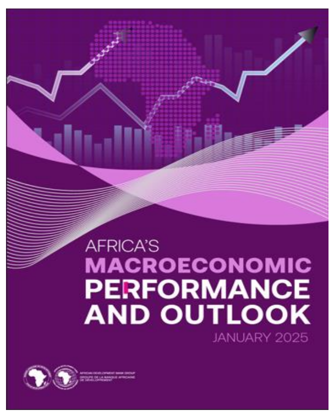
AFRICAN DEVELOPMENT BANK GROUP

HIGHLIGHTS OF THE 2025 AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK (MEO) REPORT



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PURPOSE

This document presents the key highlights for the 2025 Macroeconomic Performance and Outlook report. As with previous editions, the 2025 MEO report will be launched in February 2025 on the sidelines of the 38th Ordinary Session of the African Union (AU) Assembly of Heads of State and Government in Addis Ababa, Ethiopia.

HIGHLIGHTS

2025 MACROECONOMIC PERFORMANCE AND OUTLOOK FOR AFRICA

Africa's economic performance and prospects remain subdued and fragile amidst multiple shocks. Geopolitical fragmentation and global tensions and other multiple shocks exacerbated the effect of COVID-19, and Africa's domestic structural weaknesses such as low industrial base and heavy dependence on primary commodities, which, coupled with weak global demand, continue to weigh down the continent's export performance. Prolonged conflicts in some parts of the continent, such as the Sahel and the Horn of Africa, combined with the impact of climate disasters, have further deepened Africa's vulnerability, directly affecting economic activity in these countries and indirectly spilling over to neighboring countries.

Average real GDP growth in Africa was estimated at 3.2 percent in 2024, unchanged from the projection in the 2024 MEO update. While this is less than half the minimum of 7 percent considered necessary to lift millions of poor people out of poverty, this growth rate is slightly higher than the 3.0 percent recorded in 2023. The growth uptick in 2024 was reflected in 30 of 54 African countries, including two of Africa's four largest economies—South Africa (0.2 percentage points) and Nigeria (0.3 percentage points). In addition, nine African countries, such as Angola, Equatorial Guinea, Ghana, Niger, and Uganda, saw growth increases of more than 1.0 percentage points from 2023 to 2024. The upgrade in these countries reflects strong performance in the hydrocarbon sector, tourism activity, agriculture and private investment.

Looking ahead, Africa's real GDP growth is projected to accelerate by 0.9 percentage points to 4.1 percent in 2025 and further to 4.4 percent in 2026. The projected medium-term improvement in growth performance will be underpinned by the benefits of economic reforms implemented in many African countries over the past two years, including those aimed at tackling the cost-of-living crisis, with inflationary pressures projected to recede, and fiscal and debt positions to improve. In 2025, growth in 24 African countries, led by Djibouti, Niger, Rwanda, Senegal, and South Sudan, is expected to exceed 5 percent. While Africa's estimated average growth rate for 2024 mirrors the world average, the forecast for 2025 is 0.9 percentage points higher than the average growth for the world, making the continent the second-fastest growing region after Asia.[1] In addition, it is projected that in 2025, Africa will account for twelve of the world's 20 fastest growing economies.

However, Africa's economic performance and medium-term growth prospects however conceal cross-regional variations (see figure i). These variations reflect differences in the impact of domestic policies to cope with global and domestic shocks**.** Broadly, the implementation of policies aimed at improving productivity, quality, and competitiveness of domestic productive sectors (such as agriculture and manufacturing) as well as strategic investments made in public infrastructure to speed up the pace of structural transformation are yielding growth dividends across regions. In addition, macroeconomic stabilization policies undertaken after the pandemic are helping to correct internal and external imbalances, reduce vulnerabilities and increase economic resilience to shocks.

- *Central Africa.* Real GDP growth rate is projected to declineslightly from an estimated 4 percent in 2024 to 3.9 percent in 2025, before improving to 4.1 percent in 2026, supported by the expected rebound in Equatorial Guinea and steady growth perfromance in the Democratic Republic of Congo (DRC).
- *East Africa*. Real GDP growth rate is projected to increase from 4.4 percent in 2024 to 5.3 percent in 2025 and firm up to 6.1 percent in 2026. At these growth rates, East Africa remains the continent's fastest growing region and half of its economies – South Sudan, Rwanda, Uganda, Ethiopia, Tanzania, and Kenya are expected to grow by 5 percent or higher in 2025. The strong performance in South Sudan reflects economic recovery from devastating impact of a prolonged conflict following signing of the peace accord among different parties.
- *North Africa.* Real GDP growth rate is projected to increase, from an estimated 2.7 percent in 2024 to 3.9 percent and 4.2 percent in 2025 and 2026, respectively, aided by growth rebound in Libya, Egypt and Morocco.
- *Southern Africa.* Real GDP growth for the region is projected to increase from an estimated 1.8 percent in 2024 to 3 percent in 2025 and 3.1 percent in 2026. This growth rebound marks the first time since 2021 that the region's growth rate has exceeded 2 percent and can be attributed to projected robust performance in economies of eSwatini, Zambia and Zimbabwe. The real GDP growth in these countries is projected to be 5 percent or higher, a marked recovery following the adverse impact on growth of a severe drought in 2024. With the exception of South Africa, Namibia and Lesotho, other economies in the region are also projected to post growth ranging from from 3 percent to 4 percent in 2025.
- *West Africa*. Real GDP is projected to pick up from an estimated 4.1 percent in 2024 to average of 4.5 percent in 2025-2026. With the exception of Ghana, Sierra Leone and Nigeria, all countries within the region are expected to grow by 5 percent or higher in 2025. In Nigeria, the region's largest economy, growth is expected to remain tepid, reflecting first order adverse impact of macroeconomic stabilization programs on households consumption and business activity and structural challenges that have persistently constrained productivity growth will continue to weigh on the country's economic performance.

Inflationary pressures in Africa have persisted, eroding any marginal gains from the continent's growth as the cost-of-living increases (see figure ii). In 2024, inflation remained elevated, averaging 18.6 percent, far above medium-term targets in many countries across the continent. The upward trend in inflation in 2024 was largely driven by strong build-up of inflationary pressures in 16 African countries, including Egypt and Nigeria, two of Africa's largest economies. However, the number of African countries with double-digit inflation rates has declined from 19 in 2022 to 15 in 2024 as the effects of aggressive monetary policy actions in many African countries gain traction. Average inflation in Africa is projected to decline to an average of 12.6 percent in 2025-26, reflecting continued tight monetary policy in many countries.

Higher inflation also reflects widening fiscal deficits across the continent, and prospects for improvement in the fiscal balance in the short-term are jeopardized by uncertainties. Africa's average fiscal deficit is estimated to have slightly widened from 4.4 percent of GDP in 2023 to 4.6 percent of GDP in 2024, mainly driven by an increase in the primary deficit, from 1.6 percent of GDP to 2.1 percent of GDP. The widening primary deficit reflects a slowing momentum in fiscal consolidation efforts, although this has led to some relief in public finances in countries such as Ghana, Zambia, and Ethiopia that have undertaken austerity measures during debt restructuring. Africa's average fiscal deficit is projected to narrow at 4.1 percent of GDP in 2025-2026, but still above the conventional target of 3 percent of GDP for macroeconomic convergence.

Public debt ratios are stabilizing but remain above the pre-pandemic level with lingering risks. The tightening of global financial conditions in 2022-23 is slowly easing, which combined with fiscal consolidation measures and strong growth, is yielding some benefits on the levels of public debt. The median debt-to-GDP ratio is estimated to have declined to around 60 percent in 2024 from 63.5 percent in 2021–2023 and is projected to decline further to 59.2 percent in 2025. Nonetheless, debt vulnerabilities remain elevated, amplified by the increase in debt service costs stoked by high global interest rates and a stronger US dollar. As of September 2024, nine African countries were in debt distress, and eleven others were at high risk of debt distress.[1] These countries account for 30.5 percent of the continent's population. This could have long-term implications for growth and social well-being when resources are channeled towards debt service rather than investing in human capital development.

Africa's overall external position is expected to weaken in the short term, driven by the less than favorable prospects in global commodity markets and cumulative impact of multiple global shocks on trade. The average current account deficit is estimated to have widened from 1.6 percent of GDP in 2023 to 2.4 percent of GDP in 2024. The decomposition of Africa's current account balance indicates that the widening of the deficit in 2024 is a result of the increase in the trade deficit and a decline in net income and current transfers.

External financial flows have rebounded in 2023, but the outlook remains uncertain amid challenging global financial conditions. After the sharp contraction of over 12 percent in 2022, total external financial flows to Africa including foreign direct investment, portfolio investments, official development assistance, and remittances rebounded by 8.7 percent to US$207.9 billion in 2023 or about 7 percent of Africa's GDP. This notable recovery was driven by a significant reduction in net portfolio outflows to US$1.7 billion in 2023 from US$22.8 billion in 2022.

Although Africa's medium-term prospects appear more favorable, growth remains fragile due to a myriad of countervailing factors. Progress in disinflation across advanced economies could make room for lower interest rates worldwide, fostering robust growth in the world economy. Stronger global growth bodes well for Africa's commodity exports, with potential impact on domestic growth. In addition, continued fiscal consolidation efforts and successful conclusion of debt treatments could significantly reduce public debt, further improving Africa's fiscal outlook and growth in the short to medium term. However, a reversal of the recent gains in global disinflation and continued fiscal tightening in several advanced economies could delay the pace of recovery in the world economy. This could present significant downside risks to Africa's medium-

[1] Countries in debt distress include: Congo Republic, Djibouti, Ethiopia, Ghana, Malawi, São Tomé and Príncipe, Sudan, Zambia, Zimbabwe; countries in high risk of debt distress include: Burundi, Cameroon, Central African Republic, Chad, Comoros, Gambia, The, Guinea-Bissau, Kenya, Mozambique, Sierra Leone, South Sudan

term economic prospects. Moreover, downside risks related to rising protectionism, fueled by deglobalization and geopolitical tensions pose a threat to global trade and could disrupt trade between Africa and its main trading partners.

Navigating effects of multiple shocks and increasing the resilience of Africa's growth prospects thus requires well-coordinated short-, medium- and long-term policy priorities:

In the short-term

- **Ensuring better calibration and coordination of monetary and fiscal policies to achieve the twin objectives of reducing inflation and stimulating growth.** The persistence of Africa's entrenched inflationary pressures could be unwound by mutually reinforcing monetary, fiscal, and structural policies. Central banks in the continent should maintain their contractionary monetary policy while the priority of fiscal policy should be aimed at supporting the most vulnerable populations through social safety nets to mitigate the unintended costs of tight monetary policy and to prevent a further deterioration in living standards. At the same time, there is a need for comprehensive solutions to enhance fiscal discipline by instituting fiscal rules to help enhance transparency and accountability to mitigate fiscal distress.
- **Building foreign reserves buffers is critical to strengthen African countries' resilience to global shocks and against the adverse impact of exchange rate depreciations on macroeconomic performance, trade and the broader economy.** To enhance resilience against global shocks, African governments must address both external and domestic imbalances and vulnerabilities propagated by depreciation in national currencies. In the medium to long term, prioritizing structural reforms to improve the investment climate is essential. Such reforms can attract foreign capital to shore up foreign exchange reserves, stabilize the exchange rate, increase exports, and lay the foundation for future economic growth.
- **Pre-emptive debt restructuring can prevent more countries from falling into debt distress and potential default**, especially those highly vulnerable to shocks and already facing high debt repayments and liquidity pressures because of a lack of access to international capital markets to buy back maturing debt. In the medium term, countries facing high repayments but whose macroeconomic fundamentals are improving and creating some room for further borrowing can still borrow to refinance maturing debt to avoid the risk of default.

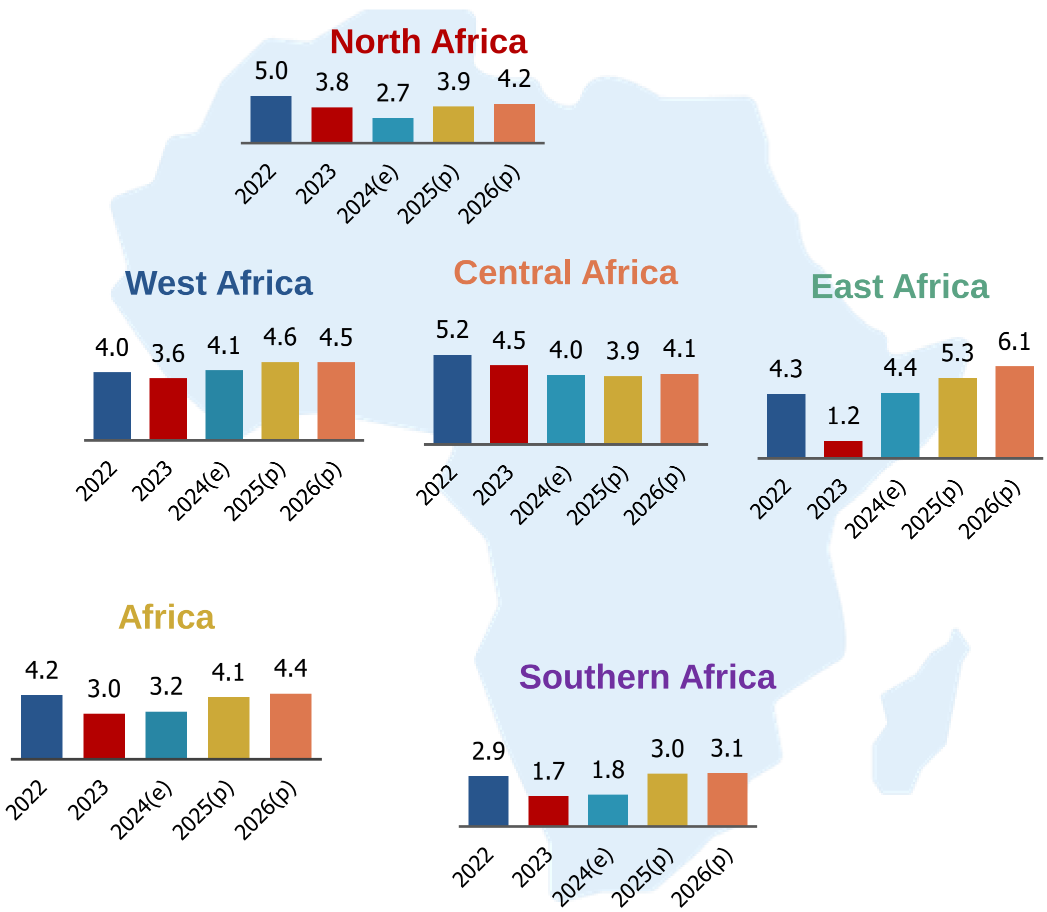
Over the medium to long-term

- **Radically scale up and prioritize investment in integrated productive physical infrastructure by deploying domestic and foreign capital as well as infrastructure driven government borrowing.** Investment in integrated, productive infrastructure will foster innovation across large parts of the economy and open productive sectors to private participation and spur technological spillovers from global markets into the continent. This is key to accelerating the pace of transformation and economic diversification that would help lessen countries' exposure to commodity price volatility, which has had a significant knockdown effect on growth in Africa.

- **Develop long-term strategies to enhance the business environment for efficient provision of quality public services.** Possible strategies include reforming regulations – replacing colonial laws and rules with new ones suited to Africa's current development imperatives, improving standards, and defining strategic policies to guide potential investors. The absence of clear and robust policies and long-term strategies to attract private investment in many countries increases their investment risk profile and deters private actors from investing on the continent. For instance, despite the advent of green and smart technologies, only 7 African countries have long-term strategies, and only 18 have policies and regulations specifically designed to attract private participation in green growth projects. Therefore, African countries should translate their national development plans into comprehensive sectoral strategies, plans, and design regulations covering all sectors. These strategies should also be fully mainstreamed into the whole economy, not developed and implemented in silos to unleash economywide productivity improvements.
- **As discussed in AEO 2024, African countries could also facilitate the emergence of national champions tasked with leading the economic diversification process and fostering the creation of backward and forward linkages with smaller firms, which will deepen domestic markets.** Policies such as preferred procurement to encourage domestic production and growth of small and medium enterprises and local content and franchising policies to create incentives that will attract investment from multinational corporations must be prioritized.
- **Proactive pursuit and promotion of franchising and leveraging the technological know-how of foreign firms can also promote cross-border investment among African countries** to complement local content policies and requirements, especially where capacity—technical and financial—is lacking. But to maximize the benefits of franchising, countries must identify domestic capacity gaps and select franchising models that suit their own contexts and serve best their interests.
- Given the difficult external financial environment and growing financing needs, especially for the green transition, **African countries will need more support from the international community, including multilateral and regional development banks.** Reforming the international financial system, as discussed in AEO 2024, remains a pathway to accessing affordable capital for investment in critical growth-enhancing and climate-resilient sectors.
- The increasing debt vulnerability of African countries and the low mobilization of domestic resources require **consistent implementation of economic governance and institutional reforms to strengthen debt management capacity and transparency.** In addition, a stronger link between debt and investment—the productivity of debt—is needed to ensure debt sustainability on the continent.
- There is a need to **institute fiscal rules to help enhance debt management transparency and accountability to mitigate fiscal distress.** In addition, there is a need to strengthen domestic fiscal councils and debt management offices with clearly defined mandates to monitor fiscal management and provide policy advice to governments.
- **Improving public finances with strategies focused on revenue mobilization should be the first line of defense in a world of higher borrowing costs and lower financing**

options. However, the top priority should be accorded to minimizing the impact of fiscal consolidation on lives and livelihoods. On the financing side, there is an urgent need for scaling-up concessional financing through expanded support from the international community, with multilateral and regional development banks potentially exploring options to further leverage their balance sheets to increase lending to member countries.

Figure i. Growth performance and outlook by region, 2022–26



Source: African Development Bank Group statistics

Figure ii. Outlook for key macroeconomic indicators, average, 2025–26

Country	Real GDP Growth	Inflation	Current Account Balance	Fiscal Balance	Country	Real GDP Growth	Inflation	Current Account Balance	Fiscal Balance
Algeria	3.5	4.3	-0.9	-10.6	Liberia	5.8	5.6	-26.9	-3.7
Angola	4.1	20.2	3.8	-1.8	Libya	5.3	2.6	-1.9	5.8
Benin	6.6	1.9	-4.9	-2.8	Madagascar	4.9	7.0	-4.6	-3.9
Botswana	4.3	3.5	-4.2	-4.1	Malawi	4.1	21.5	-15.8	-7.6
Burkina Faso	5.4	2.0	-3.8	-5.1	Mali	5.2	2.1	-4.7	-3.3
Burundi	4.0	21.0	-17.7	-3.7	Mauritania	4.9	2.9	-8.3	-1.2
Cabo Verde	4.9	2.0	-4.2	-2.0	Mauritius	4.2	3.5	-3.9	-5.6
Cameroon	4.3	3.7	-2.8	-0.1	Morocco	3.8	1.8	-2.4	-3.1
Central African Rep.	2.6	2.6	-7.1	-3.0	Mozambique	3.8	4.4	-31.0	-4.3
Chad	3.7	4.1	-2.7	-3.2	Namibia	3.6	4.1	-15.7	-3.0
Comoros	4.2	2.0	-4.0	-2.5	Niger	6.9	3.3	-4.9	-2.6
Congo Dem. Rep.	5.1	8.2	-2.7	-1.8	Nigeria	3.5	20.5	3.6	-4.0
Congo	3.6	3.3	1.7	2.9	Rwanda	7.1	4.1	-10.1	-4.1
Côte d'Ivoire	6.3	2.9	-3.6	-3.0	São Tomé & Príncipe	3.9	9.1	-6.1	0.0
Djibouti	6.9	2.4	21.5	0.8	Senegal	8.6	1.9	-6.3	-7.8
Egypt	4.3	21.9	-4.8	-5.7	Seychelles	3.9	2.3	-9.2	-1.2
Equatorial Guinea	-0.8	2.5	-2.8	-0.5	Sierra Leone	4.8	17.9	-3.5	-3.9
Eritrea	3.1	3.9	12.3	-2.6	Somalia	4.1	3.9	-9.3	-0.1
eSwatini	5.7	4.7	1.0	-2.1	South Africa	1.8	4.5	-2.1	-4.2
Ethiopia	6.6	22.8	-3.4	-2.3	South Sudan	34.4	43.7	3.9	5.0
Gabon	2.7	2.1	4.0	-3.7	Sudan	-1.1	74.1	-7.6	-3.7
Gambia, The	5.7	8.3	-4.2	-1.4	Tanzania	6.1	3.2	-3.6	-3.0
Ghana	4.7	10.2	1.3	-3.3	Togo	6.9	2.2	-3.6	-3.1
Guinea	5.8	6.7	-9.1	-2.6	Tunisia	1.6	6.4	-3.5	-5.2
Guinea-Bissau	5.7	2.3	-3.6	-2.5	Uganda	7.2	4.0	-5.3	-5.0
Kenya	5.0	5.0	-4.0	-4.7	Zambia	6.0	8.0	2.1	-3.3
Lesotho	2.5	5.4	-2.0	3.3	Zimbabwe	4.6	15.8	1.1	-1.7

Note: GDP growth and inflation are in percent, while current account balance and fiscal balance are in percent of GDP. This heatmap plots the countries' outlook for selected key macroeconomic indicators. Countries are ranked in three criteria: "green" for good performers, "yellow" for fair performers and "red" for weak performers. Real GDP growth equal or above 5 percent are coloured green, 0–4.99 percent are coloured yellow and negative are coloured red. Inflation rates below 5 percent are coloured green, 5–9.9 percent are coloured yellow and double digit are coloured red. Current account surplus is coloured green, deficits below 5 percent are coloured yellow and above 5 percent are coloured red. Fiscal deficits below 3 percent are coloured green, 3–5 percent are coloured yellow and above 5 percent are coloured red.

Source: AfDB staff computations

[1] IMF (2024a) and IMF (2024b).