the quality and quantity of public investment to catalyze private investment in the agricultural sector. Currently, public spending in agriculture for most countries falls below the threshold of 10 percent of their national budgets as stipulated under the Comprehensive Africa Agriculture Development Programme and the Malabo Declaration of 2014. Meeting the CAADP's commitments will be an important step towards achieving a minimum of 6 percent annual growth in the sector and stimulating agro-allied industrialization in Africa.

African countries, conditional on their fiscal space, should invest in technologies that increase agricultural productivity, value addition, and value chain development. Indeed, the paltry technology innovation and market penetration in the agricultural sector is one of the major causes for the stagnation and even decline of agricultural productivity in Africa. So, countries should adopt and expand mechanization policies that facilitate collective ownership, maintenance and mobilization of agricultural machinery including tractors to increase productivity of smallholder farmers. Digital platforms and tools that aid information access to market price data, financial services, weather forecasts, and pest outbreaks will also enhance productivity and reduce wastage.

NOTE

1. AfDB 2021, 2022.

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ANNEX 1
STATISTICAL APPENDIX

TABLE A1.1 Real GDP growth (percent)

	2021	2022 estimated	2023 projected	2024 projected
Central Africa	**3.6**	**4.7**	**4.3**	**4.2**
Cameroon	3.6	3.8	4.1	4.3
Central African Rep.	1.0	1.9	3.2	3.9
Chad	1.5	3.5	3.8	3.7
Congo	1.5	2.9	4.2	4.6
Congo, Dem. Rep.	6.2	6.6	6.7	6.9
Equatorial Guinea	–0.9	5.5	–3.1	–11.5
Gabon	1.5	2.8	3.1	3.4
East Africa	**5.1**	**4.2**	**5.0**	**5.4**
Burundi	1.8	3.0	4.3	4.5
Comoros	2.2	1.4	3.4	3.1
Djibouti	4.8	3.3	5.0	5.2
Eritrea	2.9	2.6	2.9	2.9
Ethiopia	5.6	5.3	5.8	6.2
Kenya	7.5	5.5	5.2	5.7
Rwanda	10.9	6.9	7.8	8.1
Seychelles	7.9	8.3	5.3	5.1
Somalia	2.9	1.9	3.1	3.7
South Sudan	–5.0	–2.8	–0.3	4.6
Sudan	0.7	0.3	2.6	2.7
Tanzania	4.9	4.6	5.1	6.1
Uganda	6.0	4.7	5.8	6.0
North Africa	**5.4**	**4.3**	**4.3**	**3.4**
Algeria	3.4	4.5	2.6	2.1
Egypt	3.3	6.1	4.2	3.5
Libya	28.3	–12.1	17.9	8.0
Mauritania	2.4	5.3	4.7	5.9
Morocco	7.9	1.5	3.0	2.8
Tunisia	4.3	2.5	2.2	2.6
Southern Africa	**4.3**	**2.5**	**2.3**	**2.8**
Angola	1.1	2.9	3.3	4.1

	2021	2022 estimated	2023 projected	2024 projected
Botswana	11.4	4.2	3.9	3.7
Lesotho	1.6	2.4	2.0	2.4
Madagascar	4.4	4.2	4.9	5.7
Malawi	2.2	0.8	2.7	3.3
Mauritius	3.7	7.0	5.4	4.2
Mozambique	2.3	3.8	5.0	8.0
Namibia	2.7	3.0	2.6	2.9
São Tomé and Príncipe	1.9	1.5	2.5	3.5
South Africa	4.9	1.9	1.4	1.7
eSwatini	7.9	1.3	2.3	3.3
Zambia	4.6	3.1	4.0	4.3
Zimbabwe	7.2	3.0	2.8	2.9
West Africa	**4.4**	**3.6**	**4.1**	**4.3**
Benin	7.2	5.9	6.4	6.3
Burkina Faso	6.9	2.6	3.2	3.4
Cabo Verde	7.0	4.5	4.9	5.5
Côte d’Ivoire	7.4	6.8	7.2	7.0
Gambia	4.3	5.6	6.2	6.5
Ghana	5.4	3.6	3.1	3.5
Guinea	4.4	4.7	5.4	5.5
Guinea–Bissau	5.0	3.5	4.3	5.0
Liberia	5.0	3.6	4.1	4.7
Mali	3.1	2.5	5.2	5.5
Niger	1.3	7.0	7.6	11.6
Nigeria	3.6	3.0	3.1	3.3
Senegal	6.0	4.7	10.2	8.6
Sierra Leone	4.1	2.7	3.0	4.5
Togo	4.9	5.5	6.2	6.5
Africa	**4.8**	**3.8**	**4.0**	**3.9**
Africa (excluding Libya)	4.3	4.0	3.7	3.8
Africa (excluding Nigeria)	5.0	3.9	4.1	4.0
Memorandum items				
North Africa (including Sudan)	5.0	4.0	4.2	3.5
Sub–Saharan Africa	4.5	3.5	3.8	4.2
Sub–Saharan Africa (excluding South Africa)	4.4	3.9	4.3	4.7
Oil–exporting countries	4.2	4.0	4.1	3.6
Oil–importing countries	5.6	3.4	3.8	4.2

Source: African Development Bank statistics.

TABLE A1.2 Country groupings

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

TABLE A1.3 External debt distress rating, 2016–22

	2016	2017	2018	2019	2020	2021	2022
Benin	L	M	M	M	M	M	M
Burkina Faso	M	M	M	M	M	M	M
Burundi	H	H	H	H	H	H	H
Cabo Verde	H	H	H	H	H	M	M
Cameroon	H	H	H	H	H	H	H
Central African Rep.	H	H	H	H	H	H	H
Chad	H	D	D	H	H	D	D
Comoros	M	M	M	M	M	M	H
Congo, Dem. Rep.	M	M	M	M	M	M	M
Congo	M	M	M	D	D	D	D
Côte d'Ivoire	M	M	M	M	M	M	M
Djibouti	H	H	H	H	H	H	H
Ethiopia	M	M	H	H	H	H	H
Gambia	M	D	D	D	H	H	H
Ghana	H	H	H	H	H	H	H
Guinea	M	M	M	M	M	M	M
Guinea-Bissau	H	M	M	M	M	H	H
Kenya	L	L	M	M	H	H	H
Lesotho	M	M	L	M	M	M	M
Liberia	M	M	M	M	M	M	M
Madagascar	M	M	M	L	L	M	M
Malawi	M	M	M	M	M	H	H
Mali	M	M	M	M	M	M	M
Mauritania	H	H	H	H	H	H	H
Mozambique	M	M	D	D	D	D	D
Niger	M	M	M	M	M	M	M
Rwanda	L	L	L	L	M	M	M
São Tomé and Principe	H	H	D	D	D	D	D
Senegal	L	L	L	L	M	M	M
Sierra Leone	M	M	H	H	H	H	H
Somalia				D	D	D	D
South Sudan	M	D	D	D	H	H	H
Sudan	D	D	D	D	D	D	D
Tanzania	L	L	L	L	L	M	M
Togo	M	M	M	M	M	M	M
Uganda	L	L	L	L	L	M	M
Zambia	M	H	H	H	H	H	D
Zimbabwe	D	D	D	D	D	D	D

L	M	H	D
Low	Moderate	High	In distress

Source: Staff calculations based on IMF Low-Income Country Debt Sustainability.

Despite significant headwinds, Africa's real GDP growth is projected to stabilize at 4 percent in 2023–24, 0.2 percentage points higher than the 3.8 percent recorded in 2022. Average inflation is projected to decline from 13.8 percent in 2022—the highest in more than a decade—to a single digit of 8.8 percent, in 2024. The Bank's projections further show that Africa's average current account deficit will stabilize at around 1.6 percent of GDP in 2023–24 and average fiscal deficit will decline slightly to about 4.1 percent of GDP in the same period.

Africa's stable growth outlook is however threatened by several challenges, as the continent continues to deal with a confluence of overlapping shocks, which include, inter alia: i) ripple effects of Russia's invasion of Ukraine that continue to disrupt Africa's and global supply chains and drive food and energy price inflation higher; ii) tightening of global financial conditions and the associated increase in domestic debt service costs; iii) lingering effects of the COVID-19 pandemic; iv) climate change with damaging impact on domestic food supply; v) potential risk of policy reversal in countries holding elections in 2023.

Against this backdrop, this maiden edition of *Africa's Macroeconomic Performance and Outlook* advocates for a strategic mix of monetary, fiscal and structural policies to address rising inflation, subdued growth, and increased debt vulnerabilities in Africa. In addition, strategic industrial policies will help correct market failures, drive export orientation, and encourage healthy competition in key economic sectors. Structural reforms to boost regional trade will further enhance the continent's resilience to spillovers from the global economic slowdown and reduce persistent trade deficits, while private sector enabling policies will help mobilize and leverage additional financing for Africa's development.

Finally, as the report outlines, African countries need to channel significant investments to developing inclusive and sustainable social protection programs capable of strengthening household resilience to exogenous shocks. Such investments should also be supported by structural reforms to promote agriculture-led industrialization, an important step towards increasing food security and reducing high dependence on food imports.

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