AFRICAN ECONOMIC OUTLOOK:

Macro-Economic Fundamentals, Debt Sustainability, Investment Risk Perception, Green Transition

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Chief Economist and Vice President, African Development Bank Group

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Presentation outline

Africa's Economic Performance and Outlook

Debt Vulnerability and Risks: Perceptions vrs Reality

Investment Opportunities and Green Transition

Conclusions and Recommendations

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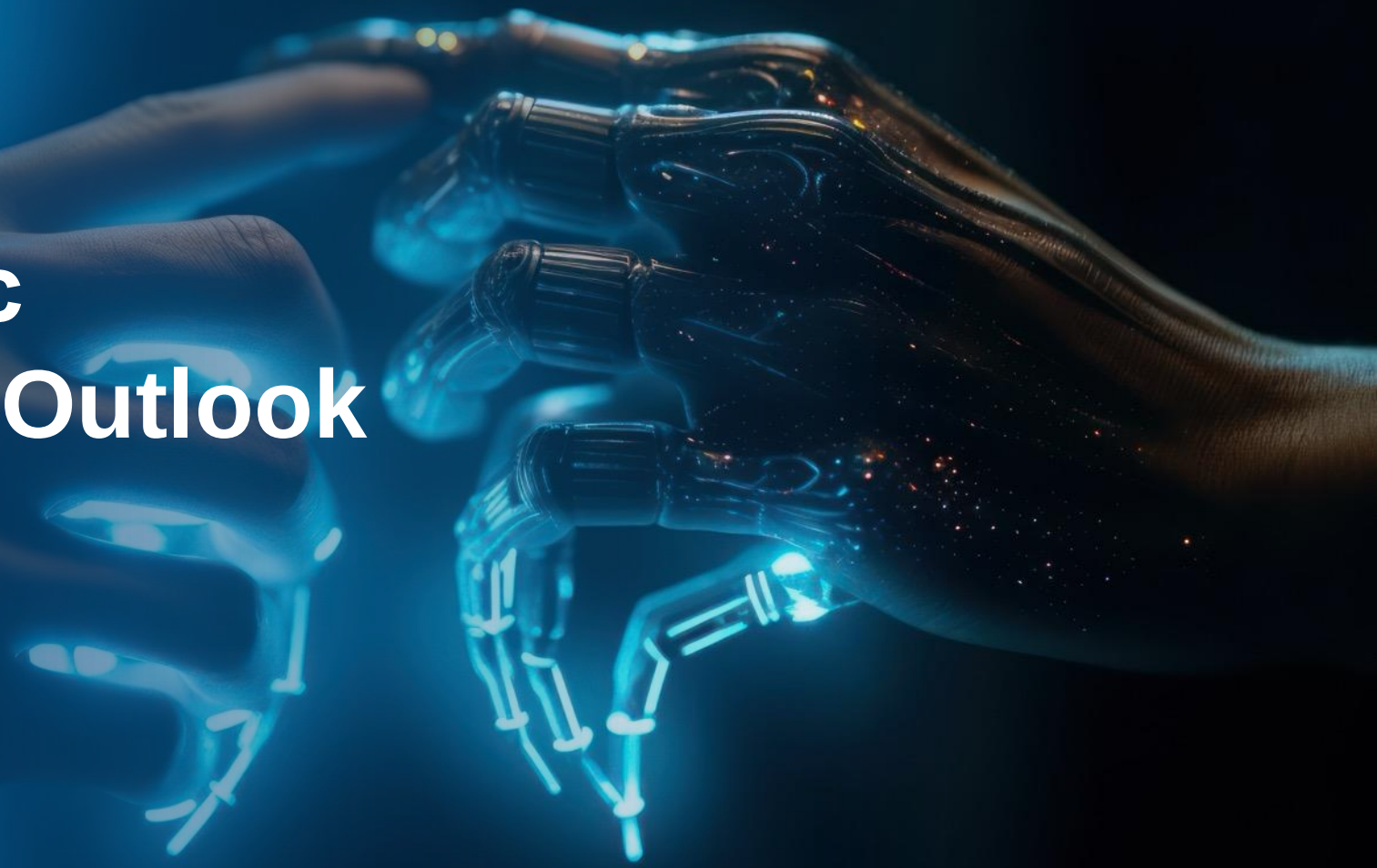
Africa’s Economic Performance and Outlook



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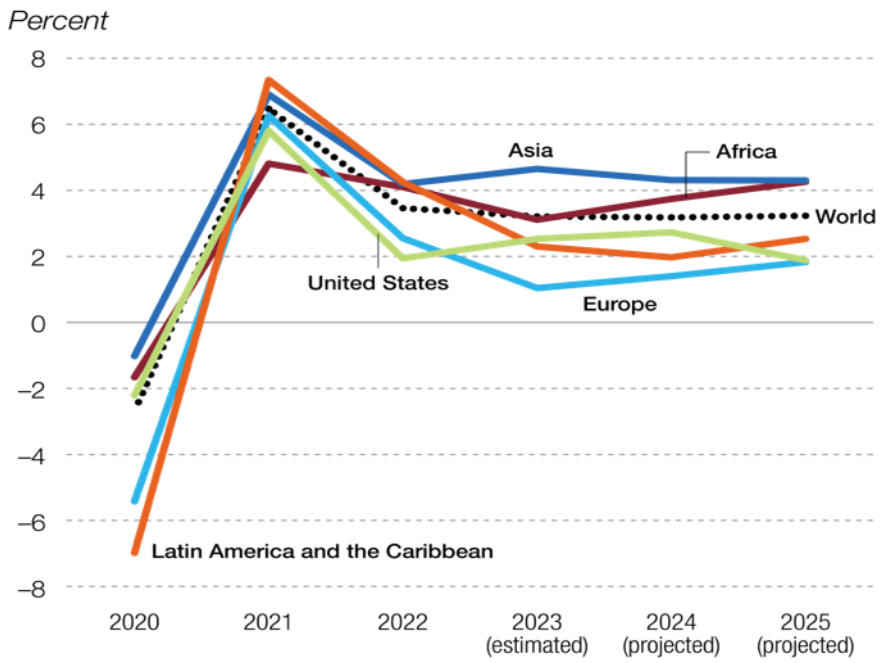
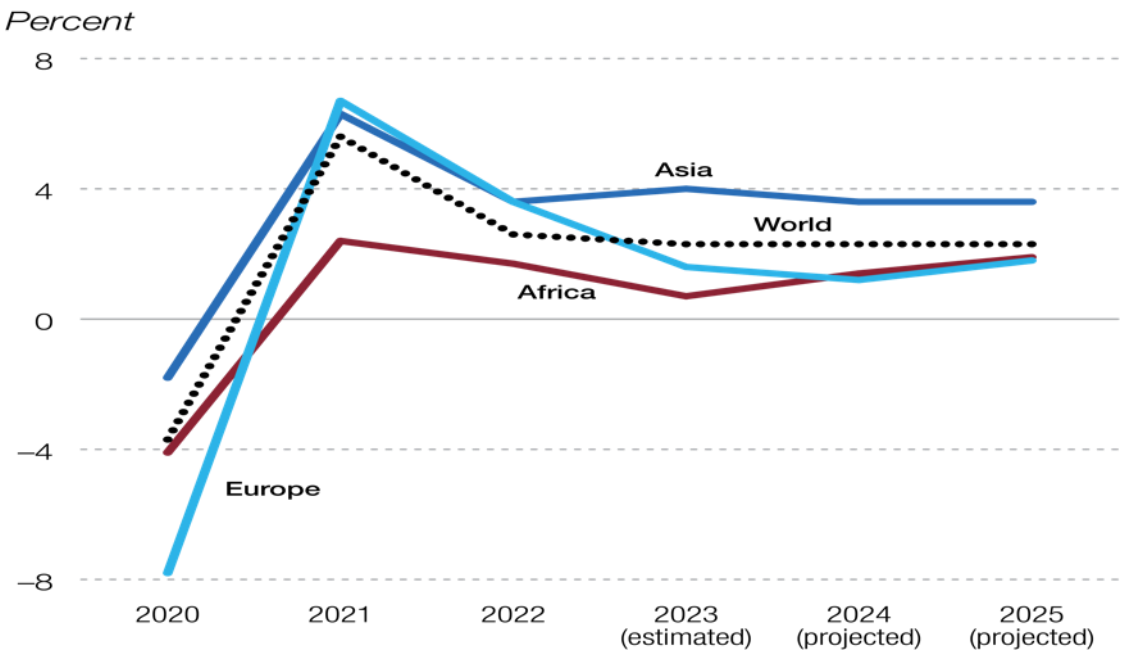
Africa's Growth Performance and Outlook

Real GDP Growth (percent), 2020-2025



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

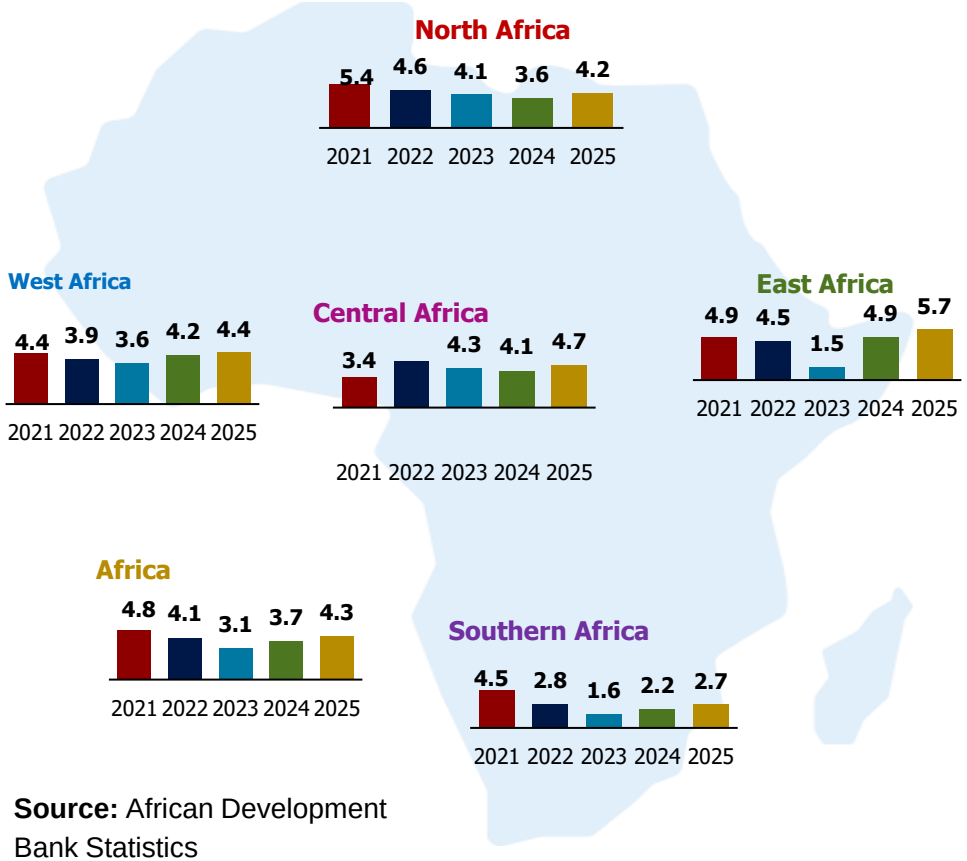
Real GDP per capita growth, 2020-2025



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

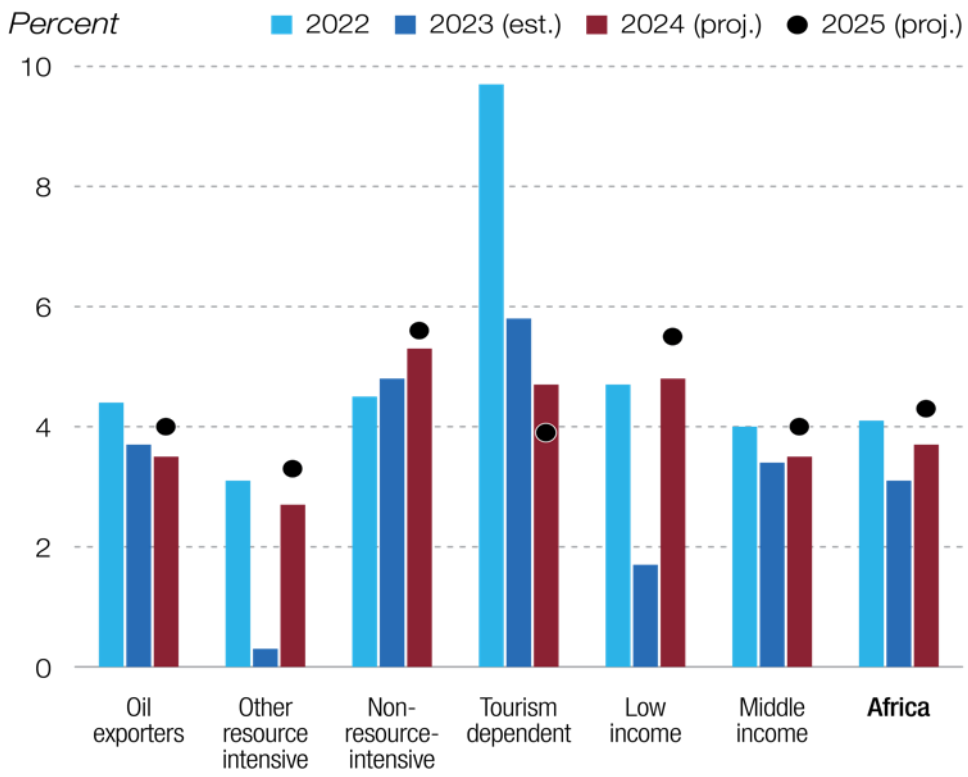
Marked Diversity in Growth Performance and Outlook Across Africa's Regions and Economic Groupings

Real GDP growth (percent) by region



Source: African Development Bank Statistics

Real GDP growth by economic groupings



Source: African Development Bank Statistics

Macro-economic Fundamentals:

Inflation, Local Currency, Fiscal and Current Account Dynamics

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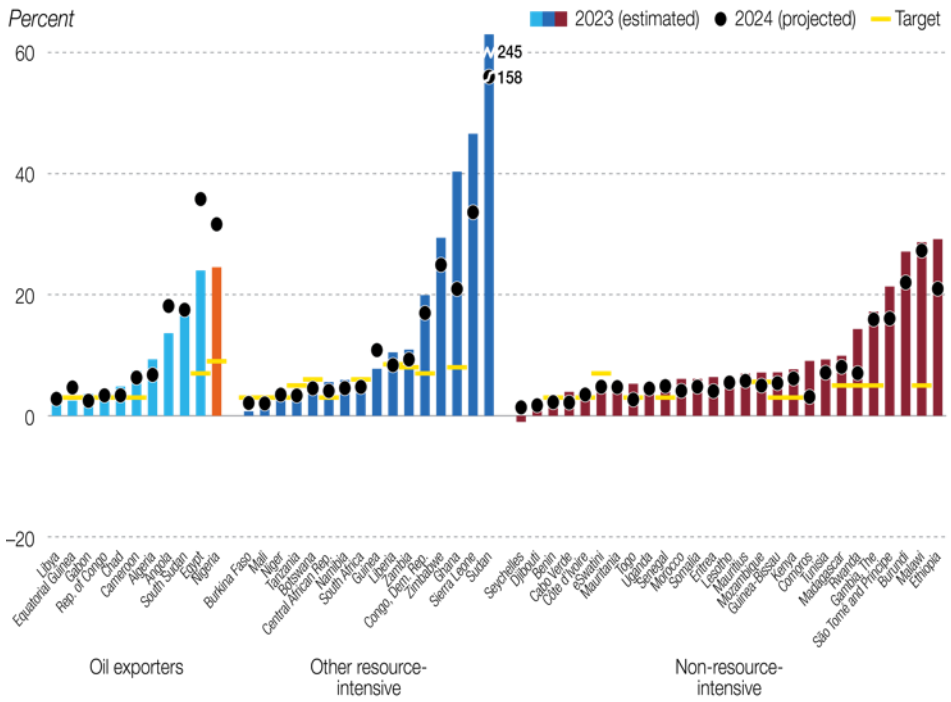
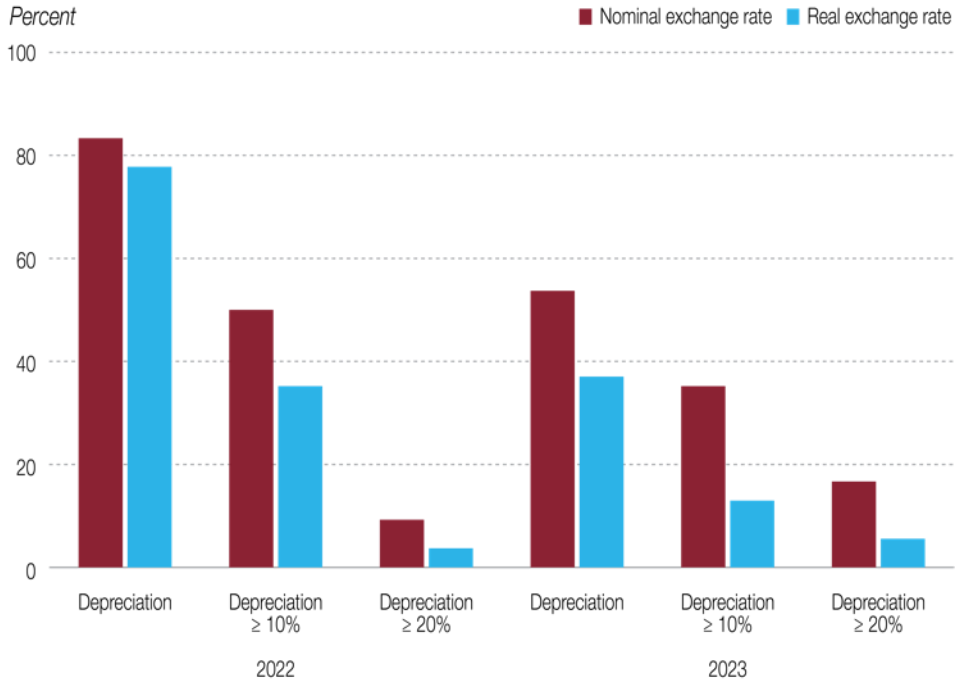
The Dynamics of Africa's Macroeconomic Fundamentals Have Remained Mixed amid Considerable Challenges

Consumer price inflation, 2023-2024



Source: African Development Bank Statistics

Proportion of African countries with depreciated currencies 2022-2023

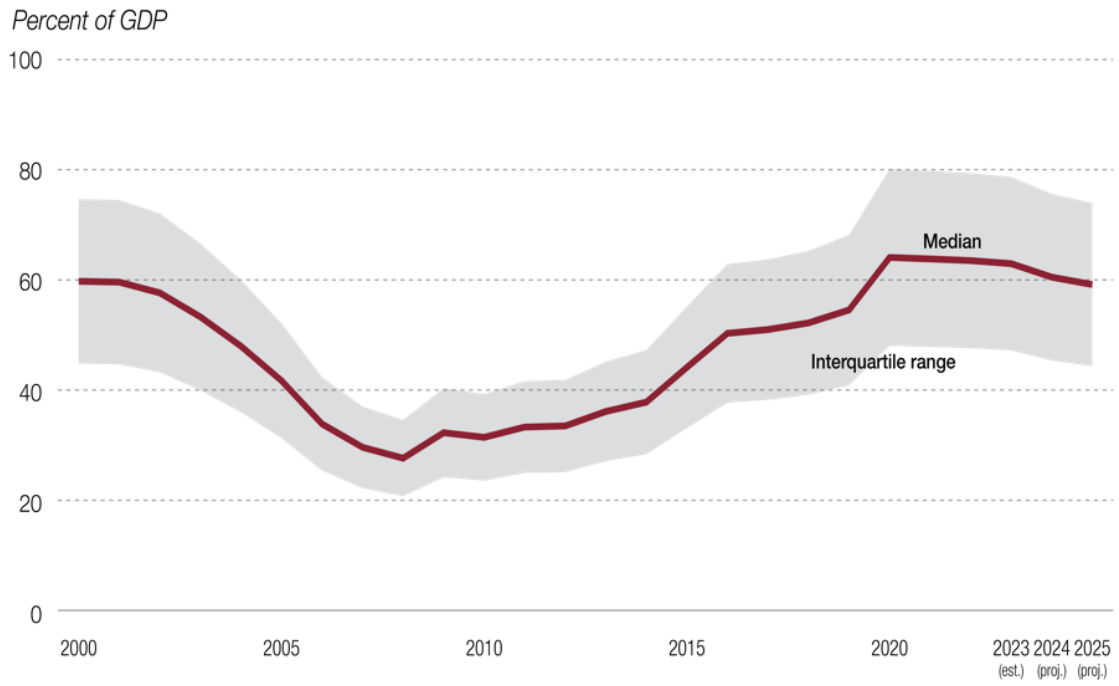


Source: Staff calculations

Africa’s Debt Dynamics, 2000 - 2024

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

Gross government debt, 2000-25



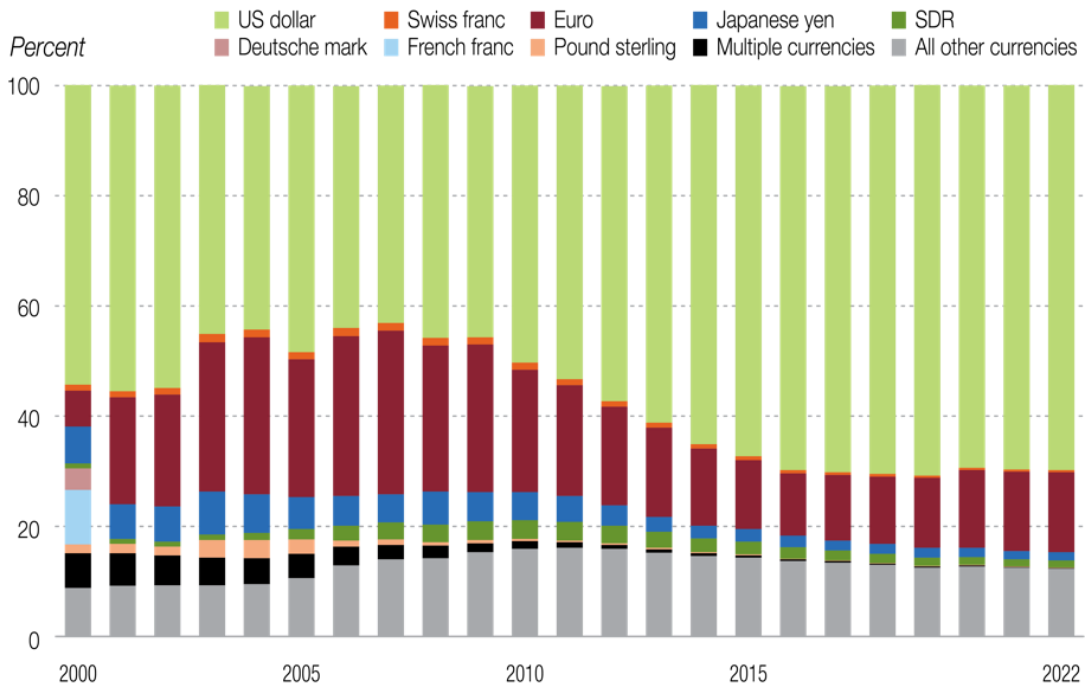
Source: Staff calculations based on the World economic Outlook database 2024 .

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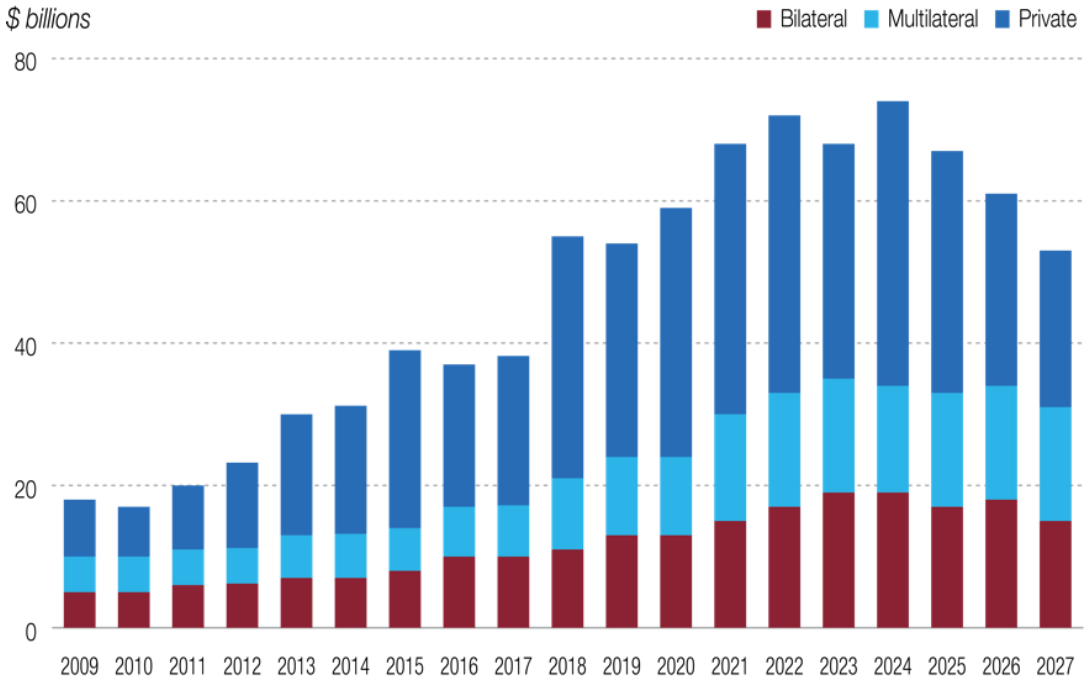
Composition of external debt service by creditor, 2009-2027



Source: Staff calculations using data from World Bank International Debt Statistics 2024.
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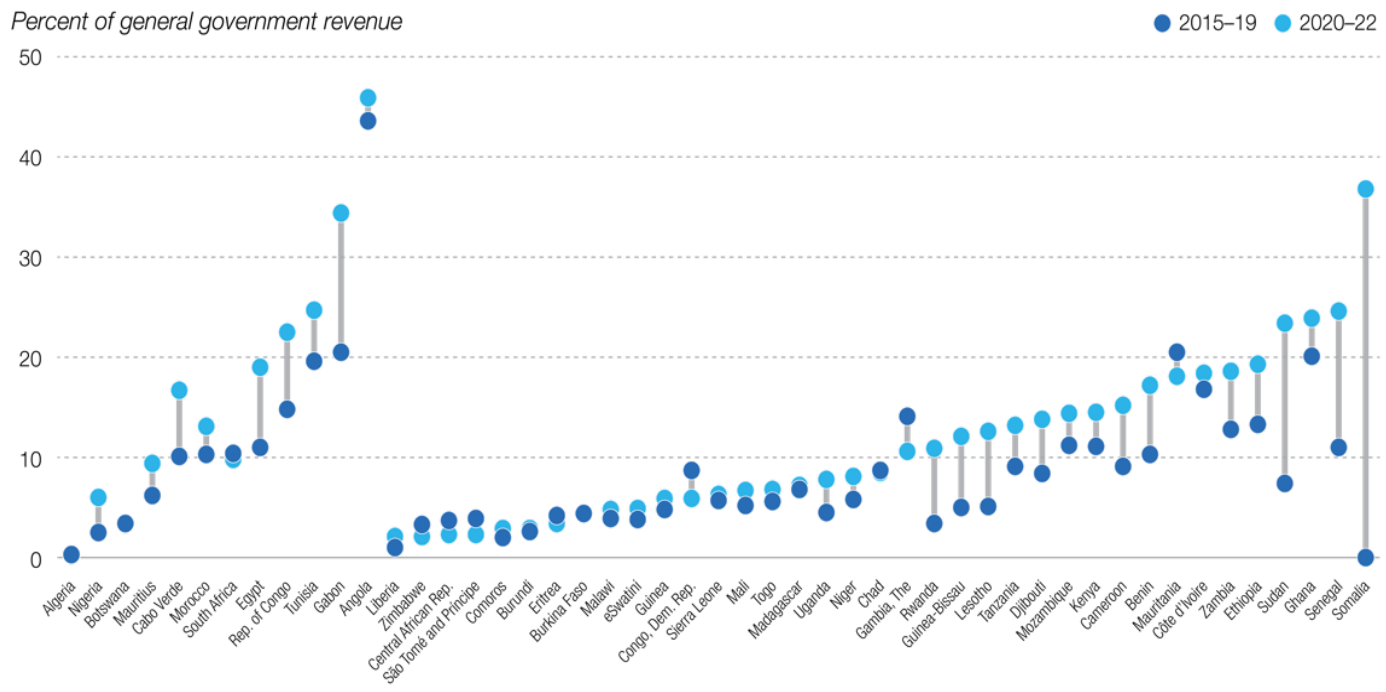
High Cost of Debt Service is Heightening the Severity of Debt Burden

Proportion of debt service payments on external debt



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

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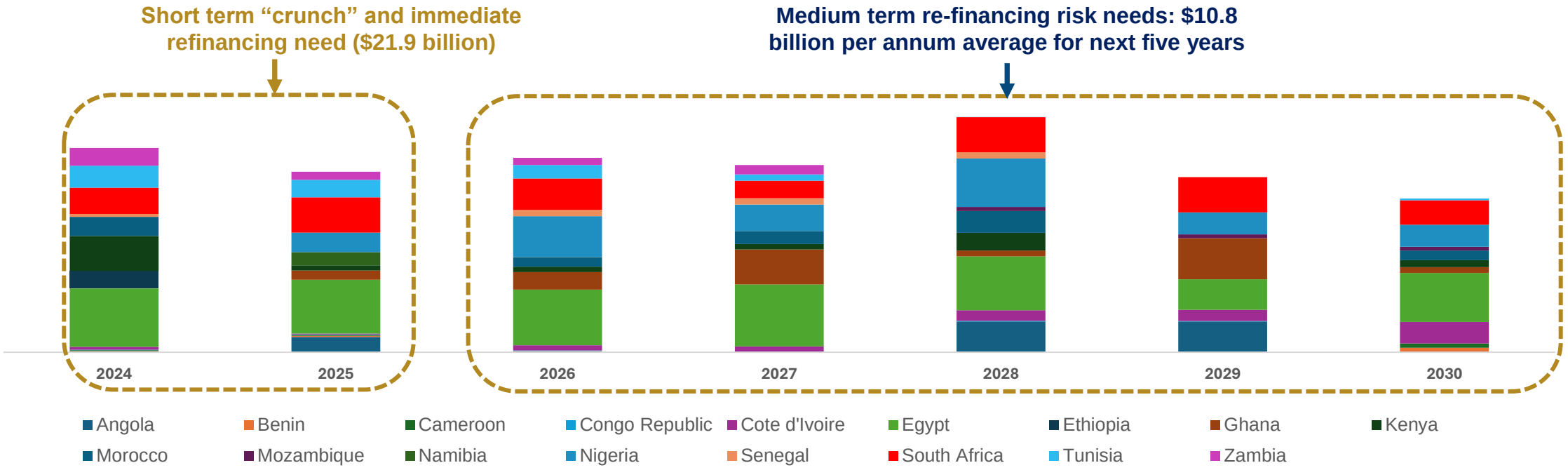
01 Average debt service payments rose to 12.7 percent in 2020-22 relative to 8.4 percent in 2015-19.

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

Financial Flows:

Current global financial architecture is not delivering adequate resources at affordable cost, timely and the scale needed for high productivity growth

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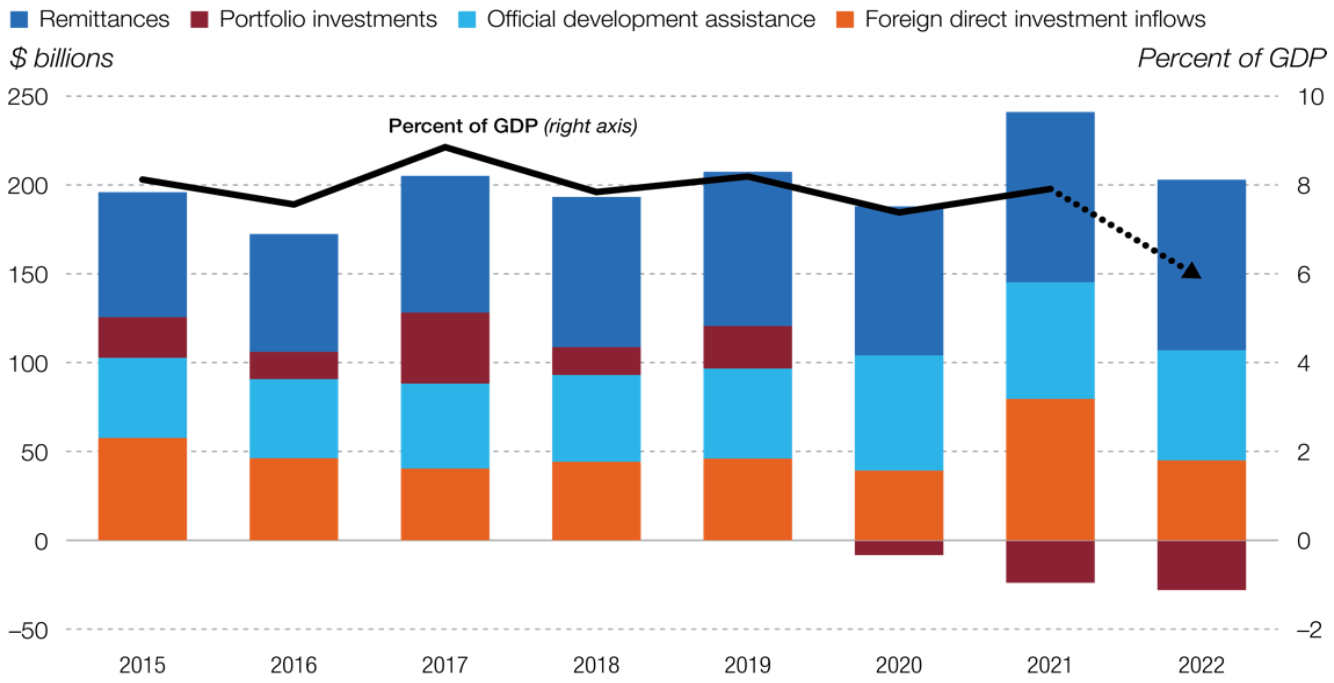
Amid Heightened Fiscal Needs, External Financial Flows to Africa have Suffered from Tightening Global Financial Conditions and other Domestic Factors

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

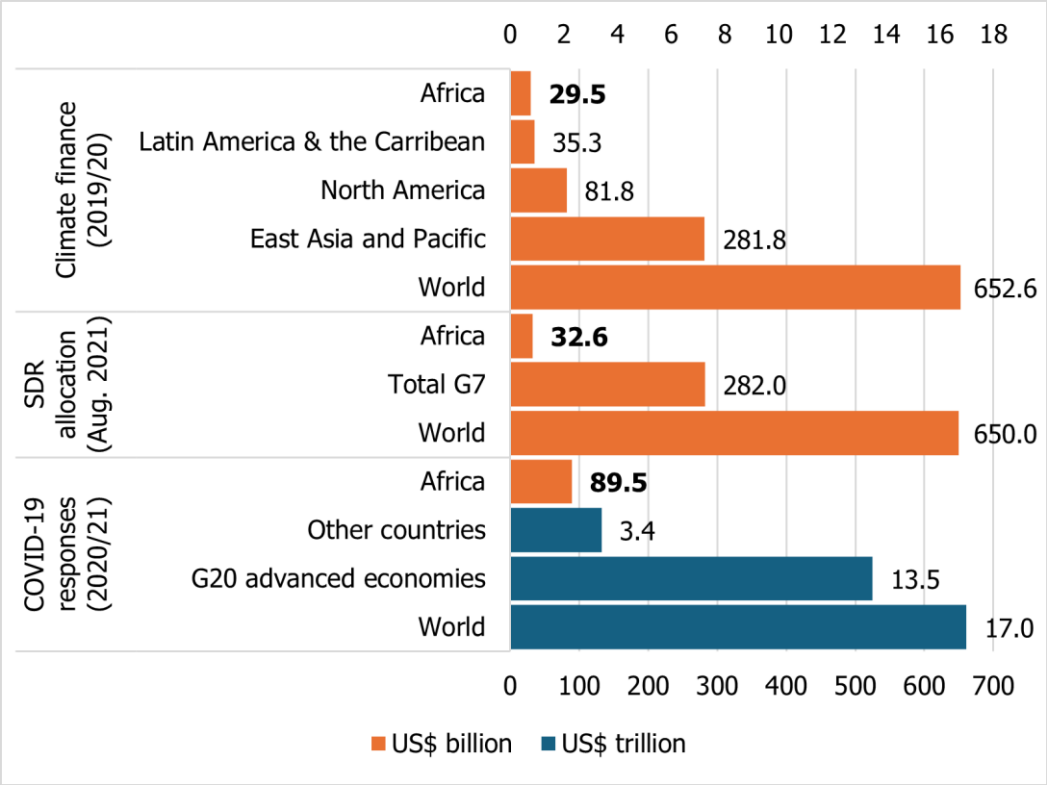
03 ODA declined by about **6 percent**

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

Access to Emergency Financing Remain Far Short of Needs

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

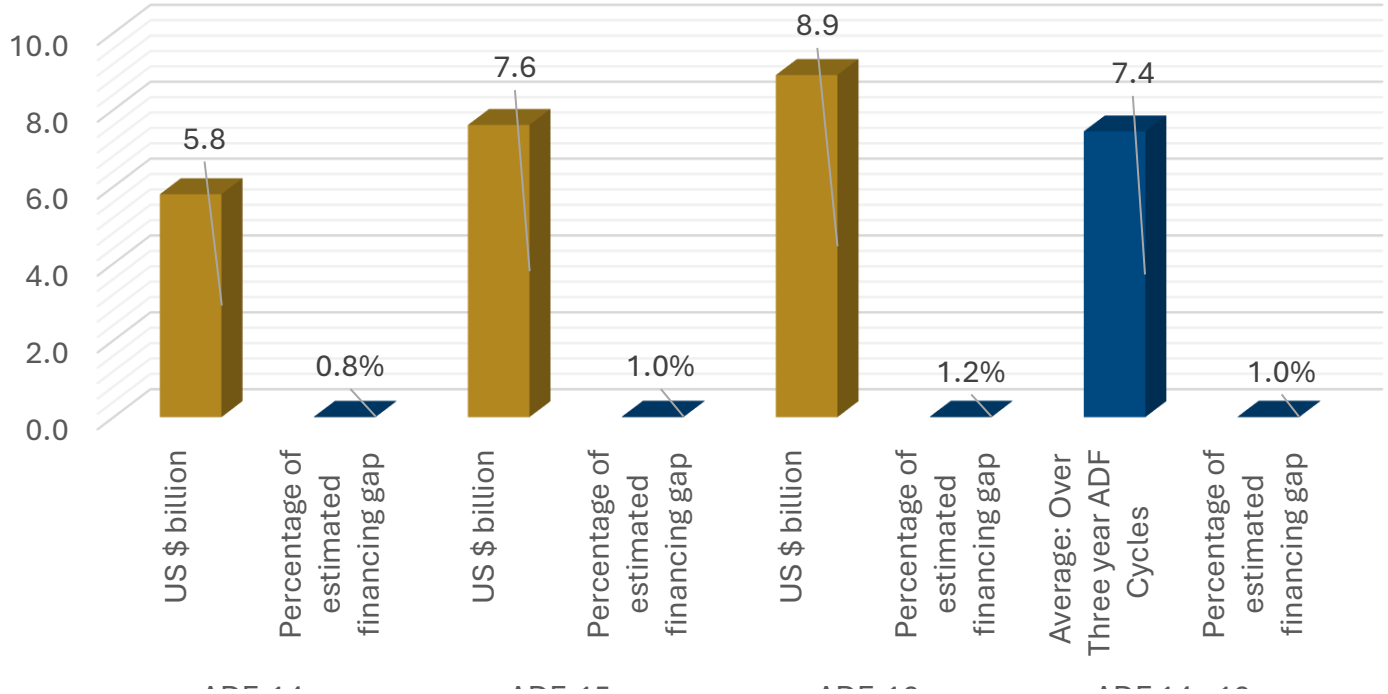
Sources of emergency financing: Africa and other regions



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

Access to Low-Cost Concessional Finance for Low Income Countries Not Sufficient to Achieve Economies of Scale

Past three ADF replenishments and average

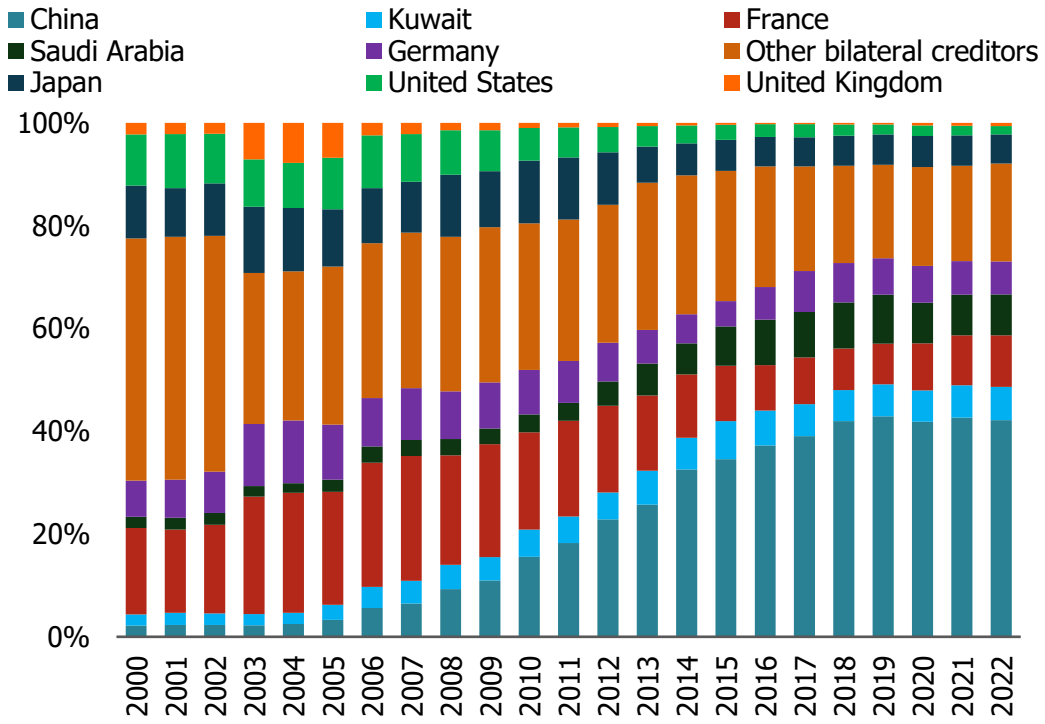


Source: African Development Bank Statistics

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

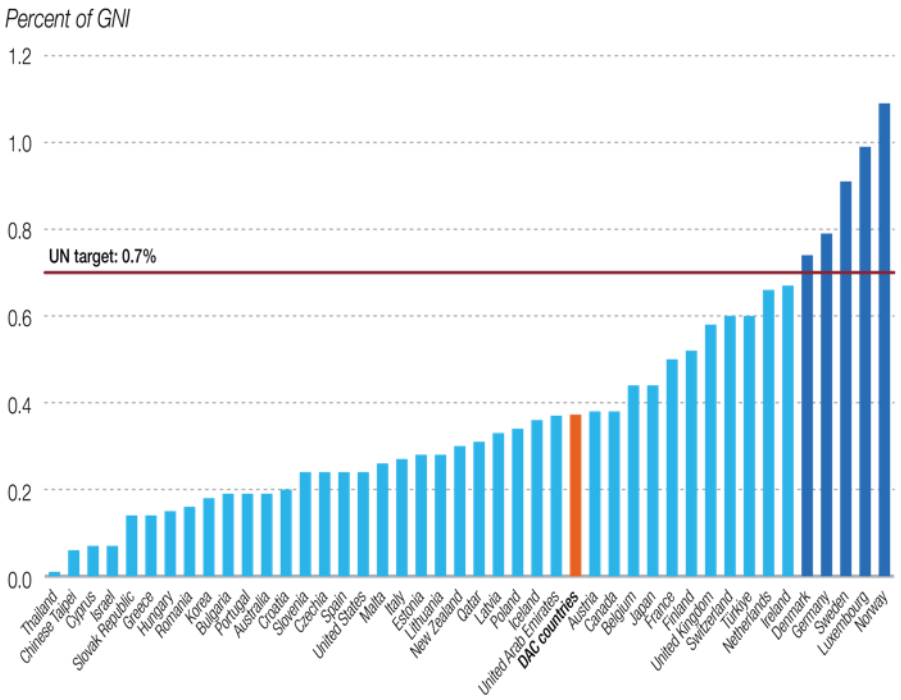
And Bilateral Debt and ODA Flows Are Likely to Remain Suppressed in the Short Term

Top bilateral creditors



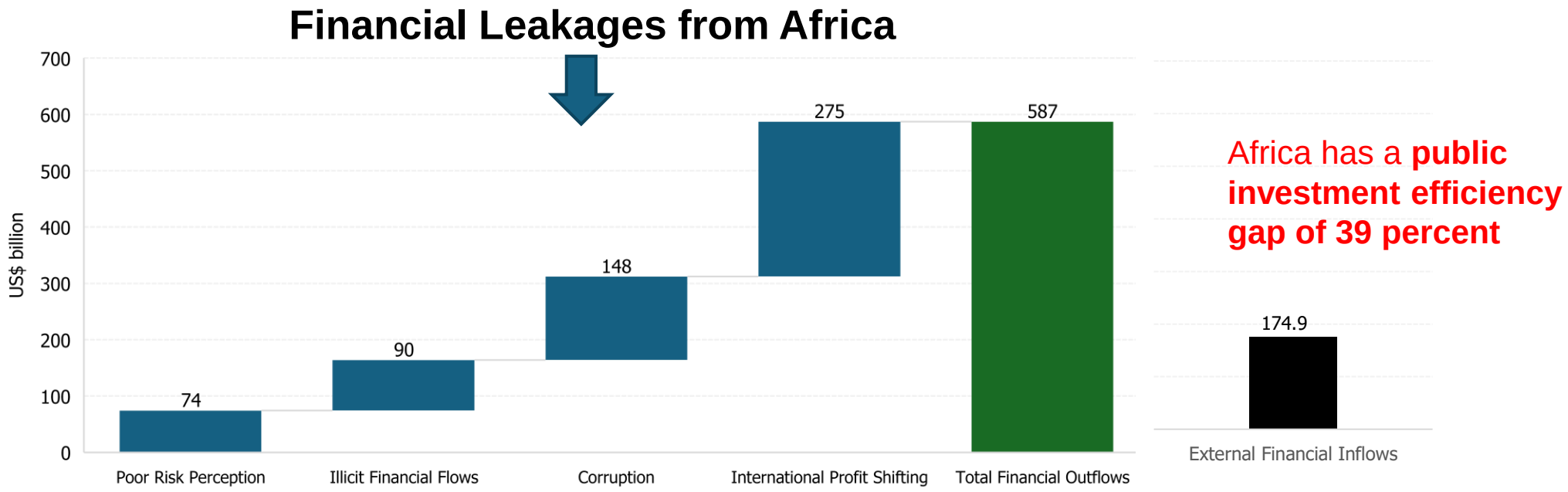
Source: Staff calculations based on World Bank International Debt Statistics

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



Sources: OECD (2024), flows by donor

And the Total Outflows Dwarfs Total Inflows Annually



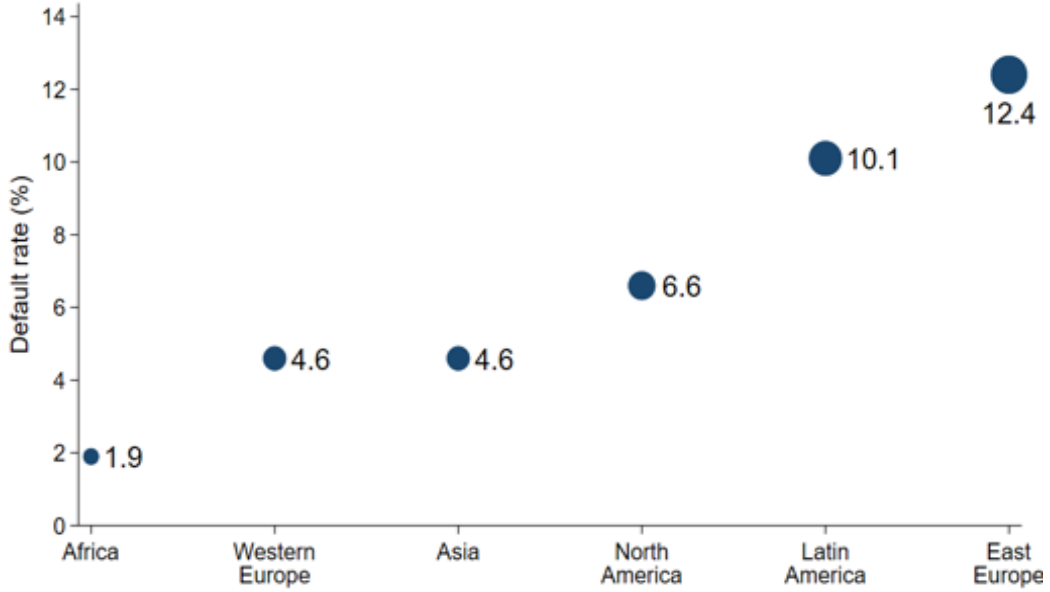
Source: African Development Bank Statistics

No Substitute for Sound Macro-economic Policy Environnent and Rule of Law

Understanding Africa’s Risk Premium: Perceptions vrs Reality

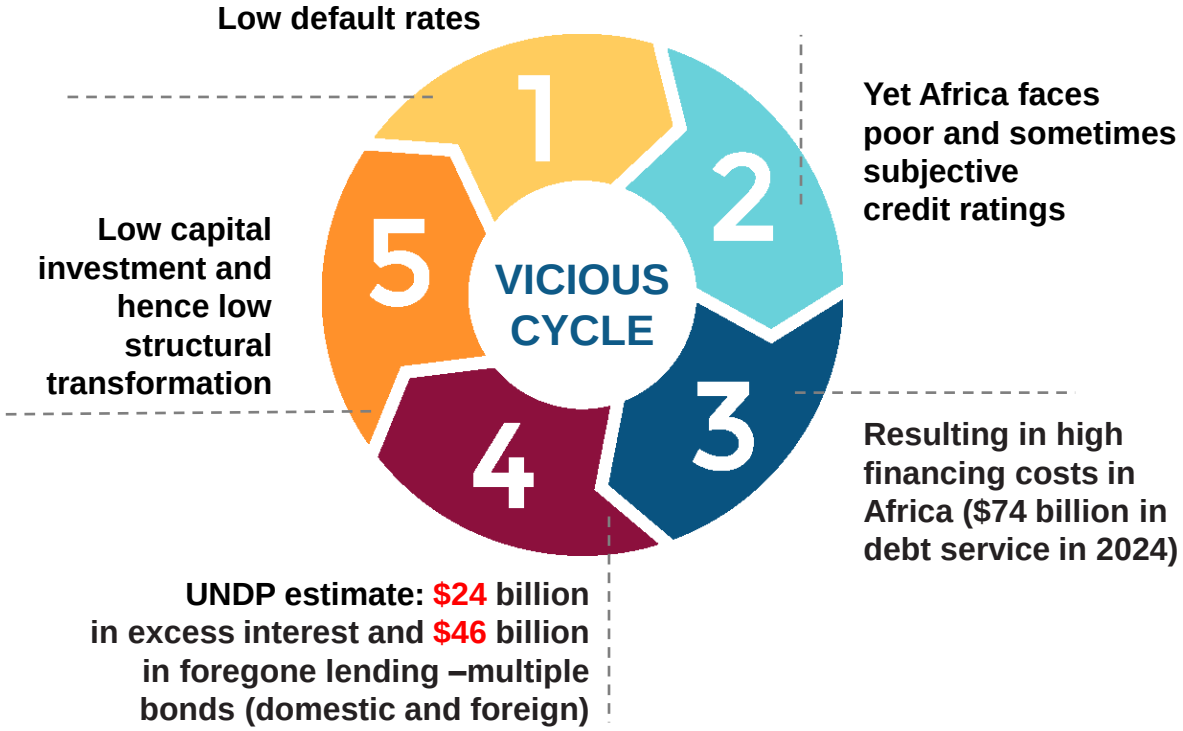
The Paradox: Understanding Africa's Risk Premium In International Markets

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

Headwinds and Tailwinds to Watch

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Potential Headwinds (Risks) to Watch

Persistent inflationary pressures

High interest rates and debt service costs

Commodity dependence and price volatility

Geo-political conflicts and multi-polarization

Climate shocks

And Challenges in the Global Financial Architecture Continue to Exercebate Fiscal Risks fo Countries

01 Episodic countercyclical support and recurrent downside trends

02 Global commons challenges (climate change, health pandemics; geopolitical tensions/conflicts)

03 Inequality: – access to capital, technology, markets,…, global tax architecture, risk ratings, debt architecture…

04 Scale and timeliness of global support not fit for purpose – climate, contingence finance, SDGs

05 Inclusiveness and voice

06 De-globalization - increasing fragmentation and multi-polarization of the global financial architecture

Potential Tailwinds to Watch

Improving global market conditions

Fiscal consolidation and progress in debt structuring by Countries

Return to lower policy rate environment in advanced economies

Renewed investment and capital accumulation (PFM, DRM, etc.

Investment Opportunities and Green Transition in Africa: Structural Issues to Consider

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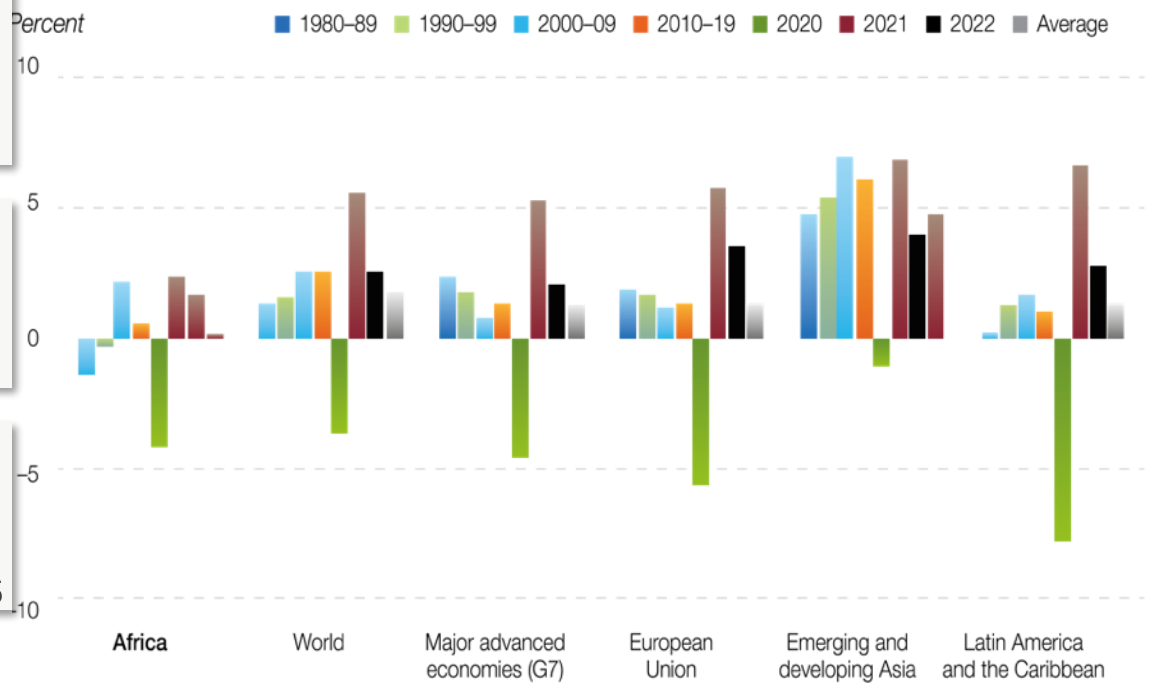
The Development Paradox – Resource Potential, Economic Growth Performance and SDG Outcomes

01 High Resource Potential

02 High GDP Growth Rates

03 Low SDG Performance / Immense Investment Opportunities

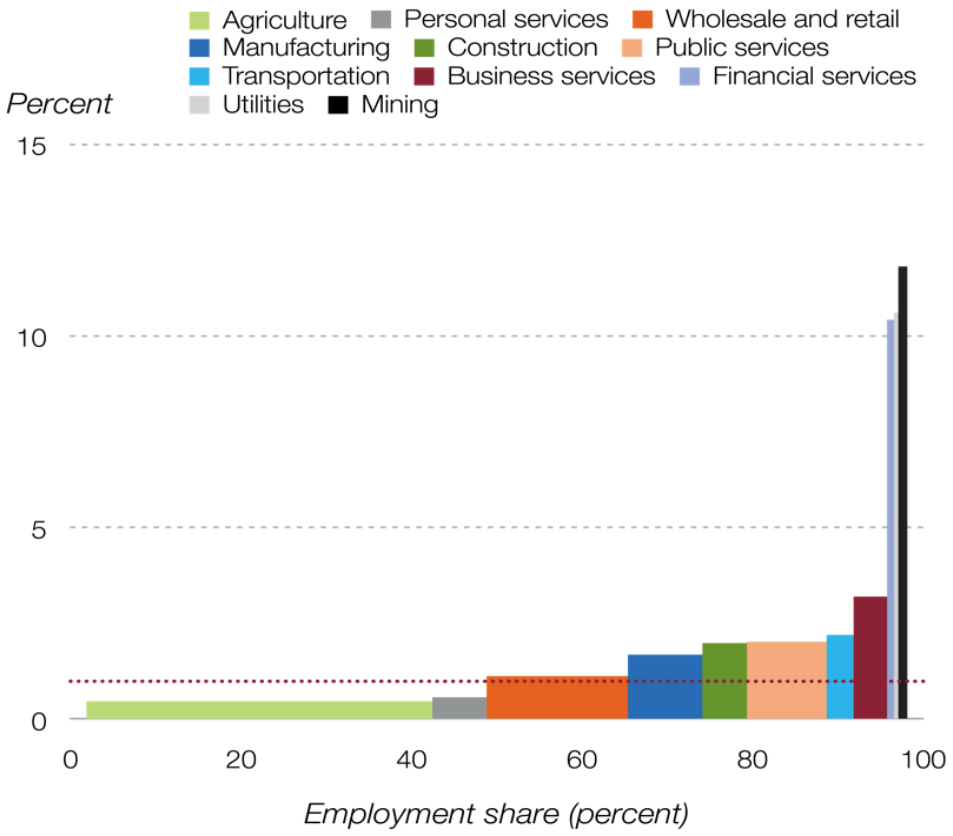
Average real GDP per Capita Growth Contracted in the 1980s and 1990s



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

Low & Uneven Structural Transformation: Heterogeneity in Relative Sectoral Productivity and Employment Shares in African Countries

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

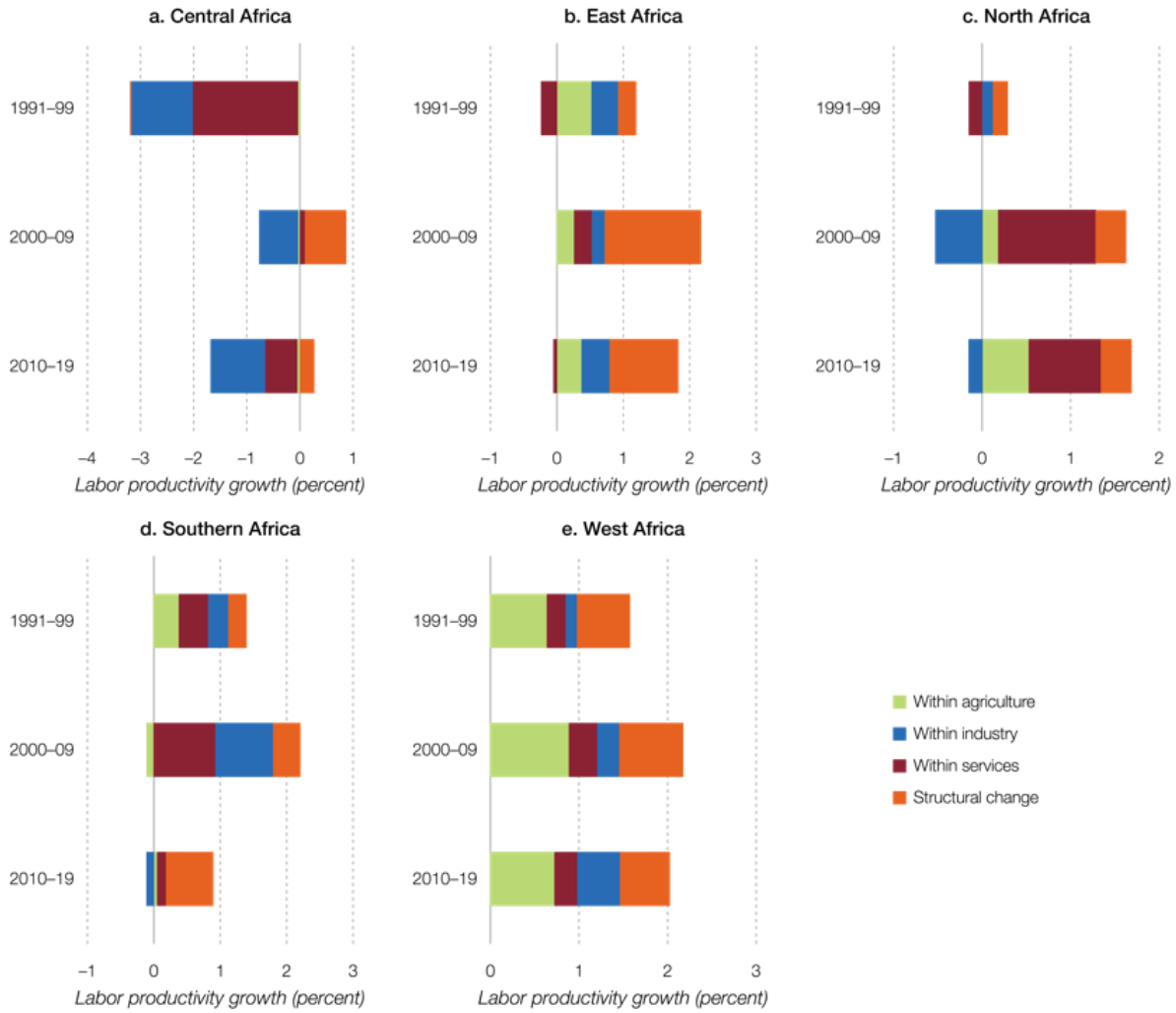


Source: Staff calculations using the economic Transformation Database (Kruse et al. 2023)

Large gaps in labor productivity between sectors – opportunities for high risk-adjusted returns on investments

Labour productivity growth decomposition by African regions, 1991-2019

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



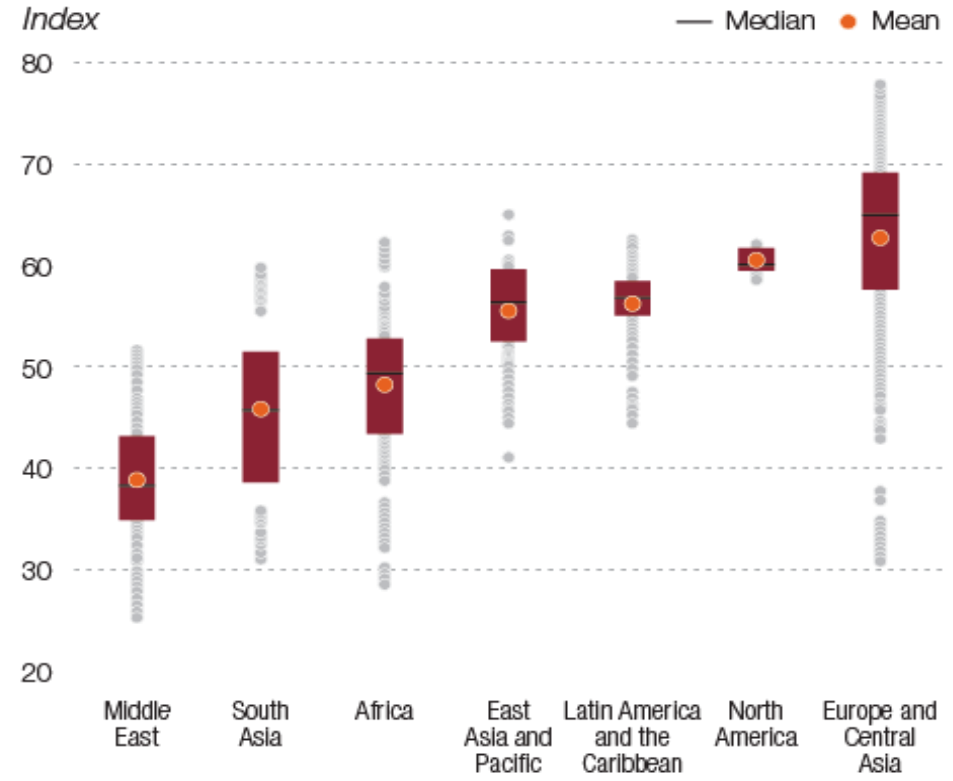
Source: Staff computations using data from ILO and WDI

The Green Development Paradox in Africa

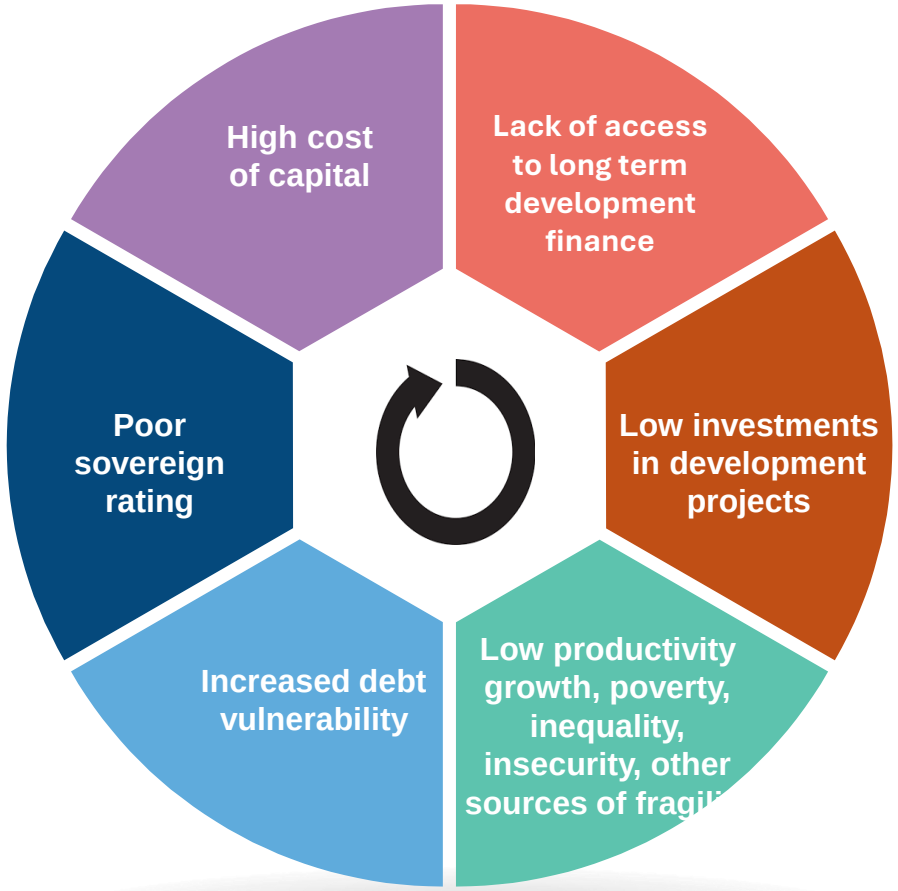
Africa is the frontier market in green growth opportunities

- Market size at about $3 trillion
- Human capital at 1.4 billion people
- Significant natural resource endowments: arable land, green minerals, biodiversity, …
- Green technology potential – of 40% of global RE potential, green minerals, …
- Low legacy high-emissions infrastructure
- High and growing political commitment

Africa's green growth performance benchmarked with other regions, 2010–21



But 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

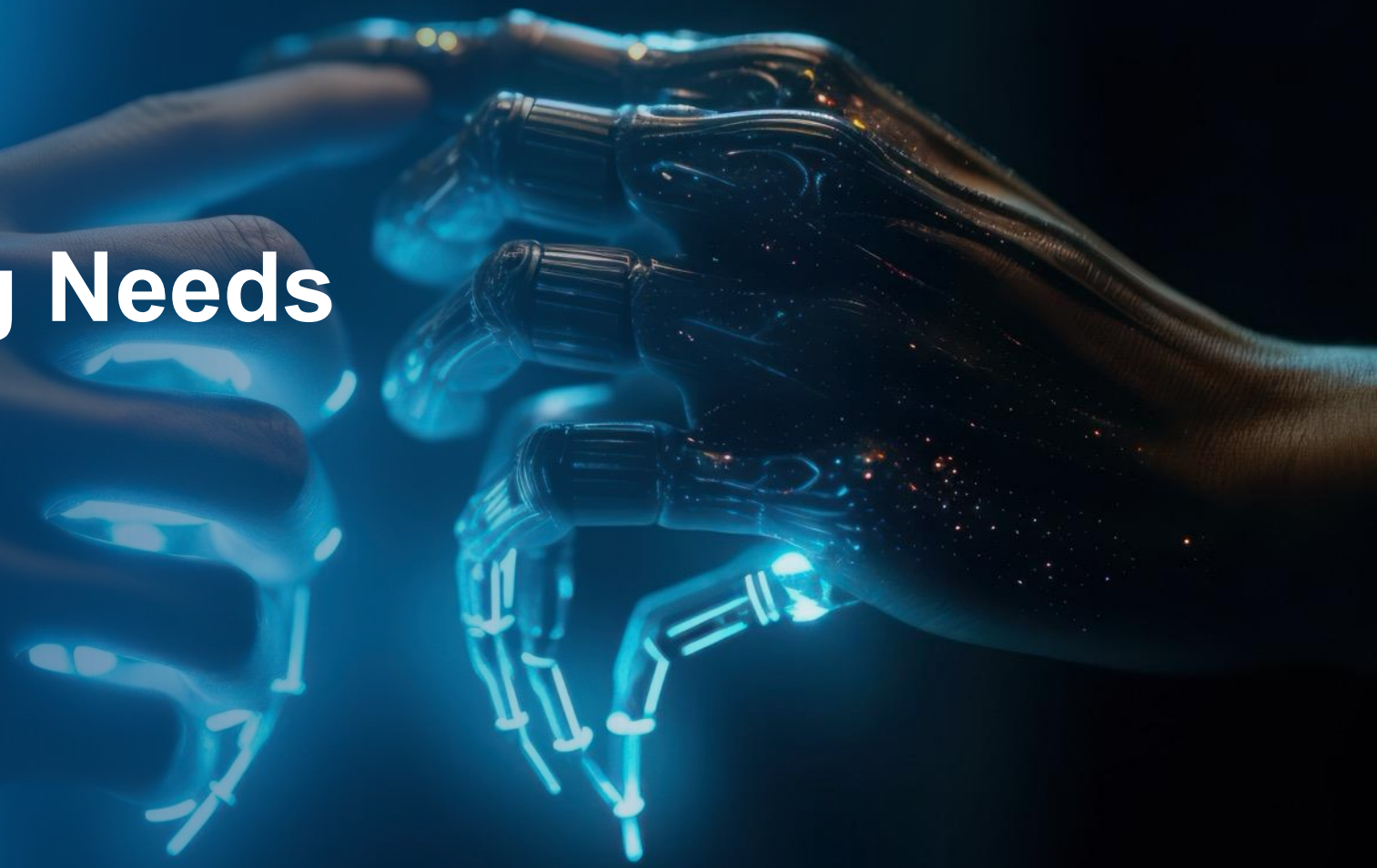
03 Close to **9 out of 10** of the **world's extremely poor people** will be in Africa by 2030

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

Africa’s Financing Needs



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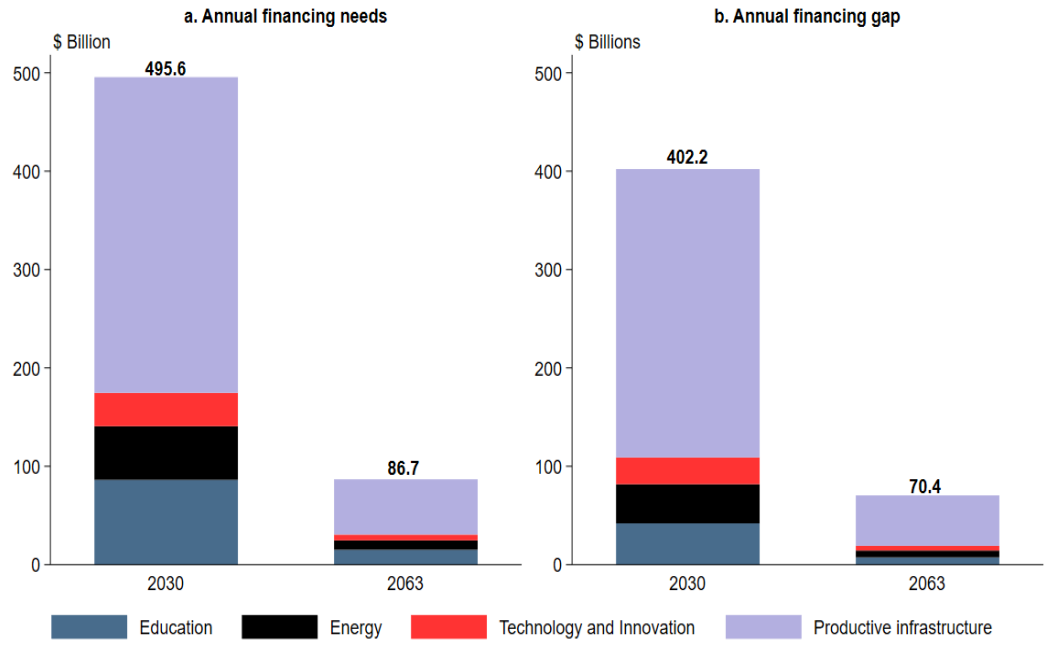
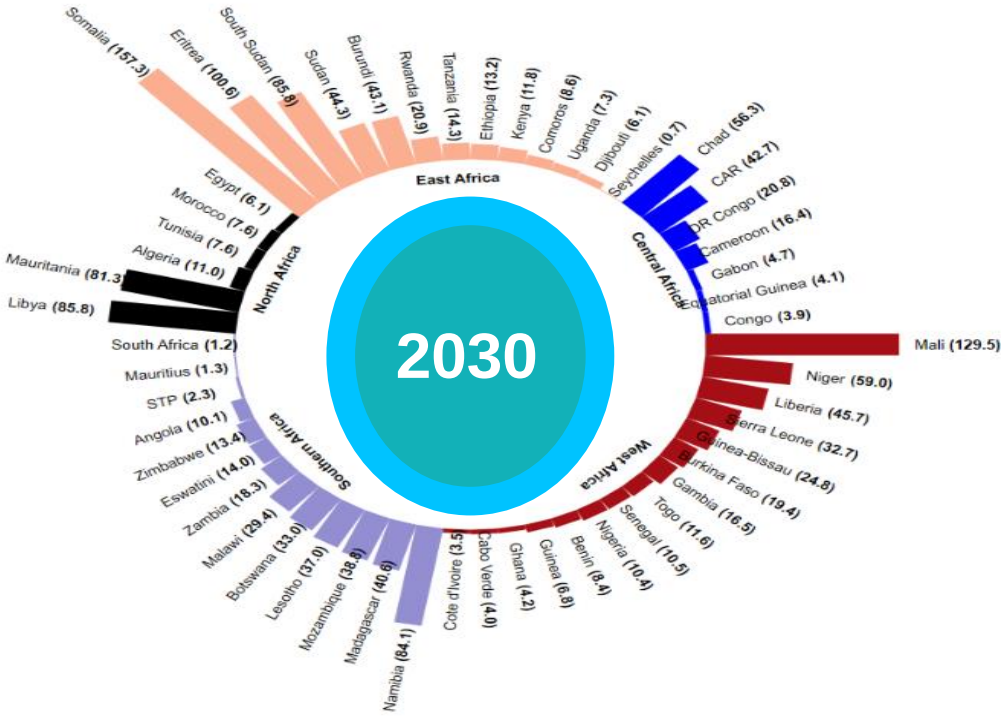
An Annual Financing Gap of about $402 Billion Is Needed to Fast-track Africa's Structural Transformation by 2030

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



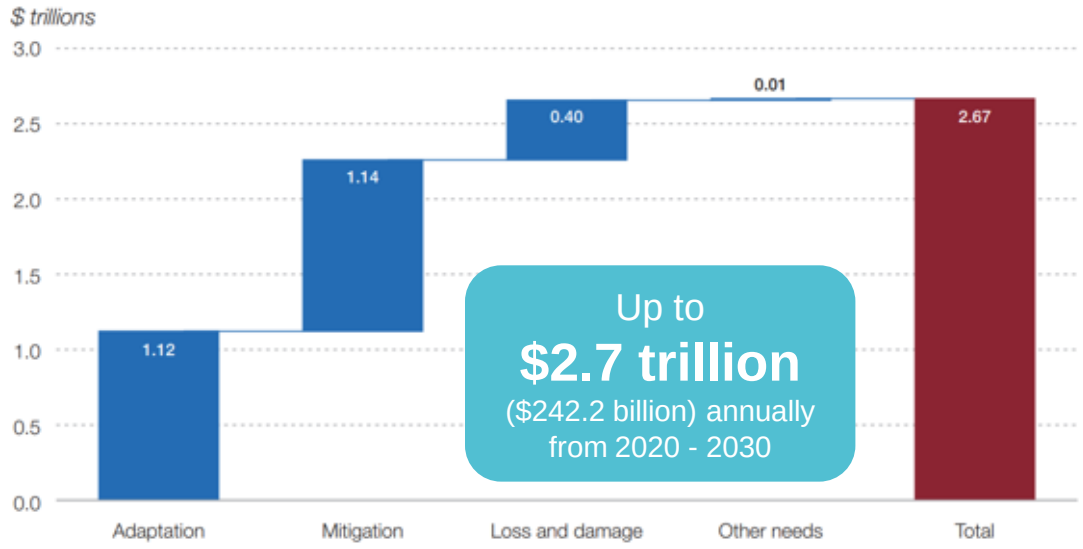
Source: Staff calculations using data from African Development Bank statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank.

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

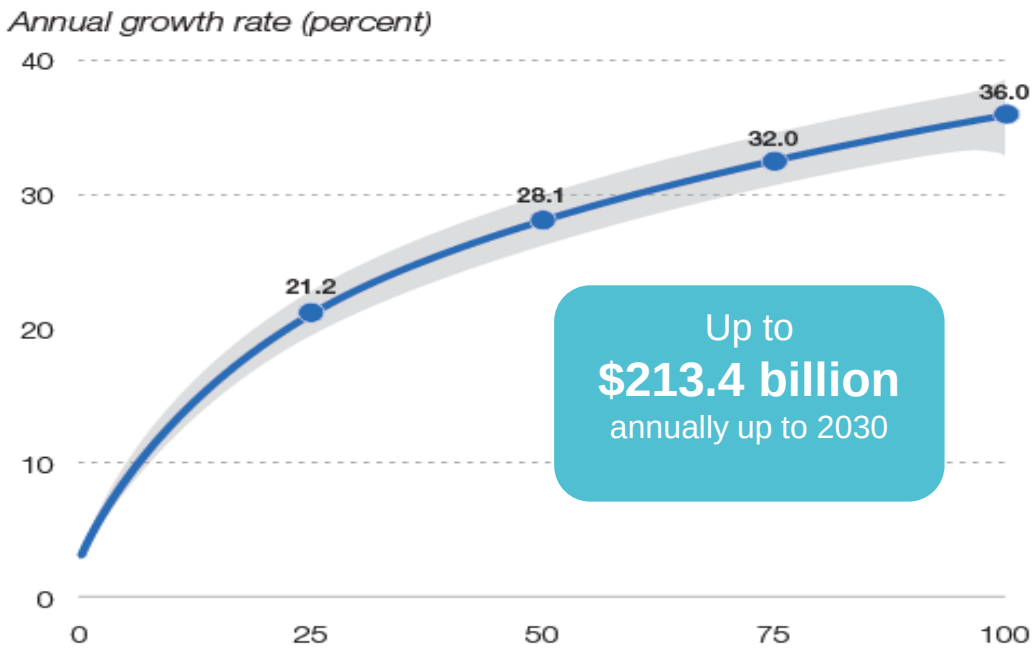


Africa needs up to $2.7 trillion cumulatively ($242.4 billion annually), over 2020–30 to implement its updated NDCs

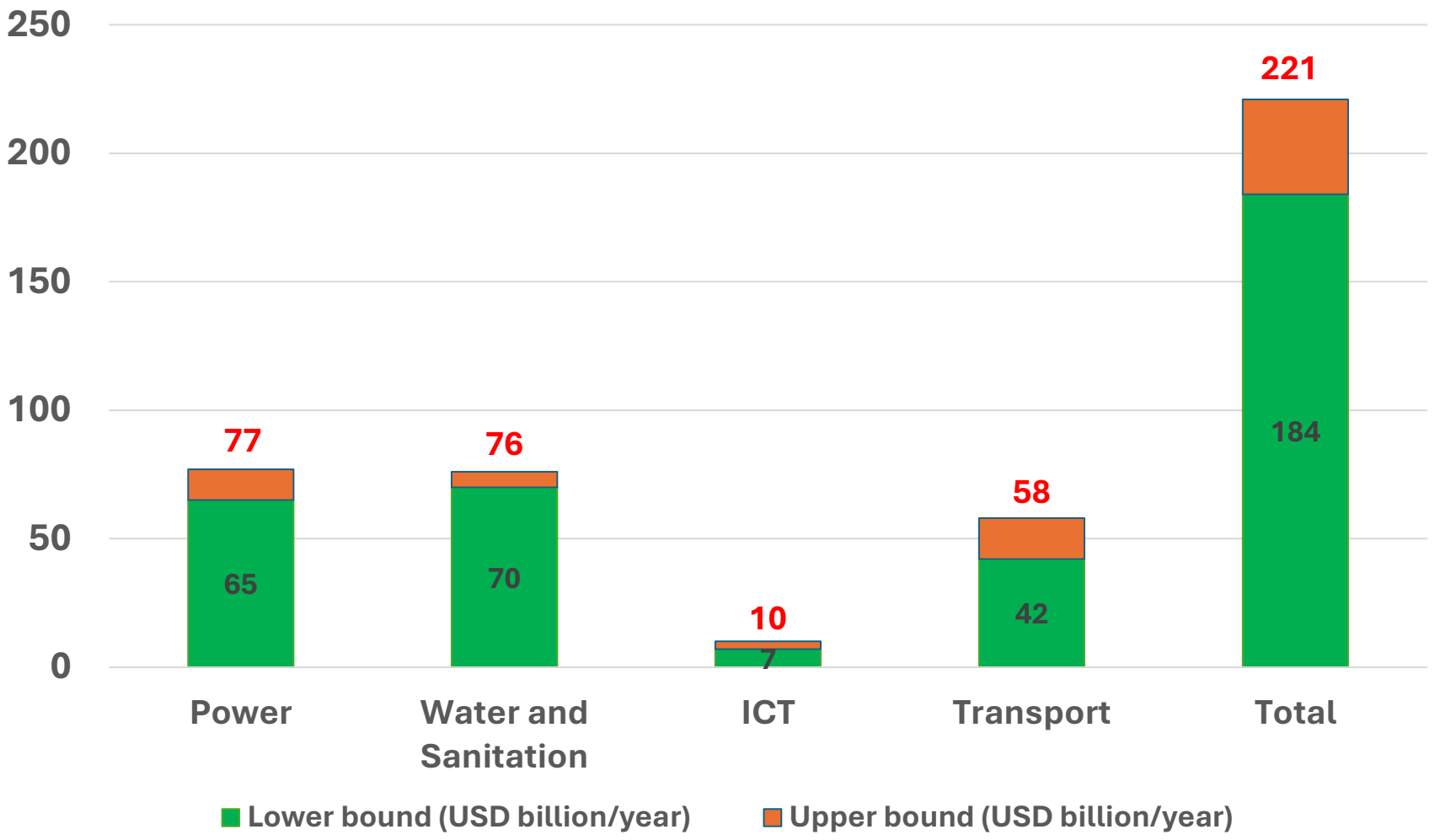
Updated Africa's cumulative climate finance needs, 2020-2030



Required annual growth rate of private climate finance to close Africa's climate finance gap by 2030



Estimated infrastructure investment needs in Africa, 2023-2030



Source: Staff computations

Investment Opportunities for Japan

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Investment Opportunities (1)

Hard Infrastructure

01 **Roads, railways, ports, airports, sectoral infrastructure (agriculture, water & sanitation, …** *lowest default rate*.

02 **Clean energy –** Renewables (*solar, wind, hydro, geothermal; gas to power, LNG for clean cooking,*.

03 **Productivity enhancing technology transfer across the Hi- 5s, and service sectors** *to bridge productivity gaps between sectors*.

Soft Infrastructure

04 **Industrial and infrastructure strategic development plans** – *JICA, GRISP.*

05 **Capacity development in STEM and State Capacity** *for industrial development, DRM, PFM, Rule of Law, etc.*

06 **Research for development –** *Knowledge and Capacity Development Fund (KCDF).*

Investment opportunities in green development sectors in Africa

Agriculture
1 trillion

Market size projected at **$1 trillion** in 2030

Energy
1.03 trillion

$1.03 trillion of investment opportunities through 2030

ICT
104.2 billion

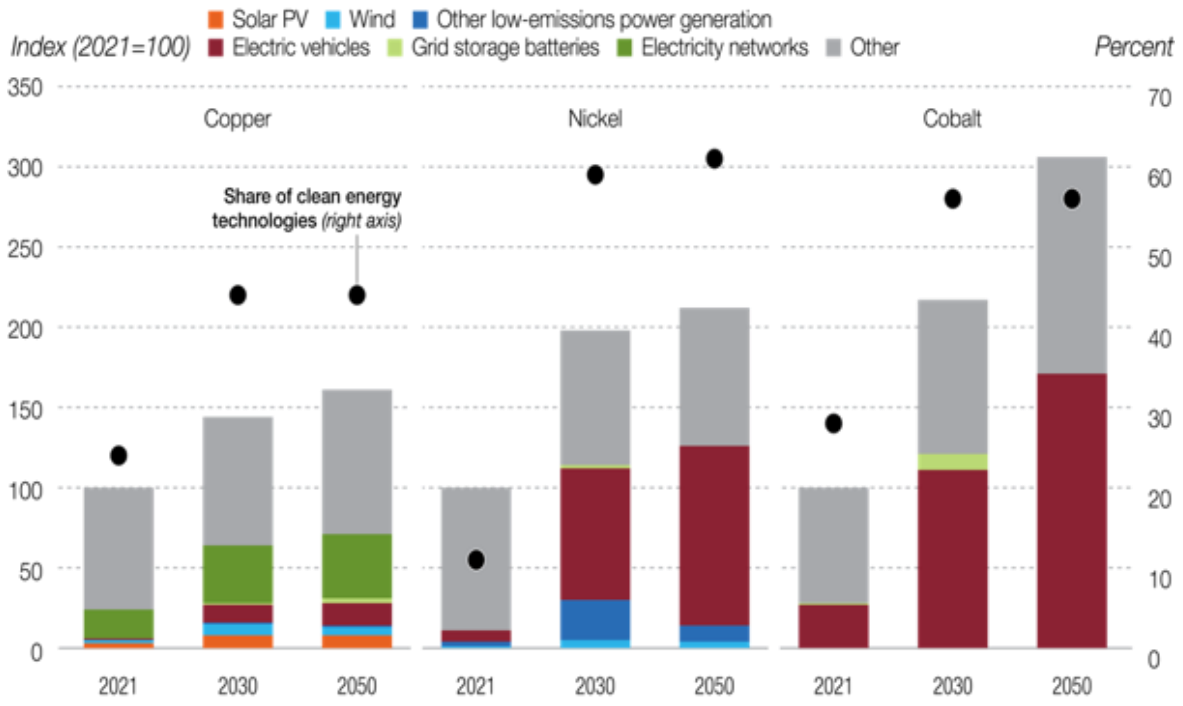
Total ICT market projected at **$104.2 billion** in 2023

Transport
22% growth annually

Projected demand for EV batteries by 2030.

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

Opportunities in the Battery and EV Sector

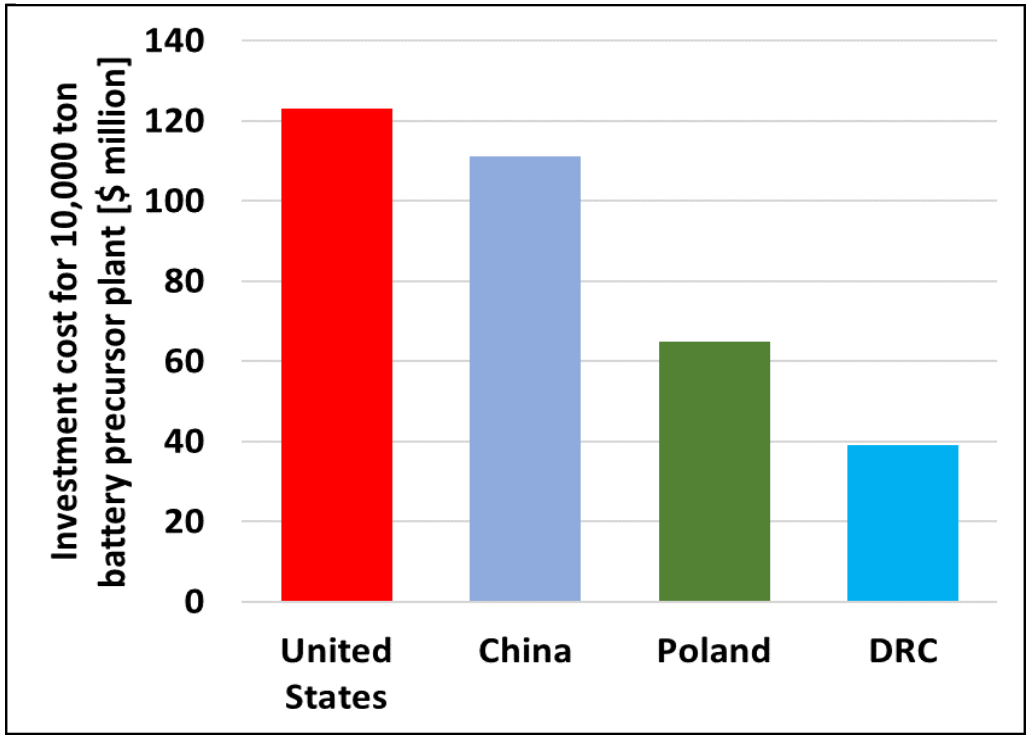
01 **Financial and infrastructure investments**: Counterpart funding for mineral exploitation, infrastructure for the BEV value chain.

02 **Technology and knowledge transfer**: in advanced battery and EV technologies, including sustainable mining practices.

03 **Skills development**: programs to train the local workforce's technical and managerial skills.

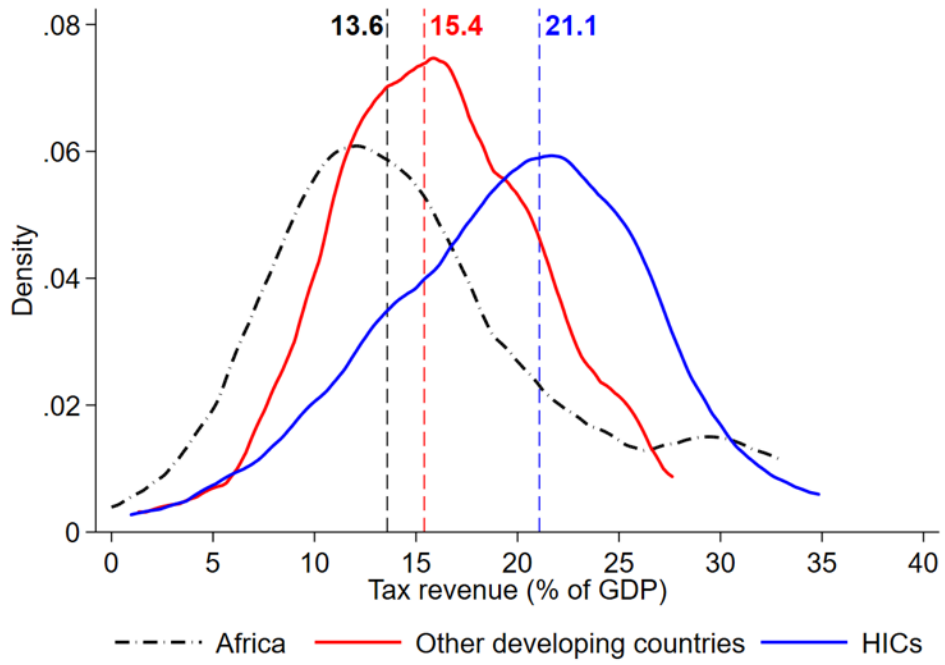
04 **Market access** : through joint ventures for access to global markets, EV assembly, and mining operations.

Battery Precursor Production
DRC (3x cheaper)



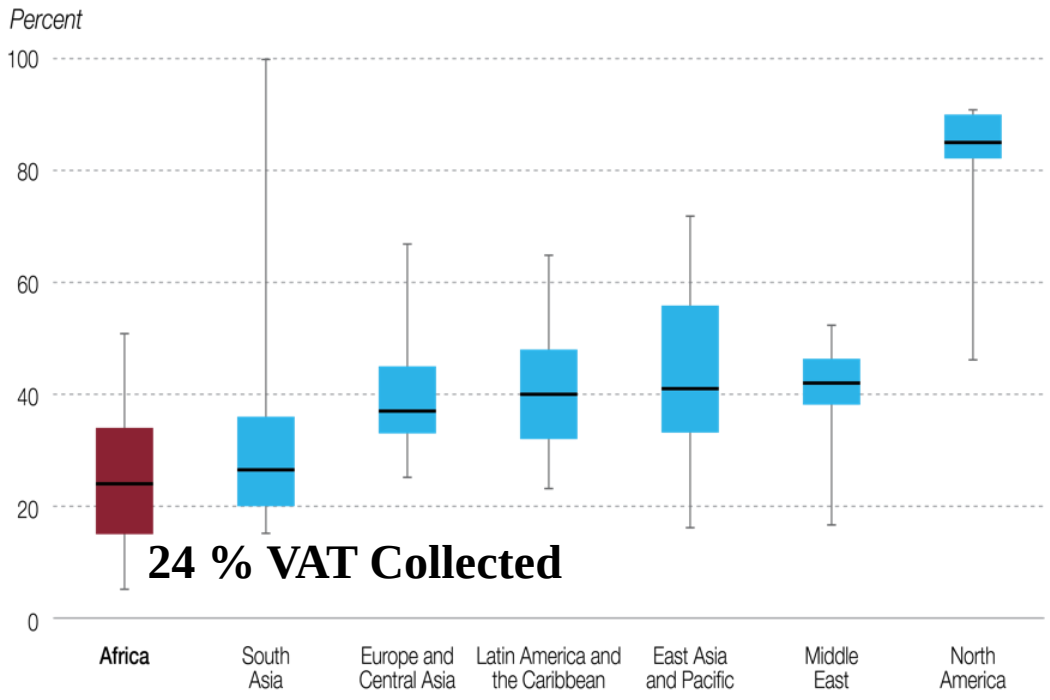
Improving Efficiency in Domestic Revenue Mobilization & Utilization Key for Accelerating Structural Transformation In Africa

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

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

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

RECOMMENDATIONS

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

Japanese Private Sector could consider...

1

Reviewing risk appetite.

2

Scaling up Asset Recycling as alternative infrastructure financing solutions.

3

Iincreasing local currency or pegged foreign currency offerings to decrease currency risks.

4

Targeting more “regional integration” infrastructure to hedge political risks.

Japanese Private Sector could consider...

1

Prioritizing soft infrastructure (Research, Knowledge and Capacity Development) to make hard infrastructure investments more productive.

2

Leveraging climate finance to green infrastructure investments.

3

Adopting a portfolio-based approach instead of a project by project approach.

4

Developing a pipeline of bankable projects with high risk-adjusted rate of return.

International Community, MDBs, DFIs, Bilateral Partners - Japan

1. Accelerate the scale of low-cost concessional financing for Africa's development (ADF. IDA, ODA, SDR rechanneling…
2. Implement the G-20 CAF recommendations & the Triple Agenda
3. Reform the global debt architecture to be more nimble and equitable: CRA methodologies and IMF/World Bank DSF
4. Simplify climate finance architecture to align with climate vulnerability and scale of loss and damages in countries
5. Leverage private sector financing for transformation and climate justice.
6. International tax reform – curb profit shifting and tax evasion
7. Governance reforms to be more inclusive
8. Access to global financial safety nets – de-link from quotas, state-contingent clauses in loans,…
9. Mindset change

CLOSING WORDS

"In the middle of difficulties lies opportunities"

– *Albert Einstein.*

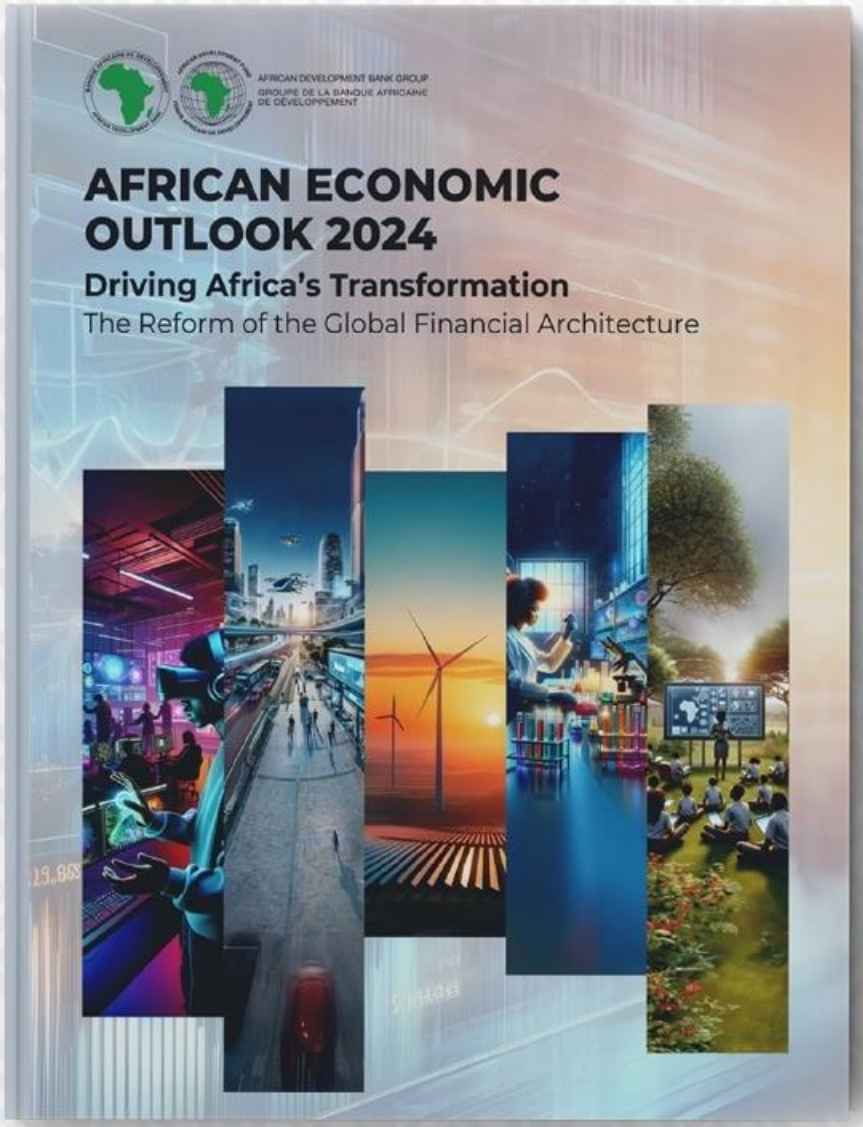
"We cannot use an old map, to explore the new world"

– *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

SCAN THE QR CODE TO DOWNLOAD THE FULL REPORT



Thank You !

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