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# AFRICAN ECONOMIC OUTLOOK 2024

**Driving Africa's Transformation**

The Reform of the Global Financial Architecture

**Prof. Kevin Chika Urama, FAAS**

Chief Economist and Vice President, African Development Bank Group

May 30, 2024



# Presentation outline

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**CHAPTER 1**  
Africa's Economic  
Performance and Outlook

**CHAPTER 2**  
Taking Stock of Africa's  
Economic Transformation



**CHAPTER 3**  
Financing Structural  
Transformation in Africa:  
The Need for Reforms  
of the Global Financial  
Architecture

**Policy Recommendations**

**Conclusion and Summary  
of Key Actions**



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# CHAPTER 1

## Africa's Economic Performance and Outlook



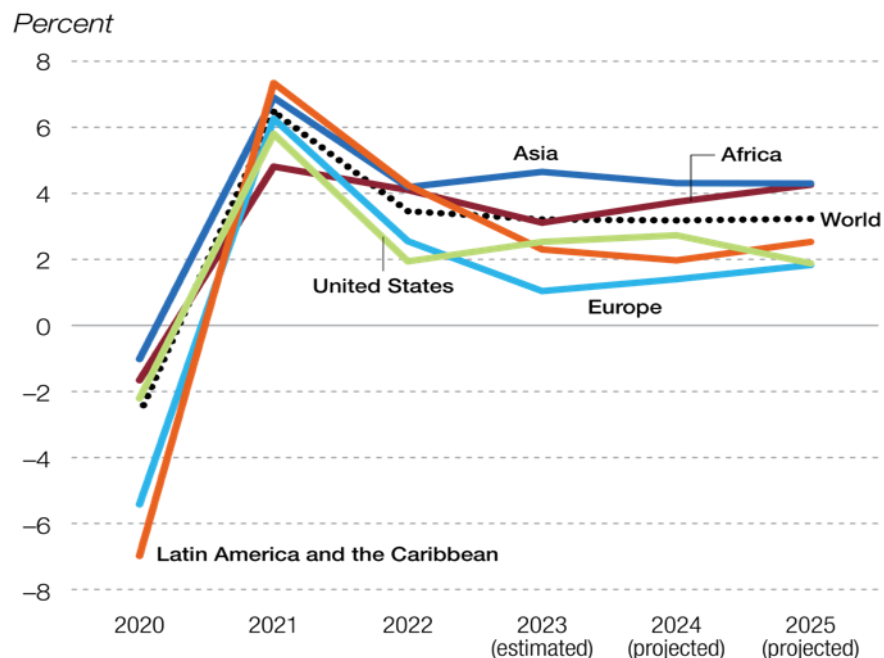
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# Africa's Growth Performance and Outlook

## Real GDP Growth (percent), 2020-2025



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

01

Remarkable resilience amid multiple shocks

02

Average real GDP growth estimated at **3.1 percent** in 2023 down from **4.1 percent** in 2022

03

But projected to increase **3.7 percent** in 2024 and firm up **4.3 percent** in 2025 as most existing headwinds fade.

04

Despite challenges in 2023, **15 countries** recorded real growth rates of at least **5 percent**; number could reach **17** in 2024

05

And **10** countries are projected to be among the **world's 20-fastest** growing economies in 2024.

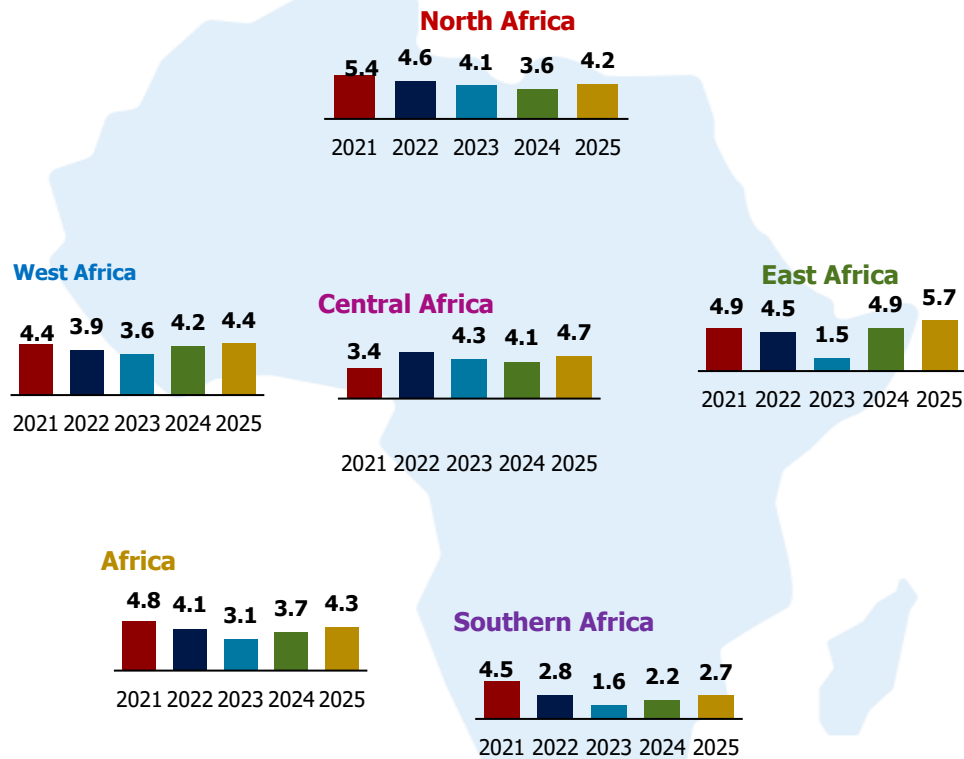
06

Also, Africa will remain **second fastest growing** region after developing Asia, in 2024-25.



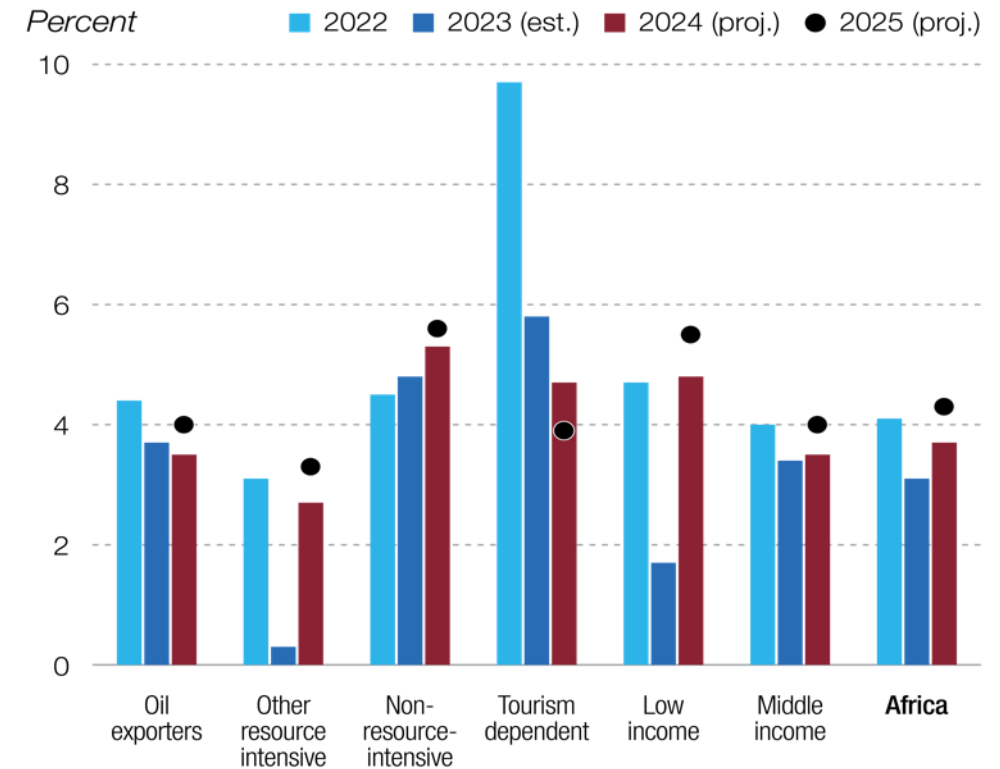
# Differences Remain in Growth Performance and Outlook Across Africa's Regions and Economic Groupings

Real GDP growth (percent) by region



Source: African Development Bank Statistics

Real GDP growth by economic groupings

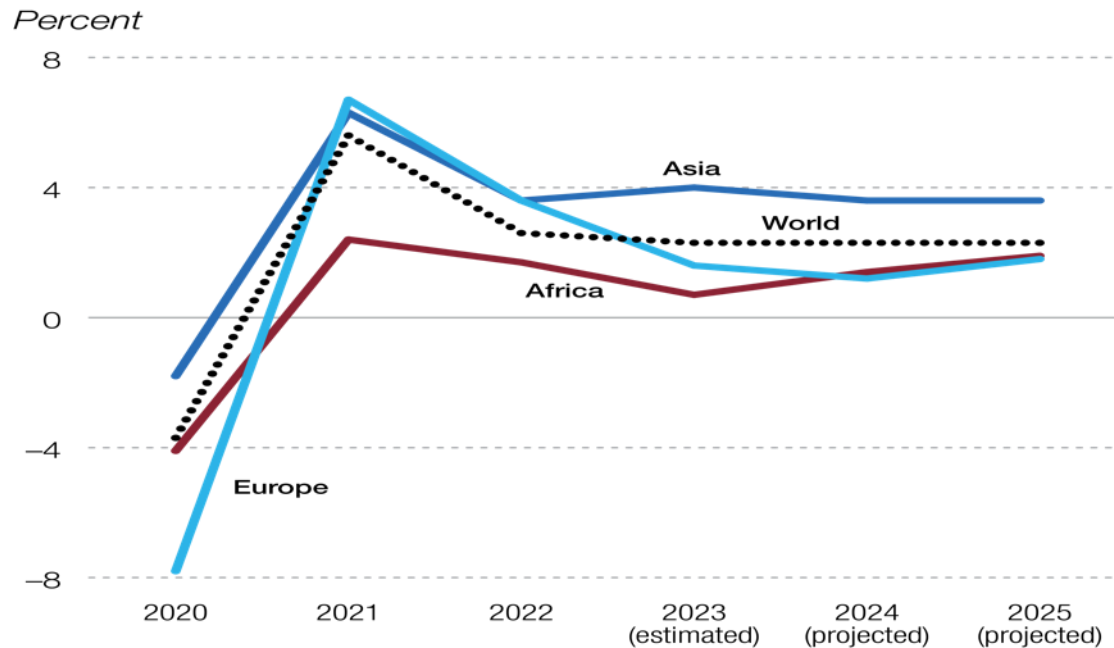


Source: African Development Bank Statistics



# Unlike Real GDP Growth, the Continent's Growth Rate of Real GDP Per Capita Lags that of Comparator Regions

Real GDP per capita growth, 2020-2025



**Source:** African Development Bank statistics and the International Monetary Fund's World Economic Outlook, April 2024 and United Nations Population Division estimates.

01

Africa's real GDP per capita growth rate has remained below comparator regions

02

Insufficient jobs for youths, persistent poverty, debt vulnerability, other fragilities.

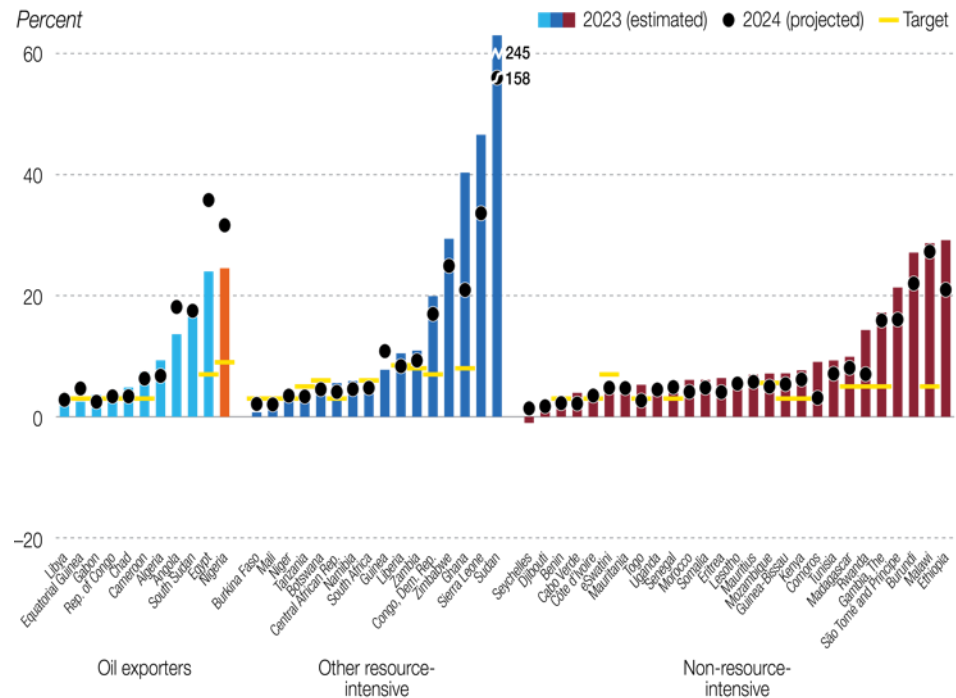
03

To transform, African needs 7 – 10 percent average growth rate consistent for 4 – 5 decades.



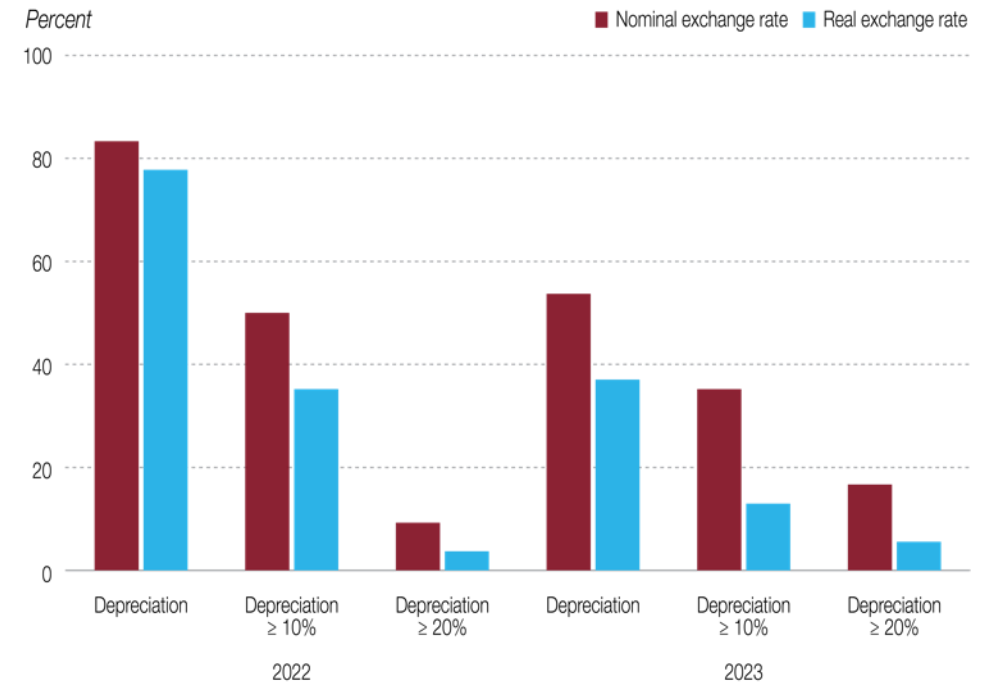
# ...And the Dynamics of Africa's Macroeconomic Fundamentals Have Remained Mixed amid Considerable Challenges

## Consumer price inflation, 2023-2024



Source: African Development Bank Statistics

## Proportion of African countries with depreciated currencies 2022-2023

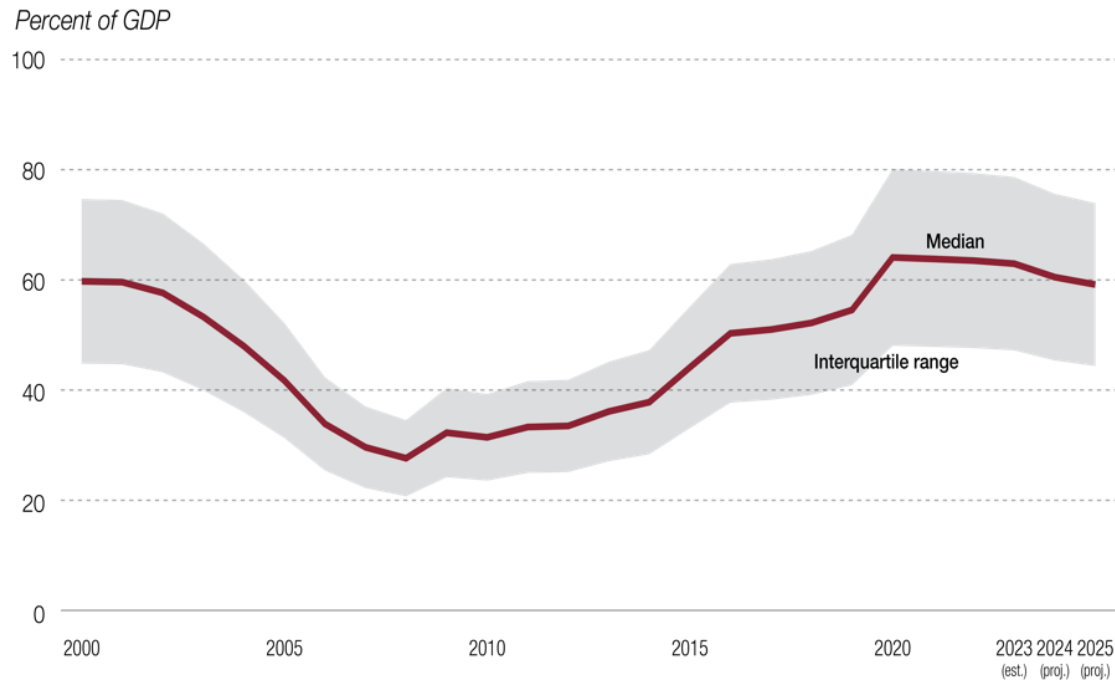


Source: Staff calculations



# Public Debt is Declining but Still Above Pre-pandemic Levels, with Elevated Sovereign Debt Spreads

## Gross government debt, 2000-25



Source: Staff calculations based on the World economic Outlook database 2024 .

## Africa's average sovereign spread and emerging market bond index (EMBI)



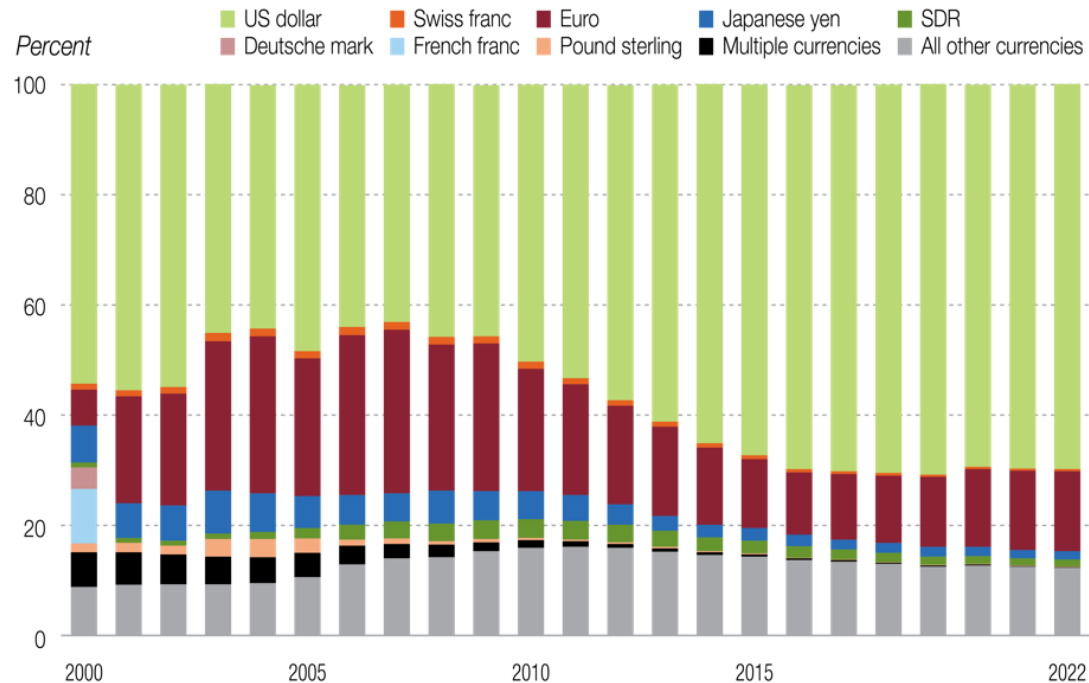
Source: Staff calculations based on Haver Analytics





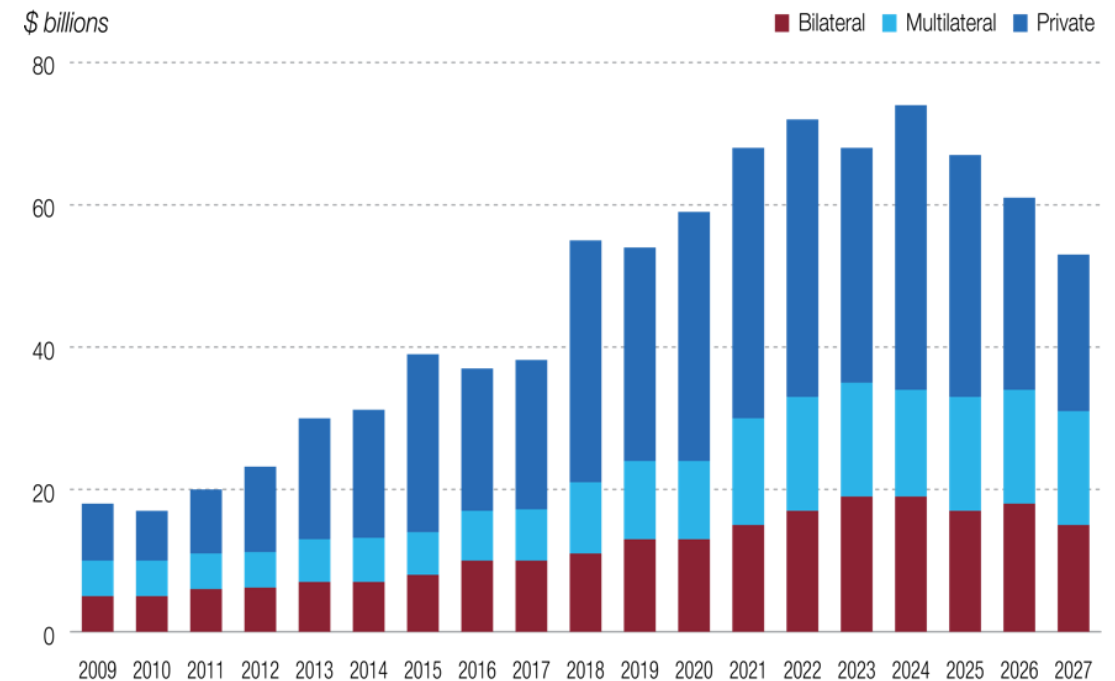
# External Debt in Africa is Mostly in U.S. Dollars and the Share of Private Creditors has Increased Over Time

**Currency composition of public and publicly guaranteed external debt (percent of total PPG external debt), 2000–2022**



Source: Staff calculations using data from World Bank International Debt Statistics 2024.

**Composition of external debt service by creditor, 2009-2027**

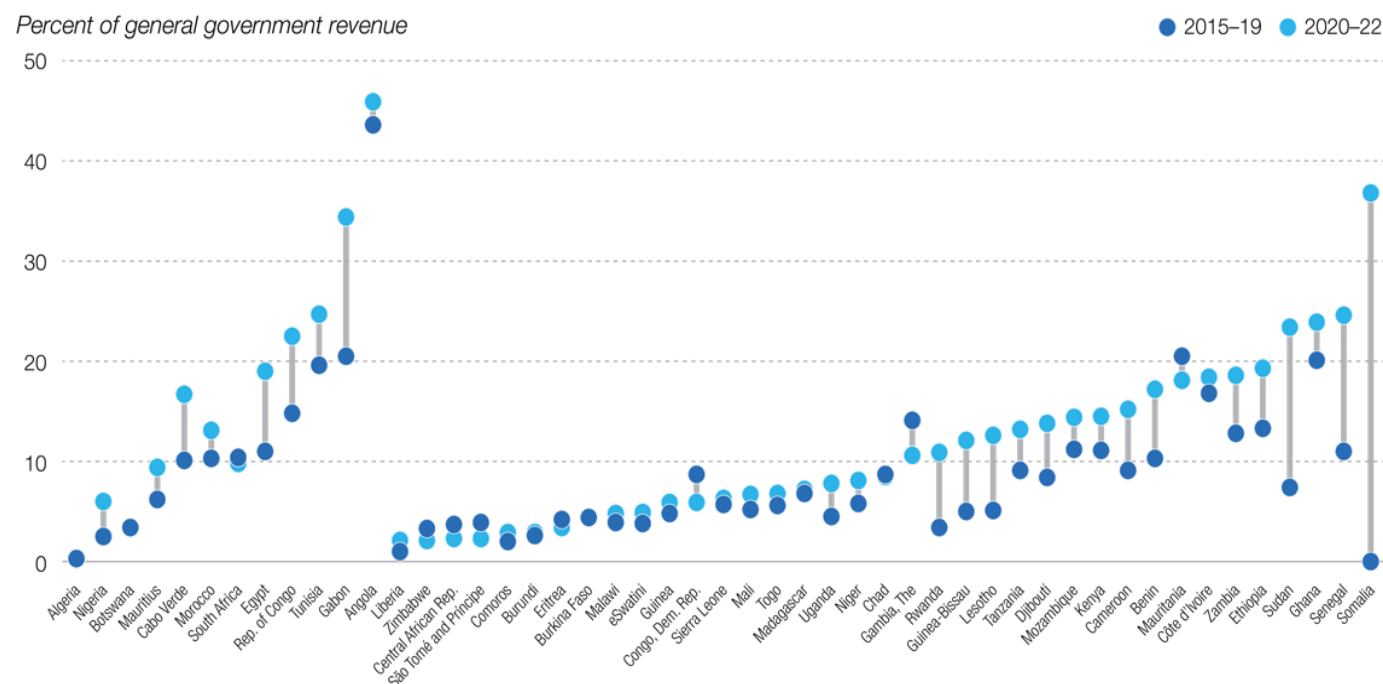


Source: Staff calculations using data from World Bank International Debt Statistics 2024.



# High Cost of Debt Service is Heightening the Severity of Debt Burden

## Proportion of debt service payments on external debt



Source: Staff calculations using data from World Bank International Debt Statistics 2024.

01

Average debt service payments rose to 12.7 percent in 2020-22 relative to 8.4 percent in 2015-19.

02

About **\$74 billion** in debt service payments due in 2024, up from \$17 billion in 2010, \$40 billion –Private Creditors

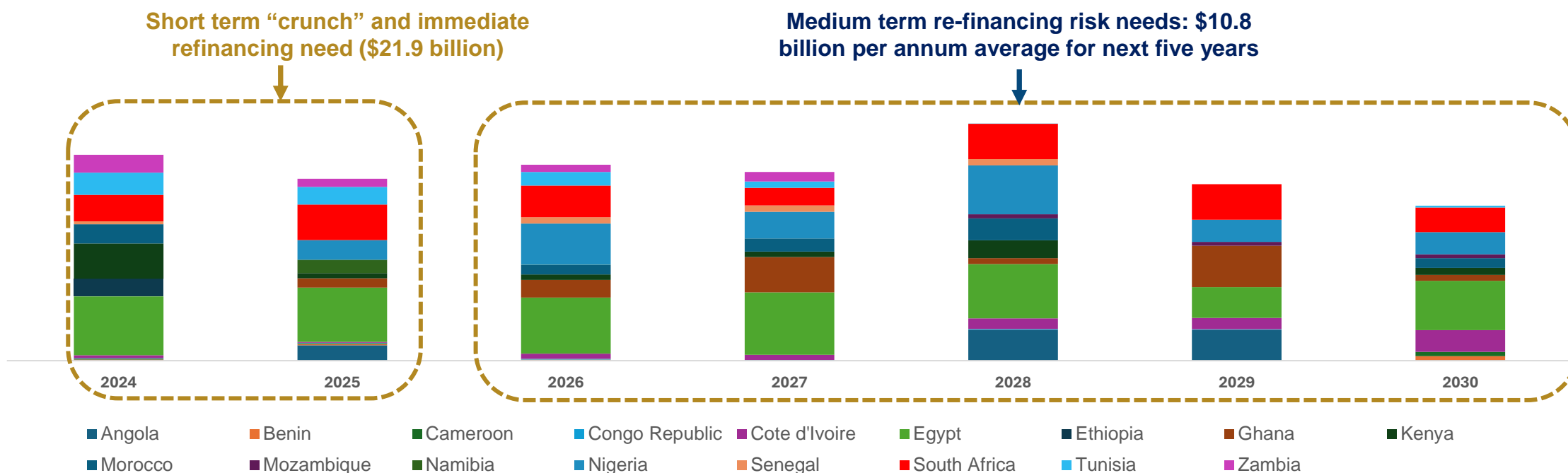
03

Interest costs on debt from capital markets costing African countries **500 percent** more than that from MDBs



# ..and Refinancing Risks could Further Increase, Especially for Countries with Large Bullet Payments

About \$22 billion public debt to be refinanced in 2024 and 2025

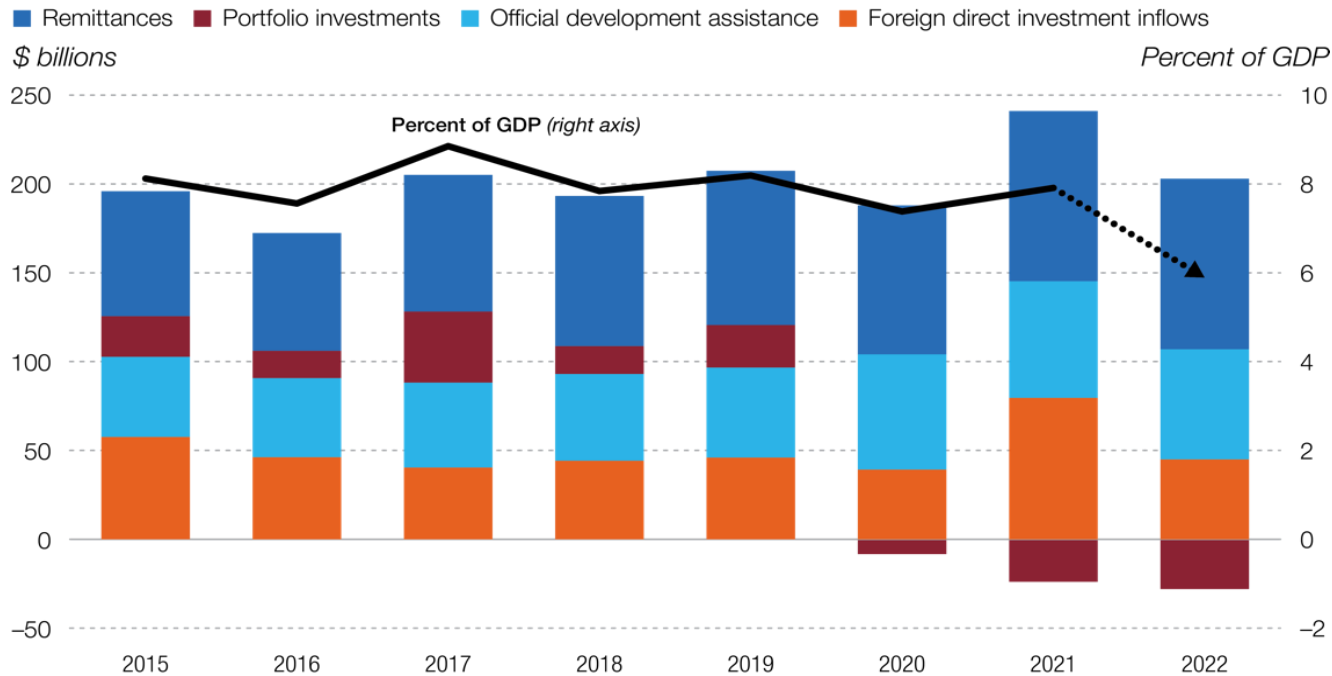


Source: Staff computation using Bloomberg data, USD/EUR/JPY/CNY-denominated bonds outstanding



# Amid Heightened Fiscal Needs, External Financial Flows to Africa have Suffered from Tightening Global Financial Conditions and other Domestic Factors

## External Financial Flows to Africa, 2015-2022



Source: African Development Bank Statistics

01

Total external financial flows to Africa fell by **19.4 percent** in 2022 relative to 2021

02

FDI declined by **44 percent** over same period

03

ODA declined by about **6 percent**

04

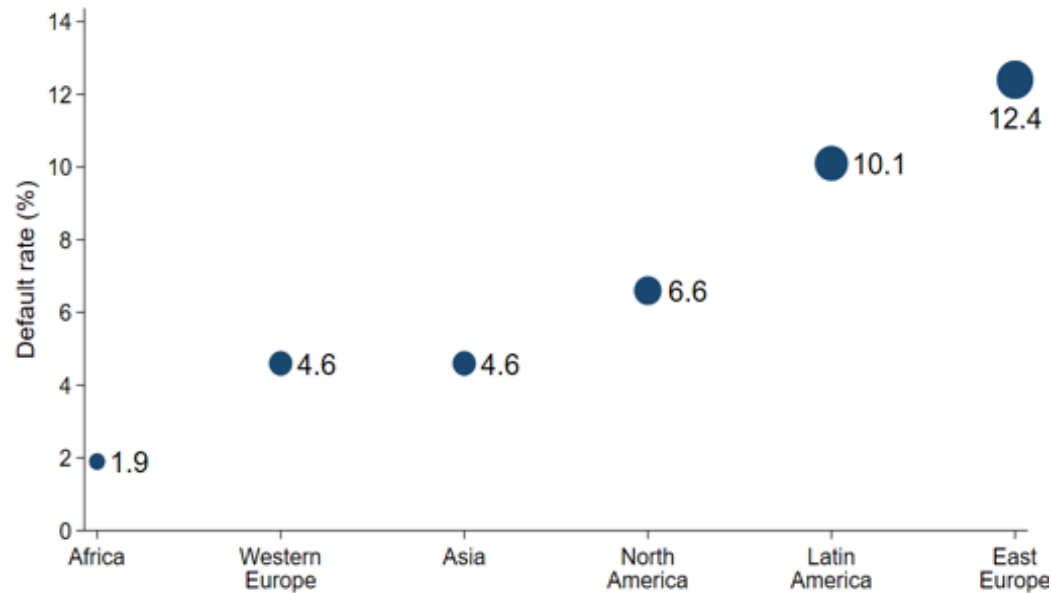
Diaspora remittances remained relatively stable, increasing by **0.2 percent**





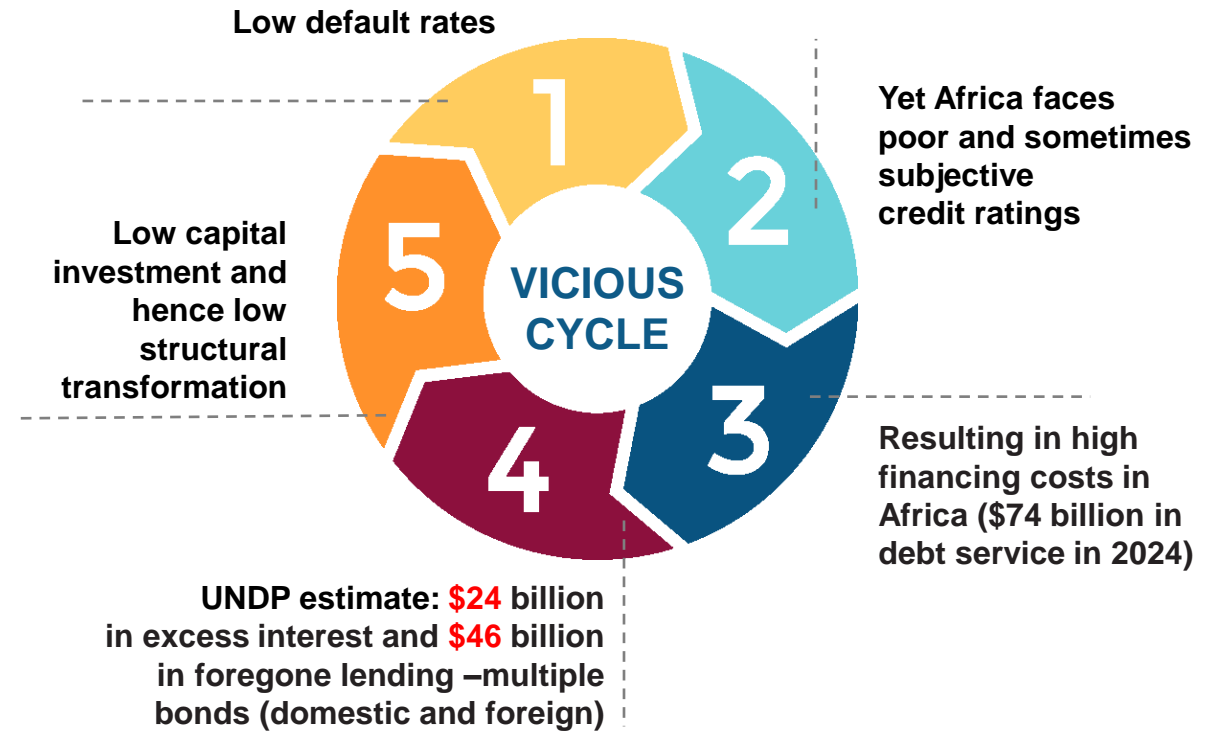
# The Paradox: Understanding Africa's Risk Premium In International Markets

## Default rates on infrastructure and other projects lowest in Africa



Source: African Development Bank staff calculations based on Moody's Analytics, 2020

## Vicious cycle: high financing cost and low capital investment....



# Domestic Drivers of Cost of Capital

Perceived risk is not entirely to blame for Africa's fiscal challenges



**Domestic factors  
contributing to rising  
cost of capital**



Debt to GDP Ratio



Inflation



Trade openness



Informal sector



Financial stress



**Other factors that  
drive interest rate  
spreads down**



GDP per capita



Foreign exchange reserves



Investment readiness



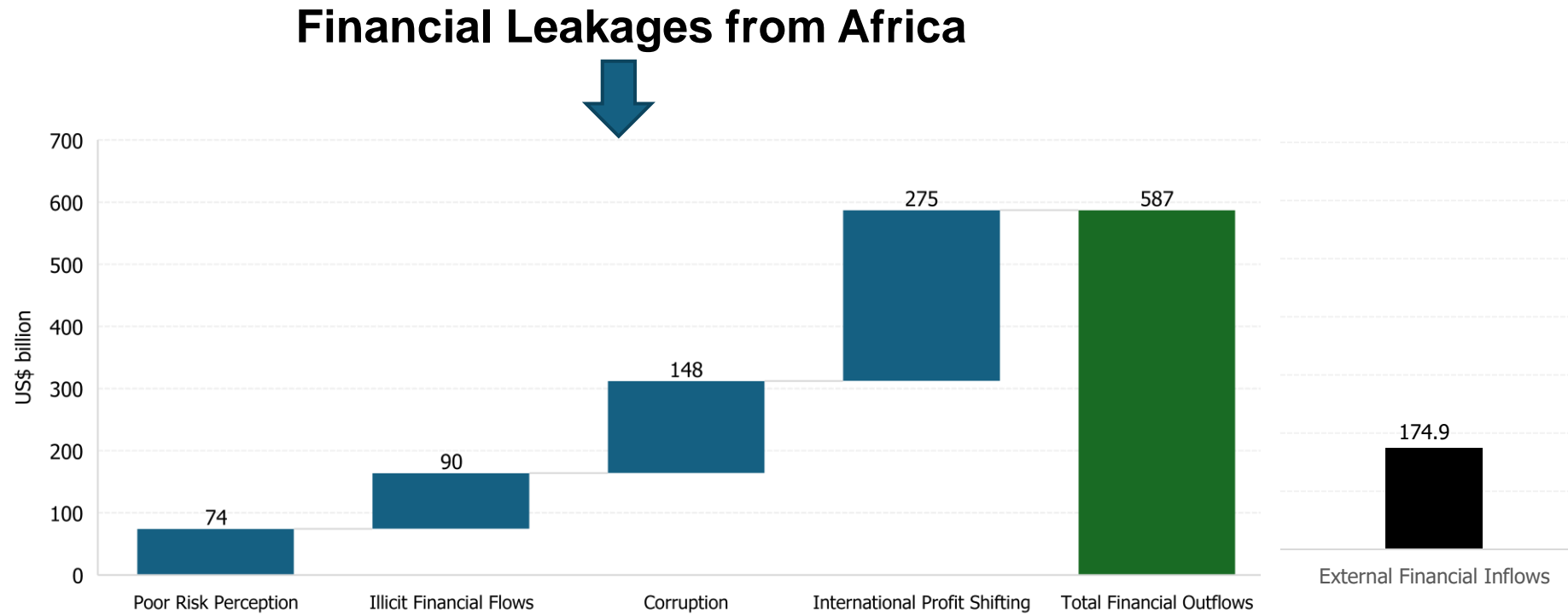
Credit access



Control of corruption



# There is no Alternative to Sound Macro-Economic Governance



**Source:** African Development Bank Statistics

**Africa has a public investment efficiency gap of 39 percent**



# Potential Downside Risks to Watch





# CHAPTER 2

## Taking Stock of Africa's Economic Transformation



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# The Development Paradox – Resource Potential, Economic Growth Performance and SDG Outcomes

01

High Resource Potential

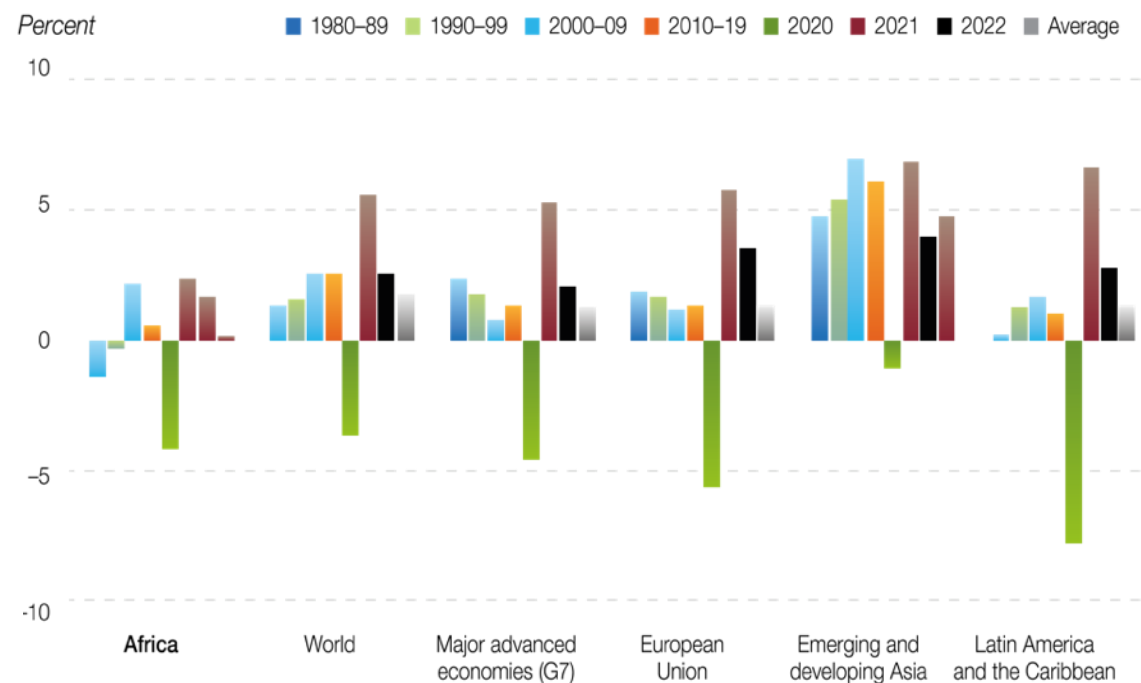
02

High GDP Growth Rates

03

Low SDG Performance

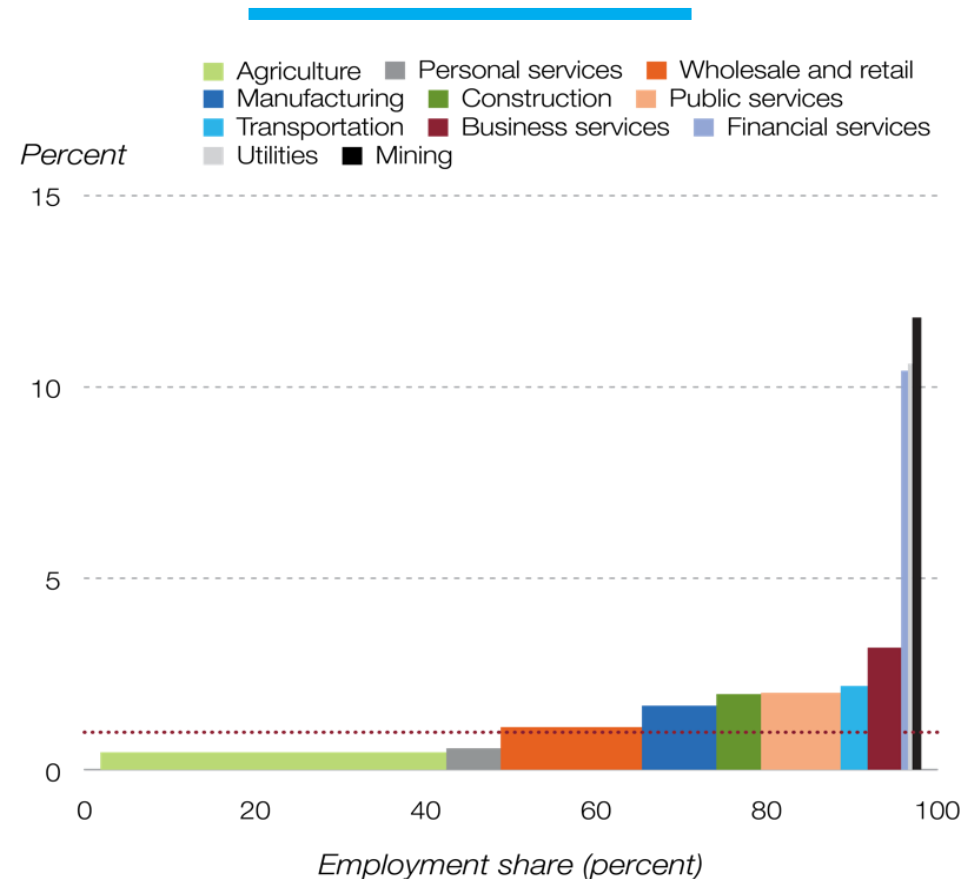
Average real GDP per Capita Growth Contracted in the 1980s and 1990s



Source: African Development Bank statistics and IMF World economic Outlook database.



# ...And There is Heterogeneity in Relative Sectoral Productivity and Employment Shares in African Countries



Relative sectoral productivity and employment shares in selected African countries, 2018

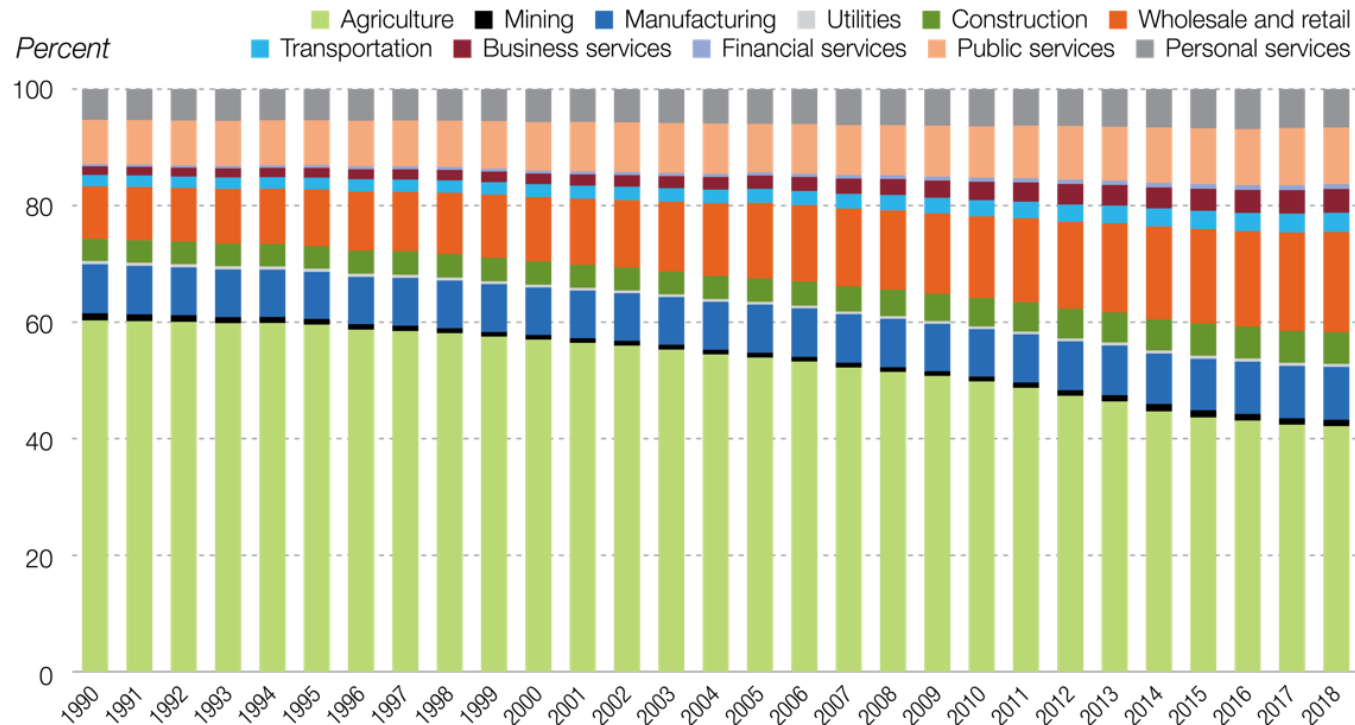
Large gaps in labor productivity between sectors

**Source:** Staff calculations using the economic Transformation Database (Kruse et al. 2023)



# Employment Shares by Sectors 1990 - 2018

## Sectoral employment share in selected African countries, 1990-2018



Source: Authors' illustration using Economic Transformation Database (Kruse et al, 2023).

Employment share of agriculture decreased from 60 percent in 1990 to 42 percent in 2018.

Employment share of manufacturing sector increased by only 0.6 percentage points to 9.0 percent from 8.4 percent over same period.

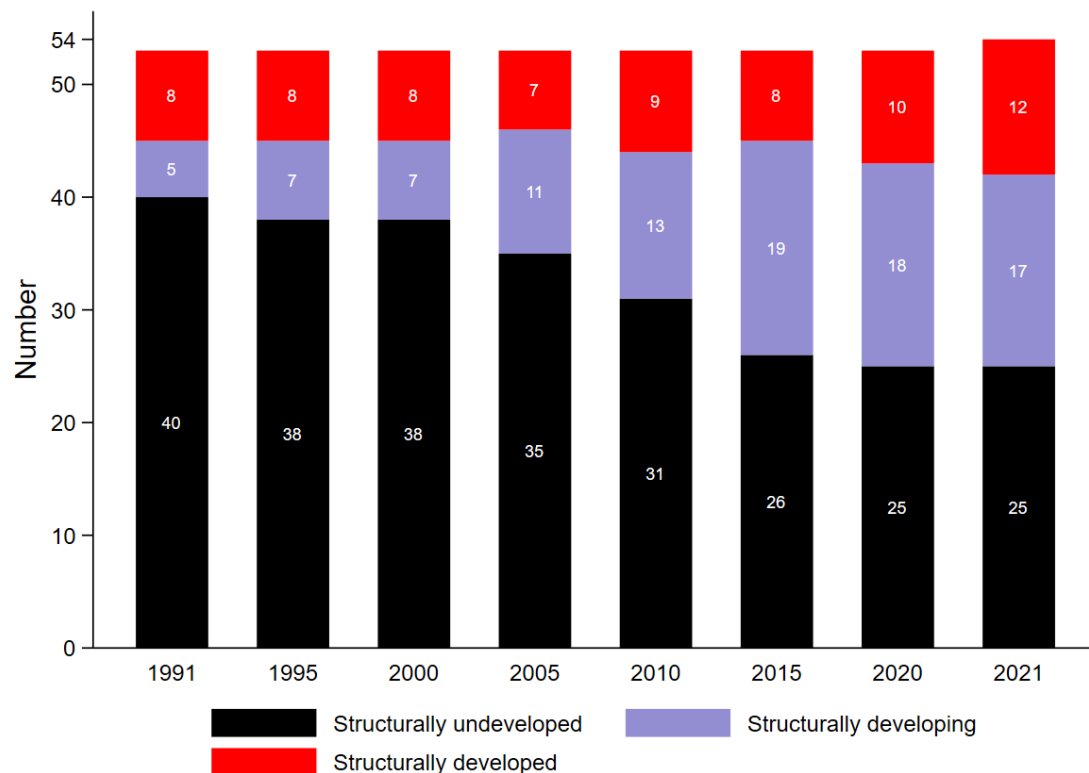
Labor reallocation to low-productivity sectors dominates





# Stages of Structural Transformation, 1991 - 2021

Number of African countries by stage of structural transformation, 1991-2021



Source: Staff computations based on World Bank and ILO databases.

**01** 25 countries - structurally underdeveloped down from 40 in 1991

**02** 17 Countries - structurally developing, up from 5 in 1991

**03** 12 Countries - Structurally developed up from 8 in 1991

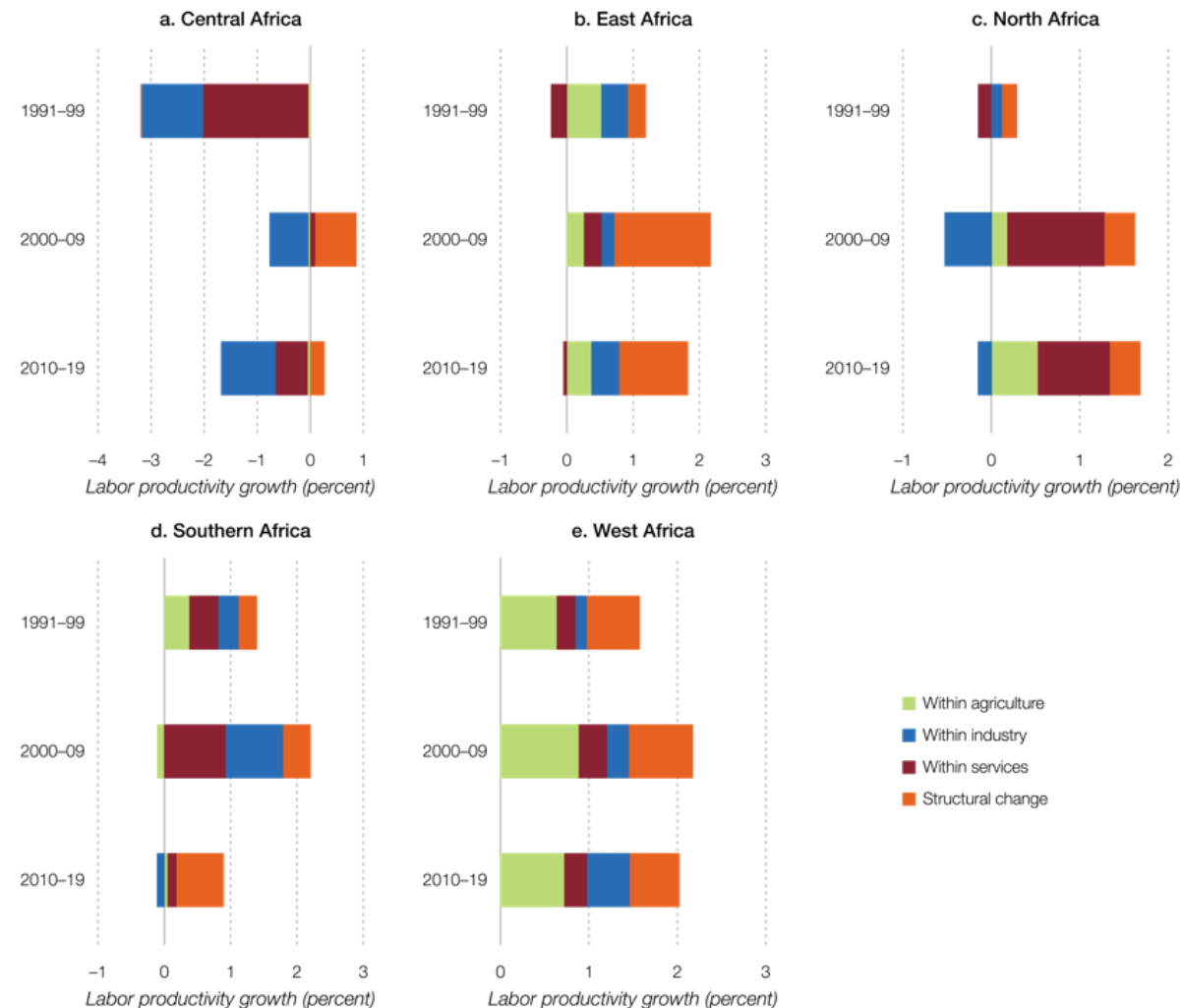
**04** Reallocation of labor is occurring

**05** But productivity performance in key sectors ranges from low to moderate



## Labour productivity growth decomposition by African region, 1991-2019

Patterns of productivity growth among regions and resource groups are also markedly different

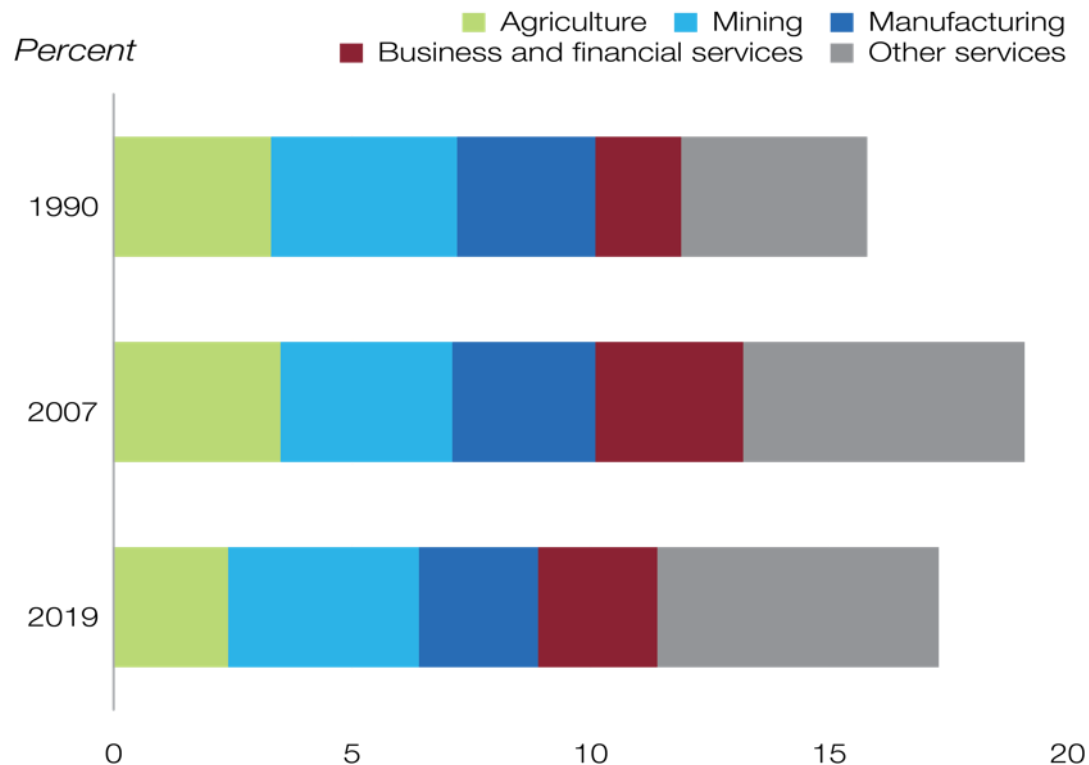


Source: Staff computations using data from ILO and WDI



# Sectoral Share of Domestic Value Added Embodied in Exports

## Sectoral domestic value added embodied in exports (Percent of GDP), 1990, 2007 and 2019



Source: Reproduced from Mensah and de Vries (2024)



**Decreasing in agriculture  
and in manufacturing**



**Largely unchanged in mining**



**Strong increase in services –  
*‘servicification’ of exports***



**However, overall decrease – from  
15.8 percent to 17.3 percent.**

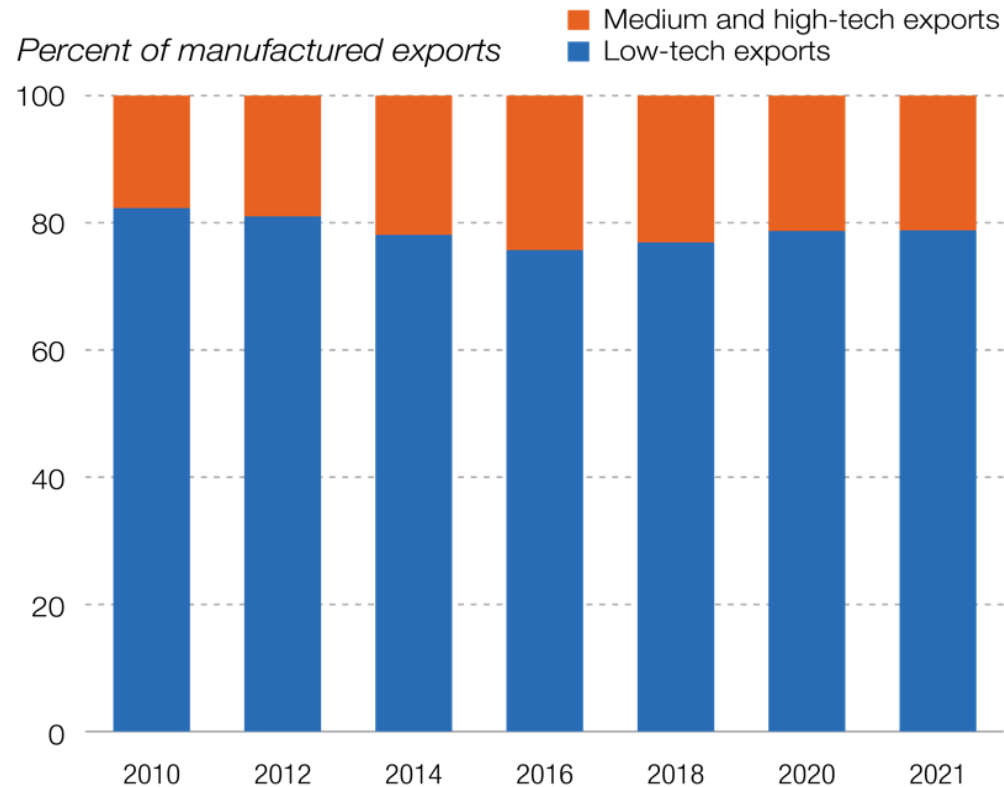


**Implication: Africa’s exports now  
embody less value addition**

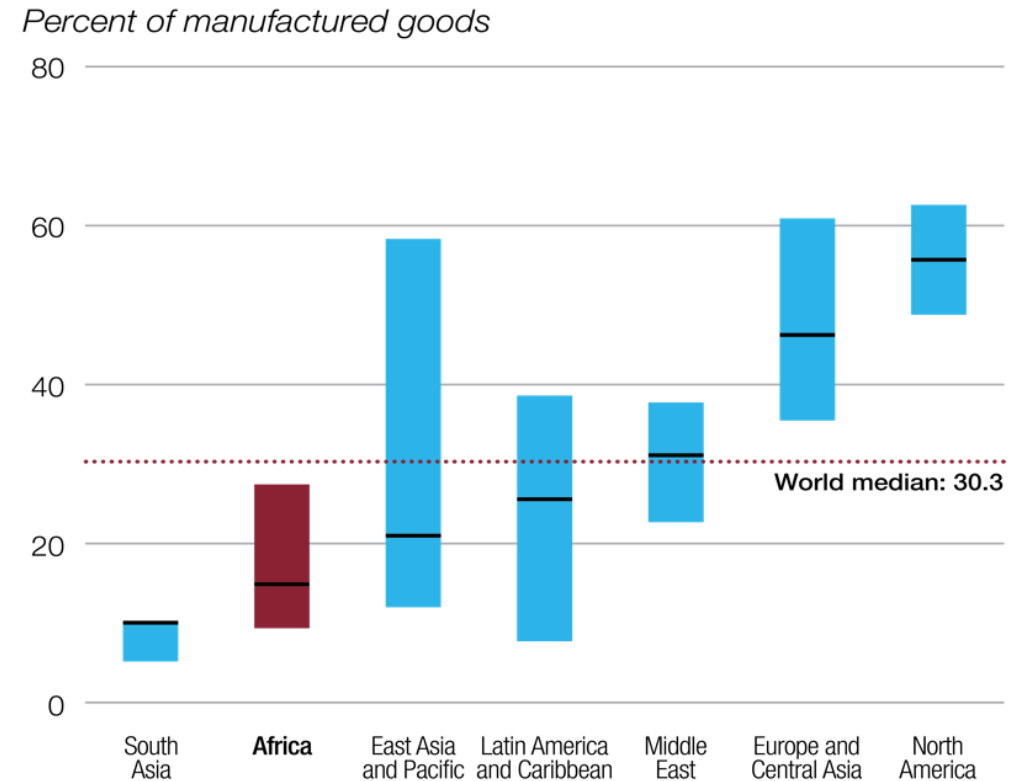


# Technology Content of Exports

a. Trends in technology intensity of exports in Africa



b. Medium and high-tech exports, 2021



Source: Staff calculations based on World Bank's World Development Indicators database





# Key Drivers Of Structural Transformation In Africa

GDP per capita

Economic complexity

Governance quality

Export concentration

Macro-economic Policy Environment

## Economic complexity:

- Productive capacity
- Economic competitiveness
- Gross capital formation
- Labor market regulation
- Aggregate demand
- Diversity and sophistication of exports.

## Governance quality / Quality of institutions:

- Accountability and control of corruption
- Political stability/Absence of violence
- Government effectiveness
- Regulatory quality
- Property rights
- Rule of law and voice

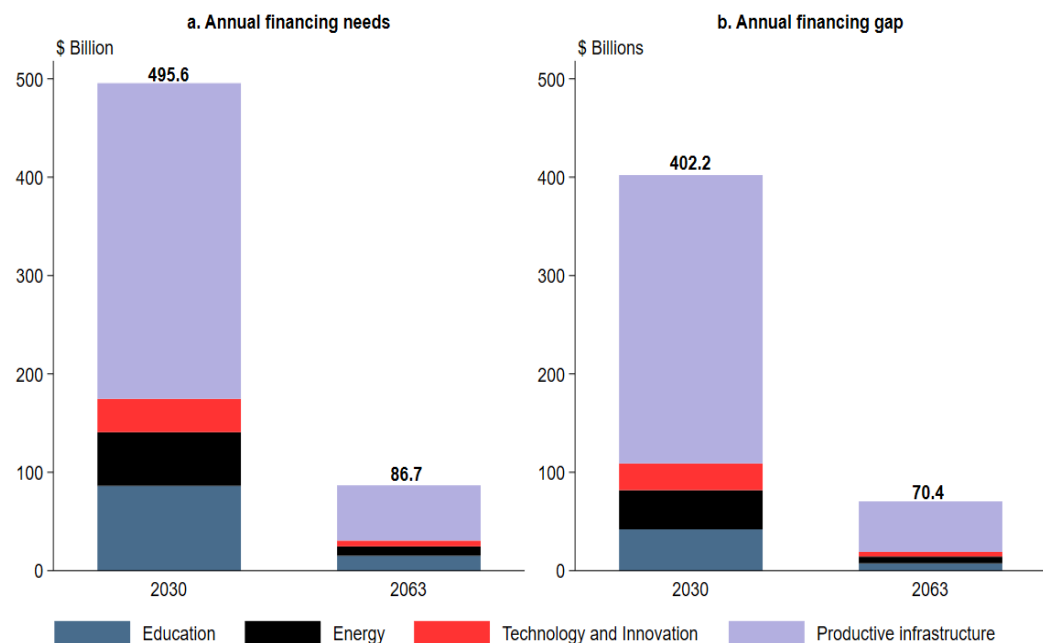
## Export concentration:

- Categories of goods and services



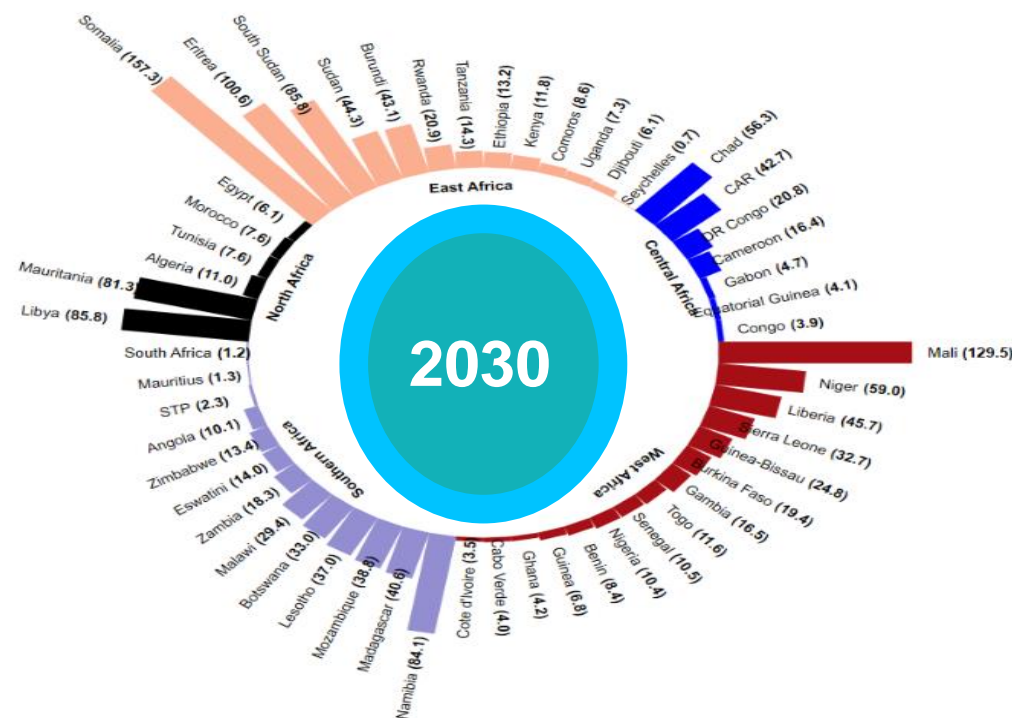
# An Annual Financing Gap of About \$402 Billion is Needed to Fast-track Africa's Structural Transformation by 2030

Estimated annual financing needs and gap to fast-track structural transformation in Africa by 2030 and 2063



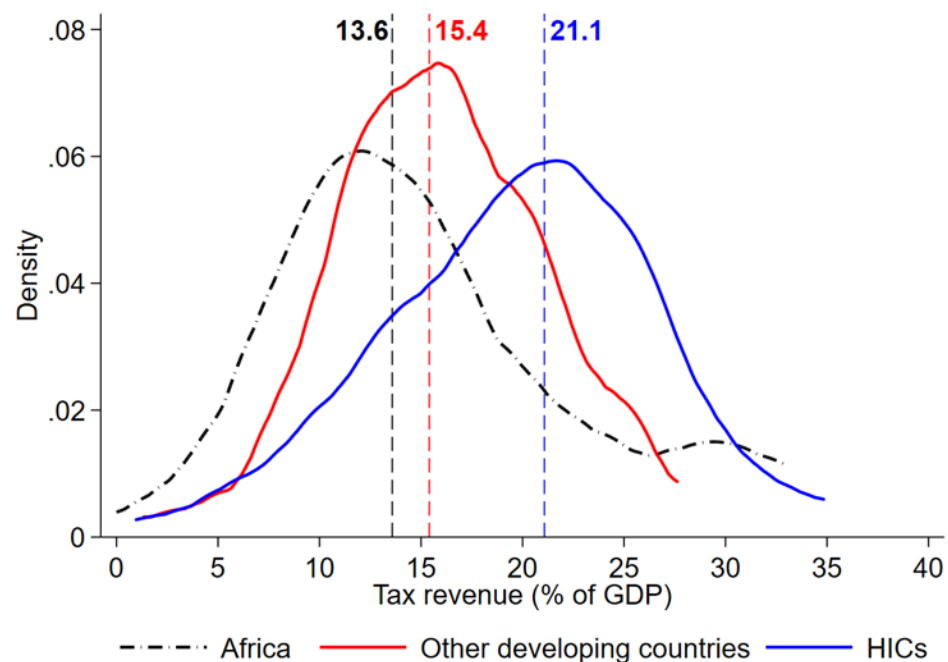
Source: Staff calculations using data from African Development Bank statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank.

Estimated annual financing gap (percent of GDP) by African countries by 2030



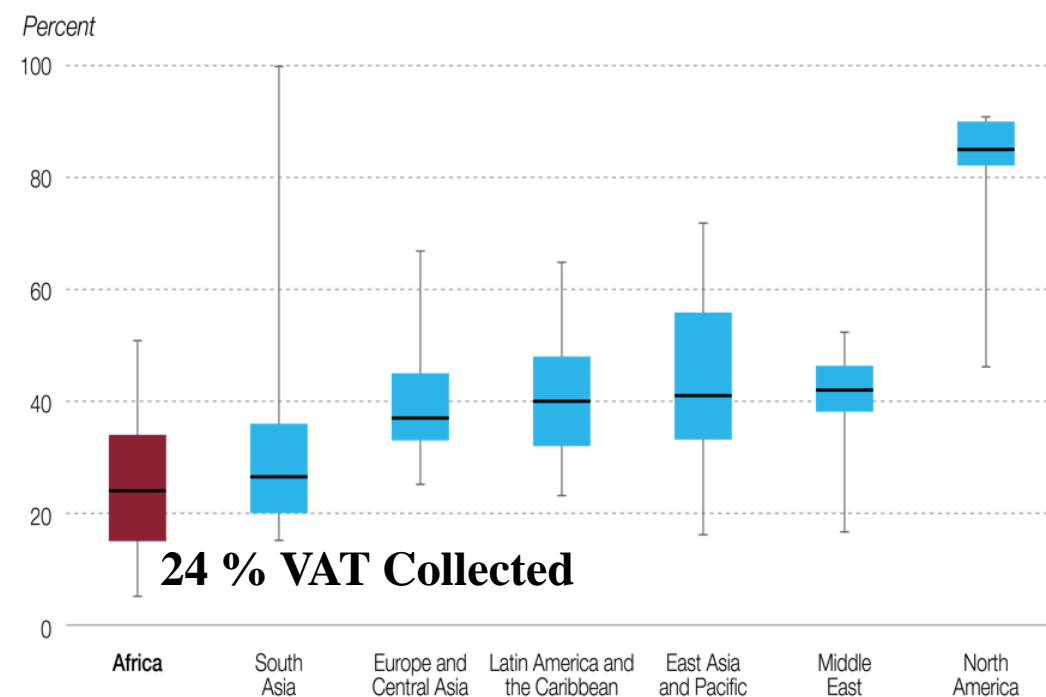
# Improving Efficiency in Domestic Revenue Mobilization & Utilization Key for Accelerating Structural Transformation In Africa

Distribution of Tax-GDP ratio by regions, 2019



Source: Staff computations

VAT efficiency ratio in Africa vs other regions, 2000 - 2021

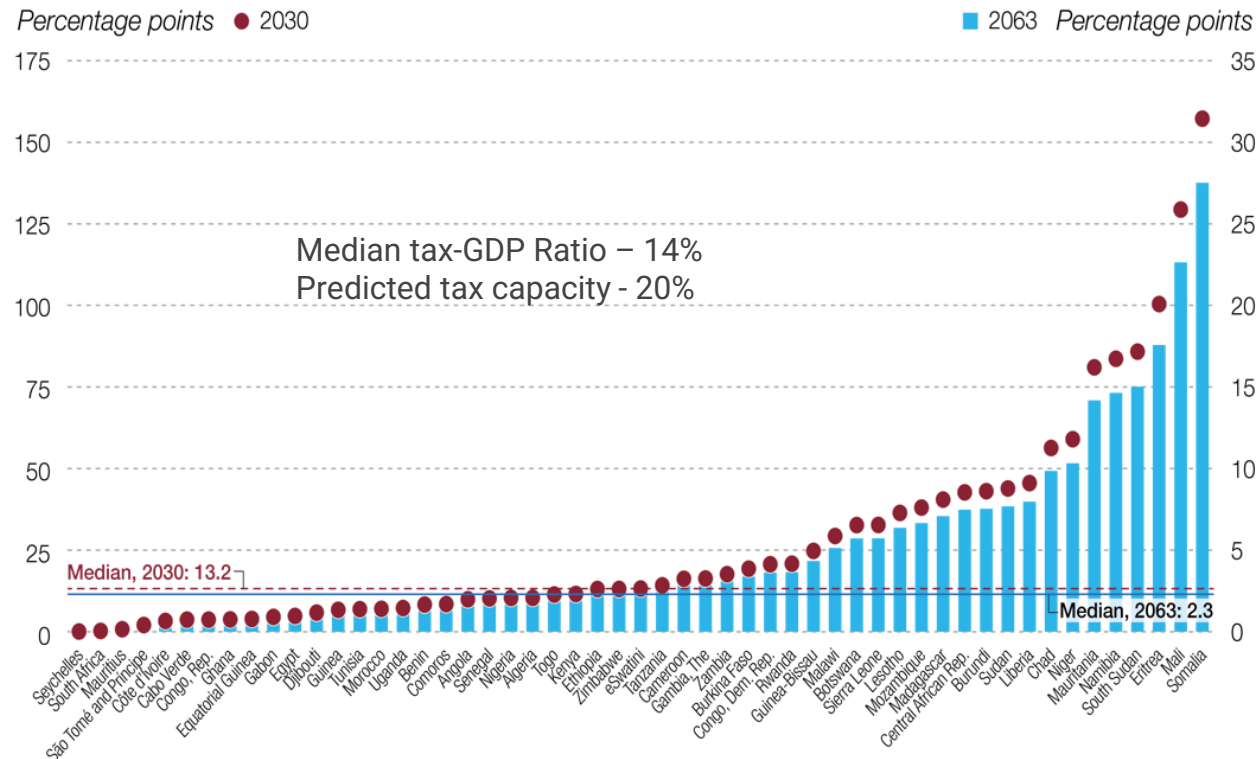


Source: Staff calculation based on USAID Collecting Taxes Database



# Can Domestic Resource Mobilization and Utilization Close the Estimated Annual Financing Gap for Structural Transformation in Africa?

## Required Increase in tax-to-GDP ratio to close the estimated annual financing gap in Africa



Source: Staff calculations based on data from African Development / Bank statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank

1

Tax-to-GDP ratio needs to increase on average by **13.2 percentage points (ppts)** by 2030.

2

Increasing tax-to-GDP ratio from the current median of 14 percent by an additional 13.2 ppts = 27.2 percent.

3

In addition to high levels of implicit tax, this can have undesirable impacts on growth.

4

At 27.2 percent of GDP, African countries would exhaust the average current tax capacity of **20 percent** of GDP, making it difficult for many of them to close the financing gap

5

Regardless, domestic resource mobilization (both tax and non-tax) will thus not be sufficient in many African countries.

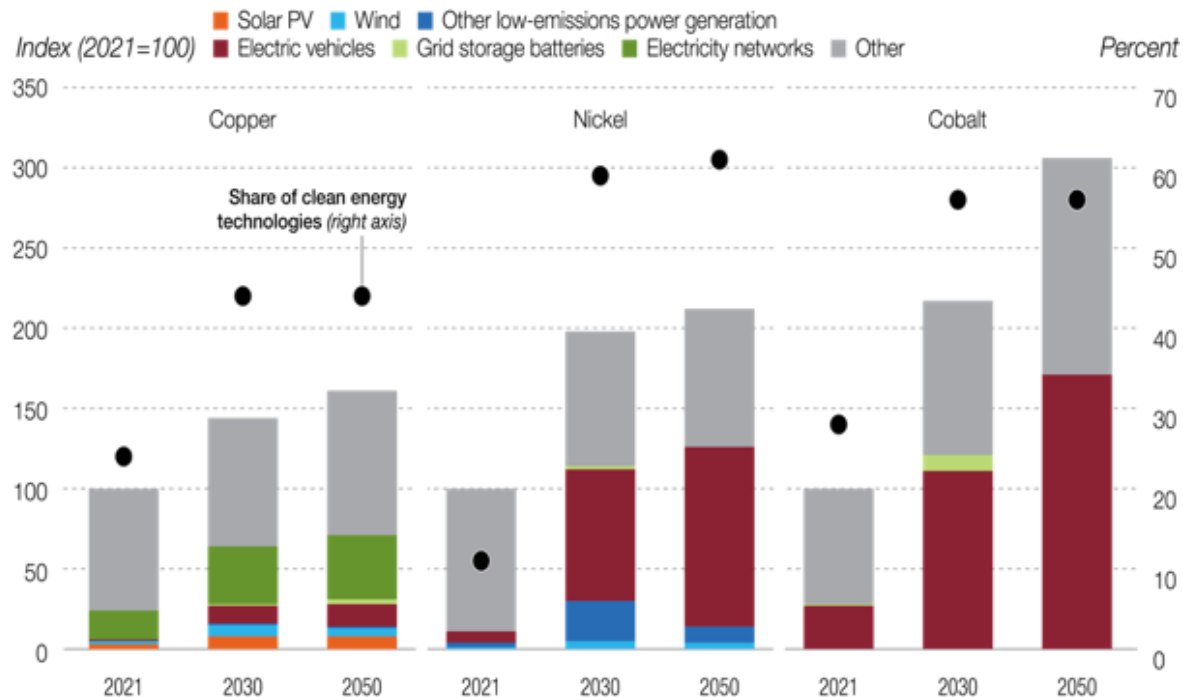
6

Affordable international finance and private sector financing is therefore required to complement DRM.



# Value Addition to Critical and Rare Earth Minerals Presents an Opportunity to Mobilize Additional Domestic Resources to Complement Tax Revenues in Africa

## Trends in Global Demand for selected minerals by end-use in the Net zero scenario, 2021 – 2050



Source: Staff calculations using the database from the IEA Critical Minerals Data exporter

01

Global demand to grow 3.5 times by 2030

02

Global revenues (copper, nickel, cobalt, and lithium) – projected at \$16 trillion over the next 25 years

03

Leveraging resource wealth to generate domestic revenues requires strategic policies and unwavering political will





# Investing in Productive Infrastructure: Striking the Right Balance for Africa's Structural Transformation...

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**Hard infrastructure (roads, rails, bridges, etc.) and soft infrastructure (knowledge and institutional governance capacity) are like two wings of a plane...**

**...The plane cannot fly with one wing**



**Investing in productive infrastructure is key to accelerating Africa's structural transformation**





# Key Take Aways: Market Failures in the Global Debt Architecture and Other Domestic Factors Create a Vicious Cycle of Under-Development in Africa



- 01 Structural transformation – slow and uneven
- 02 SDG 2030 and Agenda 2063 targets – mostly off-track
- 03 Close to **9 out of 10** of the **world's extremely poor people** will be in Africa by 2030
- 04 At current growth trends, **it could take African countries more than a century on average (108 years)** to transition to a high-income status
- 05 Most middle-income African countries could remain stuck in a **middle-income trap**
- 06 Reforms needed to accelerate development financing at scale (domestic and foreign) to drive Africa's transformation



# CHAPTER 3

## Financing Structural Transformation in Africa: The Need for Reforms of the Global Financial Architecture



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# Challenges in the Global Financial Architecture

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- 1 Episodic countercyclical support and recurrent downside trends
- 2 Global commons challenges (climate change, health pandemics; geopolitical tensions/conflicts)
- 3 Inequality: – access to capital, technology, markets,..., global tax architecture, risk ratings, debt architecture...
- 4 Scale and timeliness of global support not fit for purpose – climate, contingency finance, SDGs
- 5 Inclusiveness and voice
- 6 De-globalization - increasing fragmentation and multi-polarization of the global financial architecture



# Affordability, Timeliness and Economies of Scale

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**Current global financial  
architecture is not  
delivering adequate  
resources at affordable  
cost, timely and the scale  
needed**

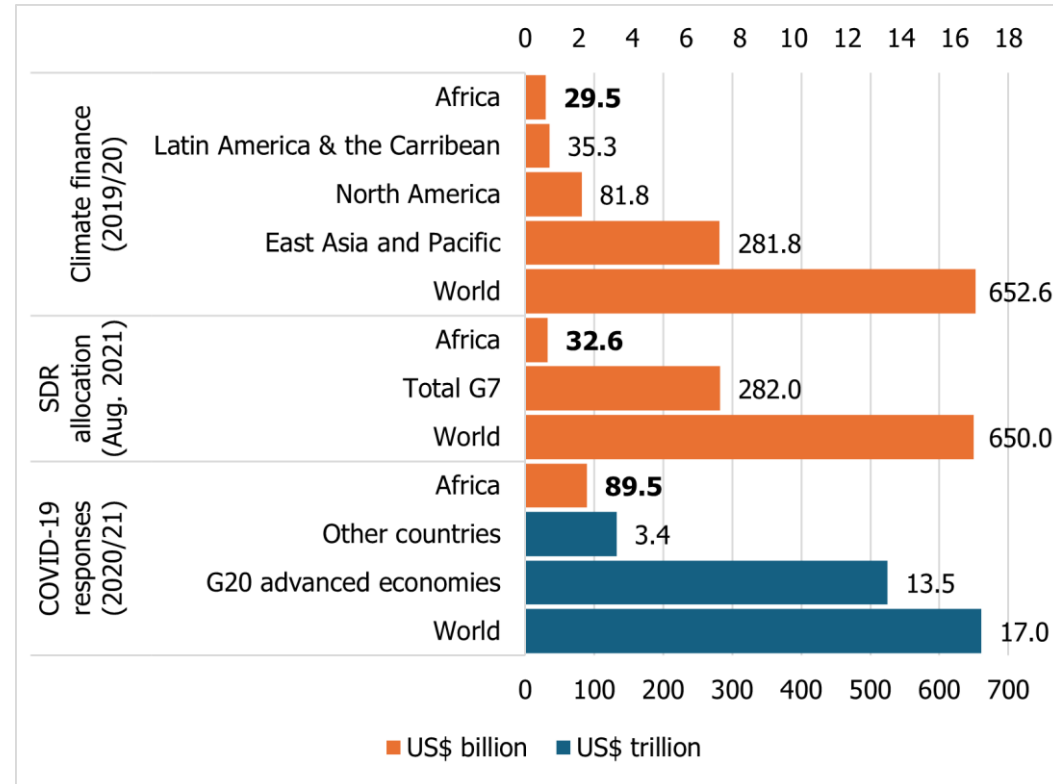
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# Access to Emergency Financing

**Africa's access to climate and other emergency financing is very low relative to other regions and, the scale of resources needed**

## Sources of emergency financing: Africa and other regions



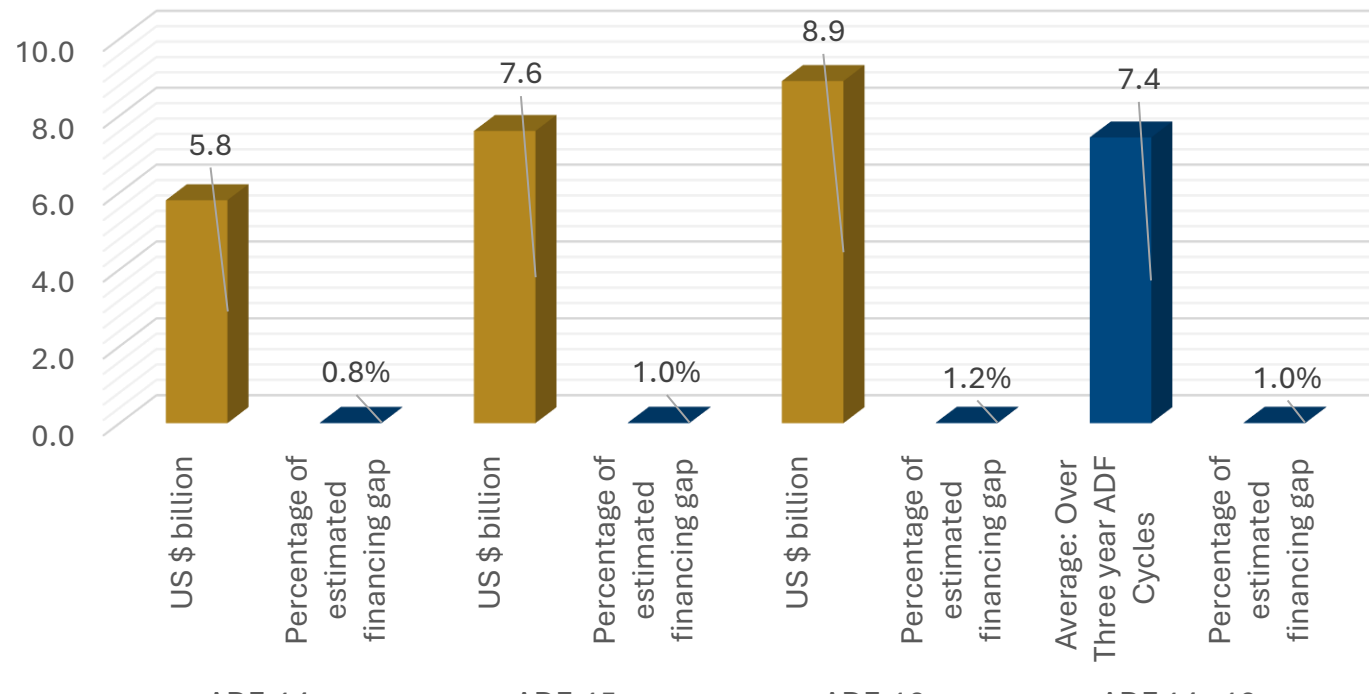
Source: Staff Calculations based data from African Development Bank, IMF





# Access to Low-Cost Concessional Finance for Low Income Countries

## Past three ADF replenishments and average



Source: African Development Bank Statistics

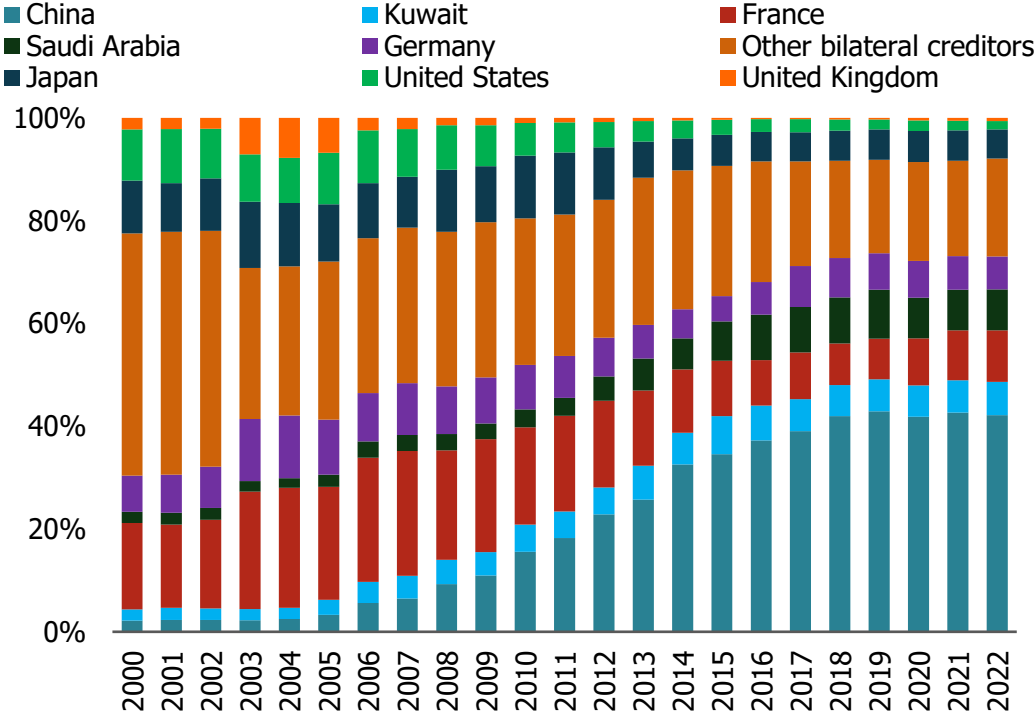
**At current levels, ADF replenishments remain significantly below the existing financing gap in ADF countries**





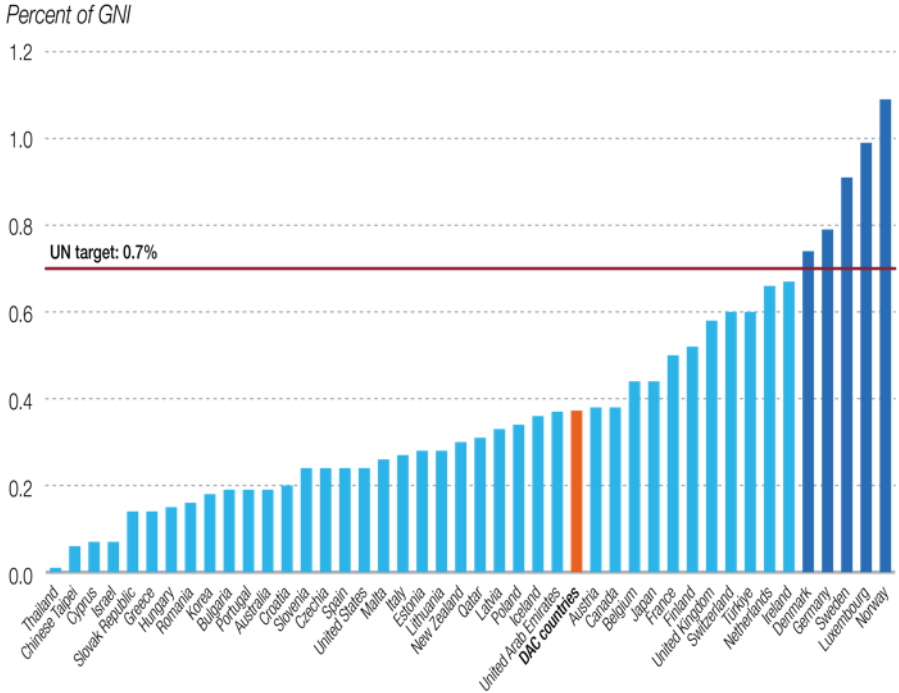
# Bilateral Debt and ODA Flows are Likely to Remain Suppressed in the Short Term

Top bilateral creditors



Source: Staff calculations based on World Bank International Debt Statistics

ODA flows to Africa, by members of the Development Assistance Committee, 2023

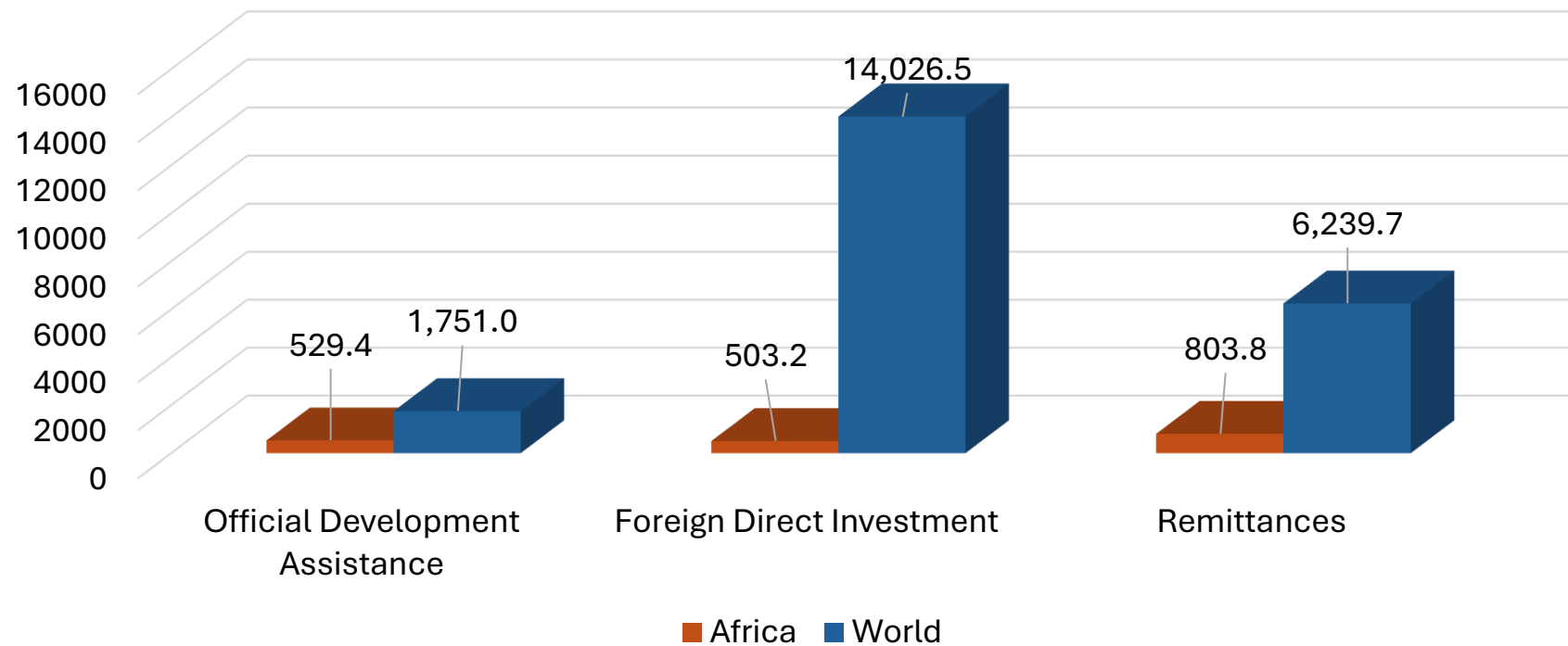


Sources: OECD (2024), flows by donor



# Africa's Access to External Financial Flows Remains Low

External financing to Africa and the world: ODA, FDI and Remittances (\$ billion), 2013-2022

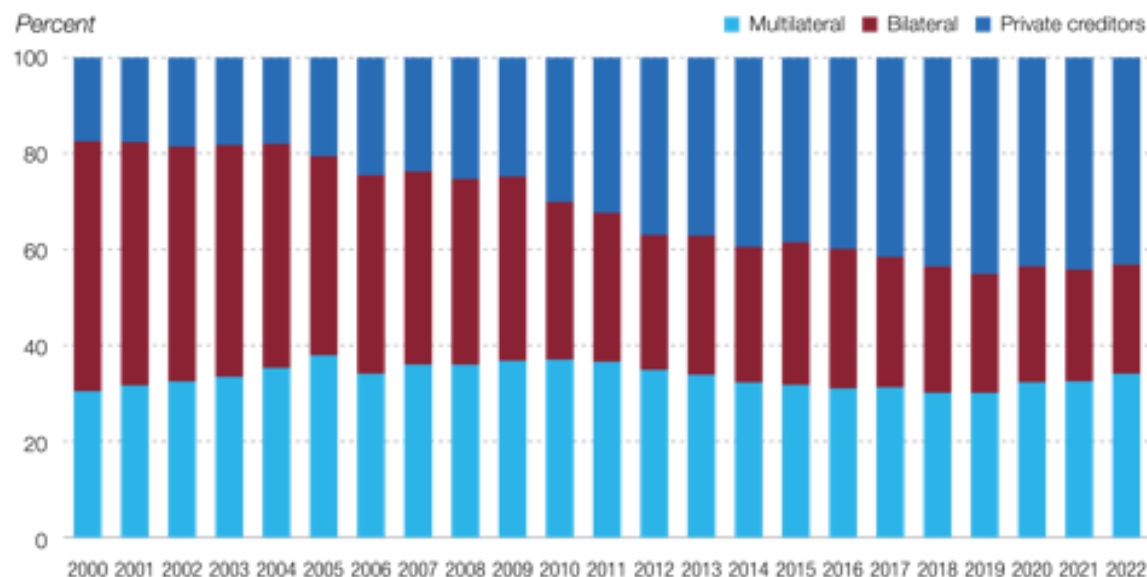


Source: Staff Calculations

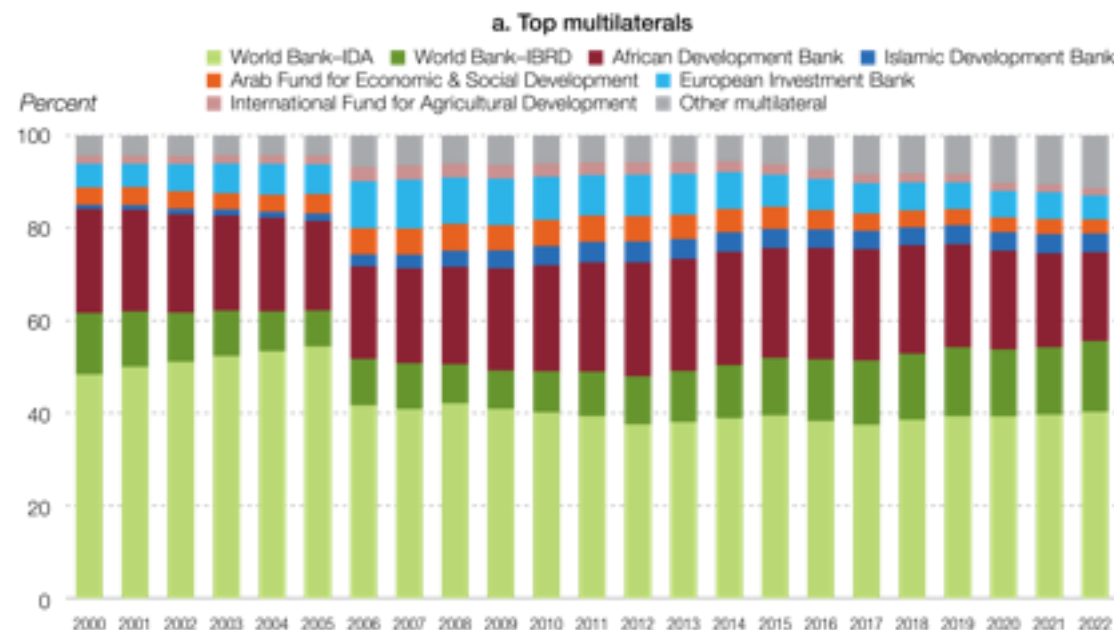


# Despite the Shifting Composition of Public Debt Towards Private Creditors, Multilateral Borrowing has Remained Relatively Stable Since 2000

Disbursed external debt by creditor type, 2000-2022



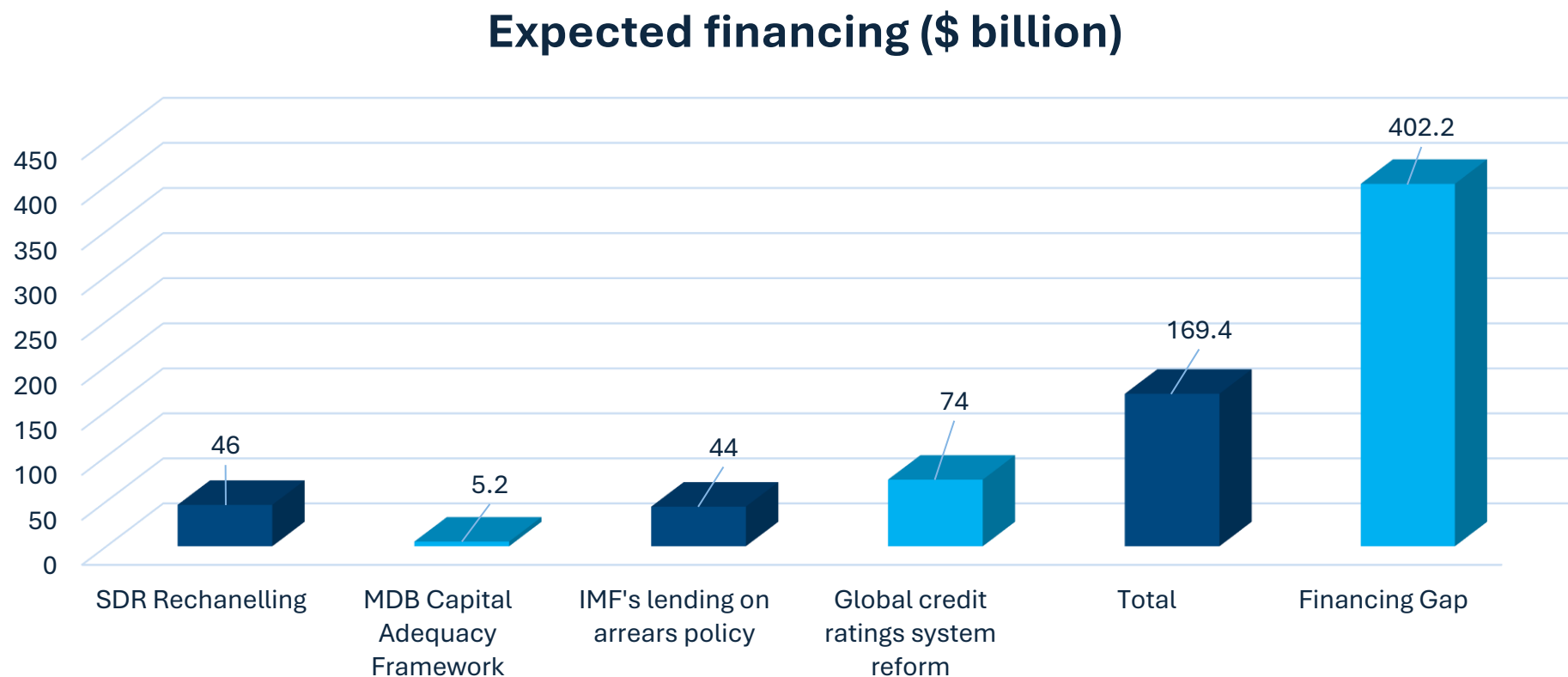
Top Multilateral creditors, 2000-22



Source: Staff calculations based on World Bank International Debt Statistics



# Ongoing Reforms of the MDBs is a Positive Development but will not Meet Africa's Financing Needs for Structural Transformation



Source: Staff calculations



# POLICY RECOMMENDATIONS



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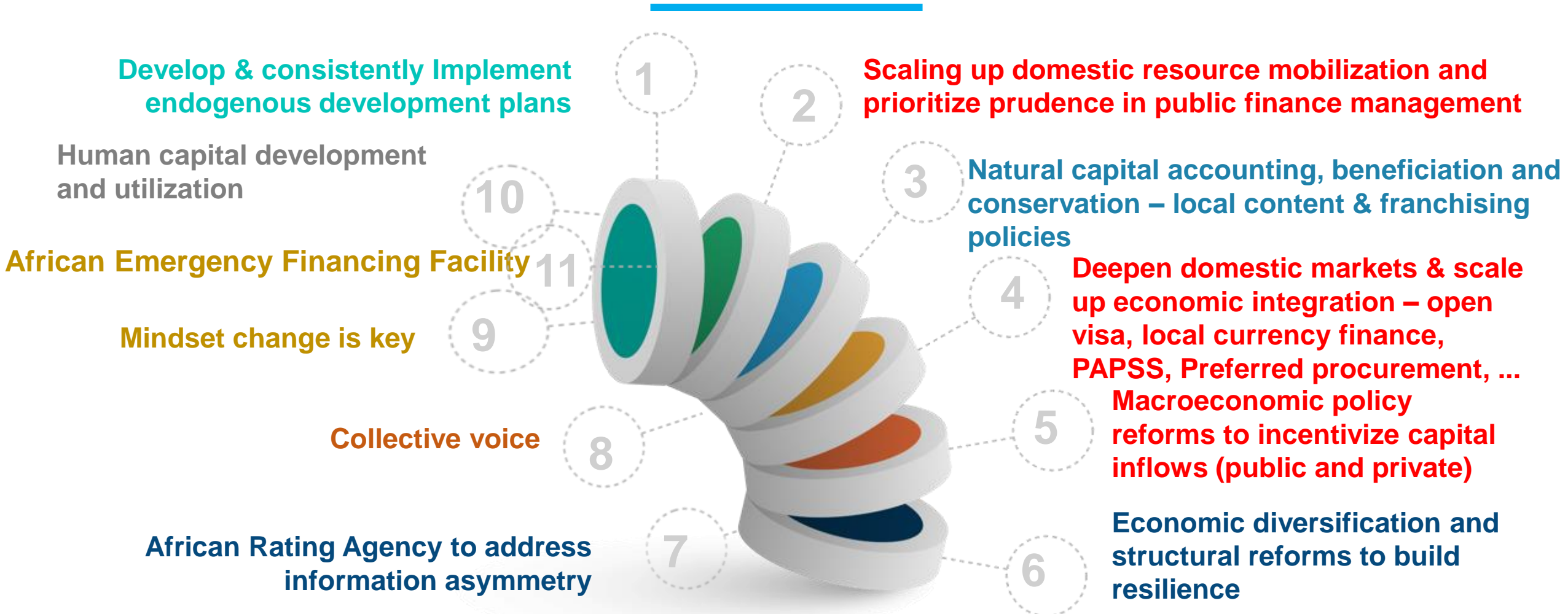


AFRICAN DEVELOPMENT BANK GROUP  
GROUPE DE LA BANQUE AFRICAINE  
DE DEVELOPPEMENT



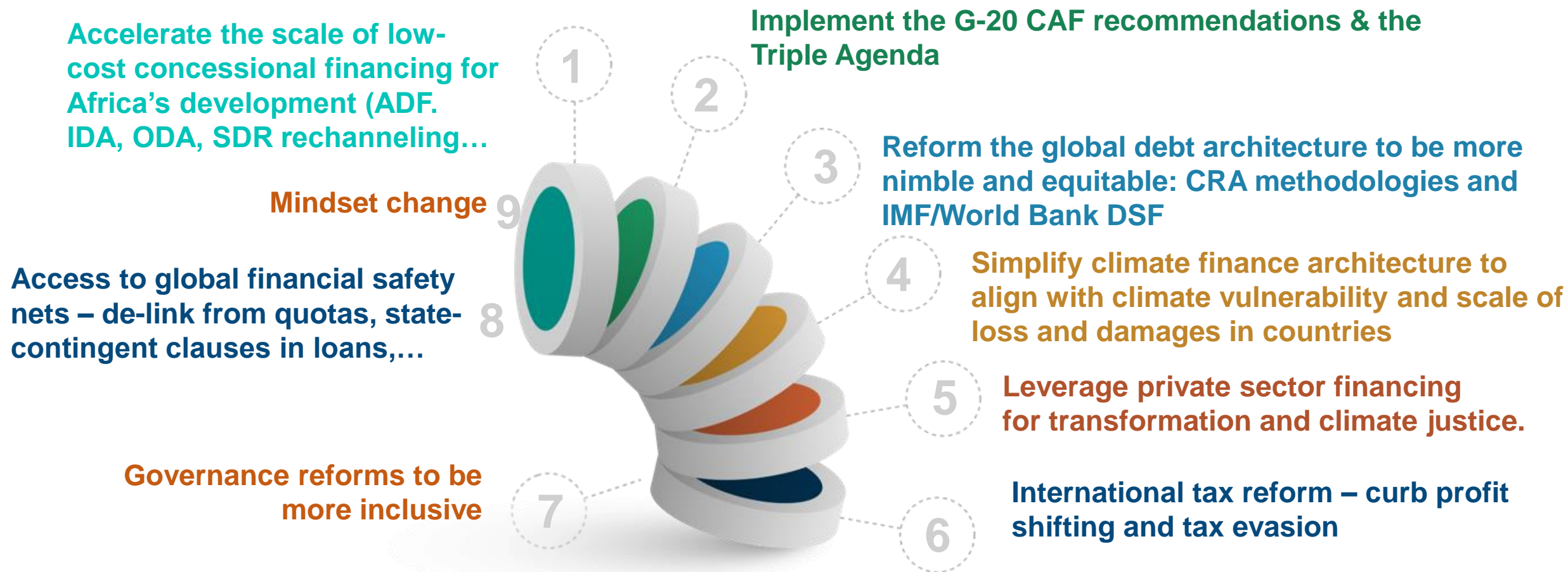
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# African Governments and Citizens





# International Community, MDBs, DFIs, Bilateral Partners



# Increase Africa's Access to Global Financial Safety Nets: Three Main Avenues

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# CONCLUSION



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## CLOSING WORDS

**“In the middle  
of difficulties  
lies  
opportunities”**

*– Albert Einstein.*

**“We cannot  
use an old  
map, to  
explore the  
new world”**

*– Albert Einstein.*

Africa is still among the best investments destinations in the World with high risk-adjusted rates of return. And the World is becoming more African



A reformed GFA is good for everyone – building our common future together





*Thank You !*



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